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HONG KONG: NOW A MATTER OF U.S. INTEREST

INTRODUCTION

It may be a British Crown Colony, but Hong Kong in many ways has become an American economic and cultural outpost. Hong Kong purchased almost \$6 billion of American products last year, making it the world's 13th largest market for American goods. The United States is the territory's largest customer, consuming almost 40 percent of its annual exports. Hong Kong is a base for many U.S. businesses in Asia, particularly those operating in mainland China. And the people of Hong Kong view the American television programs, *Miami Vice* and *Dallas*, as often as they do the British series, *Masterpiece Theater*. Indeed, when Hong Kong reverts to China on July 1, 1997, the British stake in its colony may be overshadowed by the U.S. Ventures Stanley Karnow, a veteran observer of Hong Kong affairs: "A decade from now, Hong Kong may very well turn out to be a Sino-American consortium."¹

Demanding Reassurance. Hong Kong residents understandably were nervous about their future ever since London and Beijing agreed on December 19, 1984, that the territory eventually would come under China's rule. This nervousness has increased sharply since Chinese troops this June 4 slaughtered pro-democracy demonstrators in Beijing's Tiananmen Square. From a May 15 year high of 3309.64 points, the Hong Kong stock market's Hang Seng index dropped 1159.93 points following the student

1 Stanley Karnow, "What will happen when the Chinese take back their 'fragrant harbor'?" *The Smithsonian Magazine*, April 1989, p. 52.

demonstrations, including a 581.77, or 22 percent, plunge on June 5. The Index only recovered 643.74 points as of October 12. Moreover, up to one million people were estimated to have poured into Hong Kong's narrow streets to protest the crackdown on the students in Beijing and to demand reassurance for their future.

Questionable Promises. What worries Hong Kong, of course, is that its future depends on whether Beijing, after 1997, will live up to its promise to respect Hong Kong's political and economic system. The slaughter in Tiananmen Square and the continuing purge of reformers in China indicate that Beijing's promises to respect self-rule and capitalism in Hong Kong probably are not to be trusted.

Understandably, Hong Kong's demands for reassurance about the future have been directed primarily at Beijing and London, the two parties to the agreement on the future status of the territory. It is the Joint Declaration and three annexes of that Agreement which promise that Hong Kong will be a "Special Administrative Region" of China and "will enjoy a high degree of autonomy, except in foreign and defense affairs which are the responsibilities of the Central People's Government." The Joint Declaration also decrees that a Basic Law will be enacted to assure the integrity of Hong Kong's capitalist system and life-style for 50 years.

Prior to 1984, Washington correctly adopted a low public profile as Beijing and London negotiated the Joint Declaration. There was no basis under international law for the U.S. to intervene in the negotiations. This was an issue to be decided solely by Britain and China.

World Financial Center. But recent events force Washington to start paying attention to Hong Kong. The operations there of American companies are impaired by an increasing exodus of skilled workers, fearful of committing their future to Hong Kong after the carnage in Beijing. Last year, 45,000 left the territory, seeking citizenship in countries safer than a post-1997 Hong Kong, and projections by a Hong Kong government task force estimate that the number could increase by 10,000 this year. Notes an American Chamber of Commerce Position Paper prepared eight months before the Tiananmen crackdown: "Expansions, new developments and restructuring in Hong Kong may seem out of the question when there are no available staff to fill the jobs."²

More important for the U.S., a weak Hong Kong undermines Asian stability. For one thing, as one of the world's financial centers, instability in the territory could provoke an outflow of capital that could affect the world economy seriously. For another, the flood of Hong Kong refugees adds to the problems Asia currently experiences with the Vietnamese boat people.

2 The American Chamber of Commerce in Hong Kong: "Basic Law Position Papers," October 8, 1988, p. 3.

Critical, too, is the fact that Beijing has explicitly linked its policy on Hong Kong to a possible reunification with Taiwan. Thus, any Beijing action that would threaten Hong Kong's economic prosperity or social order might increase support in Taipei and abroad for a future independent of mainland control. This could have profound ramifications for U.S. policy, which is predicated on the diplomatic formula "that there is one China, and Taiwan is a part of China."

