

A HOME FOR ENTERPRISE

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1 FROM COLONY TO CITY STATE

Hong Kong and Macao are the remaining examples of a string of foreign settlements that once surrounded China.

The most northerly, Port Arthur, had been briefly in Japanese hands in 1894, in Russian hands between 1898 and 1905 and again in Japanese hands from then until the end of the Second World War. Opposite it, and jointly controlling access to the Gulf of Chihli, was Wei-Hai-Wei, at one time occupied by the Japanese but leased to Britain in 1898 and returned to Chinese control in 1930.

On the southern coast of the Shantung peninsula the Germans leased Kiao-Chow Bay, with the important naval base of Tsingtao, from 1897 until they were forced out at the start of the First World War.

On China's south coast, 200 or so miles west of Macao and Hong Kong, the French leased Kwang-Chow Bay between 1898 and 1946.

Such settlements developed along with the forced opening up of Chinese ports to foreign shipping as part of a drive by European and Japanese governments to help their traders gain access to Chinese markets and their acceptance was forced upon an unwilling but weakened Chinese imperial government.

While Macao had been settled by the Portugese from 1557, it was only ceded to them in 1887. Hong Kong island, however, had been ceded to Britain in 1841 during the First Opium War under the Convention of Chuenpi, a decision confirmed in the following year by the Treaty of Nanking. The Peking Convention of 1860 added the five square miles of the Kowloon peninsula and, in 1898, the 376 square miles of the New Territories were leased for 99 years. It is the expiry of that lease that creates the fundamental problems now facing Britain and the inhabitants of Hong Kong.

Barren island to booming port

For much of its existence Hong Kong served its original purpose as a port through which trade could be conducted with China and, increasingly over the years, with the rest of the world.

In its early years the colony showed little indication of the dramatic development that was to lie ahead. Palmerston contemptuously described Hong Kong as "a barren island with hardly a house upon it" and replaced the British representative, Sir Charles Elliot, for accepting such an unpromising place as Britain's gateway to China. Initial growth was slow and by 1851 the population was only 33,000.

But Chinese residents were attracted to the liberal regime that characterised Hong Kong from the start and, by the turn of the

century, the population of the original colony was around 250,000 with a further 100,000 in the New Territories. The value of its trade, excluding traffic simply passing through the port, was worth an estimated £20 million. By the First World War that trade had virtually trebled and the population had increased to well over 400,000.

At the 1921 Washington Conference the Chinese delegates sought the surrender of all the leases of Chinese territory, including Kowloon, a request that the British government rejected on the grounds that Kowloon was strategically essential to the defence of Hong Kong and that in any case the port was, in A.J.Balfour's words, "easily first among the ports of the world" and, as a free port, its preservation was not only a British but a world interest. By then its annual trade had reached a value of nearly £170 million and its population was over 500,000. It was the seventh busiest port in the world.

The colony's growth was hindered in the late nineteen-twenties by an anti-foreign boycott under which serious but temporary damage was done to Honkong's trade with mainland China. The onset of the Japanese invasion of China, however, improved relations with Britain and, by the outbreak of the Second World War, the value of the colony's trade had reached £350 million and its resident population over a million. There were in addition between half and three-quarters of a million refugees from the war between Japan and China.

Between 1941 and 1945 Hong Kong was occupied by the Japanese and its trade was seriously disrupted. Once liberated, however, it rapidly began to restore its fortunes. By 1946 trade had reached two-thirds of its pre-war levels and by 1948 those levels were surpassed. As a result of inflation that trade was now worth over \$1.3 billion. Due to the Chinese civil war the population varied considerably but by 1950 was over 2.3 million.

The move to manufacturing

As a result of the Communist victory there was a massive influx of refugees with money, technical knowledge and new ideas. Many manufacturing firms moved into the colony from mainland China, particularly from Shanghai, greatly increasing as they did so the colony's manufacturing capacity.

It was this movement that undoubtedly saved Hong Kong from financial disaster. Trade with China had already been seriously disrupted by the civil war when, in 1950, the Korean conflict led to a United States embargo on goods exported to China, Hong Kong and Macao and a British imposed restriction on exports to China which was quickly extended to include a complete ban on the export of any commodities of strategic value. Hong Kong's exports to China dropped to a third of what they had been. By 1954 its total exports had fallen by nearly half.

A dramatic shift from Hong Kong's traditional entrepot trade to

manufacturing took place with the result that by the end of the nineteen-fifties locally manufactured goods accounted for roughly 40% of the colony's exports compared with only 25% for re-exports. Despite all the disruptions and handicaps, its trade was by then worth over \$1.7 billion and its population had reached three million.

