

# Chapter V

## What Does 1997 Mean to Japanese Businesses?

*During the period from 1995 to 1996, the Japanese, U.S. and U.K. Chambers of Commerce in Hong Kong conducted surveys of the future confidence of Hong Kong. A conclusion in common is that the business environment in post-return Hong Kong would be optimistic.*

The American Chamber of Commerce in Hong Kong conducted a survey of its 1,118 member companies from August to October 1995 (48% response rate). It reported that 74 percent of respondents felt the environment for business in Hong Kong in the next five years would be "favorable," and 17 percent "very favorable." Regarding their business plans for the next three years, 46 percent revealed that they would be increasing investment activities, and 45 percent answered that they would be maintaining business to date. Only 8 percent responded that they would gradually reduce their activities in Hong Kong, and 1 percent that they were planning to withdraw from Hong Kong.

The British Chamber of Commerce in Hong Kong conducted a similar survey from January to March 1996 and reported that 98 percent respondents were going to keep on operating in Hong Kong in the year 2000.

The Hong Kong Japanese Chamber of Commerce and Industry's survey was also conducted in July 1995 covering 745 companies (response rate of 60%) and resulted in similar findings. Seventy-seven percent of the respondents indicated they felt the environment in Hong Kong in the next five years would be "promising," and 8 percent that it would be "extremely promising." Only a low 15 percent felt it would "not be promising." The low percentages of respondents indicating prospects would be either "extremely promising" or "not promising at all" in the Japanese survey reflects a cautious stance in assessing the future of Hong Kong. In response to their personnel plans for the next three years, 47 percent of the respondents stated they were going to increase employment, 44 percent that they would maintain current levels, and only 9 percent that they would be cutting back. The overwhelming majority

of companies, therefore, will either maintain their current business conditions or expand.

### *Factors of Concern over the Deterioration of Conditions*

The findings of these surveys dovetail opinions which I find in daily conversations with Japanese businessmen in Hong Kong. The majority of them are optimistic. Many of them expect, however, some changes in the function of Hong Kong as an international business center. And there is evidence which supported its prosperity to date.

The British survey, the most current of the three, gives a current assessment of 16 factors concerning Hong Kong's future: the legal system, availability of skilled labor, English, the physical infrastructure, business efficiency, facilities and quality of education for children, low corporate and personal tax rates, corruption, availability of a cheap labor force, government administration, communications network, the pegged Hong Kong dollar exchange system, freedom of the press, social stability and quality of life. They also give an analysis of prospects for the future. According to the survey, 86 percent of the companies responding to the survey indicated they were satisfied with all of the factors. Fifty-four percent stated that these were "very good" or "superior."

As for the future, 46 percent of respondents replied that the majority of these factors would remain unchanged, but 86 percent believed that corruption would increase and 71 percent that the function of government administration would deteriorate. Many also predicted that freedom of the press, quality of life, the legal system, social stability, international schools and the level of English would decline.

The Japanese survey revealed that the factors of most concern after 1997 were, social stability (66%), maintenance of the peg system (44%), change of the tax rates (42%), voluntary restrictions on the press (39%), trends in real estate prices (38%), function as a financial center (38%), election

of Chief Executive of the Special Administrative Region (20%), Sino-American relations (17%), English comprehension (16%) and inflation in China (16%). The survey revealed at the same time that respondents are basically either "satisfied" or "somewhat satisfied" with all the present situation of the above items, except for the trends in real estate prices. The Japanese Chamber of Commerce analyzes that the contrasting views between present and 1997 indicated concerns of Japanese over the future of Hong Kong.

### *Optimism and Pessimism*

Companies and individuals doing business in Hong Kong are extremely sensitive to openly expressing their opinions on Hong Kong's hand-over. A manager of one research company in Hong Kong told me that no one would say what they were really thinking (in response to survey questions), because, as you may easily suppose, they are concerned about what China will think. Even non-Hong Kong companies are no exception. On the other hand, businessmen inherently tend to be positive in regard to the future. Anyone thinking negatively would have stopped doing business or would have moved from Hong Kong long ago. Opinions regarding the future also tend to be optimistic as a result of one's own hopes and expectations and tend to be pessimistic if they have actually faced bad experiences or disillusionment.

Predictions about Hong Kong after its hand-over are, therefore, easily subject to hopes and aspirations about China, making it difficult to be objective. In May 1996, I conducted interviews with Japanese businessmen in Hong Kong on the condition that names be kept confidential, realizing the limitation to the survey and statements regarding hand-over.

A comparison of opinions of the optimists and pessimists regarding post-return Hong Kong reveals that the crux is whether China can be reliable. Both those who are optimistic and pessimistic believe that after the return of sovereignty, some problems will surely occur, such as a decline in the level of peace and order, corruption and a decline in English proficiency.

The opinion of Mr. Overholt of Bankers Trust Hong Kong, a leading optimist, is that China could be reliable concerning the take-over of Hong Kong

and that the "one country, two system" formula will work, since (1) Hong Kong has served vital economic interests of China, and China had maintained its policy to protect Hong Kong's function even at the time of crisis like, e.g. Communist Revolution or Cultural Revolution, (2) China has an excellent record in honoring past international agreements, and (3) the success of "one country, two system" formula will form the basis for problems in reunification with Taiwan. Nonetheless, matters such as the deterioration of peace and order, increased corruption, opposition over interpretations on the Basic Law, confusion concerning a shift of official judicial language from English to Chinese may become a problem, and freedom of the press will remain sensitive. (refer to *Doing Business in Today's Hong Kong*, the American Chamber of Commerce in Hong Kong).

A leading pessimist, Mr. Rasei Ishikawa, believes that China cannot be reliable, because (1) united front maneuvers of the Communist Party are apparent in Chinese history from 1949 and in Tibet, (2) the instability of its promises and laws, (3) the intervention which has already begun, such as pressure on the mass media and demands for changes in the human rights law, and that after the return Chinese interference will create a crisis in the free business environment (see Rasei Ishikawa, 1997 *Hong Kong, Chūgoku Daishōtotsu* (1997 Hong Kong and China Collision), published by Sogo Horei).

Taking these opinions into consideration, I asked Japanese businessmen the following questions: (1) will the "one country, two system" formula work effectively and can China be reliable, (2) will the role of Hong Kong (as a channel for business with China, an international financial center, base for business in East Asia, etc.) change after hand-over, (3) are there any matters concerning transitional process of hand-over which could become a problem, (4) will these problems impair the role and function of Hong Kong, and (5) will this also affect business?

### *Current System Will Not Change Immediately*

A majority of the respondent replied that China will respect the "one country, two system" formula and allow the Hong Kong people to govern

themselves. The reasons are that China is now internationalizing and opening, and therefore coming around to international opinion, and that the central Chinese government fully understands the importance of Hong Kong. With respect to individual issues, however, others point out that unintentional intervention may occur and hope that there will be no change in the Chinese leaders who understand the situation in Hong Kong. The typical opinion is that while there may be some confusion in the transitional period, it will not be decisive and the current system will not change immediately. Some believe, however, that there may be interference since the Chinese tend to change their policies so often, unlike German reunification, the poorer side will absorb the wealthy one, economic disparity is so wide, and the ways of thinking on both sides are completely different. There is also fear over the tendency of China to overreact to the issue of democracy.

Most businessmen believe that there will be no change in the function of Hong Kong as an international business center even after its return. Hong Kong has been provided with not only the hardware and the settlement abilities for functioning as a center of international business, but also a vast economic hinterlands, free exchange of information, a well-designed legal and financial system with well-experienced accountants and lawyers, and domestic and overseas investors. Enjoying these conditions, Hong Kong will continue functioning.

Regarding the question on competition with Singapore, Shanghai, Kaohsiung and other cities, the number of business centers will naturally increase with the growth and diversification of Asian economies, and investors and businessmen will make flexible use of them according to their specific features and their individual objectives. While some point out that Shanghai could take the place of present Hong Kong, others doubt Shanghai's social environment, including peace and order and corruption by bureaucrats.

### *Expanding Sphere Under the Influence of China*

The fact that China's influence will strengthen after return is widely acknowledged. Some point out from their experience in business with China that, Chinese appear to deal with issues first emo-

tionally, next rationally and then legally. Great Britain has regulated activities in Hong Kong by legal rule. After the transition of sovereignty, legal rule will give way somewhat to the rule of personal contacts (*guanxi*). Nonetheless, as British people also has been doing business relying on personal contacts to certain extent, some believe that corruption will not necessarily increase in the future.

As for the peg system of the Hong Kong dollar with the US dollar, most businessmen expect that there will be no short-term change in the peg system as long as factors which necessitate the system remains unchanged, but some predict that the object of pegging might switch from the U.S. dollar to a basket of currencies including the renminbi. In the long run, moreover, there remains the problem of when these shifts will happen. Japanese businessmen have been advised by their accountants not to put excess funds in Hong Kong.

Many Japanese are concerned about encroachment on the freedom of the press, which, they believe, would be most severely damaged by the hand-over. Some point out that Hong Kong journalists has been already restraining themselves voluntarily, and newspapers are losing their own individuality and interest. If China overreacts or takes a hard-line stance, intellectuals in Hong Kong society may stage a mass exodus, which may in turn threaten the capability of Hong Kong. Businessmen wish for China to take a patient approach. The majority opinion regarding the potential exodus of manpower is that people who cannot endure the situation will leave, but that the majority will stay in Hong Kong due to its many opportunities of business.

Many Japanese businessmen believe that there will not be a rapid decline in English proficiency due to the need for English even after hand-over. Regarding the tax system, some believe that it is difficult to completely deny the possibility of changes in the tax system, taking the disparities among domestic economic powers in China into consideration.

### *Even So, Hong Kong*

All companies agree that they should continue to operate in Hong Kong, despite recognizing some possible risks after hand-over. The reasons are twofold. While Hong Kong may lose some of its attrac-

tiveness due to the risks, it will still maintain its advantage over other regions. Some businessmen stand on the side that these risks will not have much of an effect on business activities per se. Most manufacturers engaged in production in China believe that the business environment will not change significantly.

On the other hand, some expect the hand-over to produce some new business opportunities. China will become more accessible and Chinese capital will increase its share in the economy replacing the British, thereby increasing the number of players. The peg system of the currency to a currency basket will create a new exchange market. It should also be noted that the British survey concluded that low-cost labor would become easier to secure.

Another common opinion is that it will be very important to deal with the changes in the social and economic structure of Hong Kong, which have become problems, regardless of the risks concerning hand-over. Personnel and real estate costs are reaching their limits. The Japanese survey found a large number of businessmen dissatisfied with the high rents and prices of property for office and housing. The number of regulations are also growing, such as the requirement for installation of purification equipment.

Further, the following issues should be added to a list of future concerns: (1) the environment, (2) welfare and (3) investment in human resources. Most believe that burdens from these costs will become problematic in the future.

### *What to Do, Not What Will Happen*

Finally, I would like to introduce two interesting opinions to conclude this chapter.

The gist of the first opinion is that we should consider the length of time in the return of Hong



**Wong Tai Sin: Pray for the future**

Kong. For example, it is natural to think that, in the long run, China will behave more in line with international norms. Prediction concerning competition with Shanghai will change according to the length of period considered.

The second is that we should concentrate on should be done for Hong Kong to grow steadily into the 21st century, instead of being concerned about what will happen. Action toward this aim should be taken. This is the point that the Japanese community, which has played a not small role in the Hong Kong economy, should consider first.