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# 1997: a challenge to be met

LAST year was a remarkable and impressive one for Hongkong, a dozen months full of hardships and challenges for everyone.

Excitingly and thankfully, the hardships and challenges were all successfully overcome or met. With the Sino-British negotiations over our future in Peking getting on not so very satisfactorily, our dollar slid crazily against its American counterpart to an all-time low exchange rate of 9.50:1 in September.

Then the Government released a statement, warning that measures to stabilise the exchange rate were under consideration.

On October 15, the Government announced two measures which took effect from October 17.

First, the two note-issuing banks are now required to pay the Government's Exchange Fund for new Certificates of Indebtedness, which they are required to hold as backing for increases in their note issues, in foreign exchange at a fixed rate of \$7.80 to US\$1.

When notes are withdrawn from circulation and the note-issuing banks surrender Certificates of Indebtedness, the Exchange Fund will pay them the equivalent foreign exchange at the same rate.

Second, interest on Hongkong dollar deposits with financial institutions will no longer be taxed. Hitherto, there was a 10 per cent withholding tax on income derived from this source.

September also saw the decisive and swift takeover of the troubled Hang Lung Bank. It prevented a very probable run on the bank which is now under Government management.

Despite the fact that our Government has been very non-interventionist in the past, it did at last take some action when we were faced with adversity. It stands to reason to believe that the Government is still seeking to hold the prosperity and stability of our lovely city simply because it is the Government of Hongkong. This has proved that

the Government must work together with the people for the cause of Hongkong.

But the sad fact remains that the future of Hongkong, especially after 1997, will be decided neither by the Hongkong Government nor the Hongkong people. It is to be done by China.

The differences between the two negotiating parties, Britain and China, lies in their varied aims. These differences are not so serious that they cannot be resolved if not narrowed.

Anyway, there should be no such differences if China and Britain place our prosperity and stability above everything else, including their own interests. It would then become just a matter of Britain handing over sovereignty and China trying to maintain our status quo.

But the two parties appear to be wrangling over how each of them should maintain their presence after 1997. As long as Hongkong continues to do as well as it is doing now, both Britain and China stand to profit. What they ought to have been discussing is how their respective presence will really be "useful" and "constructive."

As China has started its modernisation programme while abandoning its policy of "self-reliance," it will have need for a perfect financial centre such as Hongkong which has been a source of banking credit, investment capital and invisible foreign exchange earnings for China as well as an operating base for China's banks and intermediaries concerned with foreign trade and finance.

Of equal importance is the fact that Hongkong does not merely serve China, but also the whole Asian-Pacific region. So it is up to these major forces to keep the economy of the whole region growing significantly.

Whether Hongkong can survive as a financial centre in the long run depends on whether certain minimum conditions for the proper functioning of

a financial centre can be preserved. These conditions are:

- A monetary standard fully backed by international reserve assets.
- A modernised financial system under which privately owned banks, financial institutions and financial markets are allowed full play, subject to the usual prudential regulations.
- A free exchange market without any restrictions on the movement of funds, implying also the free convertibility of the Hongkong dollar.
- A financial policy that permits the free entry and exit of foreign banks and financial intermediaries, subject to a reasonable capital adequacy test and prudential criteria.
- A legal system that fully respects and protects private property and contractual rights.
- A liberal immigration and employment policy towards foreign businessmen, bankers, financiers and other professionals.
- A non-interventionist governmental policy towards the private sector, subject to generally accepted prudential regulations.

These minimum conditions in effect mean the continuation of the current economic and financial status quo. Only if these conditions remain valid can Hongkong hope to survive and prosper in the distant future.

We are, in fact, quite eager to see talks such as the last one in 1983. The communique after the seventh round of talks has hinted that "progress" has been made. What we do for our future will have to be something more than keeping our fingers crossed. But before anything can be done, we must first regain our confidence.

Our city has always been faced with difficulties and we have nearly always managed to survive them all. In that sense 1997 must be viewed and accepted as another challenge which has to be met.

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