

# Hong Kong in Transition

*Also by Robert Ash*

AGRICULTURAL DEVELOPMENT IN CHINA

ECONOMIC TRENDS IN CHINESE AGRICULTURE (*editor with Y. Y. Kueh*)

PERSPECTIVES OF CONTEMPORARY CHINA IN TRANSITION (*editor with Richard Edmonds and Yu-ming Shaw*)

THE CHINESE ECONOMY UNDER DENG XIAOPING (*editor with Y. Y. Kueh*)

*Also by Peter Ferdinand*

COMMUNIST REGIMES IN COMPARATIVE PERSPECTIVE

TAKE-OFF FOR TAIWAN

THE NEW CENTRAL ASIA AND ITS NEIGHBOURS

*Also by Brian Hook*

BEIJING AND TIANJIN: Towards a Millennial Megalopolis

CHINA'S 3000 YEARS (*with others*)

FUJIAN: Gateway to Taiwan

GUANGDONG: China's Promised Land

SHANGHAI AND THE YANGTZE DELTA: A City Reborn

THE CAMBRIDGE ENCYCLOPEDIA OF CHINA

THE INDIVIDUAL AND THE STATE IN CHINA

*Also by Robin Porter*

INDUSTRIAL REFORMERS IN REPUBLICAN CHINA

MANAGEMENT ISSUES IN CHINA: Volume 1: Domestic Enterprises (*editor with David Brown*)

REPORTING THE NEWS FROM CHINA (*editor*)

THE CHINA BUSINESS GUIDE (*with Mandi Robinson*)

# Hong Kong in Transition

## The Handover Years

Edited by

**Robert Ash**

*Chiang Chin-kuo Professor of Taiwan Studies  
School of Oriental and African Studies  
University of London*

**Peter Ferdinand**

*Director  
Centre for Studies in Democratisation  
University of Warwick*

**Brian Hook**

*Emeritus Leverhulme Fellow  
Visiting Professor, Centre for Southeast Asian Studies  
University of Hull, and  
Honorary Research Fellow  
Centre of Asian Studies  
University of Hong Kong*

and

**Robin Porter**

*Director  
China Business and Policy Unit  
University of Keele*



in association with  
CENTRE FOR THE STUDY OF  
GLOBALISATION AND REGIONALISATION  
UNIVERSITY OF WARWICK





First published in Great Britain 2000 by  
**MACMILLAN PRESS LTD**  
Houndmills, Basingstoke, Hampshire RG21 6XS and London  
Companies and representatives throughout the world

A catalogue record for this book is available from the British Library.

ISBN 978-1-349-41573-1

ISBN 978-0-333-97726-2 (eBook)

DOI 10.1057/9780333977262

---



First published in the United States of America 2000 by

**ST. MARTIN'S PRESS, INC.,**

Scholarly and Reference Division,  
175 Fifth Avenue, New York, N.Y. 10010

Library of Congress Cataloging-in-Publication Data

Hong Kong in transition : the handover years / edited by Robert Ash ... [et al.].

p. cm.

Includes bibliographical references and index.

1. Hong Kong (China)—Economic conditions. 2. Hong Kong (China)—Politics and government—1997– 3. Hong Kong (China)—Social conditions. I. Ash, Robert F.

HC470.3 .H668 2000

320.95125'09'049—dc21

00-023236

---

Editorial matter and selection © Robert Ash, Peter Ferdinand, Brian Hook and Robin Porter 2000

Chapter 3 © Peter Ferdinand 2000

Chapter 4 © Robert Ash 2000

Chapter 6 © Brian Hook 2000

Chapter 11 © Robin Porter 2000

Chapters 1, 2, 5, 7–10, 12–15 © Macmillan Press Ltd 2000

Softcover reprint of the hardcover 1st edition 2000 978-0-333-77267-6

All rights reserved. No reproduction, copy or transmission of this publication may be made without written permission.

No paragraph of this publication may be reproduced, copied or transmitted save with written permission or in accordance with the provisions of the Copyright, Designs and Patents Act 1988, or under the terms of any licence permitting limited copying issued by the Copyright Licensing Agency, 90 Tottenham Court Road, London W1P 0LP.

Any person who does any unauthorised act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

The authors have asserted their rights to be identified as the authors of this work in accordance with the Copyright, Designs and Patents Act 1988.

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources.

