

SPECIAL REPORT

Newsweek

May 19, 1997 : \$2.95

China
Takes
Over

CAN HONG KONG SURVIVE?

Model at a
Hong Kong
Fashion
Show

#BXBCMDG***CAR-RT-SORT 041
#001244684260019#SE97
MS JULIE STERN
#1408
10101 GRDSUENOR PL
ROCKVILLE MD 20852-4677
P00740
000136M
NI-Z

HONG KONG



SPECIAL REPORT: It has the ring of romance—the End of Empire. But the world will really be watching next month's transfer of Hong Kong from Britain to Beijing to see whether a strong China can be truly trusted. **Page 30**

COVER: Photograph by Jason Reed—Reuters.

SPECIAL REPORT

Hong Kong: Why the World Watches	30
by Michael Elliott and Dorinda Elliott	
Refugees' Revenge by Melinda Liu	36
Mao Zedong Chic by Orville Schell	42
Heirs to an Uncertain Future by John Leland and Lynette Clemetson	46
Tips for the Markets	
by William H. Overholt	48
A Time of Long Goodbyes	
by Jonathan Alter	51

NATIONAL AFFAIRS

Crime: A Lethal Road Trip	52
Scandal: Zeroing In on Chinese Cash	54
Politics: The Microsoft Primary	55
TWA 800: Piecing It All Together	56

BUSINESS

Investing: Woodstock of Capitalism	58
Biotech: Life-and-Death Court Battle	60
Government: Uncle Sam's Math	
by Allan Sloan	62
The FCC, Still Regulating Phones	
by Robert J. Samuelson	63

SOCIETY

Medicine: Gender Limbo	
by Geoffrey Cowley	64
Sex Abuse: 'Megan's Law' on Trial	67
Sports: Sampras's Feat of Clay	
by Frank Deford	70
Chess: Big Blue's Hand by Steven Levy	72
Dentistry: No-Pain Tooth Repair	74

THE ARTS

Movies: Lights! Action! Cannes!	
by David Ansen	76
Can't Take No Moore Demi	83
Mike Myers Is Hip Again	84
Books: Portrait of the Gonzo Journalist	85

FOCUS ON MONEY

Fidelity: An Old Dog's New Tricks	
by Ellyn E. Spragins	88
Moneyscope: Planner Saturation	92

DEPARTMENTS

Periscope	6	Perspectives	27
Cyberscope	14	Newsmakers	86
Millennium	16	'The Last Word' by	
My Turn	18	Meg Greenfield	94
Letters	20		

Newsweek

Letters to the Editor should be sent to NEWSWEEK, 251 West 57th Street, New York, NY 10019-1694. In the U.S. send subscription inquiries to NEWSWEEK, P.O. Box 39967, Boulder, CO 80322-9667. NEWSWEEK (ISSN 0028-9604), May 19, 1997, Volume CXXIX, No. 20. In Canada send subscription inquiries to NEWSWEEK, Inc., P.O. Box 4012, Postal Station A, Toronto, Ontario M5W2K1. Canada Post International Publications Mail (Canadian Distribution) Sales Agreement No. 546393. Canadian GST No. 123-321-309. For all changes of address call 1-800-634-8850. For all other inquiries call 1-800-631-1040. Unless otherwise indicated by source or currency designation, all terms and prices are applicable in the U.S. only and may not apply in Canada. NEWSWEEK is published weekly, except for 2 issues combined into one at year-end, for US \$41.08 a year and Canadian \$61.88 a year, by NEWSWEEK, Inc., 251 West 57th Street, New York, NY 10019-1694. Richard M. Smith, Editor-in-Chief and President; Stephen Fuzesi Jr., Chief Counsel and Secretary. Periodicals postage paid at New York, NY, and at additional mailing offices. To order reprints (minimum order required: 500 copies) or request permission to publish a NEWSWEEK article, please call 212-445-4870 or fax 212-445-4929. POSTMASTERS: send address changes to NEWSWEEK, P.O. Box 59960, Boulder, CO 80328-9968. Printed in U.S.A.

HONG KONG



How China treats Hong Kong
will reveal its true face

BY MICHAEL ELLIOTT AND
DORINDA ELLIOTT

Why the World Watches

The flights have been booked; TV anchors have staked their places, ready to play supporting roles on one of the most dramatic natural stages in the world. A few licks of paint aside, all is prepared for a certified Big Media Event. At midnight on June 30, after 156 years of British rule, Hong Kong returns to China.

Why the fuss? Why have the best hotels been reserved for years? Why are thousands of journalists ready to fill





AFTER 15 YEARS OF BRITISH RULE, CHINA
REGAINS THE KLACE OF PRECIOUS METAL.
CAN THE TERRITORY REMAIN UNTARNISHED?

© 1997 PIRELLA GÖTTSCHE LOWE LTD.

acres of newsprint with words about a city with which few members of their audience will be familiar? It can't just be because Hong Kong is one of the world's magical places, its narrowed harbor ringed by skyscrapers above which tower impossibly steep green peaks. Perhaps the world will be watching because *The End of Empire*—and that's what this is—has a ring of romance. Prince Charles will be representing Britain, after all. (Just think how big this thing would have been with Diana along.)

Those are decent reasons for watching the spectacle

that will play out in Hong Kong this summer. But they don't get to the heart of the matter. The handover of Hong Kong to China reverses what has come to seem the normal course of events in the modern world. Since the late 1980s, totalitarian regimes have collapsed. Millions of people whose lives and prospects were long stunted have been given a chance at liberties and prosperity that those in the West have long defined as normal.

Hong Kong is one of the world's freest places—free not just in its exuberant markets but liberated also in the attitudes of its people. Now it is about to be taken over by China, a nation in transition, but hardly free. More than that: many of Hong Kong's people or their parents are refugees from China. And they remember that a scant eight years ago China met the demands for the kind of freedom that Hong Kong enjoys with bullets in Tiananmen

Square. After 10 years in which the bounds of liberty have been extended, it matters that 6 million people will be placed on the wrong side of the fence.

China—what it is, and what it will become—is at the heart of concerns about Hong Kong's survival. In a treaty called the Joint Declaration, signed with Britain in 1984, China committed itself to a formula that goes by the tag "one country, two systems." Hong Kong would revert to Chinese sovereignty in 1997. One hundred thirty-six years after Capt. William Elliot of the Royal Navy seized an island with fishing villages in the Pearl River delta in order to ship opium more easily into China, the shame of

that humiliation will be lifted. But Hong Kong, the Joint Declaration said, would retain its free-market economy and its way of life. For 50 years after 1997, the territory would be run as a "Special Administrative Region" of China with a high degree of autonomy from Beijing. The question now is: will China keep its promise?

China, after all, is not just any nation. In the next century, it will be a superpower, the largest economy on earth, with the ability to project its power far beyond its borders. Will it seek to rival the United States? Will it force Taiwan into its embrace? How China treats Hong Kong provides the best answers we are likely to get. Hong Kong, says Michel Oksenberg, senior fellow at the Asia-Pacific Research Center at Stanford University, "is clearly a litmus test of China's capacity to adhere to international agreements." China's handling of Hong Kong, he

argues, is not just a matter of commercial interests or human rights: "It will indicate what sort of power China is going to be."

Britain, because it is a signatory to the Joint Declaration, has some reason to keep an eye on how China behaves in Hong Kong. But Washington, too, has signaled that it will be watching. "The United States has to make it clear that Hong Kong is important to us," said President Clinton last month, after a meeting with Martin Lee, Hong Kong's most prominent democrat. Newt Gingrich, the speaker of the House of Representatives, was more blunt when he spoke in Hong Kong in March. "If Hong Kong loses the things in which its society is



A WARY PRIDE AMONG HONG KONGERS

ANDREW HUNTER FOR NEWSWEEK

JEFFREY M. HUNTER FOR NEWSWEEK



THE END OF AN EMPIRE HAS
A RING OF ROMANCE TO IT

grounded," said Gingrich, "both American interests and American values will suffer."

