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88

Hong Kong:  
A Political Transition  
to 1997

*By The Honorable Eric Ho  
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## HONG KONG: A POLITICAL TRANSITION TO 1997

by The Honorable Eric Peter Ho

Although trade and industry are my direct area of responsibility, I have more than a casual interest in political developments in Hong Kong, given that economic viability has a very close relation with political stability--and especially as Hong Kong has been home for my family for a century and a quarter.

Let me begin with fundamentals. Hong Kong is but a speck of 410 square miles on the South China coast with a population of five and one-half million people. Apart from our strategic location and fine harbor, we have no natural resources other than an enterprising and versatile business community supported by a resourceful and industrious workforce. Against this background it is easy to understand the vital importance to us of international trade; we would literally starve without it. This also explains why we have attained a standing in the international trading community out of all proportion to our size; we are the thirteenth largest international trader, and the value of our services trade is estimated at about one-tenth that of the United States, which has a population fifty times ours.

The transformation of Lord Palmerston's "barren rock with hardly a house upon it" into a dynamic economy and a leading international manufacturing, financial, and business center is truly remarkable. Moreover, while our political structure may look even archaic to any commentator from the Western democracies, the reality is very different from that in the narrow perspective of its constitutional instruments. The constitution places supreme authority in the Governor as the representative of the Queen. The Governor is subject to the instructions of the British Foreign and Commonwealth Secretary. He is advised on the formulation of policy by an Executive Council, including a majority of private citizens appointed by the Governor and some public officers. Laws are made by a Legislative Council subject to the assent of the Governor. Until 1985, the members of the legislature were all appointed by the Governor.

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This political system is very similar to the one your ancestors decided to discard two centuries ago after their famous tea party. But in practice, the Hong Kong government is not authoritarian and paternalistic. By a unique process of adaptation, the Territory is one of the freest societies in Asia; our free economy is underpinned by a strong respect for and protection of individual rights and freedoms and a free media on the lookout against perceived abuses.

Until recently, formal constitutional developments have been constrained at least partly by Hong Kong's position as a Crown Colony with no possibility of attaining independence. But the Hong Kong government is very much alive to the need for change to meet the legitimate demands and aspirations brought about by economic and social progress. While usual Western democratic systems do not apply in Hong Kong, over the years we have developed an effective system of checks and balances through government by consultation and consensus. Advisory bodies of one kind or another are found in nearly all areas of government activities. This network of boards and committees seeks to obtain, through consultation with interested groups in the community, the best possible advice on which to base decisions. We also have made moves toward a more representative type of government. The system of committees based on urban housing blocks, evolved in the early 1970s to improve cleanliness and law and order, has led to the development by 1985 of three tiers of government, each with a degree of elected participation. Some of the elections to the representative bodies are direct, some use indirect electoral colleges, and there are also directly elected representatives of important sectors of our society such as industry, labor, commerce, banking, the education, legal, and medical professions, and the social services. Although there are differences of opinion, partisan adversarial politics, as such, is not a feature of the system. Rather, the system is geared toward the examination of problems from all angles for the purpose of improving the welfare of the community.

In short, while the constitutional documents describe the Governor as having a wide range of powers, those who know Hong Kong understand and value the fact that many of these powers are never used. Within living memory, the Governor has acted within constraints, which are no less effective for being voluntarily applied. On policy matters he acts in accordance with the advice of the Executive Council. He respects absolutely the right of the Attorney General in regard to decisions on prosecutions. In the exercise of his powers in regard to the public service, I know of no case where he declined to accept the advice and recommendation of the Public Service Commission. This longstanding practice of government by wide consultation, and within the legislative process itself of consultation with members of the Legislative Council, both elected and appointed, is not reflected in the constitutional documents. To understand why Hong Kong works, it is necessary to understand these unwritten but well-established constitutional practices.

I am all too aware that this must sound odd to you who are accustomed to the changing of government through the ballot box at regular intervals. But Hong Kong is far from complacent with its present political system. Indeed, the turn of events in the last few years has focused attention on the need for further constitutional developments. "Political apathy," a standard description of public interest in the governance of the territory up to the early 1980s, is no longer appropriate today. True, our people are still very interested in making money and I do not think we need to offer apologies for that in this great country. There is now increased and increasing political awareness. In Hong Kong today you cannot switch on the TV or radio news or pick up a newspaper without getting coverage of someone offering his views on representational government. This change of attitude toward increased political awareness of our people has obviously been accelerated by the Sino-British negotiations on the future of Hong Kong.

With only fifteen years to run on the lease for over 90 percent of Hong Kong's total land area, the British and Chinese governments began their talks in late 1982. Following two years of intensive negotiations, they agreed on the Joint Declaration in September 1984, which provides a blueprint for the future of Hong Kong. On July 1, 1997, Hong Kong will become a Special Administrative Region of China, assured of the continuation of all those elements that have made Hong Kong's success possible: a separate customs territory with a free enterprise capitalist economy, free convertibility of our currency without exchange controls, the maintenance of our well-tried legal system, guarantees of our cherished personal rights and freedoms, plus a high degree of autonomy, served by an elected legislature and an executive accountable to it. Above all, the Joint Declaration incorporates an innovative concept of "one country, two systems." All these elements in the Joint Declaration will be set out in a Basic Law for the future Hong Kong Special Administrative Region, which will be promulgated and enacted by the National People's Congress of the People's Republic of China in accordance with its constitution.

Good progress has been made in implementing the Joint Declaration. For instance, the Sino-British Joint Liaison Group, which was set up to ensure a smooth transfer of government in 1997, has already reached agreement on many issues of significance to Hong Kong: the participation of Hong Kong as a separate contracting party to the General Agreement on Tariffs and Trade; the principles for the establishment of the Hong Kong Shipping Register; the design of the future Hong Kong Identity Card, which will remain valid after 1997, to name just a few examples. Meanwhile, the Chinese government already has appointed a drafting committee and a consultative committee for drafting the Basic Law, which are already at work.