New U.S. Policies. Because of Hong Kong's mounting importance for America, Washington must abandon its historic policy of limiting its attention to and interests in Hong Kong. While this was appropriate when Hong Kong was simply a British Crown Colony, it is woefully inadequate now. What is now appropriate is for Washington to adopt policies that declare the American interest in the territory's future. Specifically, Washington should:

- ◆ ◆ Make clear both to London and Beijing that the U.S. is concerned about recent events in Hong Kong and that a "stable and assured" Hong Kong is vital to the American interest in Asia in the coming century.

- ◆ ◆ Make clear to London and Beijing that the U.S. so far remains confident about the future of Hong Kong on the basis of the Sino-British Joint Declaration of 1984. But Washington also should stress that much still needs to be done to assure the territory's residents and the international community that Hong Kong's capitalist system, political freedoms, human rights guarantees, and life-style will remain intact after 1997.

- ◆ ◆ Stress to Beijing that the future of Hong Kong is an important component of Sino-American relations. Moreover, Washington should tell Beijing that its treatment of Hong Kong will be viewed as an important measure of how the PRC will treat Taipei in a future "unified" China.

- ◆ ◆ Stress to Beijing that Hong Kong's viability is largely dependent on the continued economic development of Southeast China, particularly Guangdong Province.

- ◆ ◆ Stress that guaranteed freedoms and democratic institutions for Hong Kong must be assured before the territory passes into Chinese hands in 1997. In particular, the U.S. should press London and Beijing to make arrangements for Hong Kong to be an independent signatory to the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social, and Cultural Rights. Although these United Nations declarations are largely symbolic, they nonetheless express the universal human rights that must be assured to the people of Hong Kong.

◆◆ Applaud the British announcement at the United Nations this September 27 of an effort to speed the introduction of a democratically elected government in the colony. The British plan provides for at least half the seats in Hong Kong's Legislative Council, known as LEGCO, the territory's ruling body, to be filled by direct election by 1995. Currently, none of the 56 members of LEGCO are directly elected.³ Moreover, Washington should salute London's intention to draft a Bill of Rights for the territory.

◆◆ Propose to the Hong Kong government the formation of a "Joint U.S.-Hong Kong Committee for Scholarly Communication and University Development." This could be formed under the auspices of the U.S. Department of Education and Hong Kong's University and Polytechnic Grants Committee to study means to increase and improve educational contact between Hong Kong and the U.S. Education is the best investment in Hong Kong's future. It provides a reason for Hong Kong's young people to remain in Hong Kong. It assures a credible work force for the international business community after the territory passes into the PRC's hands in 1997.

◆◆ Offer safe haven to a large share of Hong Kong's citizens if, after 1997, they feel forced to flee. The nature of this "safety net" should be determined by the "Group of Seven" industrialized nations.⁴ If they fail to agree on a policy, however, the U.S. should be ready to accept great numbers of Hong Kong's industrious and often highly-skilled residents. At the same time, Washington should stress that U.S. interests do not lie in an increased number of Hong Kong immigrants to the U.S., numbering only 12,000 last year, but in a viable Hong Kong in 1997 and beyond.

◆◆ Move toward a limited U.S.-China Free Trade Area (FTA) for Hong Kong. An FTA would be a politically symbolic measure to re-affirm the American interest in the continued economic freedom of Hong Kong.

HONG KONG'S ECONOMIC GROWTH

When China was forced to cede the island of Hong Kong to Britain in 1842, British Foreign Secretary Lord Palmerston dismissed it with his now famous phrase: a "barren island with hardly a house upon it." Today the 366-square-mile territory has a population of 5.6 million, 98 percent of them ethnic Chinese. The colony was acquired by Britain in three stages: Hong Kong Island by the Treaty of Nanjing in 1842; Kowloon Peninsula and Stonecutter's Island by the First Convention of Beijing in 1860; and the New Territories, which constitute 90 percent of Hong Kong's land, by a 99-year lease under the Second Convention of Beijing in 1898.

3 See Paul Lewis, "British, at U.N. Assembly, Agree to Accept Some From Hong Kong," *The New York Times*, September 27, 1989, p. A1.

4 The Group of Seven industrialized nations includes: Britain, Canada, France, Italy, Japan, the United States, and West Germany.

“Industrial Revolution.” Hong Kong’s rise as a preeminent commercial center in Asia came after Shanghai was taken by communist forces in 1949. Waves of Chinese immigrants, fleeing communism on the mainland, swept into the colony. Among them were former Shanghai industrialists. Because the Korean War and the United Nations embargo on the export of strategic goods to China cut off much of Hong Kong’s business, these industrialists used Hong Kong’s new pool of cheap labor to fuel an “industrial revolution” in light manufacturing. The result: Hong Kong quickly became the world’s source of plastic flowers, rubber footwear, toys, and clothing.