10 9 8 7 6 5 4 3 2 1  
09 08 07 06 05 04 03 02 01 00

# Contents

<i>Preface and Acknowledgements</i>	vii
<i>Notes on the Contributors</i>	viii
<i>Introduction</i>	xi
<i>Abbreviations</i>	xix
<b>Part I The Hong Kong Business Environment</b>	
1 Hong Kong: The Business Environment in the New Special Administrative Region <i>Elfed Vaughan Roberts and David J. Petersen</i>	3
2 Changing Government–Business Relations and the Governance of Hong Kong <i>Tak-Wing Ngo</i>	26
3 Hong Kong, China and the Handling of the Financial Crises: Monetary Management in 1983, 1987, 1997 and 1998 <i>Peter Ferdinand</i>	42
4 ‘Like Fish Finding Water’: Economic Relations between Hong Kong and China <i>Robert F. Ash</i>	58
5 Hong Kong and its Intermediate Role in Cross-Strait Economic Relations <i>Teh-chang Lin</i>	79
<b>Part II Government and Politics</b>	
6 Hong Kong under Chinese Sovereignty: A Preliminary Assessment <i>Brian Hook</i>	95
7 Beijing’s Fifth Column and the Transfer of Power in Hong Kong: 1983–1997 <i>Yin Qian</i>	113
8 Power as Non-zero-sum? Central/Local Relations between the Hong Kong Special Administrative Region and Beijing: Opportunities and Closures <i>Linda Chelan Li</i>	133

9	The Public Service in Transition: Sustaining Administrative Capacity and Political Neutrality <i>Ian Scott</i>	154
10	Constitutional Dilemmas in the Hong Kong Special Administrative Region <i>Peter Wesley-Smith</i>	175
11	Towards a Democratic Audit in Hong Kong: Some Issues and Problems <i>Robin Porter</i>	187
<b>Part III Social Discourse</b>		
12	Reflections on the Hong Kong Discourse on Human Rights <i>Susanne Weigelin-Schwiedrzik</i>	213
13	Church–State Relations in the Transition: A Historical Perspective <i>Beatrice Leung</i>	229
14	Migration and Identities in Hong Kong’s Transition <i>Janet W. Salaff</i>	248
<b>Part IV External Relations</b>		
15	The External Relations of the Hong Kong Special Administrative Region <i>Miguel Santos Neves</i>	271
	<i>Index</i>	295

# Preface and Acknowledgements

There may be no precedent in peacetime for the handing over of a whole society, functioning according to one set of rules, to another sovereign state which functions according to quite different rules and values. This, however, was the situation facing Hong Kong in recent years. Following discussions held in 1995, it was felt that an international academic gathering should be held in London to mark the passing of Hong Kong from British to Chinese sovereignty. This was achieved with the holding of the conference 'Hong Kong in Transition' at Chatham House in December 1997, jointly sponsored by four universities – the School of Oriental and African Studies, Warwick, Leeds and Keele – and Chatham House.

Following the conference, it was decided that the unique circumstances of Hong Kong at this time should be recognized in a significant publication. The transition throws up a range of pressing issues that call out for scholarly analysis, and it has been our aim to bring together the research of academics with different disciplinary perspectives on what was happening in Hong Kong, and from different part of the world, in a book that would cover with some degree of comprehensiveness the handover and the early period of Chinese rule.

It should be stressed, therefore, that the justification for the broad coverage attempted in this book lies in the particular circumstances of Hong Kong at this time. It seeks to raise issues that will be of fundamental importance for the survival of Hong Kong in its present form in the years to come. Through further conferences, and a further volume, it is hoped that it will be possible to follow Hong Kong's progress as it leaves behind the 'handover years' and stands ready to face a new century as part of China.

The editors wish to acknowledge the help of all who have made it possible to hold this series of conferences on Hong Kong and to produce this volume based on the first conference. In particular they would like to thank anonymous donors in Hong Kong, as well as the Centre for the Study of Globalization and Regionalization at the University of Warwick for contributing funding to the project, staff at Chatham House and at Warwick for their help with organization, Jan Keane at Keele for her patient work on the first draft of the text, and Keith Povey and staff at the publishers for the final version. To all we are most grateful.

