

# 1997 - serious days ahead for Hongkong

The British Government's lease on the New Territories still has 19 years to run - but 1997 is a date which is very much to the fore in the minds of many people in Hongkong.

Nobody really believes that the People's Liberation Army will march across the border on July 1, 1997. Indeed, the Chinese Government has never recognised the treaty under which the New Territories were leased to Britain for 99 years in 1898.

But nevertheless, according to Government officials and local and foreign businessmen in Hongkong interviewed by Reuters, the lease's expiry presents critical problems for the future of Hongkong which will have to be tackled seriously before too long.

The legal backing of the treaty allows the Hongkong Government to grant Crown leases in the New Territories running up until its expiry.

But unless some legal basis can be established for extending leases beyond 1997, the implications for the Hongkong economy are serious.

As the Hutchison Whampoa Ltd chief executive, Mr Bill Wyllie, points out, many companies with property in the New Territories have revalued these assets to present day values, crediting enormous surpluses to capital reserves.

And unless their titles to

these properties can be extended beyond 1997, such companies are going to be faced with having to depreciate their assets at an accelerating rate over the next 19 years.

And while Hutchison Whampoa is already writing down its New Territories properties, for a lot of other companies "this will make a hell of a big dent in their profit and loss accounts," Mr Wyllie added.

A further problem will be that, if leases cannot be extended beyond 1997, developers, faced with ever-shorter write-off periods, will be willing to pay less and less for land in the New Territories, cutting into a valuable source of Government revenue.

As regards investment, many of the businessmen interviewed felt that from the early 1980s onwards investors will be increasingly looking for the quick returns on their capital which characterised Hongkong in the 1950s and 60s, yields in the order of 25 to 30 per cent as compared with the single figure yields more common in the 1970s.

Financing of investments would also become more difficult to obtain. According to the Wah Kwong Properties Ltd managing director, Mr Cecil Chao, "at the moment, there is no problem getting

finance for new developments.

"But 10 years or more from now I can see serious difficulties in getting loans for property. Even if China continues to indicate its willingness to see the status quo in Hongkong continue it will become very difficult for banks to lend for property which has no legal backing."

Particularly hard hit would be foreign investment. One leading British businessman for example, believed that the lack of a long-term legal backing for property leases could act as a real deterrent to investment by overseas concerns.

Local investors would tend to judge the merits of an investment more against the realities, rather than the legal niceties of Hongkong's situation. But potential foreign investors contemplating new operations in Asia may be increasingly swayed by their legal advisers, choosing to risk their money elsewhere in the region.

Few people believe China will be willing to sign a new lease or an extension to the existing treaty, but most are confident that some solution will be found to allow the Hongkong Government to grant leases going beyond 1997.

"Everyone knows it's essential, and one hopes that the powers that be in Peking also think it's essential," said the Hongkong and Shanghai Banking Corpn chairman, Michael Sandberg.

personally am very confident that something will be worked out," he said. "The present leadership in Peking is a very straightforward one and a very pragmatic one, and if the will exists on both sides, I can't see that a solution won't be found."

The Hongkong Government too recognises the need for a solution. Government sources said that at present they could visualise no legal means by which leases could be extended beyond 1997. But they nevertheless felt that some formula would be arrived at to overcome the problem.

As another source close to the Government commented: "If there is a continuing Chinese interest in and need for Hongkong, I think they will find ways of getting the

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# Serious days on horizon

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message across. If they see a need, they will find a way, and they have a great ability for finding ways."

Opinions differed as to how soon a workable formula will have to be found, although the general consensus was that certainly something positive would have to have emerged by the second half of the 1980s at the latest.

Others, however, saw the need as more pressing. Mr Wyllie, for example, said he felt something more positive would have to emerge between now and 1980, while the Hongkong Land Co Ltd general manager, Mr Trevor Bedford, said the quicker intentions on both sides were made plainer, the better.

"In about five years, the sort of statements and hints about Hongkong's future that we've seen in the past are no longer going to be sufficient. You are going to need some fairly concrete statements of policy on both sides," Mr Bedford said.

But at present, no simple answer is in sight, and nobody can envision precisely what sort of accord, short of a formal extension of the lease, could be reached between the two sides to facilitate a legally acceptable basis for maintenance of the status quo.

The problems associated with the expiry of the lease on the New Territories, however, must be seen in the overall context of the continuing and inevitable uncertainty over Hongkong's longer term future as a British colony.

Not recognising any of the leases or treaties on which its existence is based, China's official position has always been that Hongkong is simply Chinese territory under a temporary foreign administration. The big question is just how temporary that foreign administration will be.

But according to the Wah Kwong Group chairman, Mr T. Y. Chao, "there are good reasons for believing that the advantages of Hongkong remaining as it is are greater for China than even for the people of Hongkong or for Britain."

Among these advantages is the fact that as much as a third or a half of China's foreign exchange earnings derive from Hongkong, while the Colony also provides the mainland with a useful "window" on Western banking, commerce and technology.

And with China's ambitious plans for rapid development of its industrial base over the remainder of this century, the value of Hongkong to the mainland is not expected to diminish significantly in the foreseeable future.

In addition, China has invested heavily in property, banking and commercial and manufacturing ventures in Hongkong, and this flow of investment shows no sign of abating. Clearly these investments provide valuable income for China, but they are also generally seen as indicating its willingness to see the status quo in Hongkong continue for some time.

"These investments double as an indication of China's goodwill and intentions regarding the future," according to Mr Sandberg. "There would be no point in them spending good money on real estate here if they were going to take it over for nothing next week," another banking source commented.

These Chinese investments and the steady trickle of statements or hints to businessmen and Government officials and diplomats

visiting Peking have in the past been sufficient to engender confidence in the investment climate in Hongkong, and continue so for the short to medium term.

But it is also felt that firmer indications of China's attitude will be needed as the 1980s progress, to reassure foreign investors in particular.

"For foreign investors, particularly Americans, it will have to be very evident that Hongkong's present legal and administrative systems are going to continue," one diplomatic source commented.

The two key questions, according to those interviewed, are whether in the mid-1980s the Chinese leadership will be in a position to give the sort of assurances that are necessary, and in the longer term, how long Hongkong will continue to be as valuable to China as it is now.

On the political aspect, some observers felt that the present Chinese leadership's success in achieving the ambitious economic targets set for 1985 would be of particular importance. Unless it enjoys some measure of success in its industrial development programme and

thus manages to achieve an improvement in living standards, it may not enjoy sufficient popular support or be in a secure enough position to give the sort of assurances that potential investors in Hongkong will be looking for.

On Hongkong's continuing importance to China, it is generally felt that as China's economy and industrial infrastructure catch up with the West, Hongkong will inevitably become less essential to its further progress. Development of its own deepwater ports and growing direct ties with major trading nations could among other things, lessen Hongkong's importance to the Chinese economy.

However, such advances will not be achieved overnight. According to one analyst the Chinese economy remains so far behind the West that it will be at least 50 years before China can dispense with Hongkong.

But the general feeling is that, as the magic date of 1997 draws closer, even firmer indications of China's goodwill towards Hongkong will be needed if investment is to continue to thrive.

As one leading American banker commented: "The day that we're asked to make a major project loan whose repayment period extends significantly beyond 1997, I'd want to know a lot more than I do at the moment."

In the final analysis, however, confidently forecasting the future is not, and never will be any easier in Hongkong than it is anywhere else in the world.

As one senior Government source put it: "We have always been dependent on people who were reading the political signs, making decisions and taking risks, and I think that will probably always be true of Hongkong. It's probably unrealistic to expect that it can ever become a completely safe bet."

- Reuter