Hong Kong’s free-market policies, low tax rates, and “anything-goes” spirit made the colony the largest financial market behind New York and London by the mid-1970s and sparked another revolution, this time in services. Hong Kong discovered that even more money could be made by supplying computer operators for shipping, air freight, travel, banking, and insurance companies. The territory expects to do over \$35 billion in service trade this year, which constitutes over 65 percent of its economy. Manufacturing, by contrast, only provided 22 percent of Hong Kong’s \$54.7 billion economy last year.

Home to 800 U.S. Firms. Manufacturing, however, is Hong Kong’s largest source of employment, accounting for 845,000 jobs last year. Finance, insurance, and business services employed 231,000 in 1988, a 9.9 percent increase over 1987, making these the fastest growing areas of employment.

Hong Kong has been important to the U.S. in times of war and peace. During the Vietnam War, for instance, Hong Kong became America’s most important intelligence-gathering post into China, which had been largely closed off to the West by the Cultural Revolution. The Vietnam War also brought increased economic activity and trade to Hong Kong, just as it did to Singapore and Japan. Hong Kong thus became a favorite place for U.S. investment. Today, there are over 800 U.S. firms in Hong Kong, including 3M Company, Dow Chemical Company, International Business Machines Incorporated, Exxon Corporation, and Eastman Kodak Company. Many of these companies, particularly Westinghouse Incorporated and Wang Laboratories, have set up their Asia-Pacific regional headquarters in the territory.

BRITISH HONG KONG OR CHINESE HONG KONG?

“It is extraordinary – not to say discreditable – that after 55 years of British rule, the vast majority of Chinese in Hong Kong should remain so little anglicized,” said Governor of Hong Kong Sir William Robinson – in 1895; and the statement remains as true now. This is not to imply British rule in Hong Kong has been invisible. Writes the *Economist*: “What distinguishes

Hong Kong from cities such as Canton and Shanghai is not just its capitalism, but also its British-imposed sense of order.”⁵ Meaning: England’s legacy in Hong Kong is found in the simple and efficient bureaucracy, impartial judiciary, and friendly atmosphere for Western businessmen.

Hong Kong Trade, 1988
(in billions of current dollars)

Imports	US\$	Percent
China	20.017	31.2
Japan	11.962	18.6
Taiwan	5.705	8.9
United States	5.318	8.3
South Korea	3.377	5.3
Singapore	2.375	3.7
West Germany	1.679	2.6
United Kingdom	1.662	2.6
Switzerland	1.174	1.8
Italy	1.036	1.6
Others	9.848	15.4
TOTAL	64.153	100.0
Domestic Exports	US\$	Percent
United States	9.374	33.5
China	4.893	17.5
West Germany	2.078	7.4
United Kingdom	1.997	7.1
Japan	1.471	5.3
Canada	.770	2.7
Singapore	.672	2.4
Netherlands	.633	2.3
France	.538	1.9
Australia	.537	1.9
Others	5.034	18.0
TOTAL	27.997	100.0

Source: *Hong Kong 1989*, Government Information Services, Hong Kong, 1989.

Domestic exports are goods produced in Hong Kong for sale abroad.

5 “Hong Kong Survey,” *The Economist*, June 3, 1989, p.5.

Re-exports	US\$	Percent
China	12.205	34.5
United States	6.364	17.5
Japan	2.240	6.3
Taiwan	1.17	5.1
South Korea	1.513	4.3
Singapore	1.119	3.2
West Germany	1.111	3.1
United Kingdom	.824	2.3
Australia	.573	1.6
Macau	.501	1.4
Others	7.151	20.2
TOTAL	35.218	100.0

Source: *Hong Kong 1989*, Government Information Services, Hong Kong, 1989.

Re-exports are goods imported by Hong Kong and then exported without significant alteration. Official U.S. and Hong Kong figures differ on total exports to U.S. since the U.S. categorizes some of Hong Kong's re-exports as exports by the original country of production, and not as Hong Kong exports.

