Hong Kong's Future:
The impact of brain drain and capital outflow

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A. Need of settlement:

As one of the authors stated that "No one knows what the future of Hong Kong will be. " People in Hong Kong are living in a borrowed place on borrowed time.\(^1\) In the early 1980s, it became apparent that the future of Hong Kong had to have a definite settlement.\(^2\) There were less than 20 years from 1997 for the businesses to recover their investment. The banks will not want to face problems with the over 20 years morgages, specially in the New Territories areas which were leased form China until 1997.

B. Settlement development:\(^3\)

In 1982, Chinese senior leaders expressed their view of Hong Kong's future, which Hong Kong was allowed to govern itself with Chinese sovereignty firmly restored. It will become a Special Administrative Region so that the existing system in Hong Kong could be maintained. In late 1982, British prime minister Mrs Margaret Thatcher signed a joint agreement with the Chinese, which outlined the future plan for Hong Kong.\(^4\) From that point, Hong Kong officially started its transition period. In 1984, another detail joint agreement between the two governments was signed and published. The agreement, in brief, spell
and further settlements and responsibilities between the two countries and Hong Kong's government. In 1986, the Basic Law draft committee and its consultant committee were formed with Chinese officials, British officials and Hong Kong's representatives. Their purpose was to write out the mini-constitution which will govern the Hong Kong Special Administrative Region from 1997 onward. In 1989, a draft of the Basic Law was reviewed and published. It gave the public a chance to comment and suggest improvement on the proposal before the final draft appears in early 1990.

C. During the transition period:

From the beginning of the discussion of Hong Kong’s future in 1982 to the end of 1989 when the raw draft of the Basic Law was issued, Hong Kong continued to suffer a serious brain drain of talent and outflow of local capital. For the five year period from 1983 to 1988, there was more than 150,000 people left for other countries. Given that Hong Kong has around 5.5 million population, the emigration percentage was about 3% of the total. The ratio would be even higher in term of percentage of college educated and professionals who left the colony.

Since Hong Kong did not have any capital flow restriction, it was rather difficult to determine the amount of outflow capital. However, the booming property and housing markets in many North American
ties which have large ethnic Chinese population and in Australia suggest that it was a large scale outflow.

In the purpose of this paper:

In this paper, the development of the "settlement of Hong Kong" will be briefly discussed first. So that it will provide the essential background for the readers to form their own evaluation and enhance further research. Then, the focus will be shifted to the situation and evaluation of the outflow of human capital and financial capital. Their impact on the present and future economic development will be discussed. In the conclusion, some of the most recent development in political progress and local economic situation will be reviewed. It is wished that both the author and the readers will improve their understanding the future projection of the "problem of Hong Kong."
II. DEVELOPMENT BACKGROUND

A. Establishment of the Colony:

Hong Kong became the Crown colony in 1842 after the Treaty of Nanking. The treaty was signed as the consequence of China's losing the war of the Chinese Imperial Government. The war was caused by the British refusal to stop selling opium to the Chinese public. The conversion of Peking in 1860 and 1898 further ceded the Kowloon peninsula and New Territories to the British, which the New Territories were subject to a leased agreement for 99 years until 1997. The Hong Kong Island and Kowloon peninsula were permanently transferred to the British according to the two treaties. ⁶

The British officials, initially, viewed such treaties as legal and binding. Hence, in the beginning stage of the negotiation process, British insisted in some versions of "return sovereignty, continue administrate." ⁷

However, since those treaties were viewed by the Chinese government as unfair and imposed on Chinese by the gunboat policy of old Britain and hence, to be invalid and null. However, Chinese leaders did state that they "respect the history" of such unfair treaties, will face the reality" of the existence of Hong
Kong and look forward to the future of solving the problem left over. That is the reason, they stated, why Hong Kong still exist autonomously for so many years after the communists have ruled the mainland. During the negotiation process, China insisted on the "full return of Hong Kong." It successfully resisted the British's claim of the legality of treaties and that of the representative of Hong Kong's people. It was able to make Britain to yield to its demand. Eventually, the final agreement was fairly close to the original Chinese's proposal.