Ten years later that population passed the four million mark with the value of its trade now worth over \$4.5 billion, the bulk of it now based on local manufacturing. Re-exports amounted to only around 20% of the total.

Over the past decade, however, with the liberalisation in China, that pattern has changed once again. The population of Hong Kong is now nearly six million and the total value of its trade has risen to nearly \$20 billion with re-exports now making up more than half of that total. Table 1 shows how the nature of that trade had changed over the past ten years.

In less than forty years Hong Kong has transformed itself from a trading port supporting a population of around two million, and largely dependent on mainland China, to a self sufficient manufacturing and financial services economy supporting a population of around six million. Its economy has, on average doubled every seven years and is now thirty-five times what it was in 1948. The colony is reputed to contain the six of the richest men in the world.

No other country in the world has coped so successfully with such frequent and dramatic changes in its circumstances. No other country has accommodated such a proportionate increase in its population, many of them refugees from the Chinese mainland. No other country can begin to match Hong Kong's record of sustained and substantial growth.

But, today, the continuation of that unparalleled success is under serious threat.

Table 1 Hong Kong's External Trade by Major Trading Partners

Imports

	1977		1988	
	HK\$ million	Per cent	HK\$ million	Per cent
China	8,082	16.6	155,634	31.2
Japan	11,547	23.7	93,008	18.6
Taiwan	3,254	6.7	44,357	8.9
USA	6,093	12.5	41,347	8.3
South Korea	1,682	3.5	26,257	5.3
Singapore	2,888	5.9	18,462	3.7
West Germany	1,463	3.0	13,055	2.6
United Kingdom	2,192	4.5	12,922	2.6
Switzerland	1,292	2.7	9,130	1.8
Others	10,208	21.0	84,627	17.0
<u>Total</u>	<u>48,701</u>	<u>100.0</u>	<u>498,798</u>	<u>100.0</u>

Exports

USA	13,552	38.7	72,884	33.5
China	*	*	38,043	17.5
West Germany	3,669	10.5	16,157	7.4
United Kingdom	3,035	8.7	15,524	7.1
Japan	1,386	4.0	11,435	5.3
Canada	1,171	3.3	5,984	2.7
Singapore	904	2.6	5,223	2.4
Netherlands	763	2.2	4,918	2.3
Australia	1,247	3.6	4,172	1.9
Others	9,277	26.5	47,494	19.9
<u>Total</u>	<u>35,004</u>	<u>100.0</u>	<u>217,664</u>	<u>100.0</u>

Re-exports

China	*	*	94,895	34.5
USA	883	9.0	49,483	18.0
Japan	1,339	13.6	17,418	6.3
Taiwan	872	8.9	14,130	5.1
South Korea	456	4.6	11,764	4.3
Singapore	1,063	10.8	8,703	3.2
West Germany	*	*	8,637	3.1
United Kingdom	*	*	6,420	2.3
Australia	222	2.3	4,459	1.6
Macau	318	3.2	3,899	1.4
Others	4,676	47.7	55,599	20.2
<u>Total</u>	<u>9,829</u>	<u>100.0</u>	<u>275,405</u>	<u>100.0</u>

Note: * indicates included in the figure for "Others"

Source: Appendices in the annual Hong Kong Review

2 RETURNING TO THE CHINESE

As Sir Geoffrey Howe has remarked, it is unlikely that those responsible for signing the lease for the New Territories in 1898 "had any idea of the complexity of the problems [they] would be bequeathing to the present generation." But bequeath them they did. In 1987 that lease expires and those territories, covering 92% of the land area of Hong Kong, revert to China.

It had long been recognised that the Chinese would not consider renewing the lease; they had officially been seeking an end to such foreign enclaves for most of the twentieth century. While it was possible, in theory at least, that the original colony of Hong Kong Island and Kowloon, having been ceded rather than leased, could have been retained it was not seen as a practical proposition.

Macao, which had been similarly ceded, may continue as a nominal Portuguese colony but it is effectively under Chinese control.

The British Government thus took the decision that the entire colony should be returned to China on the expiry of the lease but that an attempt should be made to negotiate arrangements for the transfer which would preserve as much as possible of Hong Kong's essential characteristics and provide for as free a future as possible for its inhabitants.

In doing so it was recognised that, while China wished to see its territory re-united, it also had a strong economic interest in maintaining Hong Kong as an open gateway to the rest of the world. It had invested very substantial sums of money in the colony. It derived hard currency from the sales of water, food and electricity to it.