Nonetheless, Hong Kong is a Chinese city and China's influence is unavoidable. The new 70-story Bank of China building cuts into Hong Kong's fabled skyline and overshadows the headquarters of the "British" Hong Kong and Shanghai Banking Corporation. The mainland-owned Bank of China and its twelve sister banks, moreover, hold 20 percent of Hong Kong's total deposits. There are now several thousand companies in Hong Kong that are the unacknowledged children of parent bodies in China.⁶ Indeed, cynics in the territory frequently joke that Hong Kong's governor is not the London-appointed Sir David Wilson but the Beijing-appointed Xu Jiatur, head of the Xinhua News Agency, Beijing's official presence in the territory.

China's \$6 billion worth of investment in Hong Kong is comparable to Hong Kong's largest Western investor, the U.S. In 1988, China was the biggest source of Hong Kong's imports, the second-biggest market for its domestic exports, and the biggest market for its re-exports, which are those products first exported to Hong Kong and then sent to China after being assembled or finished in the territory. The numbers are especially impressive in the light of China's decade of reforms. In 1979, total trade between Hong Kong and the mainland was a mere \$2.1 billion; last year it was almost \$37 billion, making Hong Kong China's largest trade partner.⁷

6 *Ibid.*, p.20.

7 *Ibid.*, p.21.

Increasing Reliance on China. China is equally important to Hong Kong. For almost three decades, 70 percent of Hong Kong's potable water has been drawn from mainland rivers.⁸ Such essential commodities as vegetables, pigs, and rice also come from the mainland. And this reliance on China is sure to increase. While Hong Kong's economy continues to grow briskly – predicted at 6 percent this year – it faces rising commercial and industrial rents and a dangerous shortage of labor. As a result, three million workers in China's Guangdong Province are employed directly or indirectly by Hong Kong businesses. Says one Hong Kong businessman: "Re-locating factories to the mainland is a matter of commercial survival."

THE POLITICS OF THE RELATIONSHIP

British Prime Minister Margaret Thatcher raised the issue of Hong Kong's future with Chinese leaders during her September 1982 visit to Beijing. She was under pressure to do so because of the fast-approaching expiration of the 99-year treaty that in 1898 gave the New Territories to Britain. With or without a new arrangement with Beijing, the New Territories, comprising 90 percent of the colony's land, was going to revert to the mainland in 1997. The goal of Britain was to ensure a transition that did not destroy Hong Kong. Thatcher's visit produced an agreement between the PRC and Britain to "enter into talks through diplomatic channels with the common aim of maintaining the prosperity of Hong Kong."⁹

When the talks began, pointed differences predictably arose among the principals. London's initial proposal was to maintain British administration over Hong Kong for an indefinite period after the lease to the New Territories lapsed in 1997. This was rejected by Beijing, which insisted on reassertion of Chinese sovereignty over the territory. One British official involved in the negotiations told The Heritage Foundation: "At times, we were at such cross purposes that it appeared Hong Kong's interests were lost entirely."¹⁰

"One Country, Two Systems." After difficult negotiations, London and Beijing initialed the agreement on the future of Hong Kong on September 26, 1984. The Joint Declaration issued by the two governments was more flexible and forthcoming than many observers had believed possible two years before. In the Declaration, China agrees that the distinctive features of Hong Kong's present administrative, legal, economic, educational, and social systems will be preserved for at least 50 years after the reassertion of Chinese

8 "Water supplies still run deep in Chinese relations with Hong Kong," *Financial Times*, September 3, 1989, p. 3.

9 See Robert Sutter, "Hong Kong's Future and its Implications for the United States," in *China's Economy Looks Toward The Year 2000*, Joint Economic Committee, 99th Congress, Vol. 2, p. 374.

10 For further information, see "Post-Tiananmen Hong Kong: What Role for the United States?" edited by Andrew B. Brick, *The Heritage Lectures*, No. 205, July 21, 1989, p.5.

sovereignty. This notion of a capitalist Hong Kong existing inside a socialist China is summarized by Beijing as the “one country, two systems” formula. In the Declaration, Beijing also agrees to:

- ◆ ◆ Continue Hong Kong’s common law system.
- ◆ ◆ Allow Hong Kong to retain the status of an international financial center. The free flow of capital would continue and the Hong Kong dollar would remain freely convertible.
- ◆ ◆ Allow Hong Kong to remain a free port.
- ◆ ◆ Approve the continuation of Hong Kong’s land and building leases until 2047.

