

Executive Memorandum

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RUSH!

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GEORGE BUSH'S HONG KONG WAKE-UP CALL

It is the thirteenth largest market for American goods in the world, purchasing some \$7 billion worth of American-made products last year, on a per capita basis three times the amount of Japan's 1991 American imports. 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 the base for more than 900 American firms, the home of almost 18,000 Americans, and the destination of more than 600,000 American tourists annually.

This is Hong Kong, a British Crown Colony that in many ways has become a vital American cultural and economic outpost. On April 2, the Senate Foreign Relations Committee is scheduled to consider a bill introduced by Mitch McConnell, the Kentucky Republican, which sends constructive American signals about Hong Kong's fate. McConnell's legislation, called the United States-Hong Kong Policy Act, would make Hong Kong's future a key ingredient of America's China policy. The bill does this by setting policy guidelines to reassure jittery American businessmen that the U.S. firmly supports Hong Kong after the territory reverts to mainland Chinese communist control on July 1, 1997.

America has good reason to be concerned about Hong Kong's future. Its seven million citizens will be heading into 1997 in the opposite direction of those hundreds of millions of people across the globe who are embracing freedom and the free market. Measured against last year's global democratic revolution, Hong Kong's switch from a British Crown Colony to a "Special Administrative Region" of the People's Republic of China ranks easily as the era's most improbable political development.

Commerce and Commuters. But it is a development that already is far advanced. In many respects, 1997 has arrived; Hong Kong is Beijing's turf. The new 70-story mainland-owned Bank of China building cuts into Hong Kong's fabled skyline and overshadows the British Hong Kong and Shanghai Banking Corporation. The Bank of China holds fully a quarter of Hong Kong's total deposits. There are now several thousand companies in Hong Kong that are indirectly owned by the mainland. And Hong Kong government officials estimate that mainland Chinese investment in the territory exceeds \$10 billion. By comparison, total direct investment from Britain is about \$6 billion, Japan \$8 billion, and America \$7 billion.

At Lo Wu, on the border between Hong Kong and mainland China, the crush of people on routine business waiting to pass through immigration control into mainland China is so heavy that the road cannot be seen under the commuters. On an average day, 14,000 Hong Kong trucks cross the border into China, packed with the raw materials and half-finished goods that some 16,000 Hong Kong-owned factories and three million Chinese employees in neighboring Guangdong province turn into toys, shoes, clothes, and stereos. It is this traffic that best characterizes Hong Kong's future relationship with the mainland. Much like New York City's influence in northeastern America, Hong Kong is becoming the marketing and management headquarters for business in southern China, and the Chinese are underwriting a good part of the growth.

The relationship has Hong Kong flourishing. Instead of the catastrophe of financial collapse and people in flight that pessimists expected for Hong Kong after Beijing's 1989 Tiananmen Square Massacre, Hong Kong's stock market every week or two leaps to record highs, construction booms, and residential property values skyrocket. True, 60,000 citizens are leaving Hong Kong each year, but with passport in hand, some are coming back. The territory's gross domestic product grows by 6 percent a year—economies nearly double every decade at this rate. And money pours into the colony rather than out of it. The Japanese alone invested \$3 billion between 1989 and 1991.

American Assurances. Though neither Washington—nor of course London—can stop Beijing from eventually doing what it wants with Hong Kong, it is in America's interest that Hong Kong up to and after 1997 remain economically and politically healthy. The colony must be assured of its future. McConnell's U.S.-Hong Kong Policy Act shows how Washington can play a significant role in this assurance. His proposed legislation advances American interests by giving official U.S. notice to what China and Britain already have agreed to do. The bill gives American rhetorical backing to the principles of the 1984 Sino-British Joint Declaration, in which Beijing agrees to respect self-rule and capitalism in Hong Kong for at least a half-century after it passes to Beijing's control. The McConnell bill requires presidential reports on the fulfillment of the Joint Declaration's provisions, including those that explicitly guarantee Hong Kong full autonomy in such crucial areas as commerce, communications, culture, economics, and finance. The bill, too, specifies that after Beijing takes control of Hong Kong in 1997, America should "treat Hong Kong as a separate territory" in matters including most-favored-nation trade status, immigration, human rights affairs, and trade in strategic technologies.

Predictably, McConnell's U.S.-Hong Kong Policy Act displeases China's elderly leadership. American treatment of Hong Kong as a legally separate territory, Beijing insists, insults China's territorial integrity. The insult especially is painful for Beijing if it comes from the U.S. Congress. For some time, Chinese Communist Party officials have lamented in discussions with The Heritage Foundation that "the U.S. Congress champions all that is inimical to China's interests." The Bush Administration, meanwhile, officially takes no position, apparently keen as ever not to antagonize Beijing.

Clearly, if the Administration does not move to make Hong Kong a key component of its China policy, Congress threatens to do it for them. Indeed, McConnell's bill seems to have more targets than just Beijing's elderly leadership or Hong Kong's beleaguered citizenry. Strikingly, the legislation appears equally aimed at the Bush Administration.

Puzzling Silence. It is strange that this should be so. George Bush speaks frequently and articulately of the near lethal blow to Hong Kong's business confidence a cutoff of China's most-favored-nation trading status would cause. But he seems unwilling to carry a message in his China policy that Hong Kong's prosperity depends on Hong Kong's stability, which in turn depends on the autonomy guaranteed in the Sino-British Joint Declaration. Bush's Hong Kong silence is all the more puzzling because it contradicts the essence of his constructive engagement policy with China. Meaning: Hong Kong is the wellspring that irrigates Southern China with capitalism; failing to protect its prosperity risks curbing the economic development that constructively is changing China. Indeed, as Hong Kong's economic profile in China rises as 1997 approaches, so possibly will Beijing's alarm about the way Hong Kong is rocking Chinese society. It is, after all, communism, not capitalism, that needs to change, and millions of Chinese know it.

Hong Kong has a vital role ahead of it as the business hub of Southern China. American policy should start now to exploit this fact and consolidate American advantages. The Hong Kong Policy Act should be Bush Administration policy; it should have been long ago.

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