As our train passed through the flat, grayish city of Nanking last December, a retired Chinese high school principal spoke about the uncertain future of his home, Hong Kong. What would happen to one of the world’s great colonial anachronisms when Great Britain’s ninety-nine-year lease ran out in 1997? After months of secretive negotiations between China and Great Britain, the former schoolmaster was optimistic: The Chinese Communists were too smart to risk undermining Hong Kong’s stability by, say, moving in troops. They understood that to act precipitously toward always-anxious Hong Kong could mean chaos, and they appreciated the economic benefits of preserving Hong Kong as a window on the West for trade, technology, and capital.

The principal maintained that China would be content merely to hoist its flag over the colonial governor’s mansion. His speech, its precise clip revealing years of British schooling, still bore the distinctive twang of his native Cantonese. Things would certainly be all right, he said. Then, quite casually, he mentioned that his two sons, one a doctor and the other a businessman, did not trust the Communists to take the smart course. With families and careers ahead of them, they were going to leave Hong Kong for good.

Five months later, in May, China’s paramount leader, Deng Xiaoping, announced that China would dispatch troops to Hong Kong after it resumes control. Deng’s announcement sent shock waves through Hong Kong’s banks and boardrooms. The Hang Seng Index, Hong Kong’s equivalent of the Dow Jones Industrial Average, dropped thirty points. But in typically resilient Hong Kong fashion, the index rebounded quickly when the stock exchange reopened three days later.

For the first time since the Hong Kong negotiations began in September, 1982, the Chinese had reversed their public stand on a significant issue. Deng’s decision to repeal Peking’s consistent line about not sending troops seemed aimed at placating hard-line Communists and military leaders, who think the government has been too soft on the Hong Kong issue. Confirming the fears of many of those in capitalist, free-wheeling Hong Kong who fled China to escape the Communist government, Hong Kong had become the object of factional struggles in Peking. Despite the frequent assurances that Hong Kong would be allowed to retain its current economic and social system, Deng’s announcement also caused speculation about what other changes lie down the road for Hong Kong.

Since taking control of government in 1949, the Communists have had the power to seize or blockade Hong Kong anytime they pleased. Hong Kong is virtually ringed in by China, from which it receives most of its food and water. In June, Deng brusquely told a delegation of three leading Hong Kong figures that the future of the colony had been decided and could not be changed. He rejected their warning that Hong Kong was gripped by a crisis of confidence. The Chinese intend to announce their plans for the colony in September, with or without British acquiescence; Peking has always held the cards in the talks.

British officials are now aiming for an agreement under which Hong Kong’s stability and prosperity will be retained, albeit as part of the People’s Republic of China. British Foreign Secretary Sir Geoffrey Howe acknowledged only last April that China would indeed regain sovereignty after 1997. It was by far the most definitive statement by either side in talks that have been shrouded in secrecy. The talks are now moving to a climax as Peking’s September, 1984, deadline approaches.

A joint working group set up in June has begun meeting to flesh out the details of an agreement. Still, both sides are playing their cards close to the chest, and with good reason. Hong Kong’s capitalist lifeline is at risk. In March the famed Hong Kong trading company of Jardine Matheson announced that it was moving its legal domicile to Bermuda because of uncertainty over the colony’s future; as usual, the stock market dropped quickly. Already more than $7 billion has been shifted overseas or traded for foreign exchange by Hong Kong investors. Last year the Hong Kong dollar plunged from 5.9 to 9.6 to the U.S. dollar—a record low—and an alarmed Hong Kong government intervened, pegging it at 7.8 to the U.S. dollar. The bottom has fallen out of the market in real estate, which once commanded among the highest prices in the world. According to one report, a four-acre tract that brought the equivalent of $14.8 million four years ago was sold at auction for $2.3 million in May. Many of Hong Kong’s wealthy are hedging their bets by purchasing exit insur-

Thomas Omestad is a Washington-based freelance writer. He recently spent several months in Hong Kong, China, and Japan studying regional politics.
ance. Foreign passports and residence visas are hot commodities, and the U.S., Canadian, and Australian consulates are said to be swamped with immigration applications.