With less than two months to go before the handover, things, on the surface, look better than ever. The stock market is at record levels, and property prices—even by Hong Kong's stratospheric standards—are up. A local tycoon recently put down \$70 million to buy the world's most expensive house on an aerie high above the highest skyscraper. At the handover, there won't be too many tears shed for the British. "Anyone who is Chinese," Chris Patten, the last British governor of Hong Kong, told NEWSWEEK recently, "will feel a totally legitimate pride at the end of what they regard as a humiliating episode left over from the 19th century." Hong Kong's people, moreover, are a resilient lot; many of them arrived in the territory with little more than the clothes on their backs, fleeing civil war in China or the horrors of the Cultural Revolution. After all that Hong Kong has gone through, says David Chu, a wealthy property developer who has given up his U.S. passport, "the next 50 years will be a piece of cake."

YET FOR ALL THE SURFACE bravado, there's an undercurrent of anxiety in Hong Kong. Democrats think they will be marginalized; local journalists worry about censorship. The political influence of Hong Kong's conservative, pro-Beijing business tycoons has increased. A Beijing-backed committee selected the chief executive and provisional legislature that will take office on July 1. (Beijing and London fell out over the composition of a legislature elected in 1992. New elections will be held sometime next spring.) C. H. Tung, the territory's new chief executive, is a Shanghai-born shipping magnate who epitomizes the conservatism of the business community. A believer in Confucian values, he prizes order, stability and shared obligations over individual rights. "We want freedom here, and it will be here," says Tung. But he adds he does not want to see a "Hong Kong that is permissive to the point where we start to surrender social order."

Not long ago, such sentiments defined Hong Kong's politics. But today's Hong Kong is not the politically quiescent place it once was. Hong Kong has come alive—it is no longer just an economic miracle but a center of arts and design, a place of all-night raves and fashion shows. The traditional deference to authority has been weakened. Says Yeung Wai Hong, publisher of Next, Hong Kong's most popular magazine, "When someone comes down as a family patriarch and throws stuff down our throats, it becomes hard to swallow. That's not the way we do things here."

Especially not after the summer of 1989. The massacre in Tiananmen Square may have shocked the rest of the world; it did a



TODAY MEETS YESTERDAY: WOMEN FROM KAM TIN VILLAGE HOLD A PHOTO TAKEN IN 1919 OF VILLAGE ELDERS WITH A FORMER GOVERNOR

lot more than that in Hong Kong. A short eight years before the handover, Hong Kong saw the brutal face of Chinese communism and was appalled. Hundreds of thousands, weeping, marched in silent procession past the offices of the Xinhua News Agency, China's unofficial embassy in Hong Kong. Since then, democrats have defended their interests noisily in the legislature. Human-rights activists, religious groups, lawyers and labor organizations have all grown in visibility and bravery. They are still, by the standards of most places, remarkably well behaved—protesters stand obediently behind signs that say DEMONSTRATION AREA. But they have got enough of a taste of freedom to worry about any rollbacks.

And those rollbacks are coming. Tung has proposed tightening civil-liberties laws that were relaxed by the British after Tiananmen. He has suggested that protesters would have to get permission for demonstrations from the police in advance. And authorities could refuse to register political parties or organizations for reasons of "national security." Tung's aides bristle at criticism of these proposals. In their view, the new laws do no more than restore the status quo as it existed before the British, anxious to be considered the defenders of democracy, changed the rules of the game just before it ended. And the Chinese have their own in-

terests. "One country, two systems" does not mean that Beijing is ever going to allow Hong Kong to become a base for subversion of the Chinese political system.

BYOND CIVIL LIBERTIES LIES the more fuzzy area of economics. Hong Kong became an economic powerhouse by marrying East and West. The entrepreneurship of the overseas Chinese, based on family and connections, was combined with the "invisible infrastructure" of "Western" societies, which provided sanctity of contracts, protection of property rights and an absence of corruption. Lose the last of these, and foreign companies will find there are other places willing to take their investments. Yet Oksenberg warns that the Chinese authorities have a "profound lack of appreciation of the links between the delicate political arrangements of Hong Kong and economic success."

In Hong Kong itself, there are signs of a new, and troubling, economic order. Hong Kong tycoons cozy up to powerful mainlanders who might provide lucrative contracts—and political insurance. The current crop of Chinese business leaders have imported some unsavory practices from the mainland. Many executives—Communist Party members who got their jobs through

political connections—have made a killing off stock options and insider deals. "Their ship's really come in," says a Western diplomat. "If you're looking for growth potential, who looks more promising?" says Lan Xue, a Shanghai-born Brandeis University graduate who works in the securities market. "Those who have connections."

Yet there is a paradox here. For mainlanders in Hong Kong also represent China's best and brightest, the educated new professional class who have pushed for China to open up. In fact, many of the mainland professionals are often closet liberals. "Because Hong Kong people haven't experienced turmoil, probably they don't feel the benefits like we do," says Robert Xie, an executive at a Hong Kong fund-management company. "Chinese business people feel this is a better system. They would like to work in this system, not transfer the old ways to Hong Kong." Patten makes the same point. "You don't have to spend too much time in Hong Kong teaching people the difference between the rule of law and arbitrary government. They know; they know."

Xie is typical of this new breed of mainland Chinese. He was born in Nanjing to a worker family. He grew up in the midst of the Cultural Revolution; his father brought home a large knife in case bloodthirsty Red Guards tried to bust into their tiny, one-



MARRYING THE FUTURE: HONG KONG'S CITIZENS WONDER NOW WHETHER CHINA CAN KEEP ITS PROMISE OF 'ONE COUNTRY, TWO SYSTEMS'

room home. But Xie aspired to something better. He eventually made it to New York University's business school and Harvard's school of government. "In China, there is no transparency, so you have to go through the back door," says Xie. "Here, there are rules and regulations, so you feel you can see through the water. When Chinese companies come here, they feel free."

In the immediate future, Hong Kong's most pressing problem is not economics or politics, but people. A wave of illegal immigrant children sneaking in to be reunited with their Hong Kong parents has created a humanitarian crisis. Under British rule, 150 immigrants are allowed into Hong Kong each day. Exactly who gets to go is decided by China in a bureaucratic process that is riddled by corruption. Desperate to escape the unfair system, almost 1,000 children have been caught trying to sneak in this year, brought across the border by sleazy smugglers called snakeheads.

A sudden surge in population could crush Hong Kong's economy. Last week the government projected that by 2016, the city's population will jump by more than 2 million from the current 6 million. There are 90,000 children in Guangdong province alone who can claim residency in Hong Kong after July 1. Though China promises to control the border, countless other mainlanders hope

that after the handover, they, too, might get a chance to make a fast buck in China's richest city. Already, Hong Kong's school and housing systems are overburdened. Locals view the impoverished newcomers as nothing but trouble. "If Hong Kong doesn't deal with this issue adequately," says Nelson Chow, a sociologist, "it will affect the kind of society we have for years to come."

To even the professional mainland Chinese, Hong Kong can seem a cold and money-grubbing place. But despite the cultural difficulties, they love Hong Kong's freedoms. So will they fight for Hong Kong's democracy? The mainlanders don't wear their liberal values on their sleeve. But they will quietly support the continuation of democratic freedoms. "I hope Hong Kong will have a growing influence on China," says Frank Ning, managing director of China Resources, China's biggest company in Hong Kong. "I hope Hong Kong can be a political model for China. We experienced closed, bad times. We know the world can be different. That's why we should try to keep Hong Kong the way it is."

There are many tests of Chinese good intentions. Will the civil service be taken over by political factions? Will the press start censoring itself? And will Albert Ho, one of Hong Kong's most outspoken democrats, be able to erect a statue? Last week Ho an-

nounced plans to erect a dramatic, 21-foot-tall Pillar of Shame in Victoria Park in time for the June 4 commemoration of the Tiananmen Square massacre. Ho wants to find a place to plant the statue, built in Denmark, after the demonstration. He acknowledges that it won't be easy to find companies or organizations brave enough to make such a political statement. "I don't know what will happen," says Ho, "but we will continue the struggle with strong determination."

After Hong Kong's bells chime midnight on June 30, business will continue as usual—save for a fantastic burst of fireworks, plenty of parties, and powerful, mixed emotions. For China, this will be a proud moment, a reunion after the Opium Wars split the country. For Hong Kong's people, who have built one of the world's most amazing places with little outside assistance, it will be the beginning of a new, unknown era. With luck, they, too, will soon be able to look back at that stroke of the clock with pride. The rest of the world will be watching, fingers crossed. ■

Beginning Monday, May 19, NEWSWEEK INTERNATIONAL's special edition on Hong Kong will be available on the World Wide Web at www.newsweek-special.com. The site will also include frequent updates of news on Hong Kong and China.