SOAS  
*Warwick*  
*Leeds*  
*Keele*

ROBERT ASH  
PETER FERDINAND  
BRIAN HOOK  
ROBIN PORTER

# Notes on the Contributors

## The editors

**Robert Ash** is Chiang Ching-kuo Professor of Taiwan Studies at the School of Oriental and African Studies (SOAS), London, where he has taught in the Department of Economics since 1975. From 1986 to 1995 he was Director of the Contemporary China Institute at SOAS. In 1997, he became Director and Co-ordinator of the EU–China Academic Network, which is sponsored by the European Union. He has enjoyed a long association with *The China Quarterly*, for which, since 1982, he has compiled the ‘Quarterly Chronicle and Documentation’. He has published widely on economic issues affecting China and Greater China. Recent books include *Economic Trends in Chinese Agriculture* and *The Chinese Economy under Deng Xiaoping* (both co-edited with Y. Y. Kueh), *Perspectives of Contemporary China in Transition* (co-edited with Richard Edmonds and Yu-ming Shaw) and *Agricultural Development in China, 1949–1989: the Collected Papers of Kenneth R. Walker*.

**Peter Ferdinand** has BA and DPhil degrees from Oxford and an MSc (Econ) from the London School of Economics. He has studied at Kiev University, held a Commonwealth Fund Fellowship at Harvard, and been a British Academy Exchange Fellow at the Chinese Academy of Social Sciences in Beijing. He taught in the Department of Politics at the University of Warwick between 1976 and 1989. From 1989 to 1993 he was Head of the Asia-Pacific Programme at the Royal Institute of International Affairs in London. Since 1993, he has been Director of the Centre for Studies in Democratisation at the University of Warwick. He teaches on the politics, economics and international relations of East Asia and the former communist world. Among his publications are *Communist Regimes in Comparative Perspective*, *The New Central Asia and its Neighbours* and *Take-off for Taiwan?*

**Brian Hook** is currently an Emeritus Leverhulme Fellow, Visiting Professor at the Centre for Southeast Asian Studies, University of Hull, and Honorary Research Fellow in the Centre of Asian Studies, University of Hong Kong. He was formerly a member of the administrative service in the Government of Hong Kong, a senior academic in the Department of East Asian Studies, University of Leeds and, from 1980–91, Editor of the *China Quarterly* at the Contemporary China Institute, School of Oriental and African Studies, University of London. He has published widely on China and Hong Kong.

**Robin Porter** holds BA and MA degrees in International Relations and in Chinese History from McGill University, Montreal, and a PhD in Modern

Chinese History from the School of Oriental and African Studies, University of London. Beginning in 1969, he taught Chinese and Pacific Asian History at Concordia University in Canada until leaving to spend a period working at New China News Agency in Beijing in 1979/80. He subsequently taught Chinese Politics in a visiting capacity at Murdoch and Melbourne Universities in Australia, and then became a full-time adviser on China to industry, based in London. Since 1989, he has been Director of the China Business and Policy Unit at Keele University. His publications include the books *Reporting the News from China* (editor) (Chatham House, 1992), *Industrial Reformers in Republican China*, *The China Business Guide* (with Mandi Robinson), and *Management Issues in China: Volume 1, Domestic Enterprises* (editor with David Brown).

### The contributors

**Beatrice Leung** is Associate Professor in the Department of Politics and Sociology, Lingnan College, Hong Kong. She is the author of more than 30 scholarly articles on aspects of church–state relations, especially on Sino-Vatican relations, religious policy, and religious education in China, the Hong Kong SAR and Macao. She is author and editor of five books, of which the most recent is *Hong Kong SAR: in Pursuit of Domestic and International Order*.

**Linda Chelan Li** is Assistant Professor in the Department of Public and Social Administration, City University of Hong Kong, and author of *Centre and Provinces: China, 1978–1993. Power as Non-Zero Sum* (1998). Her current research interests include the politics of fiscal management in contemporary China, and a comparison of spatial politics in the European Union and China.

**Teh-chang Lin** is an Associate Research Fellow and Head of the Research Division of Economy and Society in Mainland China at the Institute of International Relations, National Chengchi University, Taipei. His recent publications include *Taiwan's Foreign Aid: an Instrument of Foreign Policy*, *Taiwan's Investment Policy in Mainland China: a Domestic Perspective*, and *Trade and Investment Patterns in Cross-Strait Relations: a Political and Economic Interaction*.

**Tak-Wing Ngo** is Lecturer in Chinese Politics at Leiden University, and currently a Fellow of the Netherlands Institute for Advanced Study of the Royal Netherlands Academy. He is the editor of *Hong Kong's History: State and Society under Colonial Rule* and co-editor of *The Cultural Construction of Politics in Asia*.

**David J. Petersen** is Vice-President, Distribution and Technical Services, for SMH (Hong Kong) Limited. He has lived and worked in Asia since 1989, travelling widely in the area. Prior to working for SMH he was employed by IBM.