Business as before

In 1984 agreement was reached which guaranteed that Hong Kong, as a Special Administrative Region of the People's Republic of China, would remain capitalist for at least fifty years after the handover, would retain the status of a free port and continue a free trade policy, including the free movement of goods and capital, that its links with the rest of the world would continue, that basic human rights would be protected and that there would be a substantial degree of local autonomy with, for the first time in the colony's history, democratic election of its own government.

In 31 pages, Annex 1 to The Agreement set out in extensive detail a framework of freedoms designed to preserve Hong Kong in something as close as possible to its present state. Although it would now be part of a Communist Chinese state, it would continue very much as before, enjoying the benefits of an economy far more free than that we enjoy here in Britain. Indeed, the Agreement

stated unequivocally that "after the establishment of the Hong Kong Special Administrative Region the socialist system and socialist policies [of the Chinese People's Republic] shall not be practiced in the Hong Kong Special Administrative Region and that Hong Kong's previous capitalist system and life style shall remain unchanged for 50 years."

Hong Kong would continue to act as a separate country in international commercial matters and would even enjoy its own form of citizenship with a regulated border with the rest of China and the right to regulate its own immigration.

The doubters

Not all Hong Kong residents, however, were enthusiastic about the terms of the Agreement. One third of the small minority who commented on them were opposed to the Agreement, a figure generally reflected in the other exercises to test local opinion. Such opponents were generally unhappy about the fact of re-unification and particularly unhappy about their own position as British passport holders but with no right to domicile in the United Kingdom.

Amongst those who knew Hong Kong there was an awareness of a deep concern for the future, not identified in the consultation exercise, and a recognition that the majority accepted the Agreement chiefly because they regarded re-unification as inevitable and that the agreement represented the best that could be achieved. Even supporters, however, had their concerns about matters such as the stationing of units of the People's Liberation Army in the colony and the possibility of conscription into it.

Although such concerns were recognised at the time it was always hoped that some satisfactory solutions could be achieved in the detailed discussions on the implementation of the Agreement. Until May this year it seemed likely that such concerns could be overcome.

By their brutal action against their own citizens the government of China have destroyed that optimism and struck a serious, perhaps a fatal, blow at the essential confidence on which the future of Hong Kong depends.

3 THE UNCERTAIN FUTURE

Until the tragic events of June 1989 in China, there seemed no reason to assume that Hong Kong's success could not continue more or less unchanged into the foreseeable future. Its continued existence as a private enterprise free port was believed to be of considerable financial benefit to the Chinese economy and it was easy to argue that the transitional arrangements being negotiated by Britain and China would offer the residents of Hong Kong a reasonable guarantee of a free and stable future in which they could continue to enjoy the kind of life to which they, and we in the West, were accustomed.

Against a background of apparent progress in introducing economic and political reforms, it was possible to ignore past excesses, possible to ignore what was happening in Tibet, and believe that the changes taking place in China would, over the fifty years that the agreement covered, turn it into a more acceptable form of state. It was thought that it might even become something akin to the kind of liberal democracy enjoyed by most of the advanced world.

After all, throughout much of the Communist world there were encouraging signs of movement towards greater economic freedom and in some cases political freedom too. There was a new willingness to tolerate discussion, disagreement and dissent, even in the ballot box.

If the changes taking place in Russia were dramatic, even they were somewhat limited compared with those in Poland and Hungary where organised opposition was now being allowed to contest elections and the possibility of the ruling Communist Parties being defeated was conceded, if only with considerable reluctance.

The less encouraging examples, such as Roumania or China's one time ally, Albania, could be ignored and the assumption made that China could not remain insulated from liberal change.

The lost illusion

That comfortable illusion has now been shattered. The presumed architect of moderate reform, Deng Xiaoping, has now revealed himself as willing to endorse, perhaps actually to initiate, unparalleled bloodshed against those who dared disagree with the Chinese Communist Party and seek some say in how their country was run.

The value of China's guarantees for Hong Kong's future freedom is now open to serious question. Its failure to recognise the rights which its own constitution guarantees to its citizens is hardly calculated to encourage confidence that it will observe them in the case of Hong Kong. Its unwillingness to countenance

democratic dissent does little to encourage belief that it will, in practice, allow Hong Kong the unfettered freedom of democratic self-government. Its behaviour in Tibet comes once more under scrutiny.

Skeptics will now be confirmed in their doubts as to how far China will really be willing to allow democracy to develop in Hong Kong. It was always inconceivable that they would allow a duly elected Hong Kong government to seek its independence. But how far would it be willing to allow it to adopt policies the Chinese Communist Party perceived as being against their interests?

