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0521621585 - Hong Kong Under Chinese Rule: The Economic and Political Implications of Reversion

Edited by Warren I. Cohen and Li Zhao

Excerpt

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Introduction

WARREN I. COHEN

ON July 1, 1997, Hong Kong, the last vestige of British imperialism in China, will be restored to Chinese sovereignty. One hundred and fifty-five years will have passed since the end of the Opium War, when the British forced the Chinese to cede the island of Hong Kong; one hundred and thirty-seven years will have passed since they took Kowloon; and ninety-nine years will have passed since the British forced the Chinese to grant them a “lease” over the New Territories, a few square miles of the mainland across from the island. For Great Britain, the lowering of the Union Jack on June 30, 1997, will be further evidence (hardly needed) of imperial decline. For China, as the People’s Liberation Army marches in the next day, as the red flag with five gold stars is raised over Hong Kong, the moment will symbolize the end of China’s age of humiliation, further evidence of China’s emergence as a Great Power, another step toward Chinese hegemony over East Asia.

What will the reversion of Hong Kong mean to the people of Hong Kong – and to the rest of us – who invest, trade, and shop there? Over the last fifty years Hong Kong has served as a refuge for those who fled communism in China, who escaped from the political oppression and economic hardship they experienced under the rule of Mao Zedong. It became the greatest entrepot and financial center on the Asian mainland. Billions of dollars in foreign investment flowed there from Europe, Japan, and the United States. A stunning percentage of the world’s trade passed through its magnificent harbor. Known for its natural beauty, its restaurants, and its tax-free shops offering unsurpassed bargains, Hong Kong became an obligatory stop for tourists from all over the world. Will a Hong Kong ruled from Beijing continue to be a safe haven for those who live there and for those who earn their fortunes there?

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Thirteen years ago, the Chinese made the British an offer they couldn't refuse, winning Margaret Thatcher's acquiescence to the surrender of Hong Kong. At the time, Deng Xiaoping spoke of one country, China, with two discrete systems: one communist (with Chinese characteristics, to be sure), for most of China, and one capitalist, for Hong Kong. He promised to leave the city alone for fifty years, presumably so that it could enjoy relative political freedom and the blessings of unfettered capitalism well into the twenty-first century. Skepticism about Deng's promise, never absent, was reinforced when he ordered the crushing of dissent in China in June 1989, resulting in the Tiananmen massacre. The level of anxiety concerning China's intentions in Hong Kong has increased in recent years as the People's Republic of China has opposed and undermined the efforts of Governor Christopher Patten to speed democratic reforms for a city so recently ruled by imperial fiat. Doubts that Thatcher and her minions had provided adequate protection for the rights of their erstwhile subjects mounted.

What will become of Hong Kong after reversion? On July 1, 1996, a workshop organized by my colleague Li Zhao, program associate of the Asia Program of the Woodrow Wilson International Center for Scholars, met to address that question. Analysts came from China, Great Britain, Hong Kong, and the United States to discuss Hong Kong's future under Chinese rule. The central focus of the workshop, like that of this volume, was on the impact Chinese control was likely to have on the city's role in the international economic system – how the international business community would be affected. Issues of trade, finance, and political economy, and concerns about Chinese respect for the rule of law dominated the discussion. The shifting attitudes of the citizens of Hong Kong were examined closely. Participants also weighed the significance of reversion for China and the United States, and attempted to provide signposts that indicate probable outcomes.

This volume is composed of several of the essays presented at the July 1, 1996, workshop and several additional papers commissioned to explore questions that arose at that workshop. It is intended to serve as a guide to those with a professional interest in events in Hong Kong over the next several years.

In Chapter 1, Philip Bowring of the *International Herald Tribune* explains what it is that makes Hong Kong work – how Hong Kong came to be a great international commercial center – and sketches the “critical mass” that he deems essential to the continuation of the city's preeminence in East Asia. He argues that “openness to the outside world and competent – but minimalist –

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government” are fundamental. Bowring has few peers as an observer of the city, and his contribution constitutes an excellent overview of the problems ahead.

For many, the critical question has been whether Beijing understands the extent to which respect for the rule of law provides the foundation for Hong Kong’s prosperity. In Chapter 2, Jacques deLisle of the University of Pennsylvania Law School and Kevin P. Lane of Franklin and Marshall College examine Chinese business and legal practices and postulate three possible models of a rule of law for Hong Kong. The first, which they call the “China Model,” derives from inspection of the booming areas of the mainland, “where the economy has thrived despite a limited vision, and even weaker realization, of the rule of law.” The second model, which deLisle and Lane label the “Singapore Model,” requires a “robust system of legality for economic affairs” and “competent, honest officials,” but little beyond business law – specifically, little to warm the hearts of advocates of democracy and human rights. Their third model, called the “Augmented Hong Kong Model,” goes beyond the Singapore Model, requiring that laws must protect civil liberties and political rights. deLisle and Lane conclude an exhaustive study of the issues by suggesting a solution that might be acceptable to all, “something more than the China Model, something less than the Augmented Hong Kong Model, and something other than the Singapore Model.” This solution is, perhaps, something more than the Chinese will grant – and there can be no doubt that the ultimate decision will be made in Beijing. The authors also warn that fundamentally different Chinese and Western views on what constitutes sovereignty might lead to incompatible views on what constitutes the rule of law.

In Chapter 3, James V. Feinerman, professor at the Georgetown University Law Center, examines the legal and constitutional issues that have emerged since the United Kingdom and the People’s Republic of China signed the Joint Declaration on Hong Kong in December 1984. Feinerman, one of America’s leading authorities on Chinese law, reviews the legal framework of reversion, looking at the Chinese constitution as well as the international agreements Beijing has signed. He considers the difference between Chinese and British interpretations of the Joint Declaration and analyzes the laws that Beijing has passed in preparation for the reassertion of Chinese sovereignty. In particular, he discusses the controversies over the Provisional Legislative Council and the Court of Final Appeal, and he expresses his concerns about Beijing’s obvious antipathy toward democratic reform and apparent lack of respect for the rights of the people of Hong Kong.

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Yasheng Huang, a Chinese national now teaching at the University of Michigan, has emerged in recent years as the foremost explicator of China's political economy. In Chapter 4, he describes the existing integration of the Chinese and Hong Kong economies and indicates how this process is likely to develop after reversion. Huang distinguishes the trade and investment between Hong Kong and China from control by mainland firms over assets located in Hong Kong. He sees the two types of integration as having different implications for government-business relations, and he is apprehensive about the long-term survival of Hong Kong's laissez-faire institutions.

In Chapter 5, Changqi Wu of the Hong Kong University of Science and Technology focuses more sharply on economic issues, and broadens the scope of the question of integration by including Taiwan. Based on his conception of Greater China, he discusses the comparative economic advantages of China, Hong Kong, and Taiwan and how the three economies have integrated over the past eighteen years. His statistics demonstrate the centrality of Hong Kong. Of particular interest is his point about the lack of a well-developed legal system in mainland China, necessitating the use of informal structures, such as "kinship," to protect business transactions there. As a result, most foreign capital in China comes from Hong Kong and Taiwan. He suggests that reversion will provide Hong Kong with new opportunities to strengthen its economic position in Greater China.

In Chapter 6, Edgardo Barandiaran, senior economist of the World Bank Resident Mission in China, and Tsang Shu-ki of Hong Kong Baptist University explore monetary relations between Hong Kong and China. They discuss the Hong Kong and Chinese monetary systems and the ways in which they are changing. Their focus is the question of whether two separate currencies, the Hong Kong dollar (HK\$) and the Chinese Renminbi (RMB), will coexist after reversion. They note the perception of the HK\$ as stable and convertible and the lower regard the international business community has for the RMB – although it is assumed that the RMB will ultimately become both stable and convertible as well. Similarly, they discuss the differences in banking systems and the possible outcomes.

In Chapter 7, Joseph Cheng of the City University of Hong Kong analyzes the attitudes of various participants in Hong Kong political affairs, including senior government officials, political party leaders, leaders of non-governmental organizations, journalists, academics, leading businesspeople, and Chinese appointees to various organizations that are preparing the government for reversion. He also uses polls to indicate the changing opinions of the broader

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Hong Kong public. In brief, he has found much to please the rulers of the People's Republic of China: declining support for Governor Chris Patten and his reforms, and growing confidence among the people of Hong Kong that the transfer of power on July 1, 1997, poses little threat to them. He has concluded that the people have lowered their expectations for the future, and that they have accepted the idea that the People's Liberation Army will be stationed in their city and the fact that they have had no say in the selection of Tung Chee-hwa as the first Chief Executive of the Hong Kong Special Administrative Region of the People's Republic of China. They are anxious about the likely erosion of the rule of law and of press freedom, but they have lived without democracy these many years and will give Beijing the benefit of the doubt for now.

In the course of the 1996 workshop, Charles Freeman, recently retired as the Department of State's leading specialist on Chinese affairs, asked about the role of the People's Liberation Army (PLA) in Hong Kong after reversion. In Chapter 8, Ronald N. Montaperto of the National Defense University, a prominent American student of the PLA, addresses that question and discusses the larger strategic and military implications of reversion. His is one of the more reassuring contributions. He views the coming PLA presence in Beijing as merely "an outward and visible symbol of the restoration of Chinese sovereignty over territories extorted from a succession of weak governments by militarily stronger Western powers." Montaperto insists that control of Hong Kong will not have a major impact on China's military position in the region; Hong Kong facilities will not increase the PLA's ability to concentrate force in any of the areas of greatest concern to Chinese leaders. He indicates that Beijing has powerful incentives to minimize Hong Kong's connection with the PLA. His only fear is the possibility, however remote, that the PLA might be used to suppress a mass demonstration in Hong Kong, triggering a worldwide reaction such as followed the Tiananmen massacre of 1989.

Chapter 9 discusses the implications of reversion for China's integration into the international community. Michael Yahuda of the London School of Economics and Political Science, author of the 1996 book *Hong Kong: China's Challenge* and distinguished former fellow of the Wilson Center, stresses the importance of reversion. He details the benefits China would derive from a smooth transition followed by successful management of Hong Kong's autonomy. Although he is cautiously optimistic about the city's future, he readily concedes that "China's leaders have yet to show an understanding of its system" and he fears that their experience offers little preparation.

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Chapter 10 is contributed by Nancy Bernkopf Tucker of Georgetown University, another former Wilson fellow and author of the standard work on America's role in Hong Kong, *Taiwan, Hong Kong, and the United States, 1945–1992: Uncertain Friendships*. She provides insights into a critical international question: How will reversion affect Chinese–American relations? Americans have much to lose if reversion goes badly, but the United States has no legal standing in the affair and, therefore, little leverage. Few Americans are even aware of this issue – and fewer care. Tucker reminds us that the U.S.–Hong Kong Policy Act of 1992 indicated congressional concern about whether China will honor its pledges to the British and to the people of Hong Kong. She also details the enormous stake the American business community has in Hong Kong, indicating the economic importance of the city to Americans. She explains how events in Hong Kong might affect Taiwan and ultimately Chinese–American relations, and how tensions between Beijing and Washington may play a role in the future of Hong Kong.