**Yin Qian** graduated with her PhD from the Department of International Relations, Research School of Pacific and Asian Studies, the Australian National University. Her thesis was on Chinese foreign policy decision-making, with specific reference to the period between 1982 and 1997.

**Elfed Vaughan Roberts** lectured at the University of Hong Kong from 1978 until 1996. He is presently an honorary member of the Department of Politics and Public Administration, and Visiting Lecturer at the School of Business. He has published numerous books and articles on the Hong Kong business and political environment.

**Janet Salaff** received her PhD in Sociology at the University of California (Berkeley) in 1972, where she focused on the Chinese family and industrialization. She has studied Hong Kong since 1970, and especially Hong Kong factory workers. She is currently investigating decisions to emigrate from Hong Kong.

**Miguel Santos Neves** is Head of the Asia Programme at the Institute of International and Strategic Studies (IEEI) in Lisbon. He is a member of the Young Leaders Symposium of the Asia–Europe Forum (ASEM), and was on the advisory panel of experts to the Sino–Portugese Joint Liaison Group.

**Ian Scott** is Professor of Politics and Government at Murdoch University in Perth, Australia, having previously held the Chair in Politics and Public Administration at the University of Hong Kong. His most recent publication on the territory is the edited volume *Institutional Change and the Political Transition in Hong Kong*, published by Macmillan in 1998.

**Susanne Weigelin-Schwiedrzik** is Professor of Modern Sinology at the University of Heidelberg. She took her doctorate at Ruhr University in Bochum in 1982 with a thesis on the historiography of the Communist Party of China. Her publications include work on the history and historiography of twentieth century China, on the politics and political economy of China in the reform era, and on the transition process in Hong Kong.

**Peter Wesley-Smith**, the author of several books on the constitution and legal system of Hong Kong, was Professor of Constitutional Law at the University of Hong Kong. He recently resigned this post, and is now living in rural New South Wales.

# Introduction

## **The Hong Kong Special Administrative Region: coping with uncertainty in the evolution of the second system**

When the text of the Sino–British Joint Declaration was first published in September 1984, it launched Hong Kong into a new era. At that stage, the text still awaited formal ratification. But there was never any doubt it would be ratified and that this would occur on time. Despite the exclusion of Hong Kong as a formal party to the Anglo–Chinese talks, there was no possibility of re-negotiation to dispel local concerns about the detail, or lack of detail, in the text. In theory, there was a choice for Hong Kong: either accept or reject the agreement. In practice, there was no real choice: either accept the certainty conveyed in the terms of the agreement or face a prolongation of the current uncertainty about the future.

On paper the agreement looked good. There was a general consensus that the British negotiators had done a reasonable job. It is not surprising that they failed to persuade their Chinese counterparts of the advantages of their two preferred options: either extending the lease on the New Territories, the coming expiry of which had led to the negotiations, or of exchanging British sovereignty for continued British administration. Nor is it surprising the Chinese team failed to persuade their British counterparts of the benefits of a ‘Macau-type solution’. The British options were well known negotiating positions. The Chinese option, formulated in the run-up to the negotiations, has only become widely known since the publication by Hong Kong Baptist University of the eponymous account by Wong Man Fong, a retired senior cadre, of China’s resumption of sovereignty over Hong Kong.

The main benefit brought by the agreement lay in the promise of certainty it conferred on Hong Kong. The main case for accepting it was not, however, the negative argument of the perils arising from the uncertainty of a unilaterally imposed solution. Although this consideration was ever present, the main case for acceptance was the argument that the agreement was reasonable and the best that could be achieved in the circumstances. There was no advantage to be gained from acting otherwise.

Once Hong Kong was launched into a new era, it would exchange the uncertainties of past decades for a more certain future. The precariousness of the post-war decades had been well captured in the title of Richard Hughes’ book: *Hong Kong: Borrowed Place, Borrowed Time*. The aptness of this phrase is evident from the experience of the post-Second World War years. In the late 1940s, first the fear of Nationalist (Guomindang) interference, and then, as the tide of Civil War in China turned against that party,

of Communist (Gongchandang) 'liberation', engendered sufficient uncertainty to impede progress on constitutional reform. In the 1950s, its *raison d'être*, entrepôt trade, having been undermined by the West's policy of containing China, Hong Kong was inundated by political and social refugees from the mainland. More migrants came in the 1960s, attracted now by Hong Kong's early economic success, which was due to immigrant entrepreneurs, local pragmatism and expatriate mercantilism. That respite was, however, short lived. The Cultural Revolution spilled over into Hong Kong and was a sharp reminder of the fundamental uncertainties in the colony's international position.

