



PROTECTING AMERICA'S STAKE IN HONG KONG

It is the 13th largest market for American goods in the world and home to more than \$7 billion in American investment. It is a key to American commerce in the People's Republic of China and the principal financial capital in Southeast Asia. And it is home to 17,700 Americans and over 900 United States businesses.

This is Hong Kong, a British colony preparing to revert to Chinese control on July 1, 1997, but also a vital American cultural and economic outpost. This emphatically was made clear on June 24 when the Hong Kong government announced that the overall planning of the territory's new \$16 billion port and airport predominantly would be a U.S. affair. San Francisco-based International Bechtel Incorporated will manage the overall project. Grenier Engineering Incorporated of Irving, Texas will design the two-runway Cheklapkok airport. And the Manhattan merchant bank Morgan Stanley and Company Incorporated will be the project's financial advisor.

Courting America. The airport contract is not the first political perk Hong Kong has dangled before American companies. Last year, it gave Denver-based U.S. West Corporation a \$500 million cable-television contract. A main reason for this and other deals with U.S. firms: Hong Kong seeks a continued American presence as it prepares for a very uncertain future. Alarmed by the violent repression of student demonstrators in Beijing a year ago, Hong Kong remains unsure that China will live up to its promises in the Joint Declaration signed with Britain on December 19, 1984, to respect self-rule and capitalism in Hong Kong after the colony reverts to Chinese control. Moreover, London is viewed with great suspicion in Hong Kong. One reason is that Britain is preparing to grant just 225,000 of the colony's 5.7 million residents British citizenship before 1997. This means that only they will be assured of finding safe haven should China begin repressing Hong Kong's freedoms. Said Hong

Kong Legislative Counselor Martin Lee in May at The Heritage Foundation: "That is an arbitrary number and further evidence of Britain's moral abdication of the one colony that never asked for, and cannot now hope for, independence."

Brain Drain. It is not surprising therefore that the majority of London's and Beijing's pledges of concern and goodwill fall on deaf ears in Hong Kong. The territory is gripped by a serious crisis of confidence, the clearest manifestation of which is illustrated in the 1,000 per week exodus of Hong Kong's best and brightest citizens. The usual destinations: Australia, Canada, and the U.S.

Hong Kong's so-called "brain drain" is of course America's brain gain. The U.S. traditionally has been invigorated by infusions of energetic refugees, like Hong Kong's people, who embody the American values of industriousness, thrift, family, and education. But the American interest in this matter extends beyond accepting many more than the 9,470 Hong Kong citizens who entered the U.S. last year. It is strongly in America's interest that Hong Kong after 1997 remain economically and politically healthy. The colony must be assured of its future. Washington can play a significant role in that assurance by:

- ◆ ◆ Informing London and Beijing of U.S. concern about recent events in Hong Kong and of the U.S. conviction that a "stable and assured" Hong Kong is vital to the American interest in Asia. Washington should stress, moreover, 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, and life-style will remain intact after 1997.

- ◆ ◆ Stressing to Beijing that the future of Hong Kong is an important component of Sino-American relations. Washington should call on China to give "practical assurances" to the people of Hong Kong that their freedoms and livelihood will be respected after 1997. Such assurances should include Beijing's recognition of Hong Kong's actual and potential contribution to China's modernization program and China's continued support for the territory's infrastructural development. Last year, Hong Kong accounted for a third of China's \$17 billion foreign exchange earnings and 70 percent of its \$3.2 billion foreign investment. Half of China's \$53.2 billion exports moved through Hong Kong, easily the Chinese coast's best port. And two million Chinese work in Hong Kong plants operating on the mainland. In short: An economically vibrant Hong Kong is vital to China's continued development. Beijing should explicitly recognize this.

- ◆ ◆ Considering carefully what the impact will be on Hong Kong if the U.S. denies China Most-Favored-Nation (MFN) trading status. Noted John Kamm, President of Hong Kong's American Chamber of Commerce, in June testimony before the House Ways and Means Committee: "Taking MFN away from China severely undercuts the American business interests in Asia and will have terrible consequences for Hong Kong." On May 24, George Bush recommended to the U.S. Congress that it re-extend MFN status to China for another year. Such status gives China's exports to the U.S. the same treatment afforded to exports from some 178 other countries. Denying China

MFN status will deal Hong Kong a devastating economic blow. For one thing, of the \$8.5 billion of Chinese goods exported to the U.S. in 1988, some \$5.5 billion worth, or 65 percent, was sent to Hong Kong first, and then re-exported to America. In 1989, Chinese re-exports through Hong Kong jumped to \$8.5 billion, or 71 percent of China's total exports to the U.S. For another thing, Hong Kong-based American businesses would be hard hit. An American Chamber of Commerce poll of its Hong Kong-based member companies indicated that 70 percent would be hurt and nearly 50 percent would have to consider reducing Hong Kong staff and operations if China lost MFN status.