In Chapter 11, the University of Michigan's Kenneth Lieberthal, the eminent American analyst of Chinese politics, identifies signposts for the post-reversion era – indications of whether Beijing is willing and able to abide by the Basic Law, the constitution for post-July 1997 Hong Kong. Like most of the authors in this volume and most participants in the 1996 workshop, Lieberthal expects sincere effort by the Chinese to ensure that Deng Xiaoping's "one country, two systems" formula works. Like most of the others, he is concerned about "the inevitable difficulties of making two very distinctive systems deal effectively with each other," of uncomprehending Chinese officials unintentionally destroying what Bowring called the critical mass essential to Hong Kong's continued prosperity. Lieberthal wants to see what sort of institutional presence Hong Kong will have in Beijing; whether Hong Kong can lobby successfully at the seat of power in China. He looks to the development in Hong Kong of counterparts to Beijing's governing bodies, essential for coordinating policy between the city and the center. Noting that the Hong Kong civil service, arguably the finest in the world, is far more professional than its Chinese counterpart, Lieberthal wants us to watch for pressures to change it. He wants us to watch for attempts to make it more susceptible to mainland political pressure, more susceptible to *guanxi* (personal relationships). He wants to know what kind of political supervision will be imposed on the city and how Beijing will cope with potential subversion, whether from Taiwan's operatives or from advocates of democracy such as Martin Lee. Lieberthal foresees changes in government institutions, some of which have already been indicated, and – like

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Feinerman, deLisle, and Lane in particular – he is concerned about the future legal system.

The die is cast. Reversion is fast upon us, and there is little outsiders can do to influence its course. The people of Hong Kong and foreigners with a stake in the city will be dependent upon the wisdom and skill with which Beijing and its representatives manage the takeover. To date, Chinese leaders have shown only limited comprehension of what the continued success of Hong Kong will require, and there is nothing about the way in which they have handled their own affairs to inspire confidence. Nonetheless, virtually all analysts agree that China will try to maintain Hong Kong's role in the international economic system and that the prognosis for the short run is favorable. In the long run, many of the same analysts fear that Beijing will inadvertently strangle the goose that lays the golden egg. On the other hand, the people of Hong Kong, the city's main asset, have demonstrated that they have the ability and the resilience to overcome extraordinary adversity. Their best hope is that they can preserve their system long enough for the Chinese to learn how it works and for the Hong Kong model to prevail in China. In this endeavor, the watchfulness and support of the international community, businesspeople and human rights advocates alike, may prove decisive. The essays in this volume will provide readers with the basis for informed action.

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Hong Kong as an International Commercial Center

PHILIP BOWRING

HONG Kong's most enduring characteristic has been its remarkable ability to re-invent itself. As old flowers start to fade, new buds appear and grow bigger than their predecessors.

The secret of this rejuvenation has always been in the diversity of interests and enterprises that have found a home here. Though Hong Kong remains a small place, it has always been just about big enough and diverse enough to have "critical mass" – that hard-to-define state which acts as a natural magnet for enterprising people and for new ventures which prosper quickly in proximity to older and more established enterprises. Over time, the principal activities change, but there is still an accretion of functions. The older functions shrink in relation to the larger total mass.

Critical mass cannot be taken for granted. Its sustenance is openness to the outside world and competent – but minimalist – government at home. Call it a colony (as was the case and technically still is); a territory (as it currently prefers); a Special Administrative Region, or SAR (which it is soon to become) – the key to Hong Kong's success has been, and will remain, that it is a rather peculiar institution which thrives on the contradictions around it.

Hong Kong has only one natural advantage: its harbor. Effective and magnificent though it may be, this harbor is not a unique attribute on the south China coast. History has proved a much more important advantage. The history began in Macao – 300 years before the British grabbed Hong Kong – with the desire of the emperor in Beijing to keep the barbarian traders confined to a remote and inhospitable part of the empire. This defined the geography of China's links with the West and thus, over the past 150 years, has been the key to China's interaction with successive world leaders, Great Britain, and the

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Hong Kong as an International Commercial Center

United States. Hong Kong's global orientation has given a new dimension to China. The territory has been the often unwitting intermediary in the dramatic expansion of Chinese communities outside China, particularly in Southeast Asia but also in the western hemisphere.

