

However, Hong Kong's success in exploiting these opportunities will depend to a large extent on its ability to compete with other Asian service centres and, among other things, to upgrade its own infrastructure, which will soon be stretched to its limits. The rapid expansion of Hong Kong's trade sector during the past couple of years has surpassed most projections - including those of key policy makers. Given the prospect of a twofold increase in Hong Kong's trade flows in the next five

years, the urgent need for Hong Kong to press ahead with infrastructural developments cannot be overemphasised.

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20 YEARS OF PROSPERITY ENSURED

The open door policy and economic reform in China have injected new elements of growth into the economy of Hong Kong. However, at the moment, the territory is also preoccupied by the current political impasses between China and Britain. How did foreign investors view the risks and opportunities of the territory is noteworthy. Frank Martin, President of American Chamber of Commerce (AmCham), said the geographical location of Hong Kong will benefit the territory for at least 20 years more, despite the transfer of sovereignty in 1997 and keen competition from Guangdong.

Q: The Foundation

A: Frank Martin

Q: What do American companies think of the economic prospect in the territory?

A: AmCham conducted a survey on the topic last year. The results showed that US companies have great confidence over Hong Kong and China. 89% of the respondents thought the investment climate in Hong Kong favorable, 11 points higher than the result obtained in 1991. 93% of the respondents also thought the investment climate in China favorable, 24 points higher than that in 1991.

It can be expected that the result this year will also be positive. Most of the American companies have a 5-year projection in mind. They have already taken into account possible risks and opportunities. Their utmost concern, when choosing a place to set up a regional headquarters, is geographical location. The geographical advantage of Hong Kong won't disappear suddenly. The difficulties which Hong Kong experienced last year did not intimidate most companies, except those with businesses mainly on infrastructural projects, or speculators in the stock market.

Hong Kong is a convenient gateway to China, and is also easily accessible to Taiwan and the Philippines. Such a geographic advantage can hardly be surpassed by Singapore or other Asian cities. This explains why most American companies to set up their headquarters here. Moreover, communication, infrastructure and the legal system in Hong Kong are excellent. And this geographic advantage of Hong Kong will last at least 20 years.

Q: Does the confidence felt by the American companies over Hong Kong grow out of their confidence in China?

A: Absolutely. The forecast is that the economic development in China is very likely to continue, therefore we see tremendous potential in China. It is the key. We view Hong Kong as the extension of China, and vice versa. They have become inseparable. Hong Kong is the brain, providing management know-how to fuel economic development in China. The relationship between Hong Kong and the rapidly developing Guangdong province should be a complementary one, instead of a competitive one. Production lines will continue to move to China to lower labour and land cost. The management, the brain, will remain in Hong Kong for what it needs is quality manpower rather than cheap and abundant labour.

Q: What do the American companies think of the possible effects of 1997?

A: Experienced companies view 1997 as a date only. There is no particular relevance, assuming that both China and Britain adhered to the provisions of the Joint Declaration and Basic Law. With that premise, the squabbling over the interpretation of the documents, and the disagreement between the two sovereign states would not affect the confidence of the American companies. If the assumption went wrong, quality of life in Hong Kong would be very much affected.

Q: What you think are the risks of investing in Hong Kong and China?

A: The No. 1 risk is over-heating of the Chinese economy. We hope that the authority would not take unpopular measures similar to that in 1988 to ameliorate the situation. They took steps to restrict import then. It worked but it also contributed significantly to the large Sino-US trade deficit. Moreover, inflation is a potential threat. If mismanaged, it could become a real problem. Improving productivity is a good way to handle it.

Another risk the US companies must face is the deteriorating US-China relationship. The most notable controversy evolved around granting of China's Most Favoured Nation status. The issue injected great uncertainty on the prospect of cooperation between the two countries. Clinton's administration has not yet

declared its China policy. The table-stake has become so enormous in recent years that both parties could not afford a hasty decision. And this is a risk which many companies has already taken into account.

Q: How can Hong Kong maintain its competitiveness?

A: It is of tremendous importance for Hong Kong to remain an international business centre. And there are certain qualities that must be preserved, otherwise Hong Kong would lose business to Taiwan, Singapore or Malaysia. If I have to rank the relative importance of these attributes in order of their contribution to the economic success of Hong Kong, I would give the rule of law top priority. In this aspect, China can hardly compare with Hong Kong. Without the rule of law, not only living would become intolerable, doing business would be nearly impossible. Hong Kong people are accustomed to a certain level of human right and freedom. Any likelihood of losing the rule of law would cause anxiety and trigger another round of brain drain.

Besides, Hong Kong must preserve the low tax rate and its simple tax structure which helped made Hong Kong a leading international financial market. The US-Hong Kong dollar peg should be maintained. Freedom of movement, for foreigners and locals alike, should be guaranteed, otherwise people would panic. English language should remained the principal language in the business and government circles. An efficient, well-managed civil service system is crucial. Education at all levels with internationally recognized accreditation contributes directly to quality working population. Freedom of information is also important for the companies to make decisions. Censorship such as practiced in Singapore is unfavorable. Last but not least, Hong Kong need a new airport to maintain a high quality service sector.

Q: How do the US companies react to the current political impasse?

A: With perspective to the current agenda of the US government, AmCham would like to remain neutral on this issue. In fact it is the tradition of AmCham to be politically neutral. It is impossible for the chamber to represent the views of thousands of our members. We accept the position of the US government that it is the problem between Britain and China. One thing is for sure, our companies would prefer non-confrontational dialogue rather than agitated strikes, as the means to resolve the problem.

We urge the two governments to continue their dialogue and sort out a solution, because that would improve the investment climate of the territory. Due to the dispute, many important projects were affected. The new airport project, for instance has been bogged down because of the political dispute. Hong Kong needs a new airport badly. The airport in Shenzhen can only supplement but not substitute the Chek Lap Kok airport. We hope that

when making decisions, both parties would take into consideration interests of the American companies and the wishes of the people of Hong Kong.

Q: How do the US companies get on with Beijing?

A: Communication between the US companies and the Chinese officials is actually quite open. Dialogues can always be conducted in a business-like and friendly manner. We can talk about all the problems concerning the US companies, including human rights, trade deficits and other sensitive issues.

It is encouraging to see more open dialogues between the local community, including the US companies, and the Chinese government from now on to 1997.

I believe that politics and business should be separated. The way to settle differences in opinions is continued dialogues on separate issues. However it does not appear as what the Clinton administration is doing at the moment.

Q: What do you think of many companies' tendency to seek double assurance on their investments from both the Hong Kong and Chinese governments?

A: It makes great deal of sense for individual companies to conduct open dialogues with Beijing, especially when they have investment at risk or interests involved. AmCham has set up the government relation committee for nearly 10 years. We communicate with all three governments: Hong Kong, British and Chinese. In fact, it is nothing new. We have been doing this for ten years.

(The article is written by the Public Affairs Division of Hong Kong Foundation Ltd. based on an interview with Frank Martin, president of American Chamber of Commerce on May 11, 1993)