◆ ◆ Adjusting immigration requirements in ways that encourage Hong Kong's citizens to remain in Hong Kong. Washington particularly should consider:

1) **Allowing those who receive entry visas to the U.S. to defer their decision to leave Hong Kong until the year 2002, five years after Hong Kong reverts to Chinese control.**

Currently, visa recipients have only four months in which to move to the U.S.

2) **Allowing American firms in Hong Kong to promise passports to qualified employees who have been with the firm a specified length of time. Such business-sponsored passports are currently being issued in Hong Kong by the French government for employees who have been with French firms for at least five years.**

3) **Expanding the use of so-called "Investor Visas."** Although this category of entry need not confer U.S. citizenship, Hong Kong citizens willing and able to invest in the U.S. should be allowed to come to and live in America for an indefinite time period. Australia and Canada particularly have benefitted from this kind of visa. Australia, for example, provides visas to entrepreneurs under 40 years of age who are willing to deposit \$280,000 in Australian bank accounts. Those between ages 40 and 58 are required to invest \$400,000. And those 58 and older must invest \$680,000 to obtain the visas. As of last year, almost 10,000 Hong Kong citizens had moved to Australia.

Washington should 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. At the same time, however, Washington should stress that the U.S. prefers not an increased number of Hong Kong immigrants to the U.S., but a Hong Kong in 1997 and beyond that is prosperous and free enough to keep its citizens from fleeing.

◆ ◆ Directing the U.S. Information Agency, the Department of Education and other appropriate U.S. agencies to explore ways to improve educational contact between Hong Kong and the U.S. Washington also should encourage private foundations and American businesses to increase their stake in Hong Kong's educational system. The American Chamber of Commerce in Hong Kong, for example, runs an annual student program that brings to Hong Kong undergraduates from China, Taiwan, Macau, and the U.S. to participate in business training programs. In its ninth year, the program has graduated over 350 students. Efforts likewise should be made to bring more Hong Kong students to the U.S. Some 12,000 Hong Kong students currently are enrolled in more than 700 American universities. Indeed, one out of every 500 Hong Kong residents is enrolled in a U.S. educational institution. 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 mainland China's hands in 1997.

◆ ◆ Commissioning a study by the Office of Technology Assessment on Hong Kong's future access to high technology. Under current regulations, Hong Kong after 1997 would be subject to the restrictions that would apply to China governing the importation of high-technology products after July 1, 1997. If Hong Kong were subject to these restrictions, it could lose its attractiveness as an international commercial, financial, and telecommunications center. Hong Kong is a major buyer and user of American-made high technology; its 1989 purchases were \$2.8 billion.

◆ ◆ Moving toward a limited U.S.-China Free Trade Area for Hong Kong. In an FTA, trading partners agree to eliminate those restrictions, such as tariffs, that impede free trade. While Hong Kong's status today as a duty-free port largely renders the economics of an FTA moot, the future political benefits of such a move would be significant. It would express America'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.

As one of its largest foreign markets and principal investors, America is not indifferent to what happens in Hong Kong. Indeed, a politically assured and economically healthy Hong Kong is in the American interest. Washington must recognize that because of its prominent economic and cultural position, the U.S., in effect, has replaced Britain as the preeminent Western player in the territory. Thus, while Hong Kong's status as a British Crown Colony once compelled the U.S. to adopt a low profile regarding the territory's future, the 1997 transfer of Hong Kong to Chinese control now demands greater American attention.

Andrew B. Brick
Policy Analyst

U.S. – HONG KONG FACTSHEET

DATABOX

Official Name: British Crown Colony of Hong Kong

Area: 404 square miles

Population: 5,709,000

Work Force: 2,822,000

GNP (1989): \$62.4 billion

Per Capita GNP (1989): \$10,900

Infant Mortality Rate (1989): 6 per 1,000 births

Life Expectancy: 78 years

U.S. Trade with Hong Kong

Imports From Hong Kong (1989) – \$9.7 billion

Exports to Hong Kong (1989) – \$6.3 billion

Hong Kong Trade with the World:

1989 Exports – \$ 75.24 billion

1989 Imports – \$ 76.12 billion

Trade Ties Growing Stronger

- ◆ Hong Kong is the 13th largest trading partner of the U.S. and the 14th largest purchaser of U.S. goods. 1989 purchases amounted to almost \$6 billion.
- ◆ Hong Kong purchased almost \$3 billion of American high technology products in 1989.
- ◆ On a per capita basis, Hong Kong imports three times as much from the U.S. than does Japan.
- ◆ In 1989, the U.S. trade deficit with Hong Kong decreased by almost 25 percent. Since 1986, U.S. exports to Hong Kong have nearly doubled.