Hong Kong is not only the historic meeting point of East and West, of China and non-China. It is also where the descendants of the Sons of the Yellow Emperor, who had the courage or desperation to leave China and seek a better life elsewhere, interact with their erstwhile motherland. It has always been easier for the two to meet on this foreign-ruled turf, which, too, remains inalienably Chinese.

The overseas Chinese have always been proud of being Chinese, while seldom finding it easy to be proud of China. The people of Hong Kong face this problem in an acute form as race and national identity are forged into one in 1997, whether they like it or not.

Such non-mainland Chinese, whether compatriots or nationals of other countries, have also played a major role in the post-1945 transformation of East Asia. Indeed, at a time when China itself was still traveling down diverse dead-end routes to modernization, non-mainland Chinese were second only to Japan in contributing to the regional renaissance that was taking place at that time, acting as the key link in commercial development, capital accumulation, and technology transfer, from west to east and north to south. Hong Kong was the main contact point, the dealing room, the "neutral zone" where all varieties of Chinese, and many varieties of foreigners, could feel at home. And so it remains.

Hong Kong's change of political status removes some of that "neutral" quality and indeed confronts the leaders in Beijing with some of the issues which led it in 1557 to lease a tiny patch of Guangdong to some hairy Portuguese. Hong Kong is all about China's relations with the outside world, especially the Western world, and the relations between mainland and overseas Chinese, and among the overseas Chinese themselves.

What has this history meant in practical terms? Essentially it has defined Hong Kong's commercial role, which in turn defines Hong Kong. Here are the strands in modern-day commercial Hong Kong in approximate sequential order.

1. China trade (of which opium was an important, but not a principal, part) might have originally meant, simply, trade as in earlier days when Portuguese, Dutch, and British fought not for control of land but for mastery of Asian trade,

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and when the Chinese looked on with puzzlement. By the time the British acquired Hong Kong in 1842, the flag had begun to follow trade, whether in the name of forceful trade promotion, sheer patriotism, or “piracy” prevention. By the turn of the century, the enforced opening of China had brought dramatic trade growth (and real economic growth) to parts of China, with the lion’s share of the “treaty port” trade going to Shanghai and Hong Kong via local compradores. However, despite its early start in establishing links to the British empire and to Southeast Asia and overseas Chinese, Hong Kong was overshadowed by “international” Shanghai, on the central coast, at the mouth of the Long River (Yangze), gateway to the heart of China, location of its new industries, and birthplace of modern Chinese capitalism. The scale and grandeur of old Shanghai are still visible: It dwarfed the Hong Kong of the era. Shanghai was truly international, ultramodern, and slick. Hong Kong, by comparison, was small, stuffy, and colonial – but it thrived on southern China trade and links to European-controlled Southeast Asia.

That pattern returned after 1945, when Hong Kong escaped being handed over to the crumbling Kuomintang. Soon after, however, the Chinese Revolution and the Korean War killed much of the entrepot trade. Hong Kong remained a gateway of sorts to Maoist China, but trade was so negligible that new paths to prosperity had to be found.

It was not until Deng Xiaoping came to power in 1978 that Hong Kong began to regain its China entrepot role. At that time, 80 percent of Hong Kong’s exports were domestic manufactures, 20 percent reexports. By the early 1990s, those figures had been reversed. Hong Kong had become the intermediary for a China which was moving toward the upper ranks of global traders.

2. Trade is not so much about movement of goods as it is about the organization of the movement of goods. The presence of ships attracts facilities for unloading, providers of victuallers and chandlery, boat repair, warehousing, as well as office-based services such as agency trading, forwarding, banking, ship management, and insurance. Hong Kong moved rapidly up this chain, acquiring what constituted, by the standards of the still relatively uncomplex and slow-moving nineteenth-century world, critical mass as an entrepot – as well as a seat of British naval presence in the Far East. The development of banking led to Hong Kong establishing its own currency, which in turn attracted capital from less stable regions – whether China itself or the Philippines (the latter in the late Spanish period). Hong Kong was not as important to Great Britain (and global trade) as Singapore, but it had critical mass as an entrepot.