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TANG, James T. H..(1997). Hong Kong in United States-China relations: The international politics of Hong Kong's reversion to Chinese sovereignty. *Journal of Contemporary China*, 6(16), 419-433.

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Hong Kong in United States–China Relations: the international politics of Hong Kong's reversion to Chinese sovereignty

JAMES T. H. TANG*

This article examines the implications of the political transition of Hong Kong on US–China relations in strategic, political and economic dimensions. It evaluates the impact of Hong Kong's changing status in the context of the engagement–containment debate on China policy in the US. It suggests that US concerns over questions such as democracy and human rights and China's rejection of 'foreign interference' in Hong Kong would turn the territory into a source of political conflict between the US and China. Finally it points out that any major trade confrontation between the two countries would have serious implications for the territory. The article concludes by arguing that if Hong Kong could continue to be a prosperous and free society with a global outlook, it would facilitate China's integration with the global community, but if a reversion to authoritarian rule occurred in Hong Kong, US–China relations will be adversely affected.

Introduction

The US has been characterized as an 'inactive superpower' over the question of Hong Kong.¹ As the transfer of sovereignty from Britain to the People's Republic of China takes place, the Hong Kong question seems to have become an important element in the volatile equation of US–China relations. President Bill Clinton and other senior officials, including Vice-President Al Gore, Secretary of State Madeleine Albright, and Secretary of the Treasury Robert Rubin have all linked the future of the territory to US–China relations.² The territory has achieved a higher profile in US foreign policy considerations, in the words of Richard A. Boucher, the US Consul General to Hong Kong.³

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1. Gerald Segal, *The Fate of Hong Kong* (London: Simon and Schuster, 1993), ch. 7.

2. See for example, President Bill Clinton's news conference, Washington, DC, (28 January 1997); Vice-President Al Gore's press conference at China World Hotel, Beijing, (26 March 1997); Secretary of State Madeleine Albright's address to embassy staff in Beijing, (24 February 1997); and speech by Robert Rubin at the New York Stock Exchange Board of Directors and European, Asia–Pacific and Latin American Advisory Committees, (2 April 1997).

3. Remarks on Hong Kong's future by Richard A. Boucher at the National Press Club, (27 February 1997).

As the Clinton Administration enters into the second term, and President Jiang Jemin of the People's Republic of China (PRC) consolidates his position in post-Deng China, both governments are attempting to build a more constructive relationship. The leaderships in both Beijing and Washington, however, still confront a number of difficult bilateral problems such as human rights, trade frictions, China's arms sales to the developing world, and Taiwan. By expressing concerns over Hong Kong, US leaders have made the successful transition of Hong Kong to a Special Administrative Region (SAR) as a free and autonomous part of China an issue in their already problematic bilateral relationship. Has the inactive superpower been activated? To what extent will the Hong Kong question be a new source of tensions in US-China relations?

Until 1989 the US had adopted a rather low profile approach to the Hong Kong question. The US supported the Sino-British agreement on Hong Kong's future which was concluded in 1984. American attitude shifted in the aftermath of the 1989 Tiananmen Incident, when Congress passed the US-Hong Kong Policy Act in 1992. In fact the US Congress established a separate immigrant visa quota for Hong Kong in 1990 and offered deferred visa to Hong Kong residents which could be used until the year 2001. The Clinton Administration has also spoken in support of Hong Kong Governor Chris Patten's constitutional package which sought to broaden the representativeness of the territory legislature. But the dominant analysis of the US position towards Hong Kong is that 'the United States had come to accept ... that Hong Kong would be returned to China and the agenda of Sino-American relations was filled with far more important issues'. Arguably Hong Kong remains a low priority area in American eyes compared to other parts of the world. If a crisis developed in the territory when there are other demands on American compassion, it has been suggested that, 'the people of Hong Kong may well not be at the head of the queue for American and Western sympathy'.⁴

The 1992 Hong Kong Policy Act,⁵ however, authorizes the US government to treat Hong Kong as a separate legal entity and requires the Administration to report to Congress for 1993, 1995, 1997, 1998, 1999, and 2000 on developments in Hong Kong including political changes related to the transfer of sovereignty, agreements with the US, official and unofficial US-Hong Kong contacts, the development of democratic institutions in the territory, and Hong Kong's international participation. The Act also requires, if necessary, separate reports on human rights, trade barrier, and economic and trade practices. In 1996, Congress amended the Hong Kong Policy Act by requiring a report for 1996 and additional information on Hong Kong's Basic Law and its consistency with the Joint Declaration; the openness and fairness of the elections to the territory's legislature and the chief executive, the independence of the territory's judiciary, and Hong Kong's Bill of Rights.⁶ The House of Representative also passed a Hong Kong Reversion Act in March 1997 to support the autonomous governance of the territory.⁷

4. Gerald Segal, *The Fate of Hong Kong* (London: Simon and Schuster, 1993), p. 127.

5. *The US-Hong Kong Policy Act, 1992.*

6. A comprehensive discussion of the requirements and amendments to the US-Hong Kong Policy Act 1992 and Congressional actions related to Hong Kong is in Kerry Dumbaugh, *Hong Kong's Reversion to China: Problems and Remedies for the United States* (Congressional Research Services, The Library of Congress, 3 March 1997).