But much more needs to be done to ensure a smooth transition. Since the political process we are undergoing is without precedent in

history, it is only natural that there is much healthy debate on the appropriate form and pace of change. The groundswell of public opinion is for the development of a sufficiently representative government so that it can take on the task of managing on its own a capitalist Special Administrative Region within a socialist China. In the meantime, until 1997, Hong Kong remains under British administration, and the evolutionary process on which the Hong Kong government has embarked must continue. Two considerations stand out.

First, with our unique circumstances, a wholesale grafting of models that have been found to work in other countries cannot be our answer. Marked ideological differences are not our way of life. Although there are bound to be differences of opinion on various issues, these are not delineated along "party" lines. There is indeed consensus on most issues, and the differences usually lie in the means rather than the ends.

Second, with our social and economic advancement, a paternalistic approach, however well intentioned, is not likely to be sufficient. Our political system must be allowed to evolve gradually to fit the needs of our people. There is also the need to keep our options open. Later this year, a full-scale constitutional review will be conducted and subjected to public consultation. It will address several important questions, including the possibility of direct elections to the legislature and its overall composition.

The period since the signing of the Joint Declaration has seen a return of confidence. There is a flurry of activity on the financial and property markets. In 1986, share prices rose in heavy trading. The share price index broke successive record highs and increased by 45 percent during the year. The demand for most types of residential property has been strong and the take-up of commercial property in well-planned developments in good locations has improved. I shall not attempt to contrast this in detail with the days during the Sino-British negotiations when the anxiety and uncertainty about Hong Kong's political future played havoc with the proper functioning of our economy. But most people in Hong Kong agree that the regained confidence needs to be nurtured.

Just as political stability is necessary to allow steady economic progress, continued economic strength and resilience are essential for the furtherance of this stability. Full employment and the preservation and improvement of the standard of living, being the underlying strength of any society, are also important to a smooth transition. Unfortunately, these are not entirely within our control. Our economy is, and has always been, highly externally oriented. The value of our merchandise trade consistently stands at some 170-180 percent of our Gross Domestic Product. The corollary of this heavy dependence on trade is a wide exposure to the ups and downs of world trade. Economic downturns in our major markets inevitably have a direct effect on our economy. But protectionist measures



adopted by our trading partners could pose an even more serious threat.

It is against this background that we in Hong Kong are extremely concerned about protectionist pressures in the United States which is by far our largest market, accounting for over 40 percent of our domestic exports. I am sure that you are conversant with the virtues of free trade and the arguments against beggaring thy neighbor. But may I just mention that in purely trade terms, Hong Kong is one of the strongest supporters and truest practitioners of the principles of free trade. We have no tariff or nontariff barriers against imports. We also maintain an equally open market for services. If it is the aim of the U.S. to persuade or induce its trading partners to dismantle or lower their barriers to imports, then the U.S. surely must give full recognition to Hong Kong's free trade practices to provide an incentive for others to follow.

In a wider context, Hong Kong's continued viability depends to a large extent on the understanding and cooperation of the international community, and the United States can play a vital role in this. I believe that it is also in the interest of the U.S. that the experiment in Hong Kong should succeed. The U.S. is the largest source of overseas investment in our manufacturing industry, accounting for over half of such investments. Many U.S. firms take advantage of Hong Kong's ideal location in relation to the Pacific Rim and China to set up their Asia-Pacific headquarters. In invisibles, U.S. interests are especially active in our banking, insurance, and other financial services. In 1985, Hong Kong was the third largest location of U.S. direct investments in Asia. And you may be interested to know that there are more Americans than Britons in Hong Kong today.

Nor is this economic relationship a one-way street. Obviously, the small size of Hong Kong means that we can never aspire to be a major market for the United States. However, we are the leading market for U.S. exports, ranging from ginseng to aluminum structures. In 1984, we were the second largest market for U.S. exports of poultry, fresh grapes, and cigarettes, and the third largest for eggs, oranges, fresh apples, chocolate, and diamonds, to name but a few. While the size factor means that we cannot be a major investor in U.S. industries and services, we were still the second largest Asian investor in the United States in 1985. I am sure that there is still much room for the further expansion of this mutually beneficial relationship.

On the political front, the success of the "one country, two systems" concept in Hong Kong should be of benefit not only to the people of Hong Kong. Hong Kong also should be able to progress steadily on the basis of its present achievement so that it can contribute meaningfully to China's modernization. Hong Kong has already proved itself to be a valuable source of technical expertise

and management skills for China. The successful implementation of the "one country, two systems" concept can only reinforce the course of economic pragmatism the present Chinese leadership is pursuing. A more open and prosperous China would affect considerably the development of the Asian-Pacific region as a whole. There are therefore good reasons to believe that it is in the interest of the international community, especially the United States, that the experiment in Hong Kong should succeed.

The years ahead to 1997 and beyond will be exciting, if trying, times for Hong Kong. Politically, the different views being expressed on our future constitutional structure have to be consolidated into a working arrangement to facilitate, rather than hinder, our move forward. Hong Kong has fared well since the signing of the Joint Declaration. Both the Chinese and British governments have demonstrated their sincerity to make the Joint Declaration work. Goodwill and understanding on the part of the international community as well will be necessary in smoothing the way ahead. The United States has contributed much in this regard in the past few years in the form of both the support of the U.S. government and the vote of confidence by U.S. companies through increasing investments and economic links with Hong Kong. For all this, we in Hong Kong are grateful. We look forward to your continued support, goodwill, and understanding.

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