The 1970s was to be the most confident decade in an uncertain half century. By then the context had changed. Although the flaws in British administration had been exposed by indigenous rioting in the late 1960s, a clear majority of the people of Hong Kong emphatically rejected the ideology that had generated the anarchy of the Cultural Revolution. Attempts were made under Governor Maclehoose to remedy the most conspicuous flaws affecting the administration, and the 1970s consequently became a decade of political consolidation and socio-economic progress.

The appointment of Sir Murray Maclehoose, a British career diplomat, as Governor in 1971 was, however, a timely reminder that no matter how stable or prosperous Hong Kong might become, ultimately it would return to China. The appointment of a diplomat, in preference to a serving senior colonial administrator, signalled the advent of a new agenda. In retrospect, not only was the appointment exceptional, but so was the quality of the term in office. Hong Kong was well run and its prosperity increased significantly. By the end of the decade, such was the level of prosperity in, and the degree of identity of its people with, Hong Kong, that the horizons of planners and investors were increasingly projected forward to 1997.

For economic reasons, the question then arose as to what would be the constitutional position of Hong Kong at midnight on 30 June 1997, when the lease on the New Territories was due to expire. As the so-called New Territories had long since been fully integrated infrastructurally into the whole of the territory, the distinction between ceded and leased parts offered no obvious escape from uncertainty. This led to the Anglo-Chinese negotiations on the future of Hong Kong and, in turn, to the Joint Declaration. In this way Hong Kong was propelled into addressing the issues implicit in the impending transition from Dependent Territory under British sovereignty to Special Administrative Region under Chinese sovereignty. Once ratified, the agreement removed the uncertainty about constitutional status that, even while Hong Kong's prosperity increased and key international role developed, had hung like the sword of Damocles over the territory.

While the removal of such a major preoccupation was greeted with general relief, it was a particular relief for the local and resident international business communities. China had embarked on reform and had opened up

to the outside world following the return to power of Deng Xiaoping. The Hong Kong economy was being rapidly restructured. Employers were taking advantage of abundant low-cost labour to relocate Hong Kong manufacturing facilities to the mainland. Outward processing and the growth of the service sector of the economy were to significantly characterize the first half of the 13-year transition period. At the same time, these developments were paralleled by new social forces engendered by the advances of the 1970s, epitomized by the growth of the Hong Kong middle class and ushered in by generational change. The negotiations had been deliberately shielded from the reality of these progressive forces, and it was inevitable, in retrospect, that they should come to play such an important part in the debates and controversies that were to characterize the transition period. Indeed, the influence of these social forces on the implementation of the agreement in the transition period would coincide with pressure from Leninist forces within the Communist Party of China seeking to influence the nation's path to modernization and to impede its fledgling democracy movement. Whereas in 1984 it seemed possible that the known imperfections in the agreement might be remedied through the liberal and market forces at work in China, within five years of the accord this seemed no longer likely to happen. The violent suppression of the democracy movement in 1989 was to have a profound effect on the remainder of the transition. The constitutional reform programme proposed under Governor Patten was opposed implacably by the Chinese government and much of the business community in Hong Kong. Its passage, with modifications, brought a decision of the National People's Congress to dismantle the three tiers of representative government elected in 1994–5, and to replace them with provisional bodies pending fresh elections under revised laws in 1998. In the interim, the Hong Kong Special Administrative Region would have a Provisional Legislative Council formed in early 1997 and sworn in after midnight on 30 June 1997.

With this provenance it was expected that the challenges facing the first Chief Executive, Tung Chee-hwa, and his Executive Council would primarily be political. To a limited extent this was initially to be true. The new administration promptly addressed the perceived need to set parameters for the emerging political culture. There followed controversial, yet not unexpected, amendments to the Electoral Laws, Bill of Rights, the Societies Ordinance, the Public Order Ordinance and the Adaptation of Laws Ordinance. Elections to the legislature were duly held in May 1998. Despite inclement weather, in an unexpectedly high turn-out and under a system of proportional representation less favourable to them than the former 'first past the post' system, most of the pro-democracy politicians summarily dismissed in 1997 were returned to the legislature.

Although this electoral response brought about a revival in the prospects for democratization, this central issue of the late 1980s and, early 1990s,

was eclipsed by the sudden and unexpected regional economic crisis. Gathering momentum in 1998 the crisis had a severe impact on Hong Kong. The economy went into recession, property prices fell, unemployment rose. Pressure on the dollar peg culminated in an unprecedented intervention by the Hong Kong Monetary Authority into the local stock market in August 1998.