HONG KONG



The Tungs and other Shanghai dreamers taught Hong Kong how to be grandly ambitious

BY MELINDA LIU

Revenge of the Refugees

AT A WINDSWEPT GRAVE OUTSIDE Shanghai, villagers still gossip about the day C. H. Tung came home. In 1990, more than four decades after the future leader of Hong Kong sailed away from the great port city at the age of 12, he returned to survey the damage inflicted on his ancestral home under a regime that had tried to destroy everything for which his capitalist family stood. The ancestral tomb had been reduced to a rock heap desecrated by grave robbers





SHANGHAISE PREPARE TO FLEE MAO'S
ADVANCING REVOLUTIONARY ARMY IN 1949
HONG KONG FREE PRESS

(though a family retainer managed to save the moldering bones). The Tung villa in Shanghai was also in decay, festooned with laundry and shared by five families. As he looked at the remains of the old garden, Tung remembered the delights of a happy Shanghai childhood. "Remember how we lit incense to the Earth God here?" he asked one of his sisters. The gods have smiled on Tung ever since. He inherited his father's shipping empire, saved it from bankruptcy and rose to become one of the leading lights of Hong Kong's business society. Now he will be Hong Kong's first Chinese chief executive, overseer of a bold and jittery experiment as the British colony reverts to Beijing's control on July 1.

As Hong Kong prepares to reunite with China, the Shanghaiese are leading the way. Like Tung, all the major rivals for the post of chief executive had roots in Shanghai. His No. 2 in Hong Kong's new Chinese government, Chief Secretary Anson Chan, has Shanghai connections. And when Tung goes to Beijing, he can chat in the Shanghai dialect with President Jiang Zemin, the city's former mayor, and with Zhu Rongji, the economic czar from Shanghai.

In his new job, Tung will draw on the survival instincts for which Shanghaiese as a whole, and his family in particular, are famous. They were the elite of Hong Kong's post-war refugee society, energizing the sleepy colony with the scope of their dreams and ambitions. Long before ending up in the enclave, some of Shanghai's big industrial families had lost several fortunes—to the Japanese, to profligate sons, to civil war. They rebounded by constantly coping, morphing Eastern tradition with Western efficiency, street smarts with savoir-faire. Their style, in short, couldn't have made a better fit with Hong Kong. By 1949, hundreds of Shanghai firms had relocated to the territory, most of them assuming that their refuge in the colonial backwater would be brief. It was no coincidence that they included Hong Kong's great ocean barons, including Tung's father, C. Y. Tung. "Ships were floating assets," says Frank Chao, who inherited his father's Wah

Kwong shipping empire. "When you left, you took them with you."

AS FIRSTBORN SON OF A Shanghai shipping magnate, C. H. Tung came into a life of high expectations. His Chinese given name, Chee-hwa, means "Building China," and on the back of his photo taken at the age of 2 his father wrote, "Welcome the dawn of a great new generation!" C. Y. Tung loved the sea. He revered China's 15th-century eunuch admiral, Zheng He. At 21, C.Y. himself joined a shipping firm and married the daughter of a shipping boss.

As his empire grew, so did his political connections. He became closely associated with the Nationalist government of Chiang Kai-shek, and his company shared the same plum-blossom logo as Chiang's Kuomintang party. As the tide turned against Chiang

during China's civil war, C.Y.'s own days in Shanghai became numbered. In early 1949, as Mao's communists were routing Chiang's forces, the elder Tung ordered the ships he controlled to flee Shanghai. Some steamed off to Hong Kong, where he had established himself in 1941. Others went to Taiwan, ferrying tens of thousands of defeated Kuomintang troops. Also on board, it's rumored in Taipei and Hong Kong, though denied by the family, were crates packed with some of the priceless imperial treasures now held by Taiwan's National Palace Museum.

Despite his links to Chiang, C.Y. was no Nationalist ideologue. In 1950, two British merchants reportedly persuaded him to use his vessels on runs between Hong Kong and Shanghai. That infuriated Chiang's KMT regime in Taiwan, which ordered C.Y.'s arrest on charges of "assisting banditry." The elder Tung did not return to Taipei until 1965 (his sister's marriage to the son of a Nationalist general helped clear up the misunderstanding). A decade later, the Beijing regime that he had fled made its own overtures. Government agents gave the Tungs' longtime Shanghai retainer, Xu Lianxiang, an exit permit for Hong Kong. "They wanted me to ask C. Y. Tung to come back to the mainland

and maybe invest," Xu, now 90, told NEWSWEEK. She did as instructed, but C.Y. never returned. The "Onassis of the East" passed away in April 1982, while hosting a dinner for Monaco's Princess Grace, and is buried in Hong Kong.

He left his elder son the inheritance of a true Shanghai dreamer: a huge, boldly constructed shipping empire wallowing in debt. Trying to save the Tungs' corporate dynasty in the mid-1980s—when the figures in red ink added up to \$2.68 billion—was like "debt restructuring for a small country," recalls Jeffrey Garten, dean of the Yale School of Management and C. H. Tung's financial adviser during the crisis. Tung's approach was "100 percent Chinese and 100 percent Western," says Garten. As 500 angry bankers prepared for one crucial meeting in Tokyo, Tung at first hesitated to show up himself: a fortuneteller had not yet determined whether it was a good day. Disbeliev-



TYCOON TUNG AIMS TO ADOPT A COMMON TOUCH

ing, an associate says he blurted out: "Are you aware this is the biggest day of your life?" Luckily for everybody, the fortuneteller deemed the day auspicious after all.

Like his father, Tung cared about profits more than politics. Seeking a financial bailout for his company, Tung was turned away by Taiwan. But Beijing came to his rescue. A pro-Beijing Hong Kong entrepreneur, Henry Fok, helped arrange a syndicated loan of \$120 million. Tung publicly recognized Beijing's role only last October. "Were there Chinese actors in the group?" he said. "I can say for sure there were."

C. H. Tung, who has donated funds to a mainland maritime institute and set up a soft-drinks factory near Shanghai, may now be living an old Chinese proverb: Falling leaves return to their roots. The old saying may also hold true for Hong Kong's most famous Shanghaiese dream spinner, legendary film producer Run Run Shaw, who began his career with his brother Runme in Shanghai's Chinese City in the 1920s. In the last 10 years, from his base in Hong Kong, Shaw has donated nearly \$195 million to philanthropic projects in China.

The Shaws left Shanghai in 1927, moving to Singapore and opening 139 theaters across Malaya. In 1941, three days before Singapore fell to the Japanese, Shaw and his brother buried their gold, jewelry and currency in the garden, and waited out the war. After the Japanese left four years later, the brothers started digging. "The pearls were no good; never bury pearls," says Shaw with a leprechaun's grin. "But everything else was OK: the jade, the diamonds, the paper money."

When he judged Singapore's film scene as too expensive, Shaw shifted to Hong Kong in 1959. His approach was bold—bigger budgets, longer movies—and his Cantonese audiences loved the results. Now a nearly mythical figure, the godfather of Hong Kong's Shanghaiese, Sir Run Run pointedly endorses C. H. Tung, son of his close friend, as chief executive. Tung mixes well with Westerners, he impresses Beijing, "and when his father's business was poor, he turned it around," says Shaw. "Those are strong qualities."

IN MEMORIES BURNISHED BY TIME, many of Hong Kong's Shanghaiese remember life in the pre-revolutionary city as a spectacle worthy of Sir Run Run. Lee Woosung, a gold trader since the age of 15, recalls the smoky jazz club above the Canidrome, where black American musicians played late into the night. He can still hear the all-night fireworks and street dancing that greeted the victory over Japan. And he remembers the wild-eyed inflation that struck Shanghai as Mao's forces drew near. In the end, stock traders simply left bulging stacks of worthless currency piled on the exchange floor because "there was too much to lock up," Lee says. In May 1949 he awoke to a strange silence. Peeking outside, he saw People's Liberation Army soldiers in baggy green uniforms, sitting quietly on the pavement. "They were extremely young and very polite," recalls Lee, "cooking rice in big pots."