How far, indeed, would they actually allow those elections to be free? Is it not likely that the mainland would intervene to prevent democracy developing too far?

History's uncomfortable lessons

It is often forgotten nowadays that in the only free elections held in Eastern Europe after the Second World War, in Hungary and in Czechoslovakia, the local communist parties lost. The presence of the Red Army ensured that such defeats did not prevent them undermining the winning parties and achieving the undivided power they sought within a very few years. Would the People's Liberation Army be any different?

There will no doubt be those who will still advocate optimism, pointing out the generally unrecognised characteristic of communist regimes that they tend to adhere to their agreements with bureaucratic dedication. They will quote the example of the transformation of Hungary, since its brutal suppression by Russian troops in 1956, into perhaps the most liberal East European state.

Others, however, will draw uncomfortable attention to the contradictory record of East Germany where the repression of the 1953 uprising has never been followed by a liberalisation and they will point out that it has taken Hungary more than thirty years to reach its present state whereas Hong Kong is due to be handed over to Chinese control in only seven years.

Yet others may well cast doubt's on China's commitment to keeping its promises, recalling the somewhat short-lived decision to "Let a Thousand Blossoms Bloom", the events of the so-called "Cultural Revolution" and, indeed, the promises of the People's Liberation Army that it would never fire on Chinese students and those of the Chinese government that there would be no reprisals against the student demonstrators.

It should not surprise anyone, therefore, if the impact of recent events is to leave few in Hong Kong feeling particularly optimistic about their future. Many after all are refugees, were refugees or are the descendents of refugees, who came to the colony to escape Chinese communist rule. No matter what

guarantees there currently are for the future of the colony after 1997, no matter how they might be strengthened, it will probably never be possible to regain what was always, at best, a very fragile confidence in the continuation of a free Hong Kong under Chinese ultimate rule.

4 ESCAPING TO BRITAIN

The deep concern in Honk Kong over its future has aroused varying reactions in Britain.

The Government has expressed a willingness to treat with greater "flexibility" its existing, severely limited scheme to allow a very small number of Hong Kong citizens to settle in Britain. Since that scheme only covers a number of civil servants in sensitive positions and those British passport holders with reasonably substantial capital even a substantial widening of its scope would do little to provide the population of the colony with the reassurances it needs.

Nonetheless, as government spokesmen from the Prime Minister downwards have made clear, the idea of resettling the three and a quarter million Hong Kong Chinese who hold British Passports, let alone the six million people currently living in the colony, into Britain's already congested communities would be politically unacceptable, even were it to be a practical possibility.

In large areas of the South-East and in rural communities the length and breadth of Britain it is increasingly difficult to provide accommodation for the offspring of the existing inhabitants. Not only are land costs prohibitive and its availability severely limited, any significant encroachment on the green belt is regarded as quite unacceptable. To contemplate adding to those pressures, or to the equally serious problems facing many of our larger cities in the north would be seen as an act of folly.

Statements by Labour Party spokesmen over the years, most recently by Shadow Foreign Secretary, Gerald Kaufman, suggest that the Opposition broadly share the Government's view that no wholesale promise of a right to enter Britain can be given.

The moral alternative

Others, however, have taken an opposing view, amongst them the leader of the Democrats, Paddy Ashdown. They argue that Hong Kong is a British colony and that, in consequence, the survival and well-being of its citizens is a British responsibility. In their view every Hong Kong resident entitled to a British passport should be given the right to come here. While they believe that the numbers likely to make use of the opportunity would be small enough not to create serious problems, they suggest that the confidence such a promise would give would go a long way to remove the colony's current fears for its future.

Morally appealing though that position is, it carries with it a serious risk. Conditions in China might improve and with them faith in the future of Hong Kong. Equally, however, conditions might deteriorate yet further leading to yet another influx of

refugees from the Communist regime and an even greater loss of confidence amongst the colony's residents. It is unrealistic to give a promise of the right to come to Britain unless the possibility of having to fulfil that promise on a large scale is recognised.

While the border between East and West Berlin was open many East Berlin residents took the opportunity to work in the West but only relatively small numbers made use of the opportunity to leave. Once rumours began to circulate that the Berlin Wall might be built, however, the trickle turned into a flood. The existence of an easy escape route may provide the confidence that encourages people not to leave, but any threat that that escape route might be closed encourages its immediate use. Would the Chinese guarantee to leave the escape route open? And would the people of Hong Kong believe them if they did?

Those who adopt the simple moral stand that Britain must accept responsibility for the people of Hong Kong, whether it be every resident, every British passport holder or everyone actually born in the colony have, themselves, the responsibility of explaining where they would go, how they would be accommodated and how they would be employed should significant numbers avail themselves of the right. They must also explain how long that right is to exist.

In support of the case for allowing substantial immigration from Hong Kong it is often argued that the drive, enterprise and enthusiasm of the people of Hong Kong are precisely those qualities that Britain needs to encourage and that substantial immigration of highly motivated people would provide a very valuable impetus for economic initiative within the United Kingdom economy.

There must, however, be some doubts as to quite how far that expectation would be realised in practice. The much more controlled, regulated and restricted nature of the British economy, our tax and welfare structures, are very different from the economic and social environment in Hong Kong. They would operate, as they do with our native population, to inhibit initiative and enterprise. It may not be a coincidence that previous immigration from Hong Kong, albeit at low levels, has not produced a significant growth in Chinese owned enterprises, except in the limited field of catering.

Sharing the burden

An alternative approach, supported in the House of Commons debate on the 1984 Agreement over the future of Hong Kong by Denis Healey and others was for the idea of an "Operation Haven" under which the Commonwealth, the EEC and other western countries might co-operate in an initiative to provide opportunities for resettlement of all those who did not wish to remain in Hong Kong after the colony reverted to China.

At the time, the idea was rejected by the government because other countries would see it as displaying a lack of belief in the Agreement so recently concluded. Such a lack of faith, they argued would "inevitably be very unsettling for the very people in Hong Kong for whose very security we are seeking to provide."

In the light of recent events that position should certainly be reconsidered. It may well be that other countries could offer a more congenial environment for those who wish to leave rather than face the increasingly uncertain future offered by the communist Chinese state.

But there must be serious doubts as to how far other countries will be willing to help.

The international reaction to the plight of the Vietnamese boat people, the Tamils, the Kurds and many other groups of refugees, far smaller in total number, hardly suggests any enthusiasm amongst the world's government to accept significant immigration.

Alternative immigration

The suggestion that all other immigration be halted and similar numbers of Hong Kong residents be allowed into Britain in their place might deal with some of the problem but it would only do so if the numbers wishing to come here were relatively small. Annual known immigration from overseas sources is perhaps of the order of 50,000

And the problem of accommodating the equivalent number of Hong Kong Chinese would be much greater. Many of those would be immigrants who were replaced would have been coming to join large existing communities and to stay with families already here. With the relatively small size of the existing Chinese community, many, if not most, incoming Hong Kong residents would have to seek, as the Vietnamese boat people had to seek, accommodation of their own.

It is estimated that perhaps as many as 40,000 more may be coming here unofficially from the EEC, many of them from Southern Ireland, but such immigration would not only be physically difficult to halt but its prevention would not be permissible under EEC law.

The unreal option

An air of unreality surrounds the suggestion that Britain should renegotiate the terms of the hand over, or perhaps that it should ultimately resist the handover itself. Those who put the idea forward ignore the political and physical impracticability of what they propose.

When the negotiations leading up to the 1984 Agreement were finally concluded it was explicitly stated in the House of Commons by the Foreign Secretary that "the agreement itself

cannot be amended" and by his then opposite number, Denis Healey, that "it is the best possible agreement." Little that has happened since gives any grounds for assuming that the Chinese government would be prepared to consider possible revision of the Agreement. And even if they did, why should the residents of Hong Kong put any greater faith in a new agreement than they do in the existing one?

Romantic references to the Falklands War and defending the rights of the Hong Kong people only serve to reinforce that impression of unreality amongst those who refuse to recognise the fact of an impending Chinese take over. 92% of the area of the colony automatically reverts to Chinese control in 1997 when the lease on the New Territories runs out. The Chinese have made it abundantly clear that there is no question of that reversion not taking place.

Legally, it is of course possible to argue that the two parts of the original colony need not be handed back as they were not leased but ceded in perpetuity. In terms of practical politics to try and do so would be a nonsense. With only 8% of the colony's current area, it would be virtually impossible for Hong Kong Island and Kowloon to survive independently of the New Territories. And even if they could, their dependence on the Chinese mainland for water, electricity and food would leave them entirely at the mercy of the Chinese government or dependent upon the kind of international emergency support that sustained West Berlin through the 1948/49 blockade.

It is only Chinese goodwill, backed by self-interest, that allows Hong Kong to survive. How, at any time, it could be defended against a People's Liberation Army now known to be perfectly willing to kill its own people, let alone British troops, remains to be explained.

It was recognition of regrettable reality that led the British Government to accept the inevitability of the transfer of the entire colony in 1997 and seek to negotiate the best deal it could for the colony's future as part of mainland China.