8. From 1842-1945:

During this period, Hong Kong was gradually transformed from merely a fishing village into a merchant harbour and port city. There were light industries established along the coast lines. Most of the industries related to food processing and ship repairing. However, the views from the British about Hong Kong's prospects were predictably negative. The early Treasurer, Robert Martin stated the colony was a "small, barren, unhealthy, valueless island," which will "always prevent the growth of large town and the conditions that contributed to the commercial prosperity of Singapore were entirely absent in Hong Kong." It is surprising to see the former entrepot become the wealthy banking centre, the busy world trader and the diversified manufacturer of today.
At the beginning, the British East India Company continued to use its port facilities to ship opium from India to China. Afterward, the harbour was primarily served the exchange of European manufactured goods for China's silk, tea and other native products. However, the importance of the port became less after the British later gained the control of Shanghai. From there, the British was able to penetrate deeply into the heartland of China, which was not possible from the port of Hong Kong. Hence, Singapore became the Royal Navy's base and Shanghai became the new trading and commercial center of Far East. Hong Kong was left alone in the development.

C. After the World War II

The outbreak of civil war in China and the subsequent gaining control of the mainland by the communists caused a mass refugee inflow into the colony. The island's population increased ninefold from 1946 to 1961. The pressure of so many poor refugees and the inflow of entrepreneur talents and capital from Shanghai provided the natural catalyst and conditions for industrial development. In order to cloth and feed their families, the refugees were willing to work hard for low pay. Furthermore, the subsequent American's involvement in the Korean and Vietnam Wars and the policy of encouraging free trade among the non-communist countries provided the necessary markets.
Hong Kong's growing industrial products. During this period, China continue to earn more than half of its precious foreign exchange form Hong Kong by selling it foodstuff and low quality consumer goods. Hong Kong's survival, during this period, depended more on exports to the markets of North American and Europe. China's politics and economy have little effect on the colony. Not until the 1980s, when China adopted its "open door" policy, did China start to have a more profound impact on Hong Kong's economy.

II. Snap shot of current economic achievement:

At the end of 1989, Hong Kong will have a five digit per capita GNP in US dollars. It will be the second highest in Asia and higher than many other industrialized countries. Such a stage of development would have been reached even more earlier if there had not been the massive devaluation of local currency in 1983 which had nothing to do with economy but with the problem of 1997. According to a recent Japanese newspaper survey, the middle class in Hong Kong has the highest standard of living in Asia. Its port is one of the four most busy in the world. It is recognized as a major financial center. Its export and import of goods place it in the top 20 nations. All these successes have been achieved in despite over population and lack of natural resources. It is also considered to be the "East Hollywood" because its films, TV and songs dominate the whole Asia.
Until the very recently, emigration from Hong Kong averaged about 20,000 people a year. But in 1987, the figure jumped to 30,000 and last year it topped 45,000. The surge has been blamed on the 1984 Sino-British agreement to restore Hong Kong to China, which pledged in turn a hands-off policy keeping the city's capitalist system and lifestyle intact. Hedging their bets, however, droves of people have flooded foreign consulates with immigrant-visa requests. Favoured destinations are Canada, Australia and the U.S. As 1989 opened another wave of political anxiety hit town when a drafting committee dominated by mainland Chinese endorsed a post-1997 charter that severely restricts the scope for democracy in Hong Kong. It appeared to the public that the future Hong Kong after 1997 will be a capitalist totalitarian society controlled by a pro-Peking government. There will be limited freedom of speech and press and the economy will be geared to provide foreign revenues to serve the mainland. Though the local British administration predicts that the outflow will not increase from the present scale, independent analysts expect it to reach 60,000 by 1990. Other sources estimate that total of 500,000 people will leave Hong Kong by 1997. Given the recent political turmoil in
... the outflow of Hongkongers will probably accelerate rather than cool off. As one of the analysts said that "if the other countries lower their immigration restrictions, more people will take the plane out."