A year later, Lee slipped over the border

into Hong Kong. He started trading gold again—at one point sharing an office with C. H. Tung's firm—and devised the hand signals that traders still use on the floor today. The Shanghaiese newcomers had a "long-term financial vision" that they passed on to the Cantonese locals, Lee says. "Together we made a success."

It was not only the shipping barons and textile tycoons who prospered. Shanghaiese who came to Hong Kong also found jobs as barbers, taxi dancers and tailors. North Point's "Little Shanghai" area teemed with nightclubs. One held Hong Kong's first beauty contest, won by a Shanghaiese beauty queen, of course. "They have a strong sense of self-importance," says Shanghai-born banker Simming Shaw, who recalls how his refugee family had to bribe their way out of trouble in 1952—after Hong Kong police barged into their flat to find his father smoking opium.

That superior attitude, so Shanghaiese, helps explain why the refugees who made it to Hong Kong, even those who have prospered mightily in their adopted home, still hold the great city of their roots in almost mystical affection. The Tung family's former two-story villa in Shanghai, with its winding staircase and hardwood floors, is a crowded mess of a communal home now. A spacious bathroom, with its elegant, cloverleaf-shaped windows, is adorned with dirty mops and cakes of soap. The Tung children and a nanny slept in the nursery, a room now occupied by the family of Zhu Ailian, 76, a schoolmate of Tung's aunt. "She asked me to move in a few months after the PLA entered Shanghai," says Zhu. "It seemed the Tungs weren't coming back."

Yet they have come back, spiritually at least. While visiting the family tomb in 1990, C. H. Tung had to determine the disposition of his ancestors' violated remains—no small matter for an eldest son and keeper of traditions. "Chinese superstition says moving ancestral bones can change a clan's entire fortune," says Xu Lianxiang, the retainer who kept the bones hidden for years. "Who dared disrupt the grave?" Tung dared. He asked for a renovation of the tomb. Two years later he returned to inspect the results and to burn incense before his grandfather's new, dragon-carved tombstone. In a gesture of filial piety, the future leader of Hong Kong kowtowed before the remains of his ancestors—enlisting the spirits in the cause of his future good fortune. So far, the spirits have obliged. ■



TUNG FAMILY RETAINER XU LIANXIANG, 90, IN CHINA

ANDREW HERNANDEZ FOR NEWSWEEK

For Richer or for Poorer ...

Although the political wedding will finally take place on July 1, the economic marriage actually began years ago. The result: a new superpower of trade.

PONDERING THE FUTURE



Consumers in action

A survey reveals Hong Kongers are bullish on their economic future, but less certain of their political one.

Bullish vs. Bearish

HOW DO YOU FEEL ABOUT THE FUTURE OF HONG KONG?

	ECONOMICALLY	POLITICALLY
Very optimistic	4%	2%
Optimistic	56	38
Pessimistic	13	21
Neither	25	32
No answer	2	6

Soaring Prices

PRICE FOR 800-SQUARE-FOOT APARTMENT



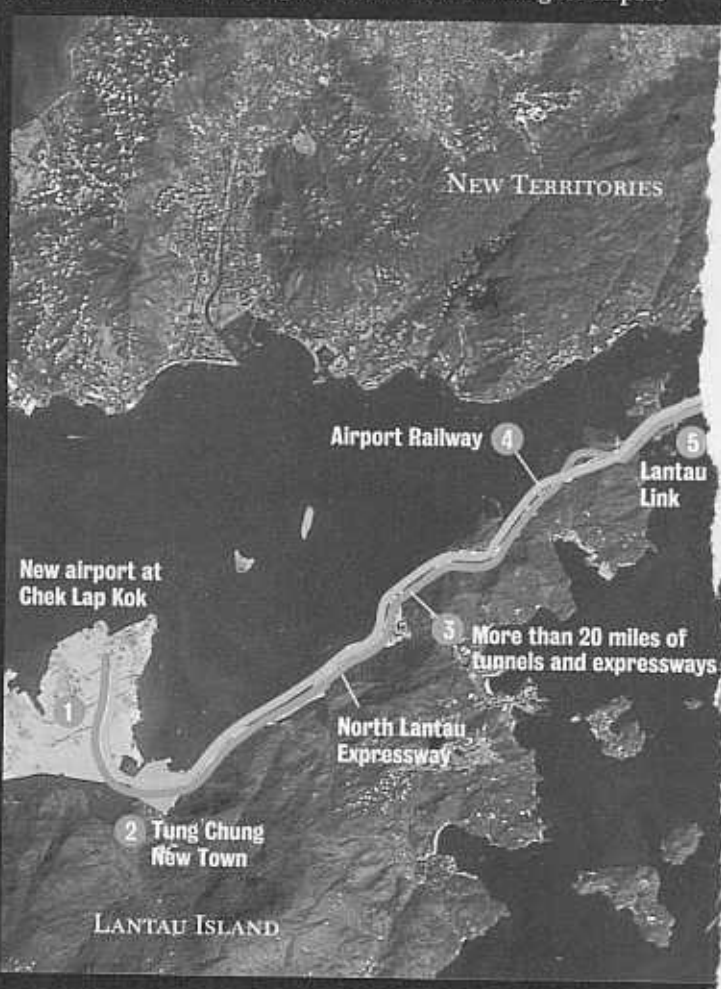
'Should I Stay or ...'

WHICH PHRASE MIGHT BEST CHARACTERIZE YOUR ATTITUDE TOWARD REUNION WITH CHINA?

Consciously decided to stay or leave	29%
No choice but to accept reality	27%
Glorious for Hong Kong to return to China	20%
Won't affect me	9%
Excited, hopeful	9%
Nervous, a little afraid	6%
No answer	2%

A LINK TO THE MAINLAND AND THE WORLD

A \$20 billion development project, including the construction of an airport, will create new ties to the mainland and reinforce its links to the outside world. Most of the work will be done by 1999. 1 The new airport at Chek Lap Kok will relieve the overburdened Kai Tak, on Kowloon. It will operate round-the-clock and handle twice as much cargo. 2 Tung Chung New Town, the first municipality on an outlying island, will have housing for airport



THE PEOPLE



Smiles of the next generation

In 150 years, Hong Kong has developed traditions and traits of its own. Will they clash with China's?

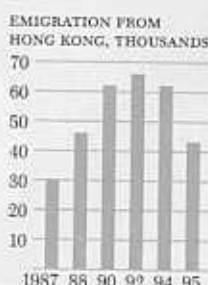
Comparing Vital Statistics

	HONG KONG	CHINA	UNITED STATES
Population, in millions	5.5	1,203	263.4
Population per sq. mi.	15,158	327	75
Literacy	77%	78%	97%
Births per woman	1.39	1.84	2.08
Life expectancy	80	68	76
Infant mortality*	5.8	52.1	7.9
People per telephone	1.5	36.4	1.3
Unemployment	2.8%	3.2%	5.2%
Economic freedom†	1	125	5
Per capita GNP	\$21,650	\$530	\$25,860

*PER 1,000 BIRTHS. †RANKING OUT OF 148 COUNTRIES.

The Exodus

Concerns for the future sparked a surge of emigration from the territory in the past decade.



Fast Facts

Per person, Hong Kongers ...
 ... own the most Rolls-Royces
 ... drink the largest amount of cognac
 ... wager the most on horse races
 ... routinely work the longest hours
 ... still manage to have the world's second longest life expectancy (after those from sleepy San Marino)

SOURCES: HONG KONG ECONOMIC AND TRADE OFFICE, WORLD BANK, IMF, HONG KONG AIRPORT AUTHORITY, THE HERITAGE FOUNDATION INDEX OF ECONOMIC FREEDOM, HONG KONG TRANSITION PROJECT, MORGAN STANLEY PHOTOS, CLOCKWISE FROM TOP LEFT: ANDRES HERNANDEZ FOR NEWSWEEK, CNET—EXPLORER, GREG GIRARD—CONTACT, ANDRES HERNANDEZ FOR NEWSWEEK, JEFFREY AARONSON—NETWORK ASPEN

employees. 3 More than 20 miles of tunnels and expressways will ease traffic flow to and from the airport. 4 An express rail will speed passengers from Hong Kong Island to the airport in just 23 minutes. 5 Lantau Link, the world's longest road-rail suspension bridge, provides the first road connection to Lantau Island. 6 Chunks of the harbor are being "reclaimed" to allow for the expansion of business, housing and open spaces.