Yet, despite the apparent impossibility of meeting it in any meaningful way, there is a moral case. Britain does have an obligation at least towards those Hong Kong citizens to whom it gave a British passport and who wish to leave.

And there is a possible way, not so far considered, that would allow that moral obligation to be met and provide a secure future for those of the Hong Kong People who fear sufficiently for their future that they wish to leave.

5 A NEW HONG KONG?

Both Hong Kong and its sister city state, Singapore, were created as free ports by the British seeking trading opportunities in the Far East. In neither case were there any significant local resources. Nor was there any significant indigenous population. Yet both have provided examples for the rest of the world of the economic success that can be achieved by a largely immigrant population, initially at least unskilled and untrained, when given the opportunity and the encouragement to do so.

A variety of reasons has been put forward to explain that quite unprecedented success. In the nineteenth and early twentieth centuries it was their situation astride major trade routes and their exploitation of the opportunities for entrepot trade. Today, the principal reasons are the relative lack of state regulation, the low levels of taxation, the existence of free trade and an economy highly dependent on private enterprise. Not for nothing has it been suggested that Hong Kong would have been Adam Smith's favourite society.

Numerous attempts have been made throughout the world to repeat Hong Kong's success; here in Britain, in a typically reluctant and half-hearted way, through the establishment of enterprise zones and freeports. In few cases, however, have governments been willing fully to renounce their powers and allow a totally free and unregulated local economy to develop. As a result, the successes, where they have occurred, have been severely limited.

Providing for enterprise

Yet there seems no reason why the success of Hong Kong should not be repeated if governments were willing to forego their traditional interventionist role and accept the very limited one that characterises the colony's administration. Such an experiment would combine the concepts of a new town, an enterprise zone and a freeport but without the governmental regulations and restrictions from which each presently suffers.

And in present circumstances it is surely worth examining whether such an experiment could not be established to be developed by, and provide a haven for, those Hong Kong residents who do not trust the Chinese government and do not wish to live under its rule.

The advantages of creating a new Hong Kong would be considerable. For the wider world, it would create yet another centre of economic growth. For the British government, it would enable the responsibility many feel it has towards the residents of Hong Kong to be discharged without imposing intolerable strains on British society. For the people of Hong Kong, it would provide an immediate opportunity to leave for those who wish to do so and a potential haven for those who currently wish to stay but want the

opportunity to leave if circumstances change. It might also provide an additional security for the colony since the Chinese government would be reluctant to jeopardise the colony by doing anything that might encourage a mass emigration.

Seeking fertile ground

A site for a new Hong Kong would have to be on or near major ocean trading routes offering links with existing or potential customers. It would have to cover between 150 and 200 square miles. It would require the existence, or the subsequent provision of, overland links with its host country. It would need the capacity to develop an international seaport and an international airport. It would need to be geologically suitable for large scale high rise building.

And, above all, it would need its host country to be politically stable and likely to remain so for the foreseeable future.

Within some degree of proximity to Hong Kong itself, the only possible areas worthy of consideration would be the lightly populated parts of the northern coast of Australia. Across the Pacific the equally lightly populated western coast of Mexico might also merit consideration. Were Africa to offer the prospect of greater political stability possible sites exist there too. Even within the more densely populated European Community there are areas which might be suitable. How willing, however, any of these would be to help with what they will certainly see as a British problem must be open to great doubt.

At the end of the day, if no more suitable site can be found or agreed, then it would fall to Britain to provide one, probably on the relatively underpopulated west coast of Wales, Cumbria or Scotland.

There are excellent economic reasons why a new colony should be situated in Europe. Europe offers a high degree of political stability and very well developed trade routes with the rest of the world. Table 2, drawn from Table 1 above, gives a general indication of the regional distribution of Hong Kong's existing trade from which it will be seen that Europe and North America are not only major trading partners but are partners with whom existing trade is in healthy surplus. In a European context, repeating such a pattern of trade would provide the revenue with which to import essential food, something of which Europe has a perennial surplus.

There are equally powerful reasons why such a new colony should be situated in Britain. It is with Britain that Hong Kong has its links and its official language is English. It is to Britain its people now look to provide at least an alternative to coming under Chinese rule. Those links are particularly strong in the case of Scotland. Scots were to the fore in developing Hong Kong. They played, and still play, a prominent part in many of its major businesses. With its history of liberal thought, its

current economic success, its superior record of racial harmony and its extensive, sparsely populated Atlantic seaboard it could easily provide a suitable home for those seeking refuge from the uncertainties of life under Communist rule. Indeed, amongst the miles upon miles of rugged coastline a colony the size of Hong Kong would scarcely be noticed.