6. A deficit of Brains:

A recent Hongkong-wide study reveals that nearly 30% of the territory's 1.5 million households are thinking of emigrating; 19% said at least one family member is definitely leaving. Moreover, because the host countries require wealth or professional skills, the leavers are often those the economy needs badly. The Institute of Personnel Management, a research firm based in Hong Kong, surveyed 39 companies and showed that 7.6% of their top managerial and technical talent emigrated in the year of 1988 alone. Mr Paul Kirkbridge, a Hong Kong Polytechnic lecturer, warned that "any country would regard the prospect of losing 5% of its professionals every year very seriously indeed."

After years of downgrading the seriousness of the problem, the governor, Sir David Wilson, acknowledged the problem in an October 1989 policy speech. However at the same time, other officials continued to downgrade its gravity. They insisted that many emigrants eventually return after acquiring foreign citizenship. That view was echoed recently by China's premier, Li Peng, who prophesied
Many emigrants will return once they see post-1997 Hong Kong to be as stable and prosperous as ever.

1. Reaction to the deficit of brains.

Foreigners can get Hong Kong work visas if their prospective employers can prove that the skills they bring are not available locally. But six out of ten of the 25,000 plus such visas approved in 1988 were for domestic helpers. Only 90 were for skilled workers. Others suggested that more favorable rules should be adopted to encourage the inflow of talent. Others stated the amount will be too little to matter and will be extremely expensive. Given the booming economies of South East Asia countries, the import of ethnic Chinese from such areas will also be difficult.

However, the government does indeed plan to ease the shortage of Heads by tripling the college enrollment. A third university will be completed in Sai Kung site in three years and a second polytechnic school will soon be finished in the foothills of New Kowloon. The government also sends hundreds of mid-level civil servants to study, on a short term basis, abroad annually. A massive recruiting campaign to attract those emigrants back to work in Hong Kong has also been carried out. Many local and foreign companies also contract with their employees to guarantee them that the companies will help
8. Its impact and other views:

Some have argued that the total of returnees and new graduates should more than offset the permanent loss. Still another consoling theory was that the emigrant could help in securing Hong Kong's autonomy, since Peking will know that returnees can always take the next plane out. However, some argued that the returnees will not act the same as before, because they will probably not commit to long term investment. Their wealth and income will only partially re-invest in the Territory. They will lack the desire and need to commit themselves to the improvement of the general public.

9. A deficit of Hands as well:

To make the matter worse, the territory's economy galloped at two digits for the last three years. This has caused a report of more than 128,000 vacancies begging to be filled on factory floors and construction sites and in service industries and other sectors. The shortage also caused most of governmental projects to fall behind schedule. Specially the construction of public housing which was running an average of three months behind. The Deputy Housing Director Mr. Derek Messling reported that if the manpower problem
success for another few years. Construction of a new airport, massive new highway projects and the 27-km bridge-and-tunnel to Shaan proposed by a private consortium will all be delayed. 12

1 Reaction to the problem of Hands:

The 27,575 Chinese allowed to immigrate from the mainland every year partially ease the strain. However, in general, their contributions to economy are in not match with those highly educated emigrants. The unspoken premise is that current vacancies are due to an overheated economy that must be cooled down. The importation of labor, however, favor by many business leaders is not bought by the government. An official argued that if the government "... allowed large numbers of cheap laborers, they[manufacturers] will lose the incentive to upgrade their production process," which will hurt Hong Kong's long term progress toward high-quality automation. 18 Another concern is the strong opposition of local workers, who fear the newcomers will depress wage rates and snatch jobs away. Allowing the 50,000 plus Vietnamese refugees in Hong Kong awaiting resettlement to other countries to work outside camps is scolded out by both China and the local public. It is argued that such policy will act as an inducement to new boat people to leave Vietnam for Hong Kong.
A British are leaving:

In 1984, at the height of Sino-British negotiation, one of the largest Hong Kong based British firms, the Jardine Matheson, decided to move its worldwide headquarters to Bahamas in the Caribbean Sea. Though the family who controlled the corporation declared that the move had nothing to do with 1997, Hong Kong's stock market dropped by more than 50 points, which was equivalent to 15% of total value. Such a move had considerable consequences. The Chinese expressed a statement of anger and the local government expressed its regret. The corporation had more than 150 years of history of doing business with China. It was no surprise to see that the Chinese considered such a decision as the greatest blow to their efforts to maintain the stability and prosperity of Hong Kong.