The Chinese have been anxious to ease Hong Kong’s fears. Communist officials have said that the colony’s domestic system will remain in place for at least fifty years after China reasserts its sovereignty. Peking has also offered the Hong Kong Chinese something the British have never permitted: self-government. Hong Kong would retain a great degree of autonomy, including its own legal system, with a court of appeals based not in Peking but in the territory. The Chinese say they are prepared to guarantee Hong Kong residents freedom of speech and freedom to travel and invest money abroad.

Yet whether the Communists can live with the stark contradiction of Hong Kong is an open question. Not only is Hong Kong a teeming, open market, but its streets offer a constant reminder of two antipathetic extremes of life. The colony has more Rolls-Royces per square mile than any other place on earth, but in the shadows of Hong Kong’s estates half-a-million people live in ramshackle squatter settlements.

PRAGMATISTS AND HARD-LINERS

The colony’s amazing economic success story points to the wisdom of letting Hong Kong be Hong Kong. Quite simply, what Hong Kong does best is to make money. From gleaming corporate headquarters to back-alley money changers, it has earned a place as the world’s third largest financial center. From an area less than the size of Houston, it has raised the stamp “Made in Hong Kong” to the status of an internationally recognized term for goods exported to the West. Its free-market dynamism has produced the third highest per capita income in Asia, behind Japan and Singapore. Despite the uncertain future, business is still booming; exports are up 50 per cent from last year. Hong Kong is China’s principal source of foreign exchange. And lying at the crossroads of finance and trade in Southeast Asia, Hong Kong has become an important funnel for the Western technology China so badly needs to fulfill its ambitious development plans.

Still, Hong Kong’s 5.5 million people, 2 million of whom crossed the “bamboo curtain” to escape Peking’s rule, shudder at the thought of being subject to the vicissitudes of Chinese politics. The Chinese Communists have repeatedly acted against their own interests, bowing to the ideological biases of the faction in power. The colony’s residents who come from Shanghai remember all too well the Communists’ promise in 1949 that industrialists and others could carry on as before. Most of them were later branded “exploiters”—a very unhealthy title in China—and railroaded out of business. All Chinese remember the frightful destruction wrought by the Cultural Revolution and question whether the current crowd of pragmatists in Peking has the staying power to carry on into the next century.

Hong Kong residents also understand that pride runs deep in Peking. Britain forced the Qing dynasty of China to sign treaties in 1842 and 1860 that ceded the thirty-five square miles of Hong Kong island and the lower part of Kowloon peninsula “in perpetuity.” On July 1, 1898, the rest of the peninsula and the surrounding islands, collectively known as the New Territories and covering about 376 square miles, were leased to Britain for ninety-nine years. The Communists have never officially recognized the treaties and view them with indignation. Peking has never considered allowing Britain to retain sovereignty over any part of the colony. It has even warned that if turmoil were to erupt in the colony before 1997, it would intervene.

But the greatest fear in Hong Kong is not that the Communists would make some foolish move with force; China has tolerated the British on its doorstep for thirty-five years—even when, in 1967, the British put down rioting by militant Maoists. Rather, the real danger comes from Peking’s inability to resolve its internal political struggle between pragmatists and hard-line holdovers from Mao’s day. The pragmatists favor a tolerant policy toward Hong Kong to assist Peking’s development plans; the hard-liners believe Deng has given away too much in the negotiations with Great Britain. Hong Kong Chinese are worried that an agreement with Peking will be too vague to guarantee continuing stability and prosperity and that the high degree of autonomy promised to Hong Kong will be eroded by further concessions to the hard-liners. The Communists have also demonstrated a troubling naiveté about how Hong Kong—and capitalism—actually works. When one senior Chinese economist was asked recently to give an example of the authority a future Hong Kong government would have, he reportedly replied: “It will be able to buy a factory without consulting Peking.”

Ignorance breeds clumsiness, and one can only imagine what ham-handed management might be in store for Hong Kong. The colony’s prosperity and stability are rooted in the nonstop entrepreneurship of its residents and the absence of government interference. If Peking abandons a hands-off policy, the exodus of brains, talent, and money, feared for so long, would begin in earnest.