But its economic benefits would be.

Table 2 Regional distribution of Hong Kong trade (HK\$ m)

	Exports	Re-exports	Total	Imports	Balance
China	38,043	94,895	132,938	155,634	-22,696
Pacific	20,830	60,373	81,203	182,084	-100,881
N.America	78,868	49,483	128,351	41,347	+87,004
Europe	40,784	15,057	55,841	43,163	+12,678
Unspec.	39,137	55,599	94,736	76,571	+18,165

Source: Appendices in the annual Hong Kong Review

Were a site to be sought in Britain it would require an act of political courage on the part of the government. Many who take a high moral stance on the abstract question of providing a place of refuge for the people of Hong Kong may prove less than enthusiastic when it comes down to actually identifying where that place or places might in practice be. Many who profess sympathy with the plight of the Hong Kong people but use the congested nature of Britain as a reason why nothing practical can be done to help will turn out in practice to have very little of that sympathy.

The government may be helped by the fact that the leader of the Democrats has forcefully argued that Britain must be willing to accept a responsibility for those who wish to leave Hong Kong, and by the fact that the SNP's European MP once suggested that the East African Asian refugees should be resettled in the underdeveloped Scottish Highlands. But, as the memory of the atrocities in China fade, so the traditional British insularity will re-emerge and with will grow the feeling that Hong Kong is a far away place of which we know little.

Benefiting Britain

Nonetheless, there would be substantial economic benefits to Britain, or any other country agreeing to become host to a new Hong Kong. A construction boom lasting seven years or more, the spill over of economic growth that China has enjoyed in the areas adjacent to Hong Kong. If, as would seem essential, the site were in a relatively unpopulated and hence undeveloped area it would provide a valuable counter balance to the existing regional economic structure. In the case of a site in Europe, it would provide a substantial and growing market for the existing surplus food production. In the case of a site in Britain, it would offer a welcome market for our surplus electricity production capacity.

There would be the more intangible benefits of showing, at close quarters, how successful a deregulated, low tax, private enterprise economy can be.

And, as Sir Geoffrey Howe stated in commending the 1984 Agreement to the House of Commons, "the concept of maintaining two separate political, economic and social systems within one country is a far sighted one." If it is far sighted for the Government of the People's Republic of China might it not also be far sighted for Britain?

Such a new colony would occupy an anomolous position in Europe. It would need to be exempt to some degree from EEC law if it were to enjoy the freedom necessary to flourish. It might need to be technically outside the EEC to enjoy the essential freedom to trade in world markets.

But Europe is no stranger to constitutional anomalies. The mini-states of Andorra, Lichtenstein, Monaco and San Marino retain their independence. West Berlin continues technically under Four-Power occupation. Within Britain, the Isle of Man and the Channel Islands are largely self governing although they accept some British legislation and contribute to defence expenditure.

And such a new colony would need the goodwill of the rest of the trading world in not erecting tarrif barriersagainst its trade. If, however, the world's condemnation of recent events in China is to appear as anything more than just political posturing then agreement must be forthcoming to help those who seek to escape such oppression.

6 BUILDING JERUSALEM

The magnitude of such an undertaking should not be underestimated. If it is assumed that in the seven years remaining until the colony passes to China only half of those understood to be opposed to the 1984 Agreement chose to move to a new Hong Kong that would mean around a million people requiring over 300,000 houses, the associated commerce and industry plus all the necessary infrastructure. Creating such a community would be equivalent to building one and a half new towns a year.

Although that may seem a daunting prospect it actually compares with Hong Kong's own record of building 60,000 houses a year, 50% more than would be required.

Estimating the likely costs of establishing and building such a new community is impossible without the kind of detailed information that only a properly conducted feasibility study could provide. Nonetheless, it is possible to make some rough estimates

Over half of the finance for housing construction could come from individual families. Over the past decade nearly 60% of new house construction in Hong Kong has been for owner-occupation and it seems reasonable to assume that, amongst those willing and able to move, the proportion wishing to own their own homes would be at least as high. Building the remaining houses for rent could cost around £500 million per annum. If the pattern of expenditure incurred in building the new towns is any guide then the cost of providing the associated infrastructure might amount to a further £500 million. The cost of providing industrial, commercial and community facilities could add around £250 million but the impossibility of estimating the likely level of private sector investment makes any figure open to considerable doubt.

Such a level of capital investment falls to be compared with the government's total annual expenditure of over £200 billion and its capital investment of around £12 billion.