Following the large corporation, numerous companies moved their corporate charters to other areas and changed their ships' flags to other countries. Although there is no statistic for the total effect, the scale should not be underestimated. Many local small and medium-sized firms also transferred part of their assets and operations to other "safe havens." Individuals also started actively to engage in oversea property transactions in the hope that some of
their personal wealth would not be confiscated by the communists after 1949.

[Text continues]

its impact on economic development:

Although the Hong Kong government maintains that, during this period, there were far more investments flowing into Hong Kong than flowing out, others argued that it was the source of investment matter. They stated that local investments were far more beneficial to society than those from overseas. They were more stable and more long-term oriented in the value-added manufacturing sectors. They generated far more jobs for the local economy than did foreign investment. On the other hand, most overseas investments were related to marketing activities and consulting ventures. They were more apt to leave Hong Kong when the investment climate turned into unfavorable. Foreign investment, they claimed, aggregated business cycles rather than smoothed them out.

Hong Kong is in the stage of transforming its low value-added light industries into high capital and high value-added manufacturing. Such changes require considerable long-term capital investment. It also appears that Hong Kong, for other reasons as well, is falling behind the other NICs. When automotives, computers and other electronic manufacturing became common in other the three dragons, they were
...represented in the more labor-intensive industries of Hong Kong, the labor-intensive industries indirectly contribute to the lower manufacturing wages when compared with other NICs. In this colony, the textile and garment industries were still the largest and they had been at the top for more than thirty years without challenges.

3. Government's reaction to the outflow:

The local government is using numerous methods to ease the outflow problem. They have lowered the corporate income tax which is already one of the lowest. They continue to peg the local currency to the U.S. dollar at an artificially low rate. They hope that such a policy will discourage the outflow of capital from Hong Kong and make foreign investment more attractive. The government has also increased the allowance for tax-deductible capital expenditures and abolish the interest withholding tax in an effort to stimulate the local capital market. Numerous other tax exemptions have also been adopted. Furthermore, the government continues its massive infrastructural development which many economists believe will be the main engine for growth in 1990s. Hong Kong's government also appears to be dropping its long-time laissez-faire attitude toward investment, and is bending over backwards to attract high-tech ventures in a bid to widen the territory's economic base. 21 Mr. C. L.
The industry department's acting assistant director explains that the government is trying to locate long-term replacements for its labor-intensive industries which are moving rapidly to other lower-cost production sites in China and Southeast Asia. Such moves can be critical to upgrade Hong Kong's industries specially during this pre-1997 period of a shortage of local long term investment. The government has set up numerous committees and agents overseas and in Hong Kong to help businessmen in their investment process.
CONCLUSION

China's modernization story.