U.S. Investment Remains High

- ◆ The ten largest U.S. banks all have branch offices in Hong Kong. The U.S. is second only to Japan in foreign banking presence in Hong Kong.
- ◆ In 1989, U.S. banks had \$99 billion in deposits in Hong Kong, giving them a market share of almost 10 percent. Their assets exceeded \$250 billion – a 6 percent market share.
- ◆ Among the companies that have regional headquarters in Hong Kong:

Bausch and Lomb Incorporated
Dun and Bradstreet International
Dow Chemical Company
Mattel Incorporated.
McDonnell Douglas Limited
Unisys Corporation

- ◆ Among the U.S. companies that have offices in Hong Kong:

Levi Strauss Company	Reader's Digest Association Incorporated
McGraw Hill Incorporated	Scott Paper International Incorporated
Metro Goldwyn Film Company	Texaco Incorporated
Motorola Incorporated	Wang Laboratories Incorporated
Nabisco Brands Incorporated	Xerox Corporation
Park Davis and Company	
Polaroid Corporation	
Prudential Insurance Company of America Incorporated	

- ◆ Over 35,000 workers are employed by 158 factories in Hong Kong that are wholly or partly controlled by U.S. interests. About a third of these factories produce electronics equipment.
- ◆ As of last year, 900 U.S. firms maintained representative offices in Hong Kong. These include small firms, as well as Fortune 500 companies.
- ◆ U.S. manufacturing interests provide the largest source of investment for Hong Kong's manufacturing industry. They account for \$1.142 billion or over 34 percent of total foreign investment. Sales from U.S. factories topped \$3 billion in 1988.

People-to-People Contacts

- ◆ Over 600,000 Americans visited Hong Kong last year. They spent over \$600 million while there – nearly \$300 per day.
- ◆ Over 115,000 people from Hong Kong visited the U.S. last year. This was a 9 percent increase over the previous year. A 15 percent increase is projected for this year.
- ◆ 12,000 students from Hong Kong attend universities in the U.S. They spend approximately \$200 million a year on tuition and other fees.
- ◆ The 17,700 Americans who reside in Hong Kong are the colony's largest group of foreign professionals, even larger than the British.
- ◆ Eleven U.S. states – California, Hawaii, Illinois, Iowa, Maryland, Michigan, Minnesota, New York, Rhode Island, Ohio, and Wisconsin – have offices in Hong Kong to increase U.S. exports and to expand business and investment ties.

Action on Hong Kong

House of Representatives

H.Con.Res. 79 by John Porter, the Illinois Republican.

Concurrent resolution in support of human rights and democracy in Hong Kong.

Introduced: March 20, 1989

H.R. 2675 by John Porter.

A bill to amend the Immigration and Nationality Act to provide special immigrant status for certain aliens who are nationals of Hong Kong.

Introduced: June 15, 1989

H.R. 2726 by Norman Mineta, the California Democrat.

A bill to treat Hong Kong as a separate foreign state for purposes of applying numerical limitations on immigration.

Introduced: June 22, 1989

H.R. 3128 by Robert Torricelli, the New Jersey Democrat.

A bill to modify certain L-1 visa requirements for certain Hong Kong employees of qualified United States companies.

Introduced: August 3, 1989

H.Con.Res. 187 by Tom Campbell, the California Republican.

Concurrent resolution expressing the sense of Congress that the people of Hong Kong should be accorded the right of self-determination.

Introduced: August 4, 1989

H.Con.Res. 223 by David Dreier, the California Republican.
Concurrent resolution expressing the sense of Congress that the British Government should not institute a policy of involuntary repatriation for the Vietnamese boat people in Hong Kong.
Introduced: November 8, 1989

H.Con.Res. 227 by Stephen Solarz, the New York Democrat.
Concurrent resolution concerning the establishment of national initiatives to promote confidence among the people of Hong Kong. Such initiatives include calls for an international effort "to provide a substantial and significant number of Hong Kong residents with the right of abode outside Hong Kong without their having to leave the territory prior to 1997 to retain that right."
Introduced: November 14, 1989
Passed: July 23, 1990

Senate

S. 1263 by Paul Simon, the Illinois Democrat.
A bill to treat Hong Kong as a separate foreign state for purposes of applying the numerical limitations on immigration.
Introduced: June 23, 1989

S.Con.Res. 51 by Mark Hatfield, the Oregon Republican.
A concurrent resolution in support of human rights and democracy in Hong Kong.
Introduced: June 23, 1989

S.Res. 211 by Brock Adams, the Washington Democrat.
A resolution to commend the Government of Hong Kong on its commitment to halting computer software piracy.
Introduced: November 17, 1989

S.Con.Res.85 by Paul Simon, the Illinois Democrat.
Concurrent resolution concerning the establishment of multilateral initiative to promote confidence among the people of Hong Kong.
Introduced: November 21, 1989

Sources: *Asiaweek*; *US Presence in Hong Kong - Significant Facts and Figures*, The American Chamber of Commerce in Hong Kong; *U.S. and Asia Statistical Handbook*, The Heritage Foundation; and from other sources.

Andrew B. Brick
Policy Analyst