The challenges encountered during the years of transition, both before and since retrocession, set against the background of related issues over the preceding four decades, are the material for the studies in this book.

The chapters in this book on the Hong Kong business environment, government and politics, social discourse and external relations form the basis of an ongoing study of the unique and evolving practice of 'One Country – Two Systems' in the Hong Kong Special Administrative Region.

## **The Hong Kong business environment**

Hong Kong is, par excellence, a centre for international business, so it is appropriate that in the first section of the book problems relating to the Hong Kong business environment should be addressed. Roberts and Petersen find, as they say, both 'opportunities and dangers' for business in the transfer of sovereignty. Optimists point to the smooth transition, an institutional framework favourable to business, congenial fiscal policies, the established civil service, the rule of law, the utility of Hong Kong as a platform for investment in China and other factors. Pessimists emphasize dangers to Hong Kong's administrative autonomy and legal system, structural problems in the economy, and Hong Kong's growing commercial vulnerability in Asia consequent on the financial crises in other states, as well as from south China's own economic emergence. The authors weigh the evidence, setting political stability against, in the short term anyway, hard times in the economy.

Ngo explores the relationship between business and government in Hong Kong. Looking back to government–business relations during the colonial period, he finds a situation that was neither complete government autonomy nor complete capture by business, a delicate balance that managed to prevent a decline into rent seeking, and helped Hong Kong business to focus on profit making. Since the transfer of sovereignty, however, with the marginalization of popular participation and enshrinement of sectional, and especially business interests in the government and legislature, he concludes that the collaborative relationship has turned 'into one of collusion'.

The chapter by Ferdinand examines the techniques of monetary management employed by Hong Kong during financial crises of the 1980s, and again in October 1997. Ferdinand argues that, while it was the crises of 1983 and 1987, and the government's response to them, that turned Hong Kong into a fully fledged participant in the international financial system,

with developed management and regulatory mechanisms, the financial crisis of October 1997, when the Hong Kong dollar and its peg to the US dollar came under attack, actually may have consolidated Hong Kong's autonomy in financial matters. Ferdinand tentatively concludes that, while circumstances could occur that would cause the interests of Hong Kong and China to diverge, in this first test the Hong Kong Monetary Authority and the Chinese government complemented one another in their actions to preserve the credibility of Hong Kong's financial system.

The following two chapters look at dimensions of Hong Kong's role in the business of the region. Ash looks, for the years leading up to the transition, at the process of progressive economic integration of 'Greater China', the informal concept comprising Hong Kong and Taiwan, as well as Guangdong and Fujian – the provinces of China adjacent to Hong Kong. He goes on to detail and analyse the symbiotic relationship in trade and investment that has grown up in the 1980s and 1990s between Hong Kong and southern China in particular. Yet, by the mid-nineties, he finds evidence of some weakening of the Hong Kong–China trade axis, along with some decline in Hong Kong's share in foreign direct investment. Ash concludes, however, that Hong Kong 'remains a potent force, shaping China's trade and investment relations'.

For many years since the early days of reform, Hong Kong has served as the intermediary in developing economic relations between China and Taiwan, facilitating trade and investment. In his chapter, Lin, noting the interaction of politics and trade, investigates the nature of Taiwan–China economic relations conducted through Hong Kong. In his view, the political stalemate between China and Taiwan is likely to ensure that Hong Kong will continue to facilitate both economic and political contacts between China and Taiwan well into the future. The interim judgement, from the business point of view, therefore, a year and a half after the handover must be that compelling vested interests of a commercial nature both in Hong Kong and in China continue to ensure that the Hong Kong business environment remains viable in all essential respects. Set against this momentum, however, are certain destabilizing factors and trends, which, if they are not handled with great care, could damage Hong Kong's future economic success. Some of these are economic in the broad sense – structural problems in the Hong Kong economy, possible collusion between business and government, speculative attacks on financial institutions, the impact of the international crisis in Asia – but others are more strictly political, and it is to these that we now turn.