The important of Hong Kong to China's four modernization policy can only be understood from numerous cases. "Viewed at the most basic level, Hong Kong is a mechanism whereby Chinese converts its home grown foodstuffs and low-cost consumer goods into hard currency to finance its deficit in trade with Japan, the United States and other countries....Without the 30-35% of her foreign exchange that Hong Kong is estimated to earn for China, the country would have little hope of pulling itself out of the poverty and backwardness into which it has sunk over the past 150 years," said by the author of Hong Kong 1997: the final settlement, David Bonavia. Hong Kong also acts as the technology transfer center between China and the other developed countries. China is also using Hong Kong as its training center to teach its future managers the knowledge of modern commerce. China's decision to go ahead with the construction of its first nuclear power plant which will be bought from French and British also needs Hong Kong to continue its prosperity because the plant will be paid for in hard currency, by selling the electricity to Hong Kong. Moreover, despite a decade of cheap oil, future development of the underwater gas field in Southern China Sea requires Hong Kong to serve as the...
companies who engaged in the first round of discovery have most of their supporting facilities and offices in the colony. Hence, it is in the interest of China to maintain the stability and prosperity of Hong Kong. In fact, China have constantly engaged in activities, even co-operated with the colony government, to support Hong Kong’s economy. Some examples are the rescue of a large bankrupt electronic company and a medium-sized local bank. Furthermore, during the period of September 1983, as the consequence of the political process, China’s financial institutions bought billions of the local currency to support the value of the Hong Kong dollar and suffered huge losses. Various other activities also prove that China is indeed trying its best to protect Hong Kong. However, sometimes this sincere help from China upsets the local public because China has been practising socialism for years on the mainland and lacks experience of how a government and its agents should act in a capitalist modern economy. Its reaction to Hong Kong’s problems, sometimes, causes more trouble than it helps. It is this lack of capacity and ability on the part of the mainland’s government that scares most of the Hongkongers.
Despite the colony's lack of representation in the government's decision-making process until recently, the British civil servants, representing the tradition from its homeland, do respect the will of the public in its decision-making process. Furthermore, Hongkongers also enjoy the highest degree of personal and press freedom in Asia; such standards are comparable to any Western society. These qualities are highly treasured by the population. They also act to express the public's will and to monitor government's activities. Given the history of communists in governing the mainland, it is no wonder that there are substantive doubts about China's pledge of "one country, two systems," and its claim of "no interference in Hong Kong's matters." China's promise of "Hong Kongers rule Hong Kong" is also challenged by its opposition to the progress democracy of local political, which was endorsed by the White paper of the colony government. It appears that China will like to takeover Hong Kong as it is right now, with no true representation in the government, and with questionable guarantee of personal and press freedom. Hong Kong would be controlled by the business and professional elites who are pro-Peking government. Its interest is likely to be subordinated to the mainland. Such a position is partially proved by the fact that China is pressing the local government hard to import China's unemployed workers Hong
Ying despite opposition by the local residents. China will not hesitate to use its power to force Hong Kong to agree to its demand. Some intellectuals stated that Hong Kong will become the economic colony of China or a "duck laying gold eggs for its master."²⁴

Lack of confidence²⁵

Mr. Zhao Ziyang, the Chinese party general secretary stated that there is no point in bargaining so hard and for so long if there was no intention to observe the terms...." There is still a lack of confidence among the local population regarding the agreement. It is not, however, because of doubts of China's good intention. It is claimed by the mainlanders, in the negotiation periods that they were "well aware of minds of Hong Kong residents" worrying the local because it is doubtful that Peking's leaders have the sophisticated knowledge to run the colony's complex capitalist economy. Furthermore, the current claim of "fifty years without change" is based on the consensus among the prevailing Chinese leaders, who will guarantee the words will not be altered when those leaders are gone. It is the instability of the political situation of the People's Republic that concerns most of Hong Kong residents. Also, the guarantee of personal freedoms and rights in the joint agreement look more like China's own constitution which exists on paper only.²⁶ It is because of such concerns that Hong
Kings activists have press the mainlanders hard to set up a 
referendum committee which will interpret the Basic Law in Hong 
Kong rather than in Peking. However, despite all the efforts, the final 
interpretation will still rest in the hands of Pekingers.