A keen sense of helplessness has made Hong Kong extremely sensitive to signals from Peking and London. Nineteen ninety-seven mania has set in. The Hong Kong newspapers are following the talks with a vigor that borders on frenzy. Every move is reported fully; every sign is analyzed exhaustively. Rumor is king, and as September approaches, the colony is alive with responsive activity. Some are spurred to civic activism, hoping to calm frayed nerves. Others, anticipating the worst, are acting out a pale version of the last days of Rome. Citizen groups like the Hong Kong Observers have met with Chinese and British officials to press for self-rule for the colony. Meanwhile there are 1997 clearance sales and a bar called 1997. A “rice paddy” doll sporting a fake British passport can be had for an “immigration fee” of 199.7 Hong Kong dollars (about $25). And for the colony’s cocktail set, 1997 parties have become the rage. Many, especially the wealthy, believe that once Britain loses its last foothold on the Asian mainland, the party will be over.

The colony’s burgeoning population of young people is particularly worried that the enormous weight of China’s poverty will drag down Hong Kong’s prosperity. Roughly 50 per cent of the colony’s inhabitants are under thirty years of age. Raised on Western pop culture and accustomed to decent wages and material comforts, this group has already developed a sense of political power with which the Communists are ill prepared to contend. That was made
evident in January, when thousands of young people joined a riot prompted by a two-day taxi strike, even though they had no direct stake in the outcome. The rioting served as a warning of what might be in store for Hong Kong if the Communists fail to act responsibly.

THE TAIWAN CONNECTION
The ultimate fate of another politically severed province looms in the background of the current negotiations. The Nationalists ruling Taiwan are following closely the Hong Kong talks, despite their continuing refusal to deal with the Communists. Unlike Hong Kong, however, Taiwan's unification with the People's Republic is far from inevitable. Taiwan is armed to the teeth and carries a bitter mistrust of Communist intentions. Yet a reasonable settlement over Hong Kong would not only further China's modernization goals but would also strengthen Peking's arguments for the efficacy of eventual unification. A rash move, however, would diminish the already slim chances of negotiations and usher in a new period of high tensions across the Formosa Strait. As one State Department official noted recently: "If the Chinese botch it up in Hong Kong, they may never get a chance in Taiwan."

As the 1997 talks proceed, the potential for a polarized East Asia is worrying at least one very interested bystander: the United States. American economic interests in Hong Kong are significant. U.S. businesses have more than $4 billion invested in Hong Kong, 46 percent of all foreign investment in the colony. Seven hundred U.S. firms, including many regional headquarters, operate in the territory. Several, like Bank of America and Citibank, continue to expand. The United States is Hong Kong's biggest trading partner. Some fourteen thousand Americans live there and half-a-million visit annually.

On the strategic side, the U.S. Navy will almost certainly lose Hong Kong as a port of call; but its military value is considered marginal so long as naval bases are available in the nearby Philippines. More important, an agreement that maintains the status quo in Hong Kong would lessen the need to continue major arms sales to Taiwan, the main impediment to stable long-term relations with China. If the 1997 talks go badly, or if Peking fails to keep its word, it would be extremely difficult for any American president, let alone one such an old friend of the Nationalists as Ronald Reagan, to justify a reduction in arms sales to Taiwan. More likely, Washington would resume large-scale weapons transfers. The view from Congress and the press would surely be of a vast Communist state preying upon a friendly capitalist enclave on the tip of the Asian mainland. The result: a rapid chill in relations with Peking.

The Reagan administration is hoping for an agreement that will preserve Hong Kong's stability and prosperity. It has, however, steered clear of the talks, considering them an internal matter for Great Britain and China. The United States did inform Peking of its Interest in Hong Kong's future; and Secretary of State George Shultz visited the Crown Colony itself in July, telling Hong Kong Governor Sir Edward Youde of Washington's "deep interest" in a favorable final agreement.

President Reagan's China policy can ill afford another serious setback. After a shaky start, the president approved a communiqué in 1982 that reaffirmed the mainland government as the sole legal government of China and pledged to hold the line on arms sales to Taiwan, gradually reducing them. Since then, a textile agreement favorable to the People's Republic, a successful visit to the U.S. in January by Prime Minister Zhao Ziyang, and a reciprocal visit in April by President Reagan have restored some normalcy to U.S.-Chinese relations. But as shown by the recent disintegration of President Reagan's much-hailed nuclear cooperation agreement, those relations are still vulnerable to disruption.

Hong Kong adds a new and unwanted element of uncertainty here—a potential trouble spot not only in the coming months but in the years after China regains its sovereignty of the colony. If Hong Kong becomes a source of political recrimination and strategic instability, America's China policy, perhaps somewhat like Hong Kong itself, could be running on borrowed time.