

# HONG KONG AS A GLOBAL METROPOLIS

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# 1

## Enigma

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Her Majesty's plenipotentiary has now to announce the conclusion of preliminary arrangements between the Imperial commissioner and himself involving the following conditions: The cession of the island and harbour of Hongkong to the British crown.<sup>1</sup>

Hong Kong remains wrapped in an enigma. Its intermediaries of capital, who include traders, financiers, and corporate managers, have made Hong Kong the pivot of decision-making about the exchange of capital within Asia and between that region and the rest of the world. Yet, for 150 years, this tiny island and adjacent peninsula could not even lay claim to status as a city-state. When Britain declared sovereignty over Hong Kong in 1841, after taking it from China under the terms of the Treaty of Nanking that settled the Opium War, the government and merchants had to build a town. The British viewed Hong Kong as their emporium of trade in the Far East, but they did not aspire to transform it into a commercial-military power similar to the earlier aggressive city-states of Genoa and Venice. From the start, Hong Kong and Asia remained peripheral to a British foreign policy focused on Europe, and up to 1860, the meager fleet on the China station seldom numbered more than six ships. Britain devoted greater attention to avoiding being drawn into the interior of China than to expanding trade.<sup>2</sup>

British governors of Hong Kong supported the traders and financiers and worked closely with them. Yet, for all the attention paid to British, and to a lesser extent, other “foreign” traders and financiers, city residents overwhelmingly consisted of Chinese, many of them also traders and financiers. Britain signed a treaty with China in 1898 that leased the New Territories, an area north of the Kowloon Peninsula, for ninety-nine years, and the governments set the return date for 1997, setting off a ticking clock that ended with

<sup>1</sup> Notification of Captain Elliot, January 20, 1841; quoted in Morse, *The international relations of the Chinese empire*, vol. I, p. 271.

<sup>2</sup> Endacott, *A history of Hong Kong*, pp. 25–50; Graham, *The China station*.

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the monumental peaceful transfer of a global metropolis between nations. Nevertheless, seen from Britain's perspective, Hong Kong still resided outside the mainstream of foreign policy. Even during World War II, Britain conceded Hong Kong to Japan and concentrated its defensive resources in Singapore. At the end of the war, the foreign and Chinese traders and financiers quickly regrouped in Hong Kong, reconstituting it as the pivot of the Asian networks of capital. When Britain finally realized that it could not retain control of Hong Kong and signed the Joint Declaration with China in 1984 that set the return to China for July 1, 1997, Britain did not seriously consult Hong Kong's residents and refused to commit extensive political and economic resources to contest the transfer.<sup>3</sup> As the transfer date loomed and Hong Kong would gain a territorial hinterland coterminous with its sovereign power, skeptics depicted pro-democracy movements, China's assertions that it would not tolerate challenges to its authority, and emigration of professionals as signs that Hong Kong would decline; and shortly after the transfer proceeded smoothly, economic travails in Asia impacted Hong Kong and again called its viability into question.<sup>4</sup>

An interpretation of Hong Kong as the global metropolis for Asia must explain the enigma of its expansion without a sovereign territorial hinterland even as a British colonial policy kept it at the periphery of concern. It soared after 1945 even as advances in telecommunications raised the specter of seamless capital exchanges without the need for face-to-face communication, and improved air travel seemingly allowed firms to manage trade, finance, and corporate organizations from almost any city. And with increasing uncertainty surrounding its return to China in 1997, competitors such as Tokyo and Singapore failed to dethrone Hong Kong as the dominant Asian venue for decision-making about the exchange of capital. Suggestions that Hong Kong may become one of the greatest global metropolises must reckon both with the capacity of its intermediaries to remain dominant in Asia, even as economic turmoil threatens, and with its status as a "capitalist" bastion ruled by a "socialist" state.

Traders and financiers in Hong Kong always operated in multitiered national, world-regional, and global economies. Recognition of that business scope provides one key for unlocking the enigma of Hong Kong as the global metropolis for Asia. Since the Canton days of the early nineteenth century, foreign merchant traders operated as agents of powerful global firms headquartered in London, New York, and Boston, among other metropolises. Their arrival in Asia represented an extension of expansive colonial states in Europe, and Britain, the leading extractor of concessions from China after the

<sup>3</sup> Endacott, *A history of Hong Kong*, pp. 260–69; Welsh, *A borrowed place*, pp. 374–440, 502–36.

<sup>4</sup> For examples of skepticism, see: Kraar, "The death of Hong Kong"; Theroux, "Letter from Hong Kong." For the economic crisis in Asia and its impact on Hong Kong, see Guyot, "Fears rise in Hong Kong over credit"; Pesek, "Dis-oriented markets."

Opium War of the early 1840s, was the strongest imperial power based on its industrial might. The mad rush of great foreign trading firms to Hong Kong in the 1840s instantaneously established it as an arm of global firms in leading metropolises, and the simultaneous arrival of numerous Chinese trading firms boldly indicated that this metropolis operated more than as an outpost of foreign capital.

The trading firms and financial institutions that followed, nevertheless, always remained embedded in the political economy of Asia. Peasant impoverishment continually thwarted attempts of foreign trade and financial firms to find markets for their home-country products and capital, and this impoverishment impacted the firms' specialization, capitalization, and capacity to compete for control of the exchange of commodity and financial capital. As peasants started to rise out of poverty in the late twentieth century, traders and financiers transformed their businesses, but foreign firms confronted anew the reality of Asian economic exchange. Chinese traders and financiers dominated the exchange of commodity and financial capital at unspecialized, less-capitalized levels, and those intermediaries leveraged that dominance into higher levels of specialization and capitalization as economic growth and development of Asian countries accelerated.

Chinese and foreign traders and financiers always operated as two social networks of capital, a Chinese and a foreign network, and those networks intersected at key metropolises. The term "social networks" emphasizes that intermediary decision-making about the exchange of capital rests on bonds that extend beyond pure market calculations of profit and loss to include deeper, wider social relations. Those relations are essential to build trust and monitor malfeasant behavior, thus reducing the risks of exchange. Social networks provided the means for economic exchange within Asia and between Asia and the developed world of Europe and North America, and Hong Kong operated as the pivotal meeting-place of the Chinese and foreign social networks of capital in Asia. The first step in interpreting Hong Kong as the global metropolis for Asia requires a specification of behavioral principles that intermediaries use to control the exchange of commodity and financial capital. Then, these principles frame the interpretation of the changes in the social networks of capital in Asia that revolve around Hong Kong from antecedents in the Canton days around 1800 to the present. Rather than viewing the Chinese business networks as exceptional, these principles portray both the Chinese and foreign networks as pieces cut from the same cloth.

These behavioral principles also provide a lens with which to evaluate the skeptics' claim that Chinese government control weakens Hong Kong as the global metropolis for Asia. This claim dismisses too readily both Hong Kong's status as the pivot of the Chinese and foreign social networks of capital and China's commitment to preserving the Hong Kong jewel as its window to the world economy. The arrival of "red chips," mainland Chinese firms with

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government connections, infiltrates *guanxi* (connections) into the business environment and this undermines Hong Kong, the skeptics argue; yet, increasingly, mainland Chinese work in foreign firms and foreigners work in mainland firms. The influx of red chips and private mainland firms strengthens Hong Kong as the meeting-place of the Chinese and foreign social networks of capital. As economic crises swirl in Asia, the critics' predictions that China would undermine Hong Kong are contradicted by the unwavering support that China expresses for its international business center. That affirmation will reinforce Hong Kong's advance towards the level of London and New York during the twenty-first century as it becomes the global metropolis for one of the largest economies in the world.