A committee of 36 mainland Chinese and 23 Hong Kong leaders was formed to draft the basic laws for governing the Hong Kong “Special Administrative Region of the People’s Republic of China” from its inception on July 1, 1997. The Basic Law, the first version of which was issued in April 1988 and the second this February, is to be promulgated in 1990.

HONG KONG’S ANXIETY

Despite pledges of British and Chinese concern and goodwill, many people in Hong Kong are alarmed by the prospect of a Chinese takeover. The reason: the volatility of Chinese politics. Where geographical proximity to mainland China has served Hong Kong’s commercial interests well, the territory is vulnerable to the lurching of the mainland’s politics. Explained a Hong Kong official to The Heritage Foundation: “When the mainland has its political earthquakes, we are sure to feel the tremors.”

The earthquakes have been distressingly frequent during the four decades of communist rule. From Mao Zedong’s catastrophic Great Leap Forward in the late 1950s to the even more catastrophic decade of the Cultural Revolution, Hong Kong has felt the tremors. In 1967, for instance, the Cultural Revolution came to Hong Kong, as the territory experienced a series of riots that temporarily paralyzed the economy. There were huge and violent demonstrations that closed the territory’s businesses. At the height of the violence, corpses daily were fished from the waters around Hong Kong. The experience, many thought, sealed the colony’s disillusionment with communism.

Then came June 4, 1989.

From Optimism to Despair. Writes Philip Bowring in the *Far Eastern Economic Review*: “Hong Kong, once the most pragmatic, almost cynical, of places, has not been simply overcome with emotion (because of the slaughter in Tiananmen Square) but with conflicting emotions.” As Bowring writes, Hong Kong ran the gamut of emotions: from an optimism driven by Beijing’s fledgling democracy movement to rage at the horror of June 4 massacre to despair because Britain “was so indifferent to the plight of its last great colony.”¹¹

What seems certain in the aftermath of Tiananmen Square is that the automatic pilot is no longer acceptable to the majority in Hong Kong. They do not trust the flimsy Joint Declaration and now regard Chinese promises as hollow. What is worse, there will be no solid mechanisms to enforce Beijing’s fulfillment of its promises. What Hong Kong now seems to want are firmer guarantees of political and economic freedoms. And, if the guarantees fail, Hong Kong wants a parachute: the right of the territory’s 3.2 million British passport holders to flee to Britain. Currently, London plans to give people deemed “essential to Hong Kong’s future stability and prosperity” the right to move to Britain but has not yet explained how such people would be chosen or how many would be allowed to move.

THE BRAIN DRAIN

The clearest manifestation of the territory’s crisis of confidence is the number of “Hong Kong people” leaving the colony to seek citizenship in countries more secure than a post-1997 Hong Kong. The size of this “brain drain” steadily has increased: 19,000 in 1986; 30,000 in 1987; 45,000 in 1988; and according to Hong Kong government projections, as many as 55,000 this year.¹²

These are the people needed in Hong Kong. For one thing, a disproportionately greater amount of the emigrants are in the 25 to 44 age group than the population at large. For another, those leaving are better educated than the general population. In 1987, some 5,600 people, or 18.7 percent of total emigrants, held college degrees. In 1988, 6,900, or 15 percent of total emigrants, held college degrees. Only 3.5 percent of the general population in Hong Kong hold advanced degrees.¹³ Many of the emigrants are mid-level managers and professionals. Said one Hong Kong government spokesman of the exodus: “It is doing damage by the loss of talent and it is doing damage...to the morale of the people left behind.”¹⁴

11 Philip Bowring, “Road to Nowhere,” *The Far Eastern Economic Review*, July 20, 1989, p.20.

12 “Hong Kong to Lose a Growing Share of Its Best and Brightest to Emigration,” *Wall Street Journal*, September 18, 1989, p. A13C.