7. The Act was introduced by Douglas Bereuter (Republican, Nebraska), Chairman of the House International Relations Subcommittee on Asia and the Pacific. Congressional Record, (11 March 1997), House, H841-H849.

American interests in the territory are considerable. By the mid-1990s Hong Kong had become the tenth largest export market of the US, and a major importer of American agricultural products. US investment reached about US\$14 billion and exported another \$14 billion to the territory. There are over 1,000 American companies operating in the territory, and over 450 operate as regional headquarters. Each year an average of 65 US Navy ships visit the territory. Hong Kong also cooperate with US law enforcement agencies on issues like drug trafficking, smuggling of illegal immigrants, organized crime, and commercial fraud. The US is also a favorite place for education, with about 14,000 Hong Kong students enrolled in American institutions of learning each year. In 1996, the US Consulate General issued 170,000 business and tourists visas to Hong Kong residents, and over 700,000 Americans visited Hong Kong.⁸

The list of extensive interests, however, have to be viewed in the context of broader American interests in China. Although the question of democracy and human rights in Hong Kong have attracted attention in the US, it is clear that the US has to weigh its wider interests in the region. The Chinese government, which has remained uncompromising on the question of sovereignty, has insisted that the question of Hong Kong is a matter for Britain and China before 1997, and for China alone afterwards. Yet, the Chinese government is fully aware of the international interests over developments in the territory and recognizes that what happens in Hong Kong will have wider implications for China's international reputation. This paper is an attempt to evaluate the implications of Hong Kong's changing status for US-China relations by looking at the strategic, political and economic dimensions of the territory's transition.

The strategic equation

Since the break-down of the consensus in US China policy in the aftermath of Tiananmen, the policy debate in the US about China has fluctuated between engagement and containment. Those who are in favor of engagement maintained that it was not in the interests of the US to isolate China. The way ahead is to integrate China with the international community and encourage China to accept international norms and practices and facilitate China's economic reforms which will ultimately turn China into a more democratic system.⁹ Those who supported a more hard-line policy towards the Beijing government argued China's search for dominance in the West Pacific will inevitably come into conflict with American interests in the region. China and the US 'will be adversaries in the major global rivalry of the first decades of the century'.¹⁰ Robert Kagan even argued that to accommodate China's ambitions 'would require changing the essential character of the United States'. He described those who supported the policy of engagement as 'new China hands' and saw such a policy as perilous because it 'neither satisfies

8. US Information Service in Hong Kong.

9. See for example, Robert Ross, 'Beijing as a conservative power', *Foreign Affairs*, (March/April 1997), pp. 33-44.

10. Richard Bernstein and Ross Munro, 'The coming conflict with America', *Foreign Affairs*, (March/April 1997), p. 21.

the demands of the emerging power nor deters that power effectively enough to prevent a serious confrontation'.¹¹ Western analysts who viewed China as a destabilizing power have argued that the US should demonstrate 'an unequivocal commitment to maintain a US military presence in the Pacific' and 'a gradual expansion of the network of security understandings between other powers in the Pacific'.¹²

Similar sentiments and debates are mirrored in the Chinese capital. Although many Chinese analysts maintained despite their differences, China and the US shared common interests needed each other,¹³ anti-American feelings have been running strong in the last couple of years. Many Chinese analysts believed Washington harbored deep hostility towards China's social system, and did not wish to see a developed and strong China.¹⁴ The US attitude, described as a hegemonist mentality, was seen to be partly based on a sense of racial as well as cultural superiority.¹⁵ A Chinese journalist, after a 6-month working visit to a major newspaper concluded that the US media has demonized China because of American interests in 'seeking political, economic, military and cultural hegemony in the world'.¹⁶ More significantly, the resentment against the US seemed to be rather popular among the younger generation of intellectuals. Books with strong anti-American sentiments like *Zhongguo keyi shuobu [China That Can Say No]* have been extremely popular (the 50,000 copies of the first edition were sold out immediately). One of the authors of the book argued that China should counter-contains the US if the Americans continue to play the role of world police and exercise hegemonism.¹⁷

Since 1993 the Clinton Administration and the Beijing leadership have attempted to improve bilateral ties. Although differences over human rights, trade, armament proliferation, and the Taