

ASIA PACIFIC
STUDIES PROGRAM

DISCUSSION PAPER
East Asia Series No. 1

HONG KONG IN DEEP CRISIS

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UNIVERSITY OF THE PHILIPPINES
Center for Integrative and
Development Studies

THE ASIA PACIFIC STUDIES PROGRAM



THE ASIA PACIFIC is defined broadly as consisting of the countries of Southeast Asia, Northeast Asia, South Asia, Australia and Oceania, the Pacific nations of South America, the United States, Canada, and the Russian Far East.

The Asia Pacific region is undergoing dynamic changes that will have significant impact on the regional environment as a whole, and on interactions involving the Philippines in particular. These changes include more intensive economic interactions, domestic political transitions, the growing role of civil society, economic crises, technological processes, etc.

In spite of the profound changes occurring on several fronts, however, there seems to be a lack of clear understanding of these developments in the region. This is illustrated by the seeming lack of coordination and conflicting statements with which both governments and nongovernment sectors in the region responded to their respective financial, economic, and political crises.

The University of the Philippines (UP), as the country's primary public institution of higher learning, has an important role to play given the developments within the Asia Pacific region. The University, through its scholars in various fields, can contribute to clarifying events and circumstances as they unfold, analyzing these from various perspectives and proposing recommendations.

There is thus a need for an independent, multidisciplinary, strategic, and policy-oriented research program that will:

- identify major issues in the Asia Pacific that are relevant to the Philippines;
- understand and anticipate directions of change;
- assess the capacity of the Philippine government and civil society to make the necessary adjustments; and
- propose measures to exploit opportunities for national advancement provided by the dynamic environment.

The Asia Pacific Studies Program (APSP) is a research program of the UP Center for Integrative and Development Studies (CIDS). The expertise of its scholars and their research output will be made available to the general public. Thus its policy-oriented program, consisting of research, publications, lectures, and conferences, is addressed not only to government planners and legislators, but is also meant to support the advocacy work of nongovernment civil society organizations.

The Discussion Paper Series is part of the program's activities, and is aimed at contributing to public debate and understanding of current and long-range issues.

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**HONG KONG
IN DEEP CRISIS**

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HONG KONG IN DEEP CRISIS

**ECONOMIC WOES AND POLITICAL ANXIETIES
THREATEN FREEWHEELING CAPITALISM**

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"(He) has made no secret of his belief that the open market regime no longer serves Hong Kong's interests."

- The South China Morning Post
on HK Chief Executive Tung Chee-wah

"The problem is that Hong Kong's economic fundamentals are deteriorating."

- Finance Secretary Donald Tsang

INTRODUCTION

AT the American Club in Hong Kong, diners are ordering beer instead of cognac, and hamburger instead of steak. Members have paid HK\$2 million (US\$258,000) to get into this exclusive club, but many of Hong Kong's elite are now scrimping on basic expenses, a clear indication that the crisis now battering the Asian model of a "tiger" economy cuts wide and deep.

Hong Kong has not been spared from the region's financial and economic debacle. Its gross domestic product (GDP) has declined. Unemployment and underemployment have reached record highs, and the property market has virtually collapsed. Its once vigorous stock market has turned bearish; credit is hard to come by; and trade figures have been discouraging. In addition, investments have slowed down. Companies, regardless of size, are going under and laying off thousands of workers. Tourist arrivals are dwindling.

Political uncertainty also reigns as calls for greater democracy swamp the one-year-old Beijing-installed Special Administration Region (SAR) government of Tung Chee-wah. This followed the May 1998 legislative elections where opposition parties received an overwhelming mandate. On top of that, Tung's response to the economic crisis has been dismissed as inadequate and headed in the wrong direction by many analysts and a coalition of political parties in the legislature.

All these are taking place in an environment with supposedly sound economic fundamentals. Hong Kong's per capita GDP is US\$25,500, higher than that of Japan, Taiwan, South Korea, Australia, Britain, Canada, France, Germany, and Italy. Within Asia, only Singapore (at US\$28,780) has a higher GDP. Hong Kong has reserves of US\$78 billion, again higher than those of the above countries except Japan.

Thanks to a 15-year peg with the US dollar, inflation has been kept low. Hong Kong's savings rate of 31 percent of GDP is equal to Japan's and again higher than most industrialized countries including the US. In addition, the former crown colony has long been

regarded as the epitome of a free market system with low income taxes and minimal government intervention (if at all) in the economy.

Sins of the Past

HONG KONG was just a colonial backwater in 1949 when Mao Zedong's victory in mainland China ushered in a wave of refugee Shanghai entrepreneurs and hundreds of thousands of workers who built the territory into a manufacturing, commercial, and tourism center. It was also a virtually exclusive gateway to and from the vast China market. Following Deng Xiaoping's 1979 economic reforms, Hong Kong profited greatly from the mainland's opening up to the outside world.

The territory quickly achieved the status of a developed economy and society. High life expectancy and literacy rates, high per capita income, and other socioeconomic and cultural measures attested to Hong Kong's coming-of-age in the modern world.

But as many analysts point out, Hong Kong also entered an era of rampant speculation in property with real estate prices rising to levels that soon overtook Tokyo and New York. Suddenly, everyone got on the market – employees, housewives, taxi drivers, and market vendors – to add to the billions of dollars which tycoons like Li Ka-shing and the Kwok brothers generated for their property development projects. Property now came to define wealth in Hong Kong; the entrepreneurial past was soon forgotten. Soon the property-related shares accounted for 50 percent of GDP and of the Hong Kong stock market and 43 percent of all bank lending.

The momentum of marginally productive investments could not be sustained, however. When the Asian economic crisis which started in Thailand and South Korea in July-August 1997 impinged on Hong Kong, its property bubble burst and the territory plunged into an abysmal economic crisis.

ECONOMIC DOWNTURN

The Property Market Collapses

THE health of Hong Kong's internal economy is highly dependent on its property market. As of December 1997, almost half of total bank loans went to the property sector. But property prices, considered locally as the symbol of economic virility, are tumbling.

Prices for new developments have dropped by as much as 40 percent since the 1997 boom. This has ignited a price war among developers anxious to recoup investments and unload surplus stock. Properties are being sold at discounted prices and economists are predicting even more cuts as the market deteriorates further. Thirty-three property firms listed in the stock market are trading at a discount of 50 percent of their net-asset value.

Vacancy rates are heading "towards their highest level in more than a decade." Newly built skyscrapers, such as the Swire Pacific Lincoln House and Citic Pacific's 28-story DCH Commercial Center in Quarry Bay and Henderson Land's 43-story glass and steel tower in the Central business district have yet to be fully occupied.

Competition for tenants has become intense as owners try to outdo each other in offering attractive packages for their newly developed properties. Office space at the Cheung Kong's The Center, normally costing HK\$50 per square foot monthly, now goes for as low as HK\$30 per square foot with a rent-free period of six months. Despite such offers, "response and take-up" have been slow.

Luxury flats in exclusive areas have seen their values drop by as much as 50 percent. A 1,259-square meter flat in Parkview selling for HK\$21.5 million in June 1997 is now priced at HK\$12 million. A similarly-sized flat in Repulse Bay valued at HK\$22.8 million a year ago now goes for HK\$11 million. The vacancy rate in these popular areas has reached five to eight percent. Owners are reluctant to sell at depressed prices yet it seems that the longer they hold on to their properties, the more money they lose.

The *Asian Wall Street Journal* (AWSJ) reports that "consumers are in a state of shock (and) businesses too are licking their wounds as asset values evaporate."

"Basically, it's a huge financial and property bubble bursting," said Guonan Ma, regional economist at Salomon Smith Barney in Hong Kong. Middle-class and first-time homeowners are the worst hit and, together with developers, are lobbying the government for emergency relief measures.

On May 30, 1998, some 400 homeowners marched to Chief Executive Tung Chee-wah's offices and demanded "relief from the plummeting value of their homes" while calling on government "to help shoulder some of their pain." Chanting "Tung Chee-wah, step down!" the protesters asserted that, "government had colluded with developers for years to push up the property market, and has reaped benefits of sky-high land sales and property taxes."

The case of the Chiu family is typical. In 1997, they paid 30 percent deposit for a soon-to-be completed home. In just a year, however, a gap of HK\$1 million had arisen "between what they hoped to mortgage and the amount the bank is willing to lend."

The crisis may not be felt as keenly by property tycoons such as the Kwok brothers, owners of Hong Kong's top property company Sun Hung Kai Properties. Walter, Thomas, and Raymond Kwok were able to capitalize on soaring property prices months before the handover and by the end of 1997 were worth US\$13.5 billion, making them second only to the Sultan of Brunei on the list of Asia's wealthiest individuals. Sun Hung Kai was ranked third by the *Far Eastern Economic Review* (Review) among Hong Kong's leading companies of 1997.

Roots of the Breakdown

IN the *Review*'s analysis, the property collapse has its roots in Hong Kong's past:

The reason for the slump is simple: For virtually every one of the past 15 years, real interest rates have been negative – that is, money earned on interest from deposits has been less than inflation. People therefore found other avenues for investment, and property was among the favored.

Soon 40 percent of Hong Kong's economy became property-related. Government also came to depend on property for a large share of its revenues. In the most recent fiscal year, sales of government lands and other directly property-related items earned HK\$80.7 billion, or 29 percent of total government revenues.

According to the *Review*, "This led to inflated demand for property, and created a cartel of developers, bankers, and the government which prospered by limiting the supply of land. This kept prices artificially high. Now that the property bubble has burst, that recipe for wealth has been exposed as skewed."

Political links were built in the process preparatory to China's takeover in 1997. The territory's best known property baron, Li Ka-shing, and another top developer, Lee Shau-kee, staunchly supported Beijing's takeover of Hong Kong. They were later among those handpicked to sit on a 150-member Preparatory Committee to oversee the handover. Both were also part of a secret gathering of 15 people in December 1995 with Chinese President Jiang Zemin where Tung Chee-wah was chosen to be the Hong Kong SAR's first chief executive.

Tight Money Supply

THE property bust has led to a drying up of loan sources. Local banks are poised to join their Japanese and European counterparts that have earlier curtailed lending. Local banks are wary because the values of what have traditionally been offered as collateral – property – have been shrinking. The values of industrial property, for one, are only half their worth since the economic crisis.

Banks also suffer from a liquidity problem as HK residents have cut down on spending, including white-collar workers who use credit cards as often as they do cash. The move to attract customers by raising interest rates on HK dollar deposits could, however, also result in decreased bank profits.

Over the years, Japanese banks have been the source of cheap capital. But in the summer of 1997, signs of the impending liquidity drought appeared when not a single Japanese bank offered financing for the highly-rated Mass Rapid Transit Corp.

In this instance, however, not only were Japanese banks unwilling to finance projects, they were also selling off existing loans at large discounts. While they had done this on a temporary basis in the past, it was mostly to comply with prescribed capital ratios. This time, the loans were being sold permanently and were not being bought back. Banks like Nippon Credit have sold off their entire portfolios and have subsequently withdrawn from the international market.

Syndicated loans have also virtually dried up. After a long wait, the first syndicated loan package of 1998 worth US\$194 million was put together in late May by property giant Cheung Kong Holdings and China Construction Bank. Intended to unfreeze the market, the deal, however, failed to attract Japanese or Hong Kong banking giants. In the end, the lead arrangers ended up underwriting the entire amount.

