The New York Times

HONG KONG MARKET FALLS OVER UNREST

By BARBARA BASLER and SPECIAL TO THE NEW YORK TIMES MAY 23, 1989

Hong Kong investors reacted swiftly and fearfully to the political crisis in China today, frantically selling shares and forcing the market's index down by almost 11 percent. It was the greatest plunge in a single day here since the worldwide market collapse of 1987.

The decline of 339 points in the Hang Seng index followed a 132-point drop on Friday as tensions grew over the pro-democracy vigil staged by students in Beijing. Today that nervous selling continued apace amid fears of violence if troops move on the demonstrators.

This wealthy British colony will revert to Chinese sovereignty in 1997, and much of its economy and most of its confidence in its own future are inextricably tied to events on the mainland.

Within 20 minutes after the market opened today, the index fell 350 points. Brokers said the market was swayed by every passing rumor, regaining some of its early losses when unconfirmed reports circulated that the hard-line Chinese Prime Minister, Li Peng, might resign; the market later lost ground on reports that troops would soon enter Tiananmen Square to clear out the students.

By the close of trading, the index had tumbled 339.06 points, to 2,806.57 points. Colonial Government Silent

Beyond the glistening mirrored skyscraper that houses the stock exchange, support for the Beijing movement continued in Hong Kong. Thirty local delegates to the National People's Congress in China called for an end to martial law in Beijing and a dialogue with students, while several thousand young people and their teachers staged pro-democracy demonstrations outside the offices of the New China News Agency, the official representative of the mainland Government here.

Despite the demonstration on Sunday, when upwards of 500,000 people rallied in support of the Beijing students, the colonial government here has remained silent on all developments. A government spokesman said that the Governor, Sir David Wilson, ''will have nothing to say about internal events in China.''

Many analysts said they believed the market would continue to tumble until there has been some definitive move to end the crisis in Beijing.

Government officials and businessmen here continued to insist that the colony's underlying economy is strong, but they acknowledged that until the Chinese crisis is resolved, shareholders will continue to sell. Confidence Shaken

''The Hong Kong economy is sound, but the problem is the people's confidence in that economy isn't,'' said Vincent Cheng, chief economist for the huge Hongkong and Shanghai Banking Corporation. ''I think this market won't recover until there is a solution in China, and that solution must be peaceful.''

The colony's Secretary for Monetary Affairs, David Nendick, spoke today of a sound economy and good corporate profits, cautioning small investors to remain calm. ''My advice to the small investor is to stay put rather than to sell at the sort of prices he'll get at the moment,'' he said.

In 1987, when markets around the world began to plummet, Hong Kong officials closed the exchange here for several days, triggering a record 30 percent drop in the index when it reopened. The closing prompted wide-ranging changes in market operations, and today, the market's new chief executive, Francis Yuen, assured the public the exchange would remain open.

A version of this article appears in print on May 23, 1989, on Page A00014 of the National edition with the headline: HONG KONG MARKET FALLS OVER UNREST.