Fast Facts

... China has the fastest-growing economy and is the 11th largest trading nation
... Hong Kong is the world's eighth largest trading nation
... Goods shipped through Hong Kong (re-exports) account for eight tenths of total exports
... Nine tenths of the territory's re-exports come from or go to the mainland



At work in a Shenzhen factory

Trade between the two economies has boomed since China embarked on its modernization program in 1978.

Shaping Up and Shipping Out

Due to its lack of natural resources, Hong Kong is the world's most trade-dependent economy, with China supplying many of its raw materials. China profits, too, from the territory's manufactured goods.

China's Trade

PERCENT OF IMPORTED COMMODITIES SUPPLIED BY HONG KONG

Handbags	56%
Furniture	23
Prefab. buildings	18

PERCENT OF EXPORTED COMMODITIES DESTINED FOR HONG KONG

Live animals	87%
Beverages	63
Dairy products	58

Hong Kong's Trade

PERCENT OF IMPORTED COMMODITIES SUPPLIED BY CHINA

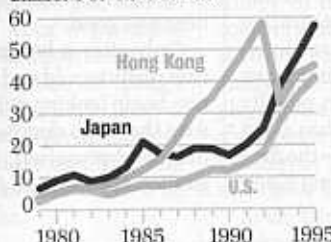
Footwear	91%
Clothing	89
Toys	88

PERCENT OF EXPORTED COMMODITIES DESTINED FOR CHINA

Telecom. equip.	76%
Textiles	46
Tobacco	37

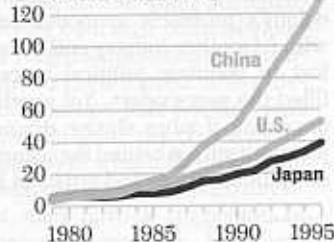
China's Trading Partners

BILLIONS OF U.S. DOLLARS



Hong Kong's Trading Partners

BILLIONS OF U.S. DOLLARS



THE INVESTMENT PICTURE



The Hong Kong Stock Exchange

The territory has one of the world's busiest financial districts, and the stock exchange is its centerpiece.

The Investment Turnstile

While Beijing sinks development money into infrastructure, Hong Kong invests largely in construction, property and manufacturing. Despite political friction over the years, Hong Kong hasn't shrunk from pouring money into the mainland.

TOTAL FOREIGN INVESTMENT IN HONG KONG, 1995



TOTAL FOREIGN INVESTMENT IN CHINA, 1995



ESTIMATED MARKET SHARES OF MAINLAND-BASED COMPANIES IN HONG KONG



PERCENTAGES MAY NOT ADD TO 100 DUE TO ROUNDING. RESEARCH BY ANNA KUCHMENT, GRAPHIC BY KARL GUDE—NEWSWEEK

Once, mainland China was a forbidding presence across the border. Now it is the wellspring of a new cultural identity. BY ORVILLE SCHELL

The Coming of Mao Zedong Chic

I CAN STILL REMEMBER MY BREATHELESS excitement in 1961 as I flew down the South China coast from Taipei to Hong Kong and for the first time saw the undulating hills of that most forbidden of countries, the People's Republic of China. Hong Kong itself was a ragged city swollen with refugees who chaotically littered its steep hill-sides and made headlines only when they attacked each other with meat cleavers or when their flimsy shacks slid to oblivion after tropical typhoons. Much of what made Hong Kong unique and exciting was the constant threat of that opaque, unpredictable and unapproachable behemoth lurking just over the border.

Now, as China casts an ever larger shadow over Hong Kong, public dramas on the colony's profitable economic reintegration with its mother country and its uncertain effort to maintain political autonomy have filled the newspapers. Yet another, equally important if more elusive drama has been playing itself out behind the scenes—the drama of intellectuals and artists in Hong Kong

trying to discover who they are and where they fit into the new scheme of things. Even though the territory is stuck like a barnacle to China, it has allowed itself to be defined by its differences with the communist mainland. As reunification draws near, the city must find some new cultural definition of itself. If Hong Kong people are not British and not mainland Chinese, who, then, are they?

It's not easy to say. Back when I first visited Hong Kong, it was enough for Chinese in this British outpost to define themselves in terms of what they were not. They were not communists, and such iconoclastic opposition seemed sufficient to give everyone a sense of identity. Few people thought much about their roots. Like the meaning of life, the question of who Hong Kongers "were" seemed irrelevant, especially as long as business was good.

Only after it became obvious that British rule really would end did the colony, like it or not, begin looking at itself differently. To ensure the "high degree of autonomy" that the mainland promised, Hong Kong people began to take stock of their inherited cultural

and political institutions. What they hoped to find was some common strengths that would help fortify their city against a neocolonial encroachment from the north.

What they found was pretty modest. Once one gets past the fact that Hong Kong has more Rolls-Royces per capita than anywhere else on the globe, some of the world's most luxurious hotels and a flock of tycoons whose fortunes are as immeasurable as the infinitude of outer space, one is still left to ask: what lies at the heart of its cultural identity? Roger Garcia, a Portuguese-Chinese Eurasian who served as director of the Hong Kong Film Festival, suggests that maybe the answer has more to do with "a certain lifestyle" than with "high culture." When I ask him to explain, he pauses hesitantly. "Well, Hong Kong culture is more like entertainment," he says.

ICON: GONG LI
VISITS THE
CHINA CLUB



laughing—"eating, traveling, pop music, gambling, shopping and, of course, being free to get a good education."

There is indeed something artificial and even strained about Hong Kong's attempts to create cultural gravity. Yes, Hong Kong has a booming indigenous pop-music industry and boasts a good film festival and a vibrant action-film business. Chinese-American cellist Yo-Yo Ma and Beijing-born composer and conductor Tan Dun will appear together during the takeover to perform Tan's hourlong "1997 Symphony—Heaven Earth Man," scored for orchestra, cello, a 300-voice children's choir and traditional brass bells. But all these cultural offerings have a strangely borrowed quality that makes them seem disembodied from what really gives the city its distinctive energy—its singular fixation on business and its prodigious capacity for generating raw wealth.

Whatever else you can say about the new Hong Kong, it will be more Chinese. Liu Heung-shing, the editor of the new Hong Kong magazine *The Chinese*, says that "for any meaningful art and culture to take off here, Hong Kong must find somewhere to anchor itself. To find that anchor, people will have to go north." Indeed, formerly anti-communist business leaders have already become masters of contortion as they mend ties with Beijing's party cadres. Increasing numbers of Hong Kong's Cantonese speakers are studying mainland Mandarin, and it has even become fashionable to sprinkle their language with classical literary allusions.

David Tang, department-store magnate and godfather of the sensationally successful China Club, personifies the way Hong Kong's cultural force field is changing. A Hong Konger who was sent to public school in England as a boy, Tang is renowned for his Anglophile sentiments. He is a member of the Tory London club White's and regularly consorts with sundry royals. But in recent years he has found himself undergoing an unexpected Sinification. Not only does he now attire himself in traditional Chinese robes, silk suits and slippers, he collects Chinese art, courts the top brass in Beijing and has become enamored with the ideal of the Confucian *junzi*, or gentleman.

Entering Tang's China Club is like walking into a Fabergé Easter egg inspired by 1930s Shanghai rather than czarist Russia. The décor is a perfect replica of the East-West design style and deco architecture that flourished in that famous city during its heyday. Tang has combined a mixture of European art deco wood paneling, overstuffed chairs and Tiffany glass with a seasoning of Chinese art, plastic vermilion columns and Chinese lanterns. The esthetic recalls China's treaty ports, the trading cities forced open to Western commerce and missionaries in the



THE EAST IS CHARTREUSE AND HOT PINK: A POP-ART MAO IMAGE AT SHANGHAI TANG

19th century. Call it "treaty-port chic."

An eclectic look is essential to the style. Tang has thrown a little Mao pop art into the mix. His club's Long March Bar, for instance, features a wonderfully campy sculpture of international proletarians fawning over the Great Helmsman. Reduced to kitsch, such revolutionary icons become politically defanged enough to serve as little more than well-known logos—not bad to have at your disposal if your department store, Shanghai Tang, sells chartreuse and hot-pink Mao jackets. As one of Tang's partners says sarcastically: "Let's face it, the one person who really gives modern China identity is Mao." Make that Mao and Gong Li, the mainland film star hired to be the store's Claudia Schiffer.