The retreat of global financial institutions from Asia has not spared Hong Kong, despite its status as the region's prime banking center. In a report issued by the Bank for International Settlements (BIS), the world's biggest banks cut its HK exposure by US\$10 billion during the last quarter of 1997. This comprised the bulk of the US\$27.3 billion withdrawal from all of East and Southeast Asia.

Hong Kong, like the rest of the troubled Asian economies, is paying the price for overdependence on bank capital. But the once cozy relationship between finance institutions and their creditors has come to an end. The credit crunch has forced many firms to rely on cash to survive the crisis. For those without the cash, bankruptcy seems to be just around the corner.

Negative Growth

ON May 26, 1998, the HK SAR government confirmed that its economy had shrunk by two percent during the first quarter of the year. This embarrassing disclosure by HK Chief Executive Tung Chee-wah came barely three days after Finance Secretary Donald Tsang had stubbornly clung to an earlier forecast of a 3.5-percent GDP growth.

The last time HK registered a negative growth was 13 years before in 1985 when the economy shrank by 2.9 percent in the third quarter.

The bad news was compounded in June by a prediction from Monetary Authority Chief Joseph Yan Chi-Kwong that the second quarter was also likely see a contraction in the economy. This development meant that Hong Kong was headed for a recession – defined as two successive declines in GDP.

The *Review* reports that “early signs point to an even weaker second quarter. Retail sales, investment, and exports plunged in the first three months. More troubling is that the

construction industry, which was still stable in the first quarter, is also showing signs of slowing down. If it does, out goes the last pillar of growth left in Hong Kong's economy."

The flamboyant Tsang "was forced to confess he could no longer make a prediction" on how the economy would fare for the rest of the year. Many economists in the private sector, however, say that GDP "will shrink for the full year." Merrill Lynch analysts predict a 3.5-percent decline in GDP at the end of 1998, while Morgan Stanley economists foresee that that the economy will decline by 4.1 percent in the next two years.

Bearish Stock Market

THE performance of the Hong Kong stock market showed the extent of the economic crisis. The Hang Seng index in December 1997 registered a 21.19 percent fall since January. On June 15, 1998, the index closed at 7,462 points or a 16.47 percent decline for the month. The new five-month low in trading has been dominated by recessionary fears, swings in the yen, and futures dealing. The index first plunged below 10,000 late last year, sending investors into a panic.

Although the market recovered slightly to 7,526.45 points two days later, this was due more to bargain hunting than anything else. Later in the month, as a result of the US move to protect the tottering Japanese yen, the market recovered further, but immediately fell again by 4.5 percent on June 22.

Measured over a 12-month period ending in May 1998, the HK stock market index has declined by almost 50 percent. Analysts say the index could plunge to an all-time low of 5,000 points within the next year, or less than one-third of its value last August, when the Hong Kong economy was yet untouched by the regional economic crisis.

According to estimates by the *Review*, stock market capitalization losses in Hong Kong between January 1, 1997 and March 31, 1998 amounted to almost US\$30 billion or 17.3 percent of total GDP (at US\$1 = HK\$7.74).

An effect of the bearish stock market is the failure of several large brokerage firms to sustain operations. Among those adversely affected include Peregrine Investment Holdings (January 1998), C.A. Pacific Group (February 1998), Billion Finance (February 1998), Forluxe Securities (May 1998), and the Ming Fung Group (May 1998). More brokerages are expected to suffer the same fate as the stock market continues its slide.

The performance of the stock market has kept analysts wondering whether the major bear market of the 1980s would be repeated when the Hang Seng index then sank 63 percent over a continuous 17-month period and "the price/earnings ratio tumbled from above 20 to a low of nearly six."

The downturn has also diminished the appeal of establishing a second stock market, an idea which has been floated for the past decade. Supposedly meant to accommodate small,

upcoming, and high-quality companies, a second stock market may no longer be a viable project as it "may be too illiquid and too risky for most investors."

Joblessness on the Rise

UNEMPLOYMENT in Hong Kong is on a record rise. Each quarter in 1998 has seen corresponding increases in the number of jobless workers. At the end of June, the unemployment rate had reached 4.5 percent. The March to May joblessness figure was reported at 4.2 percent which had, in turn, overtaken the February to April rate of 3.9 percent. In June alone, 14,000 workers lost their jobs. The new figure of 4.5 percent was the highest since April-June 1983 when unemployment was 4.4 percent.

(Unofficial estimates, however, point to a higher unemployment rate of seven percent. This is because government reports automatically exclude workers who have given up hopes of finding a job from the labor force.)

Based on the official 4.5 percent rate, 144,000 of the 3.27 million work force are out of work. Underemployment, on the other hand, was 2.69 percent, accounting for 88,000 workers. On a sectoral basis, workers in maintenance industries were the hardest hit, with an unemployment rate of 8.1 percent; manufacturing, consumption, and tourist-related sectors such as shops, restaurants, and hotels registered a rate of more than four percent. According to a survey by the Container Transportation Employees General Union, the joblessness rate in their sector was 10 percent.

The retail, transportation, hotel, and catering sectors have also been badly hit. The hotel industry has laid off more than 1,800 of its work force. In February 1998, some 2,500 hotel workers were asked to go on unpaid leave as an alternative to layoffs. Hotel management promised the same salary and package when they return to work. Union leaders, however, say that the move was tantamount to dismissal and advised the workers to reject the deal.

Major companies are retrenching staff by the thousands. With 15,000 employees, Cathay Pacific is considered one of the top five airlines in the world and Hong Kong's second ranked company. But revenues have fallen by 25 percent below budget since the regional economic crisis. Under a recent cost-cutting program, it got rid of 1,870 jobs and put a freeze on hiring. The company has also employed outside contractors for support services normally done in-house. These measures are projected to save the airline HK\$500 million a year.

At Hong Kong Telecom, the territory's sixth ranked company, the employees' union reported that 1,000 employees were asked to quit in late July. After 600 jobs were shed in 1996, the company staffing became so tight that "most people worked 11 to 12-hour days simply to keep their jobs." HK Telecom benefitted from a HK\$6.7-billion government payout for early termination of its international license monopoly which boosted its net profit

by 52 percent for the year ending March 1998. Outside of the payout, however, profit growth was a slower 7.6 percent, while its international long-distance service actually declined in revenue by 2.3 percent.

Low-wage earners are the most severely affected. A survey conducted by the Federation of Trade Unions (FTU) shows that the unemployment rate among them is more than three times the official figure. Of 7,800 workers interviewed, 14.9 percent were unemployed and nearly half of the unemployed had not worked for over a year.

The survey report also states that "more than 63 percent of those with jobs had monthly wages lower than the median income of HK\$10,000 and about one percent had wages lower than HK\$5,000 – or below the poverty line."

The closure of a large number of small and medium-sized enterprises (SMEs) could cause the unemployment rate to rise to 6.5 percent by the end of the year. Seventy percent of Hong Kong's work force is employed in SMEs.

Meanwhile, the HK Department Stores and Commercial Staff General Union complained about government inaction and called for "a cut in rents for shopping malls and public estates to help small retailers survive and keep people employed."

Regarding the workers' situation, FTU Chairman Chen Yiu-tong laments, "The government is being insensitive in handling the unemployment problem which has become critical for the lower income class." Lee Cheuk-yan, general secretary of the HK Confederation of Trade Unions and an elected legislator, urged the government to "create more spaces in job training programs to encompass the growing number of jobless who can benefit from paid skills training at a time when they cannot find jobs."

As companies – from cakeshops to finance houses – shut down, the unemployment situation is expected to get worse. In addition, the unemployment rate is expected to rise when new graduates and summer job seekers join the labor pool. Thus, year-end projections range from a low of five percent by Merrill Lynch to a high of seven percent by Santander. Morgan Stanley economists say unemployment will be seven percent by the year 2000.

Part-Time Work Spreads

TO cut costs and to at least maintain operations, some HK companies have increasingly turned to part-time workers. The Jusco department store chain, for one, has increased the number of part-timers from 35 percent to 40 percent of its work force. The Japanese chain store Yaohan (which has since closed down) also resorted to this strategy; in fact, for years many of its sales assistants worked weekends only, without getting any benefits. FTU Senior Secretary Yip Yai-ming says that "companies had sacked longtime employees and divided their work between remaining staff and part-timers."

In response, trade unions are demanding new laws that would protect part-time staff better. HK laws entitle part-timers to employment benefits if they have worked more than 18 hours a week for four consecutive weeks for the same employer. Companies, however, allow their part-timers to work slightly less than 18 hours to circumvent the law.

Labor Disputes Worsen

LABOR-MANAGEMENT relations are getting strained as shown by the number of disputes handled by the Labor Department: those recorded for the first quarter of 1998 alone were equivalent to two-thirds of the total number of disputes for the whole of 1997. For the second quarter, complaints were 30 percent higher than that recorded for 1997. At this rate, the 1998 total could more than double the previous year's figure.

The HK FTU has been receiving an average of 50 telephone inquiries each day about workers' rights under labor laws. Forty-five percent of complaints have been against employers who withheld wages. In addition, the workers criticized salary and benefit cuts; management's ploy of making them work longer hours by altering their shifts; management's refusal to honor promises to hike pay, and abuse of work contracts. Unionists say that salary cuts range from 10 percent to 40 percent, with workers in the transport, restaurant, and fashion industries most severely affected.

In the G2000 and U2 fashion chains, 600 employees complained that they were cheated and misled by management into signing an agreement requesting a large salary deduction. One employee, who took a 17-percent pay cut, said that they were "told to either sign or leave the company." The workers were not informed that by law, those who refused to sign were entitled to full severance pay and other compensation. In addition to the salary cut, working hours were also extended from 45 hours to 50 hours a week.

In another case, a container truck driver who was a permanent employee was asked to shift to a contractual status and was presented with a contract written in English. Management refused to have the document translated and when the driver refused to sign the contract, he was reassigned to work under a new roster which put him on an alternating day and night shift. "(Since) I used to work the day shift," he complained, "it is obvious that the company wants to punish me."

The number of claims for compensation or unpaid salaries climbed to 20,404 in 1997 compared to 17,130 in 1992. At the end of April 1998, the number of claims had already reached 8,668, or 42.5 percent of the 1997 total.

Side by side with the rise in the joblessness rate has been a notable increase in cases of family violence. Cases of domestic violence and child abuse in 1997 increased by 43 percent and 24 percent, respectively, compared to 1993. The cases included "assault leading

to actual bodily harm, homicide, and manslaughter.” A survey conducted in June by the HK Council of Social Service shows that “one in five of 400 unemployed people surveyed had quarreled with family members because of their jobless status.” The Council warned of more family violence as economic hardship deepens and said, “The longer the period of unemployment, the more the quarrels.”

New Graduates Face Gloomy Scene

AT the higher end of the job market, anxiety also reigns particularly among new university graduates. The *South China Morning Post* (SCMP) recently wrote of a Polytechnic University clothing studies graduate who applied as a fashion designer or art teacher with more than 30 prospective employers, not one of whom replied. At the City University’s Department of Building and Construction, less than half of graduating students have found jobs – and only at reduced salaries – in contrast to 1997’s employment rate of 70 to 80 percent.

At the Chinese University’s office of student affairs, announcements for job vacancies in various placements fell 40 percent during the first quarter of 1998 compared to the same period in 1997. Marketing and sales jobs and administrative positions suffered the most.