## **Government and politics**

This section opens with Hook's consideration of the political balance sheet up to the beginning of 1999. Hook begins by examining the parameters

established by the Basic Law, and in particular the four concepts that are key to the new arrangements – ‘One Country – Two Systems’, ‘50 years with no systemic change’, ‘Hong Kong people ruling Hong Kong’, and ‘a high degree of autonomy’. The provenance of these concepts, he argues, serves to shed light on the Chinese understanding of them, and degree of commitment to them. In practice, Hook notes a broadly positive record though with some imponderables and some clear instances of heavy-handedness on China’s part; a process of ‘acculturation between Hong Kong and China’ is observed, and, overall, he finds that in the conflict over political culture, China has prevailed, though with some scope for Hong Kong players to take an active part in shaping China’s second system. In a contribution that sheds new light on the political context of the transition, Yin documents the results of field work among the very many immigrants with Communist Party affiliation who moved to Hong Kong from China in the years leading up to the transfer of sovereignty. She argues, and is supported by the testimony of Party officials on the mainland, that China operated a policy of building up a ‘fifth column’ of Party loyalists in Hong Kong to help ease the transition. The rationale for this seemed to evolve over time, from the injunction to promote China’s interests of the period when foreign policy formulation was still subject to the residual influence of Mao, through a period of Sino–British co-operation in the mid-to late-1980s, to the post-Tiananmen campaign against the Patten reforms and subsequently to win influence for China in democratic electoral contests. The fifth column was, in Yin’s view, China’s insurance policy in Hong Kong, conditioning the context for the transfer of power, and ultimately proving its worth.

Li analyses the prospects for central–local relations between Beijing and the HKSAR. The relationship offers scope, she argues, for something other than a simple tug of war in which one side gains and the other loses. In the context of ‘One Country – Two Systems’, the challenges posed by differing perspectives on issues offer an opportunity for learning that may well see China developing a more open culture with respect to the resolution of differences. Citing recent examples of conflict resolution, she asserts that much will depend on good political judgement on both sides, but particularly on the Hong Kong side, with Beijing best able in many instances to perform its part through inaction.

Administrative continuity is the subject of Scott’s study. In particular he focuses on the values and culture that underlie the efficient functioning of the Hong Kong bureaucracy, the ability of the public service to sustain its capabilities despite personnel changes, and, finally, the possibility of corruption and a decline in political neutrality. Scott depicts a service whose largely positive record may stand as a bulwark against any attempt by China to exercise political control, reinforcing the belief that the impartiality and objectivity of its senior officials is critical to the continued stability and prosperity of Hong Kong.

Wesley-Smith in his contribution looks at constitutional dilemmas for the new SAR, especially continuity in the British legal system in Hong Kong, and the constitutional validity of the provisional legislature. He finds a Hong Kong legal profession unprepared for the transition. Using a notable legal case, that of HKSAR vs. David Ma, Wesley-Smith argues that the 'unimpeachable sovereignty' which the Court of Appeal held had been transferred from the colonial power to China, in fact denied the separate arrangements that were envisaged for Hong Kong through the Basic Law—coming firmly down instead on the side of 'One country', rather than 'Two Systems'. This runs contrary, he suggests, to the dominant purpose of the Basic Law, which was to preserve the HKSAR's autonomy and separate way of life.

In a final paper in this section, Porter raises the possibility of an ongoing democratic audit in Hong Kong, and by implication in China itself. Noting that Hong Kong at present is possibly the only case of a highly educated and developed society moving away from democracy, he suggests that a systematic audit over time of Hong Kong's political institutions and culture of the kind often used to assess the development of democracy could also be used to measure this change. Borrowing the principles and questions of David Beetham's qualitative democratic audit, he takes a snapshot of the Hong Kong political system at the end of the Patten governorship, sketches a comparison with the situation in China, and contemplates possible trends. He concludes that such an audit could help to pin down more precisely critical features of any change in the democratic culture of Hong Kong.

## **Social discourse**

Any discussion of democracy naturally leads to a consideration of rights in a society. Weigelin-Schwiedrzik in her contribution traces the origins of widespread concern over human rights in Hong Kong to the Tiananmen massacre in Beijing in 1989, and outlines the developing positions of the various factions. She finds that the human rights discourse in Hong Kong has much in common with that in most highly industrialized, wealthy, western nations, but that, additionally, it exhibits the important particular characteristic that human rights are the central issue in a debate on the future identity of Hong Kong, and in Sino-Hong Kong relations.

The Christian church has more reason than most organizations to be anxious about the attitude of the HKSAR government towards its citizens, given the treatment of Christians over the years in mainland China. Leung focuses on the role in recent years as a contractor in the provision of education and social services of the Catholic Church in Hong Kong, and its adaptation to the new circumstances surrounding the transfer of sovereignty. The Catholic Church's heavy commitment to the provision of education of

a certain kind, and the political support some Catholics have given the democratic movement in Hong Kong, together with Hong Kong's pivotal role in relations between China and the Vatican, in Leung's view suggest that church-state relations will continue to be problematic.