MORE THAN NOSTALGIA IS at work here. Old Shanghai, a city that managed to be modern, cosmopolitan and Chinese at the same time, represents something of a model for Hong Kong. More and more people are coming to think of Hong Kong as somehow personified by the club's blend of borrowed "retro" elements from London, Hong Kong and Shanghai. Proprietor Tang sees his role as a "broker" between East and West. "Those of us who feel inadequate as Chinese want to go back and find our roots," he says, "to attach to what we and China lost."

In Asia, hotels are never far behind new and fashionable design trends. When it recently opened a lounge called Club Shanghai, the five-star Regent Hotel in Kowloon gave

further proof that treaty-port chic may become the flood-tide fashion in Hong Kong. One could argue that tourist hotels are hardly seats of high culture. But in Asia, new hotels have become the cathedrals of the age. The Ritz-Carlton Millennium in Singapore, the Portman in Shanghai and the Grand Hyatt and Island Shangri-La in Hong Kong are the Chartres, Notre Dame and Westminster Abbey of the East. At the Club Shanghai, cocktail waitresses wear high-collared *qipao* slit to the hip. Fringed lampshades cast a sensually dim light on glass-topped tables displaying old snuff bottles, jade jewelry, fans and opium pipes. In short, the club is every Westerner's fantasy of what a Shanghai club must have looked like during the salad days.

Such décor does have a suggestion of blankness papered over with borrowed style. But Hong Kong always was a cultural tabula rasa. Mao once extolled the Chinese peasantry's blankness, observing that one could write beautiful things on a blank sheet of paper. So perhaps Hong Kong's cultural vagueness will allow for some new, innovative self-definition. But there is also a danger in blankness, especially for a small enclave like Hong Kong that is desperately searching for a way to keep its independence. At the same time that it must resist China to retain Britain's legacy of the rule of law, it knows that the most logical place for it to turn for commerce and culture is China. It is this contradiction that makes Hong Kong look to the north with such a confusing mix of attraction and repulsion.

SCHELL is dean of the Graduate School of Journalism, University of California, Berkeley.



A LACK OF HOUSING IS
THEIR PRIMARY WORRY

Without space and a culture of their own, the young create a scene. BY JOHN LELAND & LYNETTE CLEMETSON

Heirs to a Highly Uncertain Future

ACROSS THE BOTTOM OF HIS ART project, Chan Yan-kwong, 19, has placed a handful of Polaroids, snapshots of bananas. The work, called "Confused Am I," is about identity on the eve of the handover. At the top, a bird tries to soar upward but is held down by a length of red chain. Below are the Polaroid shots. Yan-kwong, a graphic-design student at Hong Kong Technical College, smiles shyly, unsure of his English. The bananas, he says, represent himself: yellow on the outside, white on the inside. "My mother always emphasized that I am Chinese," says Yan-kwong, whose family moved from the mainland when he was a year old. "But I liked to merge into Hong Kongese." He points to his baseball hat, by way of explanation; it bears a big Nike swoosh. "I hope when I wake up in July 1997," he says, "I can still be the same."

This is a tricky time to be young in Hong Kong. The challenges facing the colony after July 1—questions of identity, autonomy and community—are all playing out right here, right now for its young people. In a city that has produced great wealth but lit-

tle culture, the young are left to cobble lives and identities out of what their overworked parents have left to them: the malls and arcades, "The X-Files" and NBA broadcasts. They are the children of the economic boom, but also of Tiananmen Square: heirs to a hyperactively giddy present, an ominously uncertain future. "We cannot blame this generation [for its materialism]," says Rosa Mok, 23, a student at the University of Hong Kong. "People can get security from money. All the rest is uncertainty."

At the *feng shui*-correct Private I hair salon, stylists Suki Chan and Nicky Chow negotiate the complex cultural patchwork of Hong Kong life. Suki is 21; Nicky is 26, and does not, she will tell you, have a boyfriend. Like most people their age, they live at home, leaving them few expenses other than clothing. Suki shares a 400-square-foot flat with her parents and her brother; Nicky also lives, cramped, with her parents and a sibling. If she should meet a man at a party, she says—well, she doesn't know. "Good question. I won't take him to my house—I don't want to wake my father up. I don't go to hotels—we don't want to

spend money." She laughs, a tiny explosion, as if she has just uttered the one extant truth more outrageous than the last. "I think we *are* spoiled," she says of her generation. "Anything you want you can get—but not a car or a house."

To spend much time around Hong Kong youth is to hear not about the handover but about the housing crisis. With rampant speculation, housing prices have doubled in the past six months. "Kids share rooms here," says Michael Lee, publicity director for Star TV's music-video station, Channel V. "Talk about having control over your environment. If you can't arrange your room, how do you manage your community?"

The answers play out in places like the towering Times Square shopping complex. These are the halls of Hong Kong's public culture. On a spring afternoon, groups of young people in clashing designer uniforms kill time with the same furious intensity with which Hong Kong does business. The Mandarin Duck backpack, a \$200 necessity a year ago, is already history; the Prada bag is ascendant. Mobile phones, beepers are everywhere. "Our generation gets very little support from our families or our culture," says

Anita Lam, 19. "[Young people] don't have a sense of belonging in the government or the family. They want to be a gang. So they fit themselves into a fashion trend. Right now it's the Prada bag."

On Easter evening, the Hard Rock Cafe has a two-for-one happy hour. Anita and a friend race through the hour at tempo, ordering in bulk, consuming on the fly. Anita wants to be a journalist, and worries about the future of Hong Kong's free press. But more immediately, she worries about the competition from all the incoming mainlanders. "I'm afraid I can't get money, I can't get a good future." She raises a question a foreigner once asked her, one she didn't know how to answer. "He asked, 'Why do people in Hong Kong walk on the escalator?'" She looks up, still baffled by the question. In a city that has neither time nor space for its young, sometimes the only comfort zone lies in acceleration. Hong Kong, she says, "is a place of tragedy and confusion. It is like my life." She doesn't need to obsess over the turbulence that may follow July 1. Like her peers, she's been living it all along. ■

SIGNING THE TREATY THAT
CEDED KOWLOON TO BRITAIN



From Empire to Empire, and Back Again

Hong Kong has come full circle. It was lost to Britain more than 150 years ago. Now it returns to China. In between, its unique culture of survival was shaped by upheaval and revolution on the mainland.

JANUARY 20, 1841 British naval Capt. Charles Elliot seizes Hong Kong, also known as Pirate Island, from the Celestial Empire and declares himself governor.



THE FIRST OPIUM WAR

AUGUST 29, 1842 The first opium war ends in the Treaty of Nanking, ceding Hong Kong Island to Britain.

OCTOBER 5, 1856 Chinese officials searching for pirates arrest the crew of the British ship Arrow, prompting the second opium war.

JANUARY 19, 1860 Victorious in the Opium Wars and seeking a foothold on the



THE SEAL OF HONG KONG

mainland, Britain forces China to cede the Kowloon Peninsula to Hong Kong.

JUNE 1898 China's imperial court cedes more land to the British in Hong Kong, this time in a 99-year "lease" on the New Territories, for which Britain pays nothing.

1911 Sun Yat-sen's Nationalist revolution topples the Ching dynasty and spills over to Hong Kong.

DECEMBER 8, 1941 Japanese soldiers attack and occupy Hong Kong. They hold Gov. Mark Young captive in the Peninsula Hotel, round up British civilians and deport 20,000 Chinese per month.

SEPTEMBER 16, 1945 Japan surrenders in Hong Kong; a BBC report says that as a Royal Marine band played the national anthem, "pandemonium broke loose in the harbor as every warship thundered a 21-gun salute."

OCTOBER 1949 Mao declares the

fare increases on the popular cross-harbor Star Ferry.

SEPTEMBER 22, 1982 British Prime Minister Margaret Thatcher visits Beijing and quarrels about imperialism with Deng Xiaoping.

DECEMBER 10, 1984 Signing of the Sino-British Joint Declaration, which establishes the "one country, two systems" principle: China will take control of Hong Kong on July 1, 1997, but will leave its freewheeling capitalist system in place for 50 years more.



BEIJING, JUNE 3, 1989

JUNE 4, 1989 Beijing troops attack the students occupying Tiananmen Square, killing hundreds. A brain drain ensues as wealthy Chinese flee the colony.

OCTOBER 7, 1992 The last British governor, Chris Patten, announces new democratic reforms; Beijing calls him "irresponsible."

DECEMBER 11, 1996 C. H. Tung, appointed future chief executive by a Beijing-backed committee, declares: "We are finally masters of our own house."

JUNE 30, 1997 As the midnight handover approaches, Patten will sail off on the royal yacht. China has agreed not to launch the fireworks until his ship is out of sight.



DENG AND THATCHER, DEC. 1984

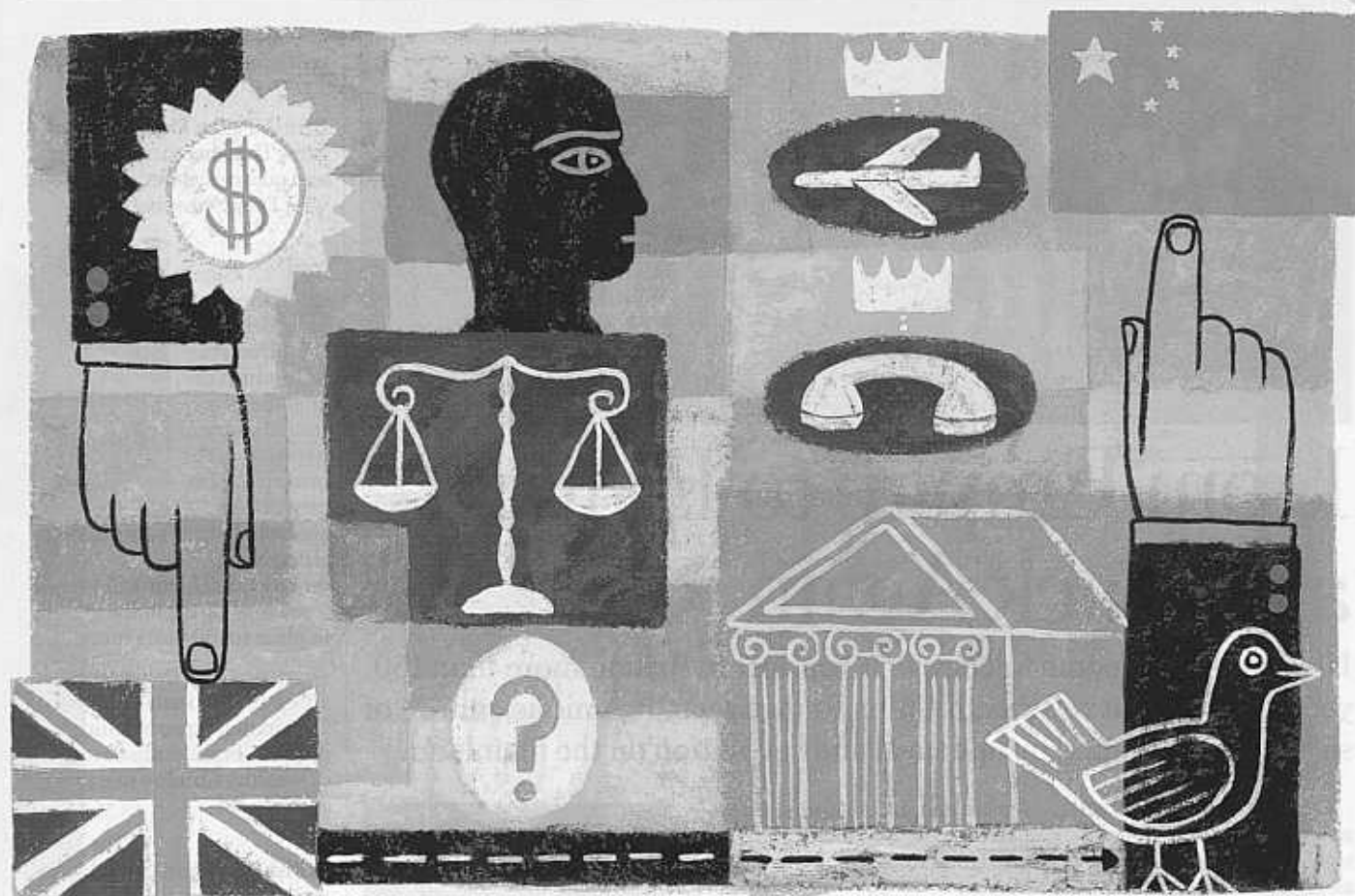
founding of the People's Republic in Tiananmen Square, and the subsequent flood of refugees to Hong Kong forces the authorities to impose new controls along the borders.

APRIL 1966 Anti-colonial riots break out after local Chinese clash with the police over



C. H. TUNG (LEFT) TOASTS CHINESE OFFICIAL ZHOU NAN

CLOCKWISE FROM TOP: COURTESY MARTIN SPURRIER, REUTER-BETTSMANN, SYGMA, JASON BEED—REUTER, ILLUSTRATED LONDON NEWS, MARY EVANS PICTURE LIBRARY



Confused about whether to be bullish or bearish on Hong Kong? Here are the key things to keep an eye on. BY WILLIAM H. OVERHOLT

Twelve Tips for the Markets

ACCORDING TO MUCH OF THE Western media, Hong Kong is dying and its freedoms are lost. But in the financial markets, optimism is riding high. What is an investor to make of these conflicting signals? Here's a brief guide through the contradictions.

First of all, understand who is in charge of the new Hong Kong. Which leader did Beijing back to become Hong Kong's first Chinese chief executive? C. H. Tung, a capitalist businessman known for honesty. And what about Hong Kong's most popular leader, Chief Secretary Anson Chan? As head of the

vital civil service, she is everything local people want: a Democrat, an excellent administrator, tough enough to stand up to Beijing and sensible enough to negotiate nonconfrontationally. As one more assurance of stability, Tung reappointed virtually all top civil servants. Of course, the new team has yet to actually start governing. The people of Hong Kong are enthusiastic about these signals of continuity. Still, any foreign investor who wants to bet sensibly on Hong Kong should closely monitor how effectively Tung and Chan pass the key tests that await them after the handover. Among the most important of their challenges:

Protecting the rule of law. This is the foundation of Hong Kong's economic success and political freedom. The departing British say they fear that judges will become vulnerable to political pressure and civil liberties will be eroded. The Chinese promise that the British legal system will remain intact. Hong Kong's judges are to be chosen, as in the past, by a committee of sitting judges, distinguished lawyers and prominent citizens. Watch whether the committee maintains current legal protections. Beware of any proposal for Beijing's handpicked legislature to vet judges.

Guarding civil liberties. For business executives to operate in Hong Kong, they must have guarantees of freedom. China will reinstate tougher measures regulating demonstrations and ties to foreign political organizations. Gov. Chris Patten has convinced the Western press that China's real intent is to remove guarantees of basic civil liberties. But such liberties are included in Articles 26 to 41 of the Basic Law, which was written by China. In addition, the International Covenant on Civil and Political Rights is incorporated in Article 37. Tung says the laws requiring permission for a demonstration will be similar to those of Australia, Canada and Britain. And he says rules barring foreigners from financing local political groups will be like those in the United States. The key is implementation: see whether the first demonstration that might offend China is banned, and make sure that Amnesty International can still accept foreign donations.

Dealing with demonstrators.

Anti-Beijing politicians like Martin Lee and Emily Lau will almost certainly promote disruptive demonstrations during the July 1 transition period. If they are handled firmly but fairly by Hong Kong police alone, all will be well. If they are handled very roughly, or if mainland forces are involved in suppressing the Democrats, Hong Kong's morale will crack.

Defining 'subversion.'

The essence of Hong Kong's relations with China—"one country, two systems"—is that neither system is supposed to subvert the other. An effective antisubversion law is in Hong Kong's interest. (If Hong Kong starts subverting China, then China will certainly start subverting Hong Kong, and clearly China will win.) China will write a tougher law than Patten wants, and investors should ignore British denunciations so long as the law restricts only Hong Kong actions in China proper. If the law can be interpreted to restrict a wide variety of behavior confined to Hong Kong itself, run for cover.