3 Recent development 27

The recent political turmoil in Peking added more instability to 
China's politics and to Hong Kong's future. The change in leadership in 
China from reformists to conservatives questions its commitment to 
continue the 'open door' policy. Although, at this moment, most 
companies with Hong Kong-based operations aren't planning to 
radically alter business blueprints or rethink their long-term 
commitments to the territory, regional managers are keeping a close 
eye on the developments to the north and what ramifications there 
may be for Hong Kong.28 However, the biggest fear is the brain drain. 
Already rapid emigration is picking up lightning speed after the 
Tiananmen massacre. However, Peking, without shame, is blaming the 
local government for the massive emigration.29 Peking's economic 
setbacks and the pending slowdown of world economy will shadow 
Hong Kong's prospects for the next years. The government already has 
revised this year's estimated GNP growth rate downward several 
times to the all time low of around 3%. In terms of the general.
economic trend, one leading business journal predicts that the
decline in worker quality as skilled and experienced Hongkongers
leave town, the increased chance of civil disorder, and an overall
reluctance to invest in the territory will tip the scales for some firms
and will sour economy growth in 1997. 30

The gerontocrats who run China have been in a foul mood since June,
when the outside world got upset that they had slaughtered hundreds
of people in Peking's Tiananmen Square. Their general irritation with
interfering outsiders is now being directed at Hong Kong. 31 It was bad
enough, in the old man's view, that Hongkongers spoke up to condemn
the Chinese leaders and asked for more protection after 1997. It is
worse that the Hong Kong government harbors China's dissidents
before letting them escape to the West. Peking has accused some
Hongkong individuals and groups of engaging in
"counter-revolutionary" activities aimed at subverting the Chinese
Government. China also fired two Hong Kong's outspoken liberals from
Basic Law deliberations. Both of them have called Peking's crackdown
on pro-democracy protests fascism. Some mainland politicians even
call for new clauses in the Basic Law to outlaw "wanton interference
in China's internal affairs." China also reversed well-established
procedures and refused to take back hundreds of Chinese illegal
immigrants. 32 The Chinese elderly leaders are worried about Hong
China's political challenge to mainland's communist system is thought of as a campaign to subvert communism. China now seems to feel that the threat outweighs its economic advantages. If this is so, it challenges the wishful view that China would do nothing that might interfere with its largest single source of foreign exchange.

In an attempt to restore confidence in Hong Kong's future under China's rule in the wake of the June 4th Peking massacre, Hongkongers are pressing Britain hard to grant the "right of abode", as a safety net, to 3 million holders of its passport in the colony. The final outcome, however, is likely to be that such privilege will be limited to a selected few. Such result, of course, will not satisfy the Hongkongers. It will only make the rapid emigration worse since there is no safety net. They also lobby the Commonwealth countries to have a rescue package to bail Hongkongers out before 1997. The government also accelerates democratising the local political process despite China's strong objection. It plans to enact a bill of rights, which does not exist even in Britain, for the territory. Britain also suspended its dialogue with the Chinese in the Joint Liaison Group charged with implementing the joint declaration. However, too many British officials still think "convergence" with China's Hong Kong's policy is Britain's best bet and it is also the best policy for Hong
all the above measurements has plunged sino-British-Hongkong relations to their lowest point since June 4 massacre.

With the recent release of the draft of the Basic Law, the public generally have two views: either they have misgivings about the adequacy of terms or fear of not be fully implemented. Majority apparently decided to silent to the request of recommendation about the draft by reacting coldly to express their views. Most of them consider the requests of voicing opinions as an act of policy procedure and the draft terms will not be changed even the local displease with them.

In summary of this paper, I will end with quote from one of the author as: 38

"A judgement about the desirability of living in post-reversion

Hong Kong will be to a considerable extent a judgement about the future nature of Chinese society. If the liberal, growth-orientated economic policies in China can be complemented by a greater degree of social and cultural freedom there, Hong Kong people will be more inclined to stay put, though inevitably some will leave. If arbitrary economic policies, governed by dogma, are attempted again in China, and if the oppressive cultural climate is not eased, those who can will

shun their roots."
See Kelly (1988) p.1


See the ‘Sino-British Joint Declaration on the Question of Hong Kong’ for more detail.


British would like to continue administrate Hong Kong with international recognition of China’s sovereignty. However, China refused such arrangement.

China had chance to settle the future of Hong Kong after World War II and it did not act accordingly. Also see BONavia, DAVID. HONG KONG 1997: THE FINAL SETTLEMENT. Hong Kong, South China Morning Post, 1985. p.1-18.


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