Some of that capital cost should be borne by the Hong Kong government since any significant migration would reduce its need to invest in the colony. It may well be, indeed, that much, if not all, of the capital required could be raised privately. Hong Kong itself is one of the world's foremost financial centres.

In any case, at the end of the day, there should be no great cost to anyone other than those who choose to live in the new community. Almost since the end of the war, Hong Kong has balanced its budgets, leaving private enterprise to provide many services and financing the rest out of normal revenue and the sale of publicly owned land for housing and other development. Its finances are, in many ways, a model of what, in theory, the new towns were supposed to be in Britain but failed to be in

practice.

The profit realised between the purchase price of currently undeveloped land and its enhanced value due to the development of the new community was intended to be sufficient to finance the provision of infrastructure and community facilities. In the case of the private enterprise new towns at Welwyn and Letchworth that largely occurred. In the case of the post war public sector new towns it did not.

7 THE GOVERNMENT'S TASK

The creation of a new Hong Kong, wherever it were to be sited, could not be lightly undertaken since a failure would create precisely the kind of refugee problem that the project was designed to avoid. It could not, therefore, be the subject to the usual lengthy processes of planning and consultation since there are only seven years left before the colony reverts to China.

As already noted, however, the expertise for such rapid development already exists in Hong Kong and it could be augmented from amongst the past and present staff of Britain's various development corporations. And it would certainly make sense for the colony's government to be closely involved in, if not actually responsible for, the entire project.

The build up of such a new community as the task of governing the old comes to an end with the development of democracy and the handover to the Chinese might well offer an attractive continuity of work for those currently contemplating retiring to Britain when the changeover takes place.

If the project is to be a possibility, the British government should immediately set in hand discussions with representatives of the Hong Kong people to discuss whether the idea of establishing a new colony is one in which, in principle at least, a significant number would be interested and if so where would be considered suitable sites.

Simultaneously, it should set in hand urgent discussions with other countries where a new colony might be considered a possibility.

In the light of those discussions, or perhaps earlier in anticipation of their likely outcome, it should also set in hand, with the Hong Kong government, the necessary feasibility studies as to the work that would be involved in opening up a new colony.

Agreeing to live together

The existing legal structure concerning Hong Kong could be applied to any new colony or, alternatively, the political and economic framework for the future of Hong Kong set out in the 1984 Agreement, codified in the proposed Basic Law to be adopted by the Chinese People's Assembly and extended in the emerging agreements from the Sino-British Joint Liaison Group could be used with appropriate adaptation.

Those documents effectively provide that China and Hong Kong are to act as if they were independent countries in all domestic matters. If a site in Britain were to be chosen, the same would need to apply here. There could be no entitlement to the benefits

Britain's high taxes provide for its citizens. Any new Hong Kong would have to decide for itself, just as the present colony does, what kind of welfare it wanted and was willing to pay for.

Just as China and Hong Kong are to decide their own immigration policies and there are to be border controls, so something similar would be required if a site in Britain were chosen so that the new colony was not used to enter Britain by the backdoor, creating the very problems which led to original rejection of a right to come here.

There are many such detailed matters which would have to be resolved but, fortunately, the considerable work already done in reaching the 1984 Agreement and subsequently in the discussion in the Joint Liaison Group provide answers to most of the questions likely to arise.

One point of principal which will have to be settled concerns the contribution such a new colony would have to make towards Britain's expenditure on foreign policy and defence, how it should be calculated and whether, as a result of that contribution, the colony would have a voice in the decisions determining that foreign policy and defence. If it were not thought appropriate to allow the colony to elect its own Members of Parliament it might be that the example of West Berlin could be followed where the administration of the city appoints representatives to sit in the West German Parliament where they can participate but have no vote.

Gambling on success

It is difficult to know how successfully the spirit of Hong Kong can be transplanted. The essential conditions that underly the colony's success are well enough known but no one can know how important it is that it is next door to a country whose government people not only do not wish to live under but from whom many have escaped. Were the neighbour more congenial, would people be so attracted by the fiercely competitive nature of Hong Kong commercial life?

No one can be certain just how important the lack of a directly elected government might be, especially since such governments tend to engender regulation and control. No one can be quite sure how important nowadays a strategic position on the world's trade routes might be, particularly since the existence of Hong Kong as one of the world's largest trading states is clearly a major factor in determining the pattern of those routes.

But the success, albeit less spectacular, of that other Chinese island trading state, Singapore, suggests that given appropriate conditions the achievement can be repeated. And the history of Hong Kong leaves little doubt that its people are more than capable of that achievement.