Recruitment agency Lindy Williams reports that job placements in the banking, finance, trading, and manufacturing sectors have dropped by more than 30 percent since October. About the only fields relatively unscathed are the engineering and information technology sectors.

Those lucky enough to get a job find themselves out of work after a while. Another SCMP report is of a City University law graduate who worked as a secretary at a law firm for HK\$12,000 a month and was sacked after only two months. Many law firms that have relied on the property business now suffer as a result of the property downturn. Trainee solicitors who used to get HK\$15,000 as starting salaries now get paid less than half that amount.

To make matters worse, the graduates also face competition from returning HK residents, with newly acquired foreign degrees, who are more proficient in written and spoken English.

Expatriates have become targets of local workers’ wrath. The trade union movement has called for “tough restrictions on the hiring of expatriates.” Lee Cheuk-yan, general secretary of the Confederation of Trade Unions (CTU) and an elected legislator, urged a “stop to the importation of so many foreigners, especially those who are not so skilled.” He denounced what he calls the “old boys’ network” where a “top manager who is an expatriate ... would normally hire expats” as well.

Nonetheless, government figures reveal that “white-collar workers were losing their jobs at a higher rate than workers in most blue-collar fields.” The number of unemployed “associate professionals nearly doubled in February-May 1998 compared to the same pe-

riod the year before." Many laid-off white-collar workers have a harder time finding new jobs because they face large salary cuts and in many cases would be considered overqualified.

More Companies Close Down

COMPANIES in Hong Kong are literally going under. Banks have been closing branches or merging them and reducing staff at the same time. Dao Heng, Dah Sing, and First Pacific have been affected the most by these measures. Dah Sing has shut down five of its 44 branches and is merging others, apart from laying off 100 of its 1,600 workers. Dao Heng, on the other hand, has closed eight branches while First Pacific has retrenched 40 employees.

Asia's largest investment bank, Hong Kong-based Peregrine Investment Holdings Ltd., collapsed in January this year, weighed down by more than US\$350 million in loans to insolvent Asian companies. In addition, it owed hundreds of millions more on 2,000 derivatives contracts with 300 counterparties, conservatively estimated at US\$9 billion. Price Waterhouse, which is in charge of liquidating Peregrine's derivatives business, has already settled US\$260 million of the latter's derivatives transactions.

As mentioned earlier, brokerage firms have not been doing too well either. In January, the CA Pacific Group collapsed under the weight of claims amounting to HK\$300 million from 6,000 investors. In early May, Forlux Securities followed suit. The biggest disaster in the HK unified exchange, however, came in late May when the Ming Fung Group fell in the face of HK\$500-million compensation claims from 2,000 investors. The Group's majority stockholder and managing director Chan Kwong-hung was detained by police for "using his clients' funds to cover loss-making positions" after losing heavily in futures trading on his own account. He was later released on HK\$3 million bail. The Group has been put up for sale to pay for its debts.

Thirty-eight-year-old shopping giant Daimaru, which manages two department stores in Causeway Bay, has decided to shut its doors permanently at the end of 1998. The stores have reportedly been losing money since 1990; total losses have reached HK\$140 million. The company has given its 400 employees six months' notice.

Another giant firm, the Japanese-owned Yaohan chain of department stores, also went bankrupt, displacing its 4,000 workers. A bakery and restaurant chain, Maria's, declared losses of US\$11 million and abruptly closed shop in April 1998 and laid off all its 405 employees.

Small and medium enterprises (SMEs) are also hurting; reduced loans have created liquidity problems. In mid-June, 200 shopowners petitioned the Housing Authority for a uniform rent cut. Ten percent of the estimated 300,000 SMEs have closed down with another 10 percent projected to go under by the end of the year.

Trade to Slide Further

TRADE figures in the February-April 1998 period show that exports from the territory have declined by one percent over the previous three-month time frame, while imports dropped by 1.6 percent. In January 1998, Hong Kong exports fell 4.1 percent from the previous year.

Although trade data for December 1997 and January 1998 showed a 6.7 percent growth from a year earlier, this has been attributed to a 7.4 percent increase in reexports from China. Domestic exports actually grew by only 2.8 percent.

But overall traffic growth at Hong Kong's ports has fallen – to about four to five percent annually from about 15 percent. The *Review* says that “Hong Kong's growth potential slows as it loses its status as a monopoly gateway.” Cargo volume at Shenzhen, the fast-growing city across Hong Kong's border, nearly doubled last year, and Tianjin, Qingdao, and Shanghai are also becoming more competitive.

Data culled by the *SCMP* point to projected declines in exports of as much as 6.4 percent and 6.6 percent in imports by the end of 1998. This downtrend is expected to continue until 1999 when exports are projected to decline by 1.4 percent and imports by 1.9 percent. Of course, the trade decline could simply be traced to the fact that “there is less trade going through, particularly now that recession has spread through much of Asia.”

William Cline, chief economist at the Institute of International Finance, projects that Hong Kong will suffer a 4.7 percent decline in its trade balance resulting in a US\$14-billion loss. This is due to “a drop in intra-regional trade, Western markets substituting products from HK and the mainland for those of cheaper regional competitors, and a fall in the demand for imports from depressed economies.”

Tourism on the Decline

TOURISM in Hong Kong peaked during the 1986-1996 period when the number of visitors tripled. Tourism has been Hong Kong's largest foreign exchange earner, bringing in about 12 million visitors and US\$13.4 billion in 1996 alone. After the handover, however, tourist figures started to drop. Most recent data show a 21-percent decrease in overseas visitors for the first six months of 1998 (4.5 million) compared to the same period the previous year, (5.7 million). Average hotel occupancy for the January to May 1998 period was down to 72 percent from 86 percent a year earlier.

Tourist Association executive director Amy Chan Cheng Yi-yim expressed disappointment over the figures, saying that “this drop is slightly more than we had forecast.” Chan also said that “any rebound in these figures from our major markets of North Asia and South Asia is entirely dependent on an improvement in their own domestic economic and political situations – factors beyond anyone's control.”

The International Monetary Fund (IMF) pointed out that “problems in the tourism industry partly were of domestic origin.” In anticipation of hordes of visitors for the handover ceremonies and the September 1997 meetings of the IMF and the World Bank, hotels indiscriminately raised their rates. It was also discovered that hotels practiced “two-tier pricing aimed mainly at Japanese tourists” which may have contributed to a sharp fall in the latter’s number.

At the airport, a regular visitor immediately notes shorter queues at the Immigration counters and hardly any at the taxi stands. Notable too is the absence of lines at the famous Peak Tram. On local television channels, government strives to stem the shortfall in tourism earnings through ads with movie stars exhorting HK residents to treat tourists with respect and more consideration.

Some analysts say that more than the lure of a “shoppers’ paradise,” tourists were drawn by the need to see the territory “before it goes back to China” and to savor the last whiffs of a dying colonial era. Now relegated to just another province of China, Hong Kong has lost its “charm” and uniqueness as a tourist destination.

From 1990 to 1997, 59 percent of tourist spending was accounted for by visitors from East and Southeast Asia, representing 3.75 percent of GDP. Of course with most Asian countries suffering currency devaluations, Hong Kong no longer figures as a destination for bargain shopping from once cash-rich Japanese, Korean, Thai, and Malaysian visitors.

According to the IMF, data for the first half of 1997 show that the “marked slowdown and currency depreciations within the (Asian) region could reduce Hong Kong’s tourism receipts by up to 1.25 percent of GDP.” Already in the first six months of 1998, tourist arrivals from Japan plunged by 15.7 percent, while that from South Korea fell 51.9 percent. To make matters worse, the deadly “bird flu” virus struck in December 1997.

Depressed Retail Sales

PRIVATE consumption essentially drives the HK economy and accounts for 60 percent of total expenditures. With rising unemployment, however, retail sales have taken a beating – sales from January to May fell by 15 percent in volume compared to the same period last year. Economists attribute this to lack of consumer confidence, the rising joblessness rate, and the “subdued property and stock markets.”

Clothing and footwear registered the highest drop at 28 percent while department stores had 27 percent less sales. Declines were reported in all categories of consumer goods – supermarket goods, food, durable goods, alcoholic drinks, tobacco, cars, and jewelry.

Asiaweek reports that boutiques and designer shops where people lined up for just a year before are now empty. Giant retail outlets like Matsuzakaya will close down, while others like Lane Crawford are getting rid of branch outlets. Almost a fourth of the shops in

computer malls like Causeway Bay and Wanchai have closed down, while in another computer mall, Star City in Kowloon, a newly-opened third floor is three-fourths empty.

Fashion retailer Bossini International has reported a HK\$45.5 million net loss for the year ending in March 1998, compared to a HK\$64.35 million net profit the previous year, in spite of "offering big discounts, reducing its work force, freezing expansion plans, and terminating its Malaysian operations." The G2000 Group, which owns 90 G2000 and U2 outlets, has offered huge discounts off its clothing lines.

Ironically, some retailers have identified unlikely but seemingly profitable markets. Garment shops such as Giordano, Bossini, and Baleno have resorted to targetting foreign domestic workers such as Filipinos and Indonesians. On weekends when most domestic helpers are off duty, salesladies bark their sales pitches and put up signs announcing bargains in both Tagalog and Bahasa Indonesia.

In addition, retail outlets are now earnestly trying to improve Hong Kong's image by having their employees undergo training on basic courtesy and product knowledge. Giordano International for one, has increased total training hours by 15 percent, while Kodak (Far East) monitors its franchises closely and provides training support.

Meanwhile, the HK Tourist Association has launched a "Be a Good Host" campaign "aimed at encouraging people to provide warm, courteous service" through television, radio, and print announcements.

The HK Dollar Holds Sway

BY far the lone steady performer in the economy is the local currency which has remained officially pegged at HK\$7.80 to the US dollar since 1983. In October of that year, a property crash and apprehensions generated by an impending declaration over Hong Kong's return to China saw the HK dollar lose 108 percent of its value. In response, the colonial government mandated the peg. The idea was to encourage HK people to keep their assets in HK dollars rather than convert them into more stable currencies.

A study by Credit Lyonnais Securities reveals that 60 percent of 1,000 local people surveyed kept 90 to 100 percent of their assets in HK dollars. Economic commentators say that "the most important factor behind whether the peg lived or died was whether ordinary Hong Kongers kept their assets in the local currency."

Unlike other Asian currencies which have suffered record devaluations, the HK dollar has remained untouched mainly because of Hong Kong's vast international reserves which stood at US\$78.51 billion as of March 1998 (seventh largest in the world) and the SAR and Beijing government's determination to keep the peg. The Chinese government has repeatedly stated that its own currency (the yuan, also called renminbi) and the HK dollar will not be devalued. The mainland Chinese economy alone held US\$144 billion in reserves as of March.

On the other hand, the peg has kept inflation high and made HK products uncompetitive in the global market. This is one reason why tourist arrivals, especially from other Asian countries, have gone down drastically, leading in turn to depressed retail sales.

Robert McKee of London's Independent Strategy Group predicts that the currency peg will "keep interest rates up much higher, that property prices will fall, profits for the property companies will disappear, the banks will find difficulties, and above all the stock market will stay weak and continue to fall as a result." He also cites its dampening effect on exports and overall competitiveness of the territory.

The peg has also forced the SAR to align itself with the ups and downs of the US economy. The political implications of this strategy have rendered it unappealing to nationalists in Beijing as it makes a Chinese territory a "slave to the domestically driven economic policies of the US Federal Reserve." Indeed the HK dollar was given a reprieve in mid-June 1998 when the US Federal Reserve, in an unprecedented move, undermined the US dollar vis-à-vis the Japanese yen in order to halt the latter's nosedive. Despite this extraordinary action the yen, however, remained unstable, thus renewing pressure on the HK dollar.

In fact, the SAR government's reserves are not enough to cover all the HK dollars held in bank deposits, debt instruments, and noncurrency forms. A sudden high demand for foreign exchange will immediately expose the HK dollar's vulnerability. The controversial billionaire investor George Soros was reportedly ready to launch an assault on the HK dollar at the slightest sign of weakness in the currency.

Robert McKee predicts that Hong Kong will defend the peg "to the bitter end" because the alternative is a total collapse of the banking sector if citizens suddenly switch their HK dollar deposits into US dollars. They can easily do so at the "press of a button or a single phone call," given the slightest sign of a devaluation.

Dismal Environmental Record

HONG KONG'S economic malaise is compounded by severe environmental problems that resulted from the years of high economic growth. The territory's environmental record is reflected in the plight of its official mascot – the Chinese White Dolphin. The few that are still alive (fewer than 200) are rarely seen, and are in real danger of extinction. In 1995-1996, 21 White Dolphins died as a result of the pollution of Hong Kong's waters.

Belying its name, the Fragarant Harbor has been turned into a "giant sewage plant." In 1997, following an outbreak of cholera cases, several seafood restaurants were closed for using contaminated seawater in their fish tanks. A 1996 report from the Friends of the Earth-Hong Kong (FOE-HK) chronicles the extent of environmental degradation that has taken place over the years:

Water pollution. "Everyday, two million tons of untreated sewage is discharged into Victoria Harbor. Seventeen out of 43 beaches are rated poor or very poor. Hong Kong's

local seafood is badly contaminated with the Hepatitis A virus. There were 23 reported cases of red tide in 1993."

Air pollution. "HK air quality exceeds statutory health standards for air quality ... Over 80 percent of the particulate pollution in the urban area ... comes from light diesel vehicles. There is a 10 percent increase in private vehicles while goods vehicles, which account for 42 percent of road space are predicted to increase threefold by 2001. Children living in polluted Kwai Tsing district were 30 percent more likely to have respiratory illness than children in the cleaner Southern district. Hospitalization of children with asthma has been found to increase by three to six percent as levels of air pollutants increase. Air pollution is the biggest source of complaint about the environment, according to a lifestyle poll."

Waste. "HK produces about 8,900 tons of municipal waste per day, which is increasing at the rate of 3.6 percent per annum. Sixty percent of solid waste generated is construction waste. There is significant ad hoc recycling but there are few organized municipal programs and no waste separation at source. HK's strategic landfills, originally expected to last 40 to 50 years now have an expected life of 17 years."

Noise pollution. "This affects more than 700,000 households or half the population. About 350,000 people are affected by severe traffic noise. There are no controls on daytime construction noise, other than percussive piling."

Ecology. "HK is home to a rich collection of flora and fauna with more tree species than western Europe. Its Mai Po Nature Reserve is a feeding and resting ground for tens of thousands of migratory birds, including endangered species. However, there are few controls to protect marine and coastal areas. Less than two percent of territorial waters is protected as marine parks or reserves."

The FOE-HK report further states that antipollution law enforcement leaves much to be desired:

"...there has been only marginalized increase in prosecution figures over the last few years and the Environmental Protection Department's preferred approach of consultation when breaches of law have clearly occurred has been questioned. HK's judiciary is critical and to date penalties have been very much at the lower end of the prescribed scale ... (resulting) in many large companies being fined a few thousand dollars for seventh or eighth offense."

Mega-infrastructure projects have also seriously harmed Hong Kong's ecology. The FOE-HK report singles out the US\$20-billion Chek Lap Kok airport, which involved 938 hectares of reclaimed land and which "at one time involved three-fourths of the world's ocean-going dredging fleet. Over 18 kilometers of natural rocky shoreline were destroyed,

The Airport Fiasco

ON July 6, 1998, the new Chek Lap Kok international airport was finally opened. Almost immediately, faulty systems were exposed: "software bugs temporarily knocking out flight and baggage-information displays, lengthy flight and luggage delays, planes stuck on the tarmac, blocked toilets, stalled escalators, and overcrowded restaurants."

Two weeks after the opening, cargo backlog problems persisted, forcing an agreement between HK authorities and the nearby city of Shenzhen in Guangzhou to open the latter's Huangtian airport to HK cargo flights. Representatives from the main cargo handler, HK Air Cargo Terminals (HKACT), said, "it would be another month before operations ... were up to full capacity."

The airport cargo crisis grew worse as "cancelled orders, financial penalties, trade being diverted elsewhere, and the loss of profits that local firms make from reexports" were projected to cost HK\$4.6 billion in losses. As a result, the government has been forced to cut 0.35 percent from GDP projections. "Knock-on effects" from the cargo blunders could actually push the bill to HK\$20 billion. HKACT alone is expected to lose HK\$122.8 million at a planned reduction in capacity by half, then three-quarters, until the end of August.

International cargo firms have started transacting business out of Hong Kong and China. For example, the giant Federal Express has diverted cargo from the troubled airport to Macau, the Subic Bay Freeport in the Philippines, and other Asian ports. (During the third week of July 1998 alone, five flights were diverted to Subic.)

While the airport authority dismissed the problems as minor glitches, public outcry forced the government's ombudsman to launch an independent investigation. Government officials have been accused of "bowing to political pressure to open the airport prematurely to coincide with the visit of Chinese President Jiang Zemin."

On July 15, 1998, the Independent Commission Against Corruption (ICAC) charged four people, including two engineers and a project foreman, with bribery and corruption "for covering up shoddy construction of facilities connected to the railroad at (the new) airport." Three of the four "allegedly falsified measurements and fabricated delivery statements while the fourth person tried to bribe a building inspector with US\$25,600 so he wouldn't look into the cover-up." Seventeen people had earlier been arrested in connection with the construction scam. The other 13 were released on bail.

which included fish spawning and nursery areas and habitat for the highly threatened Chinese White Dolphin.”

Hong Kong is also actively involved in the highly lucrative waste trade which is regulated by a local ordinance in accordance with internationally recognized guidelines. Unfortunately, it also repealed a provision in the Waste Disposal Ordinance which “prohibited unauthorized importation of waste into HK for the purpose of disposal.”

In 1993, 3.6 million tons of Schedule 6 wastes (known as the “Green List”), mainly consisting of plastic scrap, ferrous and nonferrous metal, waste paper, and textile materials, were imported and exported and valued at HK\$9.5 billion. Schedule 7 wastes (the “Red List”) on the other hand, which are potentially hazardous to health and are polluting, e.g., waste oil, metal-bearing sludge, and etchant, took in HK\$135 million in exports and imports in 1993.

DEALING WITH THE CRISIS

Inadequate Government Response: the June 22 Rescue Package

ON May 30 and June 3, 1998, Finance Secretary Tsang announced a series of measures in response to the crisis. The emergency seven-point plan of May 30 was “designed mainly to boost the demand in the tourism industry and stabilize property prices. Restrictions on the entry of tourists from Taiwan and China were eased. The government also rescinded some measures aimed at property speculation, allowing developers to sell unfinished apartments earlier and to a broader range of buyers. It also took steps to boost banks’ liquidity with programs to buy up debt securities and mortgages.”

Although some of Hong Kong’s business tycoons such as Li Ka-shing sounded optimistic about the measures, political parties from a wide spectrum insisted that they were inadequate “to help the public overcome economic hardship.” Calling for direct monetary assistance, a pro-Beijing party even urged the government “to take some money out from the current reserves of HK\$400 billion to help out the needy public.” Economic analysts also called government policy “directionless” and echoed the political parties’ view on the inadequacy of the package.

The property stimulus package of May 30 has also been criticized as “doing plenty for developers but little for home buyers ... (as they) are designed to give developers more control over when to sell flats and to draw speculators back to the market.” Martin Tacon, a property analyst at Credit Suisse First Boston asserts, “These measures don’t do anything to spur genuine, end-user demand. It’s strange that the government would pin hopes on recovery of the economy on bringing speculators back into the market.”

On June 3, Tsang unveiled another government plan to provide 100,000 jobs and strengthen skills training over the next 18 months. Workers’ groups, however, said that the

package was nothing new and would not bring work to the unemployed in the service and manufacturing services, which have been hardest hit by the economic downturn. According to the unions, these 100,000 positions were not new jobs, but were from “approved infrastructure projects and many would be taken by those left unemployed by the completion of the new airport. Other jobs were street cleaning, repainting road signs, and gutter cleaning.”

Meanwhile, the HK General Chamber of Commerce criticized the government for providing pay increases of 5.79 percent and 6.03 percent to senior civil servants, saying these “were totally out of step given the current economic turmoil.”

The government measures were also immediately denounced as inadequate. Seven major political parties and a number of independent legislators formed a coalition and demanded a reform program that includes cuts in taxes and government fees, refund on pre-paid taxes, infrastructure plans, and expansion of social services. The coalition comprises a large majority of the recently-elected legislature and brings together both democracy activists and pro-Beijing personalities. This may provide the first major political opposition grouping to Chief Executive Tung Chee-wah.

In response to the criticisms, Tung Chee-wah on June 22 announced a more comprehensive HK\$44 billion-rescue package consisting of measures to benefit the property sector, ease credit and improve liquidity, aid families and businesses, and freeze salaries of top officials.

In the property sector, the package mandated the suspension of land sales until March 31, 1999 and the freezing of grants for “sandwich class” housing, the term given to tiny and cheap units. It further provided a total of HK\$6.9 billion to increase the number of first-time home buyers.

Addressing credit and liquidity issues, the government exempted interest earned locally from profits tax and set up a HK\$2-billion plan to help nonexport-related small and medium-sized businesses to secure loans. The profits tax exemption is meant to lure HK\$200 billion deposited in offshore markets back to local banks.

For families and businesses, a rebate of HK\$3.85 billion was granted for first-quarter rates (a government tax on residences and other structures). Charges paid by exporters and importers were also reduced by HK\$200 million and the tax on diesel was cut by 30 percent.

To reduce government costs and lift the morale of low-income earners, scheduled salary increases were frozen for 330 of the most senior civil servants including Tung himself, a measure that would save the government HK\$70 million.

The trade-off from the rescue package is that it would wipe out an estimated government surplus of HK\$10.7 billion for the 1997 financial year, leaving the SAR government with a deficit of HK\$21.4 billion.

A pragmatic Tung Chee-wah offered no quick remedies as he admitted that, "We are now in the depth of a major economic adjustment, the result of which may be prolonged and painful to everyone."

A Pessimistic and Restive Public

NOT surprisingly, Tung Chee-wah's popularity rating has gone down to 71 percent in May 1998, compared to 78 percent last July 1997, his first month in office, according to a survey conducted by the Asian Commercial Research (ACR). *Asiaweek*, however, puts Tung's popularity at about 50 percent. Before Hong Kong began to feel the effects of the crisis, Tung had enjoyed an approval rating of 89 percent in October 1997. More embarrassing for the erstwhile shipping magnate and his patrons in Beijing are the surveys that reveal a preference for Tung's colonial predecessor, the much-maligned Christopher Patten.

The ACR also reports that 60 percent of the population expressed pessimism about the economy. At the time of the handover, 87 percent had expressed optimism about what lay ahead.

Part of the blame for Tung's declining popularity has been traced to his leadership style. Democratic Party Chair Anthony Cheung Bing-leung advised Tung to "make himself more visible in the public arena, let the people feel he is with them in difficult times."

In spite of the government's rescue measures, the Hong Kong public has refused to be mollified; at this point, nothing the government does seems to be appreciated. The major political parties called the land sales suspension as "inflexible" and said that the measures on the whole did little for the grassroots. The Democratic Party accused the government of bowing to pressure from the property developers, a charge echoed by the Frontier Party, which added that the measures are aimed at rescuing the market rather than the people.

It has been estimated that of the HK\$56 billion total worth of the stimulus packages, more than half will go to "the small coterie of tycoons who control the property sector." The charge that the "economic policy may be helping the developers at the expense of the common good" was further strengthened by a recent government disclosure that the "taxes developers pay to convert land from one use to another are being substantially reduced." Thus, Henderson Land Chairman Lee Shau-kee proudly told reporters that he will be required to pay less than a fifth of the government's original conversion tax assessment for a central ferry-pier development project.

Meanwhile, the Hong Kong Small and Medium Business Association called the HK\$2 billion offer to revive small businesses as "useless" because it provides only HK\$7,000 for each of the 300,000 firms covered by the category. The group instead calculated that SMEs needed at least HK\$30 billion (at low interest rates) to recover.

While unions, analysts, small entrepreneurs, and most political parties were harshly critical, big business was, however, more supportive of the emergency package. The Federation of Hong Kong Industries, for one, expressed support for government and welcomed the measures.

Needed: Reality Check

IN the midst of the disorder, Chief Secretary Anson Chan, a holdover from British rule, continued as late as June 1998 to tout Hong Kong as representative of "the model of economic management that others in Asia are realizing they should follow: a truly free market under the rule of law." On a visit to South America in mid-May, Finance Secretary Tsang boasted that Hong Kong had reached "perfection" as a fair and open economy.

A month later, Tsang was forced to eat his words. Reacting to the new unemployment figures, he said, "this was in line with market expectations but the problem is that *Hong Kong's economic fundamentals are deteriorating*. This figure will go a lot higher in the third quarter and we won't see a reversal until later this year or early next year (emphasis supplied)."

An admission by the finance chief that the HK SAR's economic fundamentals are no longer sound is shocking for proponents of the so-called East Asian model of growth. Simply put, Hong Kong's current performance has shattered both Chan's model of a "truly free market" and Tsang's image of "perfectly fair and open" economy.

Equally significant is the perception that the HK SAR government is moving the economy away from the freewheeling principles of laissez-faire to one that relies more on government intervention. Fred Chiu, a sociology lecturer at Hong Kong Baptist University, speculates that Keynesian economics may be enjoying a revival in the territory.

An *SCMP* editorial calls it a "dose of Keynesianism by the back door" and warned that "government-supported economies do not inspire the confidence Hong Kong needs if it is not only to fend off challenges from Singapore and Shanghai, but also become the center for East Asian finance in the next century." The same editorial further opines that "the real tragedy for Hong Kong would be if it came out of the crisis with an economy which had lost its drive and which had become subsidized." Governor Patten went as far as to dub the reforms "creeping socialism."

Finance Secretary Tsang, however, denies that such a fundamental philosophical shift is taking place, calling the emergency measures as "a fine-tuning of the supply situation for a few months." Tsang may have conveniently forgotten Tung Chee-wah's maiden policy address on October 8, 1997 where he signalled the return of "strong executive-led get-it-done government" and "made no secret of his belief that the open market regime ... no longer serves Hong Kong's interests."

Also conveniently forgotten or ignored is the fact that the housing sector has long thrived on government subsidies. Direct government intervention was a response to the mass migration from China in the early 1950s. For example, properties were priced at 30 percent below the market rates. To date, public housing production far exceeds that of the private sector. As Nury Vittachi narrates in the *SCMP*:

In 1972, the HK government embarked upon what was probably the largest housing project in world history: the building of nine satellite cities to house more than 3.5 million people. Today, HK is one of the world's leaders in public housing, with more than 3 million people – about half the population – paying low rents in 290 estates.

At present, almost one-third of the population live in subsidized housing projects. In the so-called “sandwich-class housing” category, government was planning to provide an additional 50,000 flats by the year 2005. With the economic crisis, demands are now increasingly heard for government to move away from subsidized housing, at least for middle-income earners.

POLITICAL DEVELOPMENTS

Politics in Command?

IN the months leading to the handover, uncertainties and apprehensions were partly fueled by the fear that the rule of law would suffer under a Beijing-installed administration. These fears seem to have been justified in two highly publicized cases. One is an alleged attempt to defraud advertisers of *Hong Kong Standard* by issuing false circulation figures. *Hong Kong Standard* publisher and prominent Beijing supporter Sally Aw and three *Standard* executives are said to have approved the daily printing then shredding of tens of thousands of copies of the newspaper. Aw, a member of the Chinese Parliament and chair of Sing Tao Holdings (where Chief Executive Tung is a former director), has been let off by the justice secretary in spite of being named co-conspirator by the public prosecutor. The other three, however, are to be brought to trial.

The other case involves the Xinhua news agency which during the colonial period was Beijing's watchdog and de facto consulate in Hong Kong. Prominent democracy activist and legislator Emily Lau had asked the agency to disclose some information about her which the latter may have filed under a personal-data law (which incidentally also sets a time limit of 40 days for a response to be given). Xinhua's reply came 10 months later saying, incredibly, that no such file on Lau existed. Despite a report from Privacy Commis-

sioner Stephen Lau that Xinhua had violated the law by exceeding the 40-day deadline, Justice Secretary Elsie Leung decided not to prosecute Xinhua officials.

Public outcry greeted the justice department's decisions, as they stoked "fears that some are above the law in Hong Kong." In both cases, criticism was heightened by Secretary Leung's refusal to divulge the reasons for the government actions. She merely cited the need to safeguard individuals from public debate on their guilt or innocence. Appearing before legislators, she further provoked alarm by saying that "even with sufficient evidence, she will not launch a prosecution if it is against the public interest."

On the positive side, the SAR, and by implication, the Beijing government, has generally adhered to the one-country, two-systems principle adopted in the 1984 Sino-British Joint Declaration on the transfer of sovereignty to China. This is reflected in the tolerance exhibited towards the traditional commemoration of the June 4 Tienanmen massacre by thousands of residents and the proliferation of pro-democracy political parties.

The Tienanmen Connection

OVER the years, the average Hong Kong citizen has often allowed politics to occupy the back seat as the economy thrived and grew, generally content to let government rule as it willed. What was more important to the people was that the robust economy put money into their pockets and provided them with all the conveniences of modern life. (One notable exception was the Chinese Cultural Revolution period in the late sixties when turmoil in the mainland spilled over into the territory and a violent crackdown against leftwing activists effectively neutralized any threats to the status quo.)

Uncertainties posed by the handover to China and the Tienanmen killings in June 1989 have, however, made many Hong Kong citizens more politically conscious. The former gave birth to pro-democracy political parties and saw the rise of high-profile personalities like Martin Lee Chu-ming, Emily Lau Wai-hing, Christine Loh Kung-wai, Lau Chin-shek, Lee Cheuk-yan, and Szeto Wah. The latter precipitated the birth of a more mass-based democratic movement. Thus, on each anniversary of Tienanmen, thousands of people would march in the streets and hold a candlelight vigil at Victoria Park. In fact, there was a record turnout of 55,000 people three weeks before the handover, apparently fueled by anxiety that it would be the last time such gatherings would be tolerated by the authorities.

The SAR government, has surprisingly allowed Tienanmen commemorations to take place. On May 31, 1998, about 2,700 people participated in the first post-handover march to commemorate the Tienanmen killings. Organized by the Hong Kong Alliance in Support of the Democratic Movement in China, it began at Victoria Park and ended at the Central Government Offices, where Tung Chee-wah holds office. The marchers demanded that Beijing "reverse its verdict that the 1989 pro-democracy movement was counterrevolutionary, and called for those who orchestrated the bloodshed to be punished."

Tienanmen Remembered: An Eyewitness Account

The late afternoon of June 4, 1998 was greeted by rains which grew heavier as the night approached. Although scheduled to start at 8 p.m., the streets leading to the rally site were already crowded as early as 5 p.m. This writer was among those who joined the thousands of people holding aloft multicolored umbrellas who eagerly jostled with the vastly outnumbered shopping crowd in trendy Causeway Bay.

For once, the department stores of Daimaru, Sogo, Matsuzakaya, Windsor Plaza, and Yue Wah along Great George and Paterson streets merely provided the backdrop to the massive display of democratic aspirations by the people. Virtually every sector of the Hong Kong society was represented – workers in plain attire, students in fashionable shirts and jeans, executives in business suits, housewives in casual dress, and office workers in stern-colored outfits. Hong Kong policemen had their hands full directing the human traffic.

Along the three entrances to the Park, young activists distributed leaflets and set up makeshift stalls selling books and June 4 memorabilia. Spotted in one was Han Dongfang, the labor leader who, upon returning to China in 1993 after attending a conference abroad, was refused reentry and had to settle in quasi-exile in Hong Kong. In another bookstall was a drenched but high-spirited Lau Kin-chi, senior lecturer at Lingnan College and prominent scholar-activist.

By 7 p.m., the crowd had reached 40,000, not quite as large as the 1997 attendance but no less defiant. As more than half of the crowd could not view the proceedings on the stage, a giant multi-TV screen was installed in a soccer field. According to the SCMP, the crowd was chanting, "Reverse the verdict on June 4. Fight to the end. People's power will win. Down with the one-party dictatorship." A manifesto read at the end of the vigil said, "Reversing the verdict of June 4 is only the beginning of a democratic China. Hong Kong is part of China. Fighting for democracy in China is the responsibility of everyone in Hong Kong."

Exiled dissidents Wei Jing-sheng and Wang Dan addressed the crowd from the United States – Wei through a prerecorded message and Wang through a live telephone hookup. Wang called Hong Kong "the bedrock of the democratic movement in China," while Wei added that "if Hong Kong people continue to fight for the democratic movement in China, the whole of China will ultimately benefit." Both Wei and Wang were recently freed by Beijing before US President Clinton's visit to China.

Alliance Chairman Szeto Wah lauded the mass action as the first commemoration of Tiananmen to be held on Chinese soil and urged people “not to forget the June 4 killings and fight to the end.” Szeto also criticized Chief Executive Tung for earlier calling on Hong Kong people to put aside the “June 4 baggage.”

Despite police reports of possible violence due to anger over Hong Kong’s economic difficulties, the march was peaceful. The rallyists were calm and remained unprovoked even when their banners were reportedly slashed by assailants.

The May 31 march, however, was just a prelude to an even bigger gathering – the candlelight vigil and rally at Victoria Park on the anniversary date of the Tiananmen events. The gathering was meant to keep alive the Hong Kong people’s collective memory of the Tiananmen events. A Hong Kong University survey published in late May 1998 shows that there has been a decline in the number of people who think that Beijing acted wrongly in suppressing the 1989 democracy movement. Only 55.2 percent of those interviewed were of this opinion compared to 71.9 percent in 1995 and 63.1 percent in 1997. In 1995, only four percent said China acted properly, although this figure rose to 13.3 percent in 1998.

Despite the above trend, an *SCMP* editorial asserts that “the overwhelming majority remain as firmly as ever in support of a reversal of Beijing’s official verdict.” At the same time, the editorial said official tolerance of the mass commemoration “showed how the one country, two systems concept was working.”

The May 1998 Legislative Elections

IN the midst of the crippling economic crisis, the first direct elections for the HK Legislative Council (Legco) since the handover took place on May 25, 1998. Massive rainstorms, chest-high floods in some rural villages and “waterfalls cascading from tenement housing” in Kowloon failed to deter the 1.49 million – a record 53 percent of the 2.8 million registered voters – who trooped to the polls and thereby “buried the misconception that (Hong Kong people) are an apathetic money-obsessed lot.” In 1991 and 1995, the first and the second electoral exercises under British colonial rule, voter turnouts were 39 percent and 35 percent, respectively.

The results were an equally direct repudiation of the SAR government and its Beijing patrons as pro-democracy candidates garnered 60 percent of the popular vote. The big winner was the Democratic Party led by Martin Lee Chu-ming which garnered nine seats and 43 percent of the popular vote. Other winners were the Frontier Party (three seats) led by Emily Lau Wai-hing and Lee Cheuk-yan which pulled 10 percent of the vote and the Citizens Party led by Christine Loh Kung-wai. All in all, pro-democracy candidates captured nearly three-fourths (14) of the 20 directly-elected seats.

The pro-Beijing parties did not fare as well. The Democratic Alliance for the Betterment of Hong Kong (DAB) won only five seats in the direct elections, while the HK Progressive

Alliance decided not to bother fielding candidates in this election (and instead opted to field them during the election for functional constituencies.) Another pro-Beijing group also identified with big business, the Liberal Party, was shut out in the direct elections and its chief Allen Lee Peng-fei lost in his New Territories constituency.

The victory of Martin Lee and his pro-democracy allies from other parties was a vindication and a fresh mandate from the Hong Kong people. They had earlier been elected by popular vote in 1995 in the second and last elections held under British rule. After the handover, however, they were unceremoniously stripped of their power when Legco was disbanded to make way for a Beijing-appointed Provisional Legislature. In 1998, when the 20 ousted pro-democracy legislators ran again, 18 were returned to their seats.

Disproportional Representation

UNFORTUNATELY, the winners found themselves the minority in the legislature under Hong Kong's complicated three-tiered election system. Only one-third of the 60-member Legco was directly elected. The rest were chosen indirectly or by narrow constituencies mostly representing business and professional groups.*

The electoral system is divided into three components – the geographical and functional constituencies and an election committee. Only the representatives from geographical constituencies are directly elected. Represented in the functional constituencies is a motley and confusing mix of sectors such as insurance, wholesale and retail, accountancy, finance, financial services, textiles and garment, import and export, labor, engineering, real estate and construction, industrial, tourism, social welfare, legal, agriculture and fisheries, education, commercial, information technology, sports, culture, and arts, architectural, and the urban and regional councils. Meanwhile, the election committee (or electoral college) consists of a mere 800 electors handpicked by the SAR government.

Around 2.79 million voters were registered in the geographical constituencies and only 139,000 in the functional constituencies. While 1.49 million voted in the geographical constituencies (with 20 allotted seats), the number of voters in the functional constituencies (with 30 seats) was only 80,000 out of a qualified list of 139,000. Pro-democracy groups had actually polled 68 percent of the votes in the functional constituencies, but had to settle for only five seats. The election committee, on the other hand, had only 790 electors, but

*Under the Hong Kong electoral system of proportional representation, in a given constituency, a political party presents a list of candidates numbering no more than the number of seats allocated and ranked according to priority. The names of candidates in each list and their order of priority appear in the ballot paper. Voters then select only one party list. Any list receiving one-quarter of the votes cast will automatically win one seat and the candidate ranked first on that list will be elected. A list winning half of the votes will get two seats and so on. Any remaining seats will be allocated to the lists with the largest number of remaining votes. A nonaffiliated or independent candidate constitutes a list by himself/herself.

got to choose 10 legislators. One of these is Provisional Legislature President Rita Fan Hsu Lai-tai who, despite garnering a mere 628 votes, was later elected President of the Legco.

A number of winners in the functional constituencies garnered less than 100 votes in notching their victories. Tang Shiu-tong and Ambrose Cheung Wing-sum won in their functional constituencies with only 25 and 26 votes respectively. In the agriculture and fisheries, insurance, and transport constituencies, all winning candidates garnered less than 100 votes.

In contrast, the Democratic Party alone polled 143,843 votes in Martin Lee's Hong Kong island constituency and 145,986 votes in Szeto Wah's Kowloon East constituency. The Frontier Party won 101,811 votes in Emily Lau's New Territories East constituency.

This disproportional representation system meant that the Democratic Party, despite winning 42 percent of the popular vote, will get only 13 seats or 22 percent of the total. The pro-Beijing Liberal Party and the HK Progressive Alliance, on the other hand, will together get 13 seats also despite winning only three percent of the popular vote. The other pro-Beijing party, the DAB, gained only 25 percent of the popular vote, but will occupy 19 seats or 32 percent. Along with the three seats of the Frontier alliance, the single seat of the Citizen's Party, and two seats won by independent oppositionists, pro-democracy legislators will occupy only 19 seats in all (32 percent). This means that pro-China candidates will continue to dominate the Legco and forestall any attempt at expanding democratic space in the territory.

Under the Basic Law, also known as the Hong Kong Constitution ratified by both China and Britain, the territory's economic and political systems are to remain for 50 years after the handover. The number of directly elected Legco seats will increase to 24 in 1999, to 30 by 2003 or 2004 and to the full number of 60 by 2007. But full democracy in 2007 is by no means assured as the date set is merely recommendatory.

China had vigorously opposed the accelerated democratization program launched by Governor Patten who, in 1995, increased the number of professionals eligible to vote in the functional constituencies to 1.15 million. New rules under the SAR have trimmed this number to 139,000.

Impediments to Democratization

EXISTING alongside an apparent tolerance of dissent are a number of laws that are seen as impediments to full democratization in Hong Kong. In a 1998 report issued by Asian Human Rights Watch, attention was called to changes to the electoral processes which governed the May 1998 elections "that have also served to marginalize worker participation."

Whereas in the 1995 elections almost every person in employment had a vote in the functional constituencies (a system where voting groups are organized by profession), the franchise under the reforms has been re-

duced from 2.5 million to 200,000. Corporate voting has been reintroduced where the chairperson/director of the company places a representative vote for the whole of his company. Apart from the whole concept of functional constituencies having been criticized by the United Nations Human Rights Committee as being a breach of Article 25 of the ICCPR, this reduction in the franchise also contravenes Article 68 of the Basic Law which guarantees that there shall be "gradual and orderly progress" towards election of all members of the Legislative Council by universal suffrage.

The human rights group noted that "Article 27 of the Basic Law guarantees Hong Kong people the right and freedom to form and join trade unions and to strike." Furthermore, "Article 18 of the Bill of Rights Ordinance 1991 (BORO) also guarantees the right to freedom of association which includes the right to form and join trade unions for the protection of the worker's interests."

The group further acknowledges that "in general, the HK SAR government is not averse to the formation of trade unions" but that the repeal of various pre-handover legislation "which effectively had given workers more rights with regard to unionization, collective bargaining and antiunion discrimination" has placed the enforcement of workers' rights in doubt.

One of the provisions repealed was a pre-handover amendment to the BORO which "extended the rights protections embodied in the BORO to interaction between private individuals."

Others were related to labor rights protection. Immediately prior to the handover, the legislature elected under British rule passed five bills to bring domestic labor law in line with ILO Convention No. 87. In October 1997, however, the China-appointed legislature repealed two of the five labor laws, and amended a third.

The two laws that were repealed protected the right to collective bargaining and protected against antiunion discrimination. The amendment to the third bill obligated unions seeking to use funds for political action outside of Hong Kong to first receive the approval of the chief executive. It similarly restricted the ability of local unions to affiliate with nonlabor related foreign organizations. Also among the five bills passed by the prehandover legislature was a provision legalizing the federation of cross-sectional unions; the subsequently appointed legislature did not abrogate this provision.

Amendments were also made to the Public Order Ordinance which "posed a potentially serious threat to workers' rights to strike by imposing licensing requirements for demon-

strations and allowing proposed demonstrations to be curbed on vague and unspecified national security grounds." The vague notion of "national security" can be used in deciding on applications for permission to hold demonstrations. Organizations also need government permission before they can be registered.

Asia Human Rights Watch pointed out that the HK SAR government has already indicated that "advocating independence for Tibet or Taiwan – peaceful free speech activities which should enjoy the protection of the ICCPR – can be cited as offenses on "national security grounds."

Article 23 of the Basic Law also requires that Hong Kong enact legislation against subversion, secession, sedition, and treason. The submission of such a proposed law to the legislature has been delayed, however, with Justice Secretary Elsie Leung declaring that there was no urgency, "since no subversive acts are being committed."

The Democratic Party drew attention to Article 74 of the Basic Law which "makes it impossible for a lawmaker to introduce bills relating to public expenditure, the political structure or the operation of government." Legislators are also prohibited from presenting bills related to government policies without the Chief Executive's written consent.

In late July, Democratic Party Chairman Martin Lee accused the government "of trying to reduce the legislature to little more than a rubber stamp." A recent letter from Solicitor General Daniel Fung Wah-kin argued that some provisions in the Legco's newly-endorsed rules of procedure were against the Basic Law. Legislators have rejected Fung's assertion saying that the government was simply trying "to further limit the legislature's powers."

PLIGHT OF DOMESTIC HELPERS

THE handover, the economic crisis, and the May elections impinge on a significant group of people in Hong Kong – the foreign domestic worker community, many of whom are Filipinos. Statistics from the Philippine Overseas Employment Administration show that from 1993 to 1997, a total of 292,605 Filipino workers were in Hong Kong, with the highest number at 72,299 recorded for 1997. Majority of these were domestic helpers. The official figures, however, may be misleading because many workers leave without passing through the government agencies concerned. In fact, out of 175,600 foreign domestic workers in the territory in April 1998, 140,500 or 80 percent came from the Philippines. Indonesians ranked a far second with 26,500; followed by Thailand, 5,300; India, 1,200; Sri Lanka, 1,200; and other countries, 700.

The economic crisis in Hong Kong has fueled a demand for domestic helpers who will accept salaries lower than the mandated minimum wage. Since Filipinas are known to insist on their rights, recruiters have turned to Indonesians who offer their

Filipina Domestic Reel under the Crisis

Filipina domestic helper Remy Borlongan has lived in Hong Kong for over seven years, which qualified her as a voter before the handover of sovereignty from Britain to China in June 1997. In the legislative elections in May 1997, she had voted in her geographical constituency. In May 1998, however, she was informed that she had lost her right to vote when she showed up at the same polling place.

Her electoral disenfranchisement in 1998 is only one of the many changes that confront foreign domestic helpers in Hong Kong. As president of the Asian Domestic Workers Union (ADWU), Remy knows their situation very well. The following sections are based on an interview with her in early June 1998.

Breadwinners

Salaries of domestics go to the subsistence of their families back home and the education of a child or sister/brother or to projects like house renovation, or investments in businesses or real estate. (But most of these tales do not have happy endings: some ventures turn out to be fraudulent, or losing propositions right from the start. Furthermore, it is ironic that by the time the relatives they send to school graduate, the latter are often unable to find employment and end up as domestics themselves in other countries.)

The work load, pressures from home, cultural differences, and other aggravations are more than enough problems for these domestics to cope with. The ADWU fortunately operates a counseling service for those in trouble. The group also intercedes with the Hong Kong government and the various consulates in solving more complicated cases. But limited funds have forced the group to scale down their activities. Remy herself has been forced to forgo her travel allowance and token honorarium as ADWU president.

Two-week Rule

Many domestic workers have found themselves out of work as a result of the economic downturn. The ADWU has documented 380 cases of dismissed helpers in 12 months since June 1997. This came about as middle-class employees themselves lost their jobs or took pay cuts which, in turn, forced them to dispense with domestic help. A notable case is that of the closure of the giant Japanese-owned

Yaohan department store and the retrenchment of its 4,000 workers, 80 percent of whom hired domestic helpers. The shrinking of the expatriate community also resulted in less employment for domestics.

The dilemma of recently unemployed workers is that the HK Immigration Department gives them only two weeks to look for another job or be forced to leave the territory. The only exception to this rule is if the grounds for contract termination are valid (for instance, inadequate food and accommodation, and in some cases, sexual harassment). These, however, are difficult to prove; also, the courts are known to side with the employers when the case is brought before them. Often two weeks is not enough to look for alternative employment. A painful alternative is to go to an employment agency and be charged exorbitant fees.

Minimum Wage

The current minimum wage is HK\$3,860 a month which was set before the handover last year. In February 1998, the government imposed a freeze on the wage "to help families battling the economic downturn." But employers, citing Hong Kong's economic problems, are demanding that this be reduced to only HK\$3,000 a month. In addition, local trade unions such as the HK Federation of Trade Unions (FTU) and the HK Confederation of Trade Unions (CTU) are proposing that a quota be imposed on the number of foreign domestic helpers allowed into the territory. Since March, the government has imposed a ban on foreign labor, following a lobby orchestrated by the FTU and the CTU.

The ADWU, however, has submitted a petition for the minimum wage to be increased to HK\$4,000 a month. The Labor Department has turned down this request, claiming that domestic workers are not affected by inflation. It was already argued that the devaluation of Southeast Asian currencies "has increased the spending power for workers sending money to families at home." Migrant workers' groups contend that a wage rise "was needed to cover the increasingly expensive cost of living in the city" and that "many domestic workers were already being underpaid."

Remy doubts whether employers are really so hard up that they can't pay a higher minimum wage. After all, she says that the Immigration Department requires employers to have a minimum annual income of HK\$186,000 before they can hire domestic helpers.

Remy is also concerned that the locals see foreign workers as threats to their employment prospects, particularly in part-time work. Some locals have started

taking jobs as domestic helpers. Migrants from China are also entering the domestic workers market. The latter's wages are lower, but it is said that the quality of work is also lower. Furthermore, they prefer to stick to a particular line of domestic work.

Drudgery of Work

Filipino maids, on the other hand, don't bother with job descriptions and take on all kinds of domestic work – baby-sitting, caring for the disabled, tutoring schoolchildren, house painting, marketing, cleaning the car, etc. They also work long – from 16 to 18 hours a day – something which locals would never do.

The psychological effect of this work routine on the domestic workers is dramatic and deep-seated as Remy narrates:

We foreign domestic workers have accepted all these hardships. We're like robots with set time schedules – get up at 4 or 5 a.m. and work till 11 in the evening. If you do this for 10 years straight, you begin to gradually lose your mind. When you go home for a vacation of two to three weeks, you find it hard readjusting to the Philippine culture. Once back in Hong Kong, the daily grind resumes and you become a robot once again. I think about 90 percent of Filipino domestic helpers lose part of their sanity by the time they return home.

Problems with the Philippine Consulate

Filipina domestic helpers have complained about the insensitivity of the Philippine Consulate in Hong Kong, as well as the Philippine government, to their plight. They say that instead of helping improve their situation, Philippine officials only make it worse.

The ADWU has decried the proliferation of recruitment agencies that have not passed what is called a "trade test," which determines an agency's suitability and capability for recruiting foreign workers. The group charges that this is taking place with the full knowledge of certain Philippine consulate officials who are supposed to inform the HK Labor Department about the track record of these agencies. HK-based agencies work with Philippine counterparts, i.e., the former provides the employers, while the latter recruits the workers.

The Philippine Consulate has also been taken to task for being "unfriendly" to Filipina domestic helpers. Remy Borlongan cites the case of a helper taken ill whose return to the Philippines was arranged by the ADWU. When requested to provide an air ticket, the Consulate refused and merely offered to meet the worker at the airport. Another case of a maid beaten up by her employer was termed by the Consulate a "nonpriority" and refused help.

The ADWU also charges that exorbitant fees are collected by the Philippine Consulate. A new passport costs HK\$500, compared to P500 (HK\$100) in Manila while a new contract requires a fee of HK\$425. In contrast, the Thailand Consulate only charges HK\$200 for a passport and HK\$125 for a contract. Remy also claims that Filipino OCWs are the only ones required to pay Philippine taxes in Hong Kong.

The Consulate's refusal to hold office on Saturdays and Sundays, the normal off-duty days for the maids, has also caused great inconvenience. HK employers seldom allow their helpers to take off during weekdays. According to Remy, the Consulate only holds office weekends when it is tax-collection season, and not when their services are most needed.

Also a target for complaints is the requirement that all returning contract workers have to pass through the Overseas Employment Council in the Philippines. In addition, Remy is wary of a plan for all prospective domestic helpers to go through a seminar and test in English at TESDA (Technical Education Service Development Authority) which require a P3,000-fee; those who fail would not be allowed to work abroad.

services for as low as HK\$2,000 a month. Thus, from a low of 6,150 Indonesian maids in 1993, this figure has risen to 26,500 in 1998. Other sources of cheaper domestic help are Bangladesh and Sri Lanka.

Recruitment agencies in Hong Kong take commissions of HK\$3,000 for signing up "full-priced" Filipina maids but charge as much as HK\$15,000 for an Indonesian maid. The higher figure is meant to facilitate emigration from Indonesia. Asian Migrant Center director Rex Varona says apart from being paid less, Indonesian maids are charged more illegal fees and are subject to tighter control, i.e., their passports and other documents are kept by the agencies.

The helpers sign contracts stipulating that they will receive the legal wage, but have a previous understanding with the employer that they will accept less. In a recruitment agency in Causeway Bay, a reporter from the *SCMP* was shown stacks of résumés of Indonesian women aged 18 to 36 whose salaries have been pegged at HK\$2,000 to HK\$2,500 a month.

Inside an office drawer, the reporter saw a dozen bundles of green Indonesian passports and was told by the agency's head "not to tell anyone."

Questionnaires for these prospective maids contain questions like: "Do you accept a no-off day and instead only outing with employers during your employment?" to which the correct answer should be "yes." The HK Employment Ordinance grants all workers, foreign or local, a one day off weekly, seven days annual leave, and 11 legal holidays. Indonesian maids, however, are known to accept jobs that give them only two days off in a month and the seven-day leave.

Most Indonesian helpers come from rural areas and have to be taught the use of modern appliances. Unlike Filipinas, they don't belong to associations or are discouraged from joining one. Varona says that the Indonesian Consulate "disapproved of the women forming groups, associating with nongovernmental organizations, or making a fuss in Hong Kong." As a result, they are not informed of their rights under Hong Kong laws and initially accept lower salaries and poor working conditions. Eventually they do learn about what they are entitled to. To prevent the maids from using this to improve their situation, agencies usually recommend that employers change their Indonesian help every two years.

With the current Indonesian economic turmoil and accompanying political uncertainty, it is expected that more Indonesian women will be joining the exodus to Hong Kong and other destinations of migrant workers.

As the East Asian crisis heightens and its ramifications are more deeply felt, it is expected that a reverse flow in both people and revenues will be registered by the end of the year and for 1999 as well. This early, some figures seem to point to this trend. According to a study by UP Economics professor Joseph Y. Lim, remittances to the Philippines from Asian-based workers dropped 15 percent in 1997 compared to the 1996 figures.

ECONOMIC AND POLITICAL REFORMS

The Next Domino?

THE gravity of the economic crisis and the clamor for a more democratic political system exert pressures on Hong Kong to mend its freewheeling ways. Government is hard-pressed to do more for those who are most adversely affected and to take the lead in weaning the territory away from the "sins of the past" which have brought about the current turmoil.

More than anything else, Hong Kong's severe economic turbulence has uncovered the folly of relying on speculative and marginally or even nonproductive economic activities as engines of growth. Over the years, the property economy has totally permeated the local psyche. It is commonly observed that "buying land in Hong Kong has become a state of mind; people plan their lives and careers around it." A virtual cult has grown around property.

Sze Wing-ching, owner of the largest real estate agency, Centaline, admits that "after 15 years of a continuous property boom, real estate has become like an opium. And the people are addicted." During the boom years, thousands of people made millions buying and selling residential flats.

This orientation has nurtured a younger generation that came of age during the years of prosperity when being trendy seemed more important than working hard. The "go-go mindset" had its limitations, however. "While daring entrepreneurs kept HK competitive by moving factories across the border, they did not think to move up the value chain into high-tech industries. Quality was mostly sacrificed for quick returns and high volumes."

Among Hong Kong's top 10 companies in 1997, not one was in the high technology or manufacturing sector. Topping the list was the Mass Transit Railway Corporation, followed by Cathay Pacific Airways, Sun Hung Kai Properties, Cheung Kong, Hang Seng Bank, Swire Pacific, HK Telecom, Hutchinson Whampoa, China Light and Power, and the television station TVB. Local manufacturing has actually been declining in Hong Kong as high labor costs precipitated transfers of factories across the border to Shenzhen in mainland China. Today, only nine percent of Hong Kong's economy is accounted for by manufacturing compared to 24 percent in 1980.

Chief Executive Tung appears to recognize these deficits. In his October 1997 maiden address, he announced a "government-led industrial policy with the goal of building a role for Hong Kong in East Asia's high technology industries." A nascent high-tech program is actually underway. Along Tat Chee Avenue near Kai Tak airport is a government-sponsored Industrial Technology Center, a science-oriented City University of Hong Kong, and a Center of Environment Technology. But Tung has announced few details about his new policy and the territory is a late entrant in the game. Its rivals Taiwan, South Korea, and Singapore have secured a firm headstart, especially in capital-intensive projects like silicon-wafer fabrication plants. It will also face competition from lower-cost countries like Malaysia and the Philippines.

The only area where Hong Kong seems to have an edge in is in clothing and textile manufacturing where research and development appear to have transformed it into a high-tech industry. But even here the design component is considered underdeveloped. Many firms are also family-controlled thus dissuading bright young graduates from aspiring for top positions.

Furthermore, a government-guided economic initiative does not sit well with proponents of a laissez-faire policy. At least two top government ministers, Finance Secretary Tsang and Trade and Industry Secretary Denise Yue are said to oppose a bigger government role in the economy.

Calls for Universal Suffrage

REFORMS are also needed in the political sphere. The 1998 legislative election results and the record voter turnout have emboldened opposition parties to call for universal suffrage to be in place by the year 2000 as well as the democratic election of the SAR chief executive. Martin Lee pronounced the results a mandate to push for full democracy by 2000 and that "we owe it to our people to fight for it." Emily Lau called for a "a great debate in the next few months for universal suffrage."

Chief Executive Tung, on the other hand, interpreted the high turnout as an indication of satisfaction with his government. This prompted Martin Lee to remark that Tung has misunderstood the fundamentals of politics, and that the bigger the number of people who vote, "the more discontented they are. These are just the ABCs of politics. How can the Chief Executive not know that?"

Legco President Rita Fan and other legislators elected under the Election Committee saw no need for universal suffrage and "fended off claims of a small circle poll." Fan, elected with a mere 628 votes to her name, proclaimed, "We have been elected by voters who are very representative in their respective fields."

Chief Secretary Anson Chan said that "people are more concerned about the economy than increasing the pace of democracy." She further declared that "to a large extent, Hong Kong is already a very democratic society." Chan also warned that "there would be serious implications if all Legco seats were directly elected" as it would allegedly raise questions about the relationship between the legislature and the executive. "What would be the relationship of a popularly-elected chief executive and a popularly-elected legislature in terms of its relationship with the civil service?" she asked.

Emily Lau, however, disputed Chan's remarks saying that the government should not mislead the public. "Economics and democracy are equally important. How can they say the public can only talk about one issue? The two issues can be debated at the same time," Lau added.

Democratic Party vice-chair Dr. Yeung Sum retorted: "Democracy and economics are not mutually exclusive, but complementary to each other. A democratic system will help monitor the government and facilitate the economic and employment environment." Another Democratic Party leader, Anthony Cheung Bing-leung, remarked, "More concern about direct elections doesn't mean less emphasis on the economy; under a democratic system, a government would be out of power if it failed to resolve economic problems."

SCMP analyst C.K. Lau, however, says that the election results "will not lead to a faster pace of democratization in Hong Kong." He adds that "on the contrary, the democratic camp's strong showing ... may even increase Beijing's and the conservative camp's anxiety about having too much democracy too soon."

But Independent legislator-elect Andrew Wong Wang-fat warned of social unrest due to the ailing economy if political reforms are not carried out. He said, "We have to resolve the problems of democracy, otherwise we can't eliminate the possibility of social unrest arising from the economic downturn – just look at Indonesia."

Notwithstanding the calls to speed up the process of installing universal direct elections, Chief Executive Tung appears determined to simply follow to the letter the provisions of the Basic Law. He did acknowledge that the election had "laid a solid foundation for political development." On the other hand, he has also been reported to be "thinking of delaying the commitment (for universal suffrage) for as long as 15 years."

CONCLUSION

IN an article written for *Newsweek*, Sin-Ming Shaw, founder of Shaw Investment Management says that if HK "wishes to aspire to its former glory, it must purge its fixation on real estate, just like an addict trying to kick an opium habit."

Shaw recommends that the territory "embark on a long-term commitment to rebuilding its depleted intellectual capital," adding that "this won't be easy; for Hong Kong has a glaring absence of intellectual capital." He traces this to the British failure to build a first-rate educational system.

Hong Kong's higher education too is a disaster. University educators openly lament low reading and writing levels in both English and Chinese. Employers complain about the poor quality of fresh graduates. Hong Kong has not a single university that is world-class -- even though there is sufficient wealth to endow scores of such institutions.

The recurring popular view is that "HK graduates are not known for their creativity." *Asiaweek* points out that "in recent years, many of Hong Kong's best and brightest have put most of their energy into property speculation – not innovating."

The irony for Shaw "is that HK once depended on intellectual capital for its success;" during the postwar years, "the influx of Shanghai industrialists brought textile technology to the colony" while "other penniless refugees came with a wealth of knowledge ranging from shipping to sophisticated construction techniques." At that time, "wages and property prices were not a business consideration. Entrepreneurs and businessmen concentrated on creating value, thus building a strong export economy of manufactured goods and services." In short, Hong Kong became "a vibrant, diversified manufacturing and trading city, and a tourist's paradise. Artistic and literary talents flourished; small entrepreneurial firms prospered."

Then, 15 years ago, things began to change. "Because land sales were restricted, a world-class bubble was created, helped by years of negative real rates of interest. The lure of easy money pulled the best talents into a marginally productive activity. Many more went into supporting businesses, like stockbrokering and banking, that live off the property sector."

The property bubble "had destroyed incentives for young people to pursue a more creative and productive line of work. Broader community needs were hardly considered and what took place was a "misallocation of capital, financial and human" of disastrous proportions.

Shaw recommends the following: (1) "The government should stop supporting the property market." (2) "HK must thoroughly reform its education system. Education is too important to be left in the hands of bureaucrats, especially when their own academic qualifications are in doubt." (3) "(Chief Executive) Tung must reach out beyond the self-perpetuating civil service to bring talents to better manage the existing bureaucracies." (4) "More important, HK must admit to structural flaws due to bad government policies."

Hong Kong's many problems mirror the earlier collapse of East Asian and Southeast Asian economies. In a special report analyzing the possibilities for Asian revival, the *Review* says that continuing to rely on exports will not do as "Asian economies rely heavily on trading with one another (40 to 45 percent of trade is within the region) ... the continuing fall of the yen will make Japanese products more competitive and weaken Japan's import market and, the US economy isn't as robust as it appears."

"If we are all sick together, who do we export to?" asks Ajay Kapur, global emerging markets strategist of Morgan Stanley.

The *Review* notes that "the speed of the region's decline calls for something more than first aid – in short, a new economic order," adding that governments are resorting to "first aid remedies" such as lowering interest rates, government spending on social safety nets, instituting job programmes, and turning to multilateral institutions for help. But these are seen as mere stopgap measures.

Ultimately, such steps are unlikely to be enough to get Asia through its darkest hour without causing wrenching political and social upheaval. More and more leaders see the need for a new economic order that gives the growing ranks of the disaffected hope for the future. That means getting rid of the cozy and often corrupt ties between politicians and big business as well as busting monopolies and regulations that serve the few at the expense of the many.

Creating a level playing field is deemed to be of utmost priority. Linda Tsai Young, US Executive Director of the Asian Development Bank: "You're talking about equitable access to opportunity. It's not just good politics. It's the best foundation for a new round of economic growth."

TABLE 1: ECONOMIC INDICATORS, HONG KONG

	1995	1996	1997	1998f	1999f
GDP (% real change)	3.9	5.0	5.2	-3.5	0.5
GDP by expenditure (% real change)					
Private consumption	1.6	4.4	7.1	-6.0	0.0
Fixed capital formation	10.7	12.3	15.1	-2.5	-1.0
Export of goods and services	11.0	4.9	5.3	-6.4	-1.4
Import of goods and services	12.7	4.1	7.0	-6.6	-1.9
Merchandise trade balance (US\$b)	-19.0	-17.8	-20.6	-17.2	-15.8
Foreign reserves (US\$b, by yr end)	55.4	63.8	92.8	95.0	95.0
Industrial production (% real change)	3.0	-3.2	-2.5	-10.0	-5.0
Prime interest rate (% p.a.; yr end)	8.75	8.50	9.50	9.00	8.50
3-mo HIBOR (% p.a.; yr end)	5.88	5.50	9.13	7.00	5.75
Money supply (M2; yr end; % change)	14.6	10.9	8.4	5.0	1.0
Exchange rate (HK\$/US\$; yr end)	7.73	7.74	7.75	7.75	7.75

Source: Merrill Lynch data published in *South China Morning Post*;

f = Merrill Lynch forecasts

TABLE 2. PARTIAL LIST OF COMPANY AND INDUSTRY JOB DISMISSALS SINCE THE CRISIS

COMPANY/ INDUSTRY	NO. OF JOBS LOST
01. Yaohan	4,000
02. Hotel industry	1,800 + 2,500 to go on unpaid leave
03. Cathay Pacific	1,870
04. HK Telecom	1,000
05. Peregrine Investment	700
05. Maria's (bakeshop chain)	405
06. Daimaru	400
07. ATV (television company)	135 (eventually 400)
08. Dah Sing Bank	100
09. Jardine Fleming	40
10. Miramar Hotel	50 (20 percent of total)
11. Wing On	40 + 270
12. Daiwa Securities (HK)	76 (one-third of staff)
13. First Pacific	40 (5 percent of staff)
14. First Pacific Davies	47
15. J.P. Morgan (HK)	60-70 (15 to 18 percent of total)
16. HSBC James Capel	one in 12
17. Dao Heng Bank	? (8 branches closed)

Data culled from *South China Morning Post*, *Far Eastern Economic Review*, *Asian Wall Street Journal*, *International Herald Tribune*

APPENDIX

Background Notes

EXCERPTS from a US State Department report "Background Notes on Hong Kong," November 1997:

On July 1, 1997, China resumed sovereignty over Hong Kong, ending more than 150 years of British colonial rule. The government of Chief Executive Tung Chee-wah was also installed on that date. While the transfer of sovereignty resulted in a number of significant changes – most notably the disbanding of the elected pre-reversion Legislative Council – most of the institutions and the vast majority of the senior civil servants who oversee the daily operations of the Hong Kong SAR remain unchanged.

The Sino-British Joint Declaration, signed in December 1984 after two years of negotiations, provided the framework for this peaceful transfer of sovereignty. The agreement stipulated that Hong Kong would become a Special Administrative Region of the People's Republic of China on July 1, 1997 but would retain a high degree of autonomy in all matters except foreign and defense affairs.

The Joint Declaration further stated that for 50 years after reversion Hong Kong would retain its political, economic, and judicial systems, and could continue participating in international agreements and organizations under the name, "Hong Kong, China."

Basic Facts

Official name:	HONG KONG SPECIAL ADMINISTRATIVE REGION (HK SAR)
Area:	1,092 sq km
Population:	6.5 million (mid-1997)
Ethnic groups:	Chinese - 88%, other Asian - 9%, non-Asian - 3%
Religions:	Eclectic mix of Taoism, Confucianism, and Buddhism - 90%; Christian - 10%
Literacy:	92%
Health:	Infant mortality rate - 4.1/1,000 (1996). Life expectancy - 79.1 years (overall); 76.3 (1996) years for males, 81.8 (1996) years for females
Work force:	3.18 million. Merchandising, restaurants, hotels - 43.8%; services - 13.4%; manufacturing - 13.4%; finance, insurance, real estate - 17.7%; transport and communications - 7.7%; construction - 3.5%.

GDP 1996:	US\$153.7 billion; 1997: US\$171.4 billion
GDP real growth rate	1997 (est.): 6.25%; 1998 (est): -3.5%
GDP by sector (% '96)	Trade, hotel, restaurants: 25.4; Finance, real estate, business services: 24.9; Social/personal services: 17.9; Transport & communications: 10.2; Manufacturing: 7.2; Construction: 5.8; Utilities: 2.4
Savings (% of GDP)	31%
Per capita income	1996 (est.): US\$24,357; 1997 (est): US\$25,500
Industry:	types - textiles, clothing, electronics, plastics, toys, watches, clocks
Trade:	Export (1996) - US\$179.2 billion, including clothing, electronics, textiles, watches and clocks, office machinery. Main partners: China, US, Japan, Germany, United Kingdom, Singapore Imports (1996) - US\$196.9 billion including consumer goods, raw materials and semi-manufactures, capital goods, food-stuffs, fuels. Main partners: China, Japan, Taiwan, Singapore, South Korea.

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