Maintaining freedom of speech. More than 90 percent of Hong Kong's economy depends on services, and those services depend on a free flow of information. China is replacing a British law banning defamation of the royal family with a ban on defaming top Chinese leaders. The law will also prohibit the press from advocating independence for Hong Kong or Taiwan. These restrictions are troubling but can be lived

with. If such limitations proliferate, if Hong Kong journalists are prosecuted on national-security grounds for anti-Chinese stories or if businesses are punished for their executives' political opinions, then Hong Kong's success is at risk.

Nurturing democracy. Hong Kong does want democracy. Nonetheless, Washington's furor over the Provisional Legislature, which will be installed by Beijing to take the place of the current sitting legislature in July, is misplaced. Locals know that Beijing is taking this step because Patten broke the deal with China about the way many legislators would be elected. China reacted to Patten's breach by installing an unrepresentative temporary legislature

Anson Chan's, even more so—would be maximum bearish.

Wiping out monopolies. Hong Kong has a reputation as a laissez-faire economy. In reality, British power was founded on monopolies and cartels. When colonialism goes, so should its cozy arrangements. Beijing's primary targets are the airline and telecommunications monopolies. The important thing is that the British monopolies disappear rather than give way to Chinese successors. The omens are auspicious, but monitor Chinese actions.

Combating corruption. Numerous Chinese and Hong Kong firms would undoubtedly like to use their mainland connections to special advantage after the hand-over. Tung says he is eagerly looking for the first big case so that he can crack down hard on the offenders. Trust but verify.

Watch U.S. politicians. Beware of congressional efforts to be helpful. When Congress threatens China's trading status as a most-favored nation, it is threatening Hong Kong, China's trading center, not Beijing. When it threatens to treat Hong Kong as an ordinary province of China unless Beijing behaves properly, it is threatening to kill Hong Kong. After the hand-over, the temptation to kick Hong Kong as the most vulnerable part of China's anatomy may prove irresistible. Let's see whether Congress can restrain itself.

Watch Chinese politicians. Beware, too, of overly helpful Beijing politicians. The first time the Hong Kong stock market crashes, Beijing should not intervene. But as in Washington, the desire to assist sometimes clouds judgment. Sell on intervention. Buy on respect for the market.

Also watch Martin Lee. For a general reading of Hong Kong confidence, monitor the popularity of the Democratic Party leader. He is a protest candidate who won a symbolic 1995 election by articulating anger at China and Britain. But he gets just 10 percent support in polls that ask who should actually run Hong Kong. If his popularity rises sharply, the message will be that Hong Kong people are frustrated. Markets will fare poorly—and C. H. Tung's time of testing will grow longer and more difficult.

OVERHOLT, managing director of Asia Research for Bankers Trust Co., is the author of "The Rise of China."



EXPATS SIT OUT A TIANANMEN SQUARE MARCH IN 1989

The first real test of China's commitment to civil liberties in Hong Kong will come when Beijing is asked to permit a demonstration it finds politically offensive

until 1998. The 1998 legislative elections are the real key. Hong Kong people will react if the voting is not as representative as China promises.

Preserving financial integrity. China has promised financial autonomy. Chinese banks will be treated as foreign institutions; the Chinese currency will not become legal tender; China will not touch the territory's huge reserves; local financial regulations will remain supreme, and China will continue to promote fiscal conservatism and oppose efforts to turn Hong Kong into a welfare state. None of the smart money doubts these mainland promises, but any about-face would certainly upset markets. For a litmus test, watch the tenure of Joseph Yam, the respected head of the Hong Kong Monetary Authority. His early resignation—or

Hong Kong's handover to China has been widely misunderstood. There won't be a cataclysm, but freedom has been lost. BY JONATHAN ALTER

A Time of Long Goodbyes

WHILE THE CHINESE CELEBRATE THE YEAR OF THE OX and other creatures, they have no Year of the Termite. Yet that may be the future of Hong Kong—not sudden dismemberment by a mainland tiger; just a slow weakening of its foundations as corruption and connections eat away at its heart.

The momentousness of the handover is widely misunderstood. June 30 marks the first time since the 1945 Yalta Conference that any territory anywhere in the world has been turned over to a communist regime without a fight. The consequences are serious—to lose one for freedom after a decade of consecutive victories. Yet the anticipation of some cataclysm is misplaced. When the sun finally sets on the last major outpost of the British Empire, it won't be dark but twilight, a time of painful adjustments and long goodbyes.

As I was reminded on a recent visit, turning out the lights in Hong Kong is virtually impossible. This is a city with 4 million phones, more than a quarter-million fax machines, 700 magazines and 59 newspapers. The problem is more insidious: self-censorship. Journalists and politicians of all stripes agree that it has already begun. With the exception of a feisty and extremely popular paper called *Apple Daily* and a couple of other independents, the local press is mouthing a form of political correctness in its attitude toward Beijing. C. H. Tung, chief executive of Hong Kong, recently warned his democratic opponents not to “bad-mouth” their city in the press, as if a little boosterism will see them all past the shoals.

Tung is in danger of entering toadyville. While the terms of the 1984 agreement outlining Hong Kong's future explicitly call for free speech and a free press, Tung, the dutiful Confucian son, has declared that criticism of Chinese leaders is not permissible. The shipping heir is already setting a precedent as Beijing's representative to Hong Kong, rather than the other way around. Yes, the British spent nearly 100 years violating the rights of Hong Kong Chinese, but that doesn't excuse anything that China—through Tung—might do now.

So forget all those condescending lectures about “Asian values” not including freedom. A free press is important on its own terms as a matter of basic universal human rights. *Apple Daily* is the canary in Hong Kong's mine shaft—if it's snuffed out, the world will know what the future holds.

But the more prosaic problem with both censorship and self-censorship is that they are bad for business. This is what American businessmen, who are optimistic about the future of Hong Kong (according to Chamber of Commerce surveys), apparently do not understand. They look admiringly at undemocratic Singa-

pore and comfort themselves that Hong Kong is moving in that direction.

But the Singapore comparison applies to yesterday's Asia. In the past 30 years, Singapore and several other Asian nations showed that authoritarianism could help them move from the Third World to the Second World. China is emphatic proof of that. So why have South Korea and Taiwan moved toward democracy? Because they are so humanitarian? A better explanation is that they now want to move from the Second World to the First World. Their growing business classes are insisting on more openness, just as Spain and Portugal went democratic in order to move up economically in Europe. Playing in the big leagues of the global economy demands no less. “We've learned that authoritarianism is a cul-de-sac,” says one high-ranking British official, who is leaving Hong Kong a pessimist.

Democracy might be messy, but it is the only system that acknowledges its mistakes, that provides what business schools call “negative feedback.” A free press, a freely elected legislature and a relatively uncorrupted bureaucracy are all essential to this self-cleansing system. Beyond democracy lies something called “transparency”—which in Asia means accountability, public access and public records, the rule of law and not of connections.

To understand why the rule of law is so superior to old-fashioned *guanxi* (connections), a visitor need

only cross the border into Shenzhen, the Chinese city that was Deng Xiaoping's pride. In 1980 Shenzhen was an empty field; today it is a gangly “Wild East” city of more than 3 million. It is also a pit, lacking not just Hong Kong's charm but its coherence. The capitalism there is so unbridled, so unanchored in law, that buildings erected only five years ago are already falling down. Hong Kong will not become Shenzhen, and Shenzhen will not become Hong Kong; instead, they will likely meet somewhere in the middle, which is somewhere on the shoddy, ugly, less workable side of where Hong Kong is today.

At the end of one chapter of his classic work “The City in History,” Lewis Mumford wrote simply: “Come, hangman! Come, vulture!” It's always illuminating to recall how fast some cities can strut and fret their hour on the world stage, then disappear. This is not likely to be the fate of Hong Kong. Its people are too resilient, its claim to First World greatness too strong. But the instinct for early nostalgia goes beyond the retreating English colonialist toasting the Union Jack with one last glass of bitter. For all who have known and loved Hong Kong, something has died, and we don't quite know what is struggling to be born.



THE SUN SETS ON THE LAST MAJOR OUTPOST OF THE BRITISH EMPIRE