13 *Ibid.*

14 *Ibid.*

Flood of Prospective Immigrants. The Hong Kong-based consulates of nations that are popular destinations are flooded by prospective immigrants, seeking visa applications. A new resident visa program announced by Singapore in late July attracted 20,000 applicants on its first day.¹⁵ Last year, 24,588 Hong Kong people moved to Canada, 11,777 went to the U.S., and 7,846 to Australia.¹⁶

THE AMERICAN INTEREST

U.S.-Hong Kong trade registered its third consecutive record-breaking year in 1988, fueled primarily by \$5.7 billion worth of U.S. exports to the territory. The major U.S. exports: machinery, transport equipment, plastics and resins, paper and paperboard, chemicals and textile fibers.¹⁷ And Hong Kong is the number one foreign market for American oranges, apples, melons, and fresh eggs. The U.S. is Hong Kong's largest overseas market. The U.S. imported \$10.2 billion worth of Hong Kong products last year, comprised predominantly of clothing, textile fabric, yarn, and thread.¹⁸

Access to China, in particular, attracts U.S. business to Hong Kong. A 1987 survey revealed that most American firms in Hong Kong conduct some business on the mainland. And the great majority of the survey's respondents felt that maintaining an office in Hong Kong was necessary for doing business across the border.¹⁹

Special Link to Mainland. For now, most American companies with operations in Hong Kong and China apparently plan to keep offices in Hong Kong. An executive with a major U.S. corporation in Hong Kong told The Heritage Foundation: "The efficiency of the [Hong Kong] society may not be the same. Singapore or Taiwan may provide better all-around business environments. Nonetheless, with 1997 or without it, Hong Kong has a special link to the mainland that no other Chinese community can boast."

Because of the important U.S. trade, investment, and commercial interests in Hong Kong, the U.S. Consulate-General is the largest foreign consular office in the territory, with 116 American staffers and 224 local staff. It also is the second largest U.S. consular office in the world (The office in Frankfurt, West Germany, is the largest). Hong Kong maintains offices at the British Embassy in Washington and British Consulate-General in New York; an Industrial Promotion Office in San Francisco; Hong Kong Development Councils in New York, Chicago, Dallas, Los Angeles, and Miami; and Hong Kong Tourist Associations in San Francisco, New York and Chicago.

15 "Suddenly a Great Escape," *Asiaweek*, July 28, 1989, p.26.

16 "Hong Kong Survey," *The Economist*, June 3, 1989.

17 "Hong Kong," *Business America*, April 10, 1989, p.32-33.

18 *Ibid.*

19 "Anticipating 1997," *The China Business Review*, May-June 1988, p.46-48.

Free-Trade Ally. Hong Kong is important to the U.S. internationally. Its free-trade commitment makes it a valuable ally in the Asian Development Bank and the General Agreement on Tariffs and Trade (GATT). And it has participated, often through Britain, in more than 85 multilateral treaties or agreements to which the U.S. is a contracting party. These treaties and agreements include copyrights and patents to telecommunications and the control of narcotics trafficking.

Hong Kong's new uncertainty is affecting the American commercial interest there. In the wake of Beijing's current repression, for instance, American banks, which have approximately \$20 billion in outstanding loans in Hong Kong, have expressed anxiety about their Hong Kong business. Of particular concern: the exodus of professional staff. U.S. banks are now toying with the costly idea of bringing in staff from outside Hong Kong.²⁰ *Survey and Research Hong Kong*, the territory's equivalent of the Gallup Organization, reports that economic confidence in Hong Kong is at its lowest ebb since it began such surveys in 1985.

DECLARING A U.S. INTEREST

Although 1997 is still eight years away, the people of Hong Kong examine every option – some fanciful – to escape or circumvent the Chinese Communists. Among the ideas that have appeared in the press:

- ◆ ◆ Tow Hong Kong out to sea.
- ◆ ◆ Relocate the colony in Australia or Scotland.
- ◆ ◆ Invite the United Nations to establish either a regional headquarters or move part of its international operations to the territory.
- ◆ ◆ Urge China to lease Hong Kong to the United Nations for 50 or 100 years after 1997. According to the author of this idea, such action would create “the Switzerland of Asia.”²¹

Had such proposals not been prompted by the bloodbath in Beijing, they surely would have been dismissed out of hand. And while these ideas still are almost unanimously rejected, they have a gallows humor authenticity that betrays Hong Kong's anxiety. Undeniably, there is a crisis of confidence in the territory. Hong Kong people need to be reassured.

The U.S. has a vested interest in that reassurance. An economically and politically healthy post-1997 Hong Kong is central to American commercial and strategic interests in Asia.

20 “Feeling Exposed,” *The Far Eastern Economic Review*, August 17, 1989, p.62.

21 See *The New York Times*, September 4, 1989, p. A6 or *The Asian Wall Street Journal*, August 28, 1989, p.4.

The U.S. should declare this interest in the future of the British colony. Specifically, Washington should:

◆ ◆ State its concern about the future of Hong Kong and emphasize to Beijing and London that a confident Hong Kong beyond 1997 is in the American interest.

◆ ◆ Reaffirm U.S. confidence in the Sino-British Joint Declaration as the basis for determining the future of Hong Kong. Washington clearly should state its expectation that the capitalist system and life-style of Hong Kong will remain intact after 1997.

◆ ◆ Echo Britain's call for China's leaders to give "practical assurances" to the people of Hong Kong that their freedoms and livelihood will be respected after 1997. Such assurances might include Beijing's recognition of Hong Kong's actual and potential contribution to China's modernization program.

◆ ◆ Make clear to Beijing that the fate of Hong Kong is an important component of Sino-American relations. Beijing should be told that Washington is watching developments in Hong Kong closely as an indicator of China's policy to Taiwan, where the U.S. has important legal ties under the Taiwan Relations Act.

◆ ◆ Press London and Beijing to make Hong Kong an independent signatory to the United Nations' Covenants for Civil and Political Rights and Economic, Social and Cultural Rights. While principally a parchment assurance, the introduction of official human rights ordinances into the Hong Kong Special Administrative region after 1997 makes clear to Beijing the importance the international community attaches to the observance of human rights in the territory.

◆ ◆ Support Britain's decision to introduce democratically elected government into Hong Kong before 1997. British Foreign Secretary John Major's September 27 proposal is the surest way to promote the emergence of a local leadership answerable to the citizens of Hong Kong. The British goal is for at least half the seats in Hong Kong's legislature, which consists of appointed members, to be filled by direct election by 1995. Washington also should urge Beijing to accept direct elections in Hong Kong as the surest means to reassure the populace and maintain a stable economic and political environment after 1997.

◆ ◆ Direct the U.S. Information Agency or the U.S. Department of Education to study ways to improve the educational contact between Hong Kong and the U.S. This should be done in association with Hong Kong's University and Polytechnic Grants Committee. The U.S. has a vested stake in Hong Kong's educational system. It provides a skilled and capable work force that is integral to Hong Kong's future. And it is an attractive lure for the young to remain in the territory after 1997.

◆ ◆ Assure Britain that the U.S. will assist in an international effort to provide safe haven for Hong Kong's people if the situation in China further deteriorates. Though Washington should stress that the long-term American interest is best served by a stable and prosperous Hong Kong, it nevertheless should announce its readiness to accept a large number of refugees from the territory.

◆ ◆ Suggest a limited U.S.-China Free Trade Area (FTA) for Hong Kong before 1997. In an FTA, trading partners agree to eliminate those restrictions, such as tariffs, that impede free trade. While Hong Kong's status as a duty-free port largely renders the economics of an FTA unnecessary, the political benefits of such a move could be significant. It would be an expression of U.S. support for the free market integrity of Hong Kong. And it would reassure American businessmen that the U.S. government is willing to seek means to assure their interests in the territory after 1997.

CONCLUSION

The June 4 slaughter in Tiananmen Square created such a groundswell of popular concern about the credibility of China's promises for the future of Hong Kong, that the colony is suffering a severe crisis of economic and political stability. This mood impairs the significant U.S. interest in Hong Kong.

As Hong Kong's largest foreign market and one of its principal investors, U.S. interests are in a politically assured and economically healthy Hong Kong. Moreover, Washington must recognize that because of its prominent economic and cultural position in Hong Kong, the U.S. effectively has replaced Britain as the preeminent Western player in the territory. While Hong Kong's status as a British Crown Colony once compelled the U.S. to adopt a low profile in the territory, the 1997 transfer of Hong Kong to Chinese control now demands U.S. attention.

Measure of China's Commitment. The Bush Administration should work with London and Beijing to assure Hong Kong's economic and political stability up to and through 1997. It should stress to London and Beijing that the future of Hong Kong largely is dependent on their commitment to fulfilling the promises of the 1984 Sino-British Joint Declaration, and that much still needs to be done to assure the territory's residents and the international community that Hong Kong will remain intact, economically and politically, after 1997.

Washington should applaud Britain's intentions to introduce a significant measure of universal franchise before 1997. Washington also should weigh the future of Hong Kong into the balance of Sino-American relations. As such, the Bush Administration should inform Beijing that its treatment of Hong Kong is an important measure of China's commitment to both its own modernization and its promises of peaceful reunification with Taiwan.

Andrew B. Brick
Policy Analyst

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