In the period between Tiananmen and the end of British rule, uncertainty over the consequences of the transfer of sovereignty caused many residents of Hong Kong to seek the means to emigrate, or at least to establish a family 'beach head' overseas. So marked was this trend that concern grew as to whether sufficient qualified people would remain to run Hong Kong's complex economic and political institutions. Salaff, in her paper, explores the link between migration and identities among sample families from different strata of Hong Kong society. She identifies four distinct groups – the 'loyalists', the 'Hong Kong locals', the 'waverers', and the 'class enemies' of China – from those least likely, to those most likely, to emigrate. She finds that family experience on the mainland, location of kin, length of time in Hong Kong, and career opportunities combine to determine identity and the desire to remain in, or to leave, Hong Kong.

## **External relations**

For a city with such an established and prominent international role, the conduct of international relations under the new circumstances of Chinese sovereignty is uncharted territory. Santos Neves points out that, under the new arrangements, external relations are an exception to the 'high degree of autonomy' granted in other respects to Hong Kong. Yet Hong Kong has been referred to as a 'quasi-state', and has been characterized by the possession of a real 'international legal personality'. Santos-Neves examines the framework established by China for decision making on various types of international issues, and the scope offered for local participation. He concludes that consolidation, rather than expansion, of Hong Kong's existing international status is the most likely outcome in the medium term, with the cultivation of Europe, as well as the US, necessary to guarantee Hong Kong's continued status in the longer term.

The Joint Declaration, an international treaty, dispelled one set of uncertainties, but through problems of implementation gave rise to another. A similar view may be taken of the Basic Law. It is both a reflection of the terms of the treaty, and a written constitution for the Hong Kong Special Administrative Region. The early years of governance of the Hong Kong Special Administrative Region under the Basic Law will perforce generate a range of new uncertainties different from, but no less challenging than, those that followed the Joint Declaration.

# Abbreviations

ADB	Asian Development Bank
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
BL	Basic Law
BLCC, BLDC	Basic Law Consultative and Drafting Committees
BRO	Bill of Rights Ordinance
CCA	Chinese Customs Authority
CCF	Commander of Chinese Forces
CE	Chief Executive
CNAC	China National Aviation Corporation
CPC	Communist Party of China
CPG	Central People's Government
CPPCC	China People's Political Consultative Conference
DB	District Board
DP	Democratic Party
EC	Election Committee
FAO	Food and Agriculture Organisation
FC	Functional Constituency
FCO	Foreign and Commonwealth Office
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GDTJNJ	Guangdong Tongji Nianjian (Statistical Yearbook)
GNP	Gross National Product
HKCSD	Hong Kong Census and Statistics Department
HKGCC	Hong Kong General Chamber of Commerce
HKMA	Hong Kong Monetary Authority
HKMAO	Hong Kong and Macau Affairs Office
HKMDS	Hong Kong Monthly Digest of Statistics
HKMWC	Hong Kong and Macau Work Committee
HKP	Hong Kong Police
HKPRO	Hong Kong Public Records Office
HKSAR	Hong Kong Special Administrative Region
HKSARG	Government of the HKSAR
IAEA	International Atomic Energy Agency
ICAC	Independent Commission Against Corruption
ILO	International Labour Organisation
IMF	International Monetary Fund
JD	Joint Declaration
JLG	Joint Liaison Group

MFA	Ministry of Foreign Affairs
MFN	Most Favoured Nation
MPT	Ministry of Posts and Telecommunications
MSS	Ministry of State Security
NGO	Non-governmental Organisation
NIC	Newly Industrialised Country
NPC	National People's Congress
OECD	Organization of Economic Cooperation and Development
PADS	Port and Airport Development Strategy
PBOC	People's Bank of China
PC	Preparatory Committee
PL	Provisional Legislature
PLA	People's Liberation Army
POO	Public Order Ordinance
PR	Proportional Representation
PRC	People's Republic of China
PWC	Preliminary Working Committee
RMRB	Renmin Ribao (People's Daily)
RTHK	Radio Television Hong Kong
SCMP	South China Morning Post
SEZ	Special Economic Zone
SHTJNJ	Shanghai Tongji Nianjian (Statistical Yearbook)
SL	Selection Committee
SO	Societies Ordinance
SSB	State Statistical Bureau
SWB	Short Wave Broadcasts (monitored by the BBC, Caversham)
TJNJ	Tongji Nianjian (Statistical Yearbook)
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organisation
XHNA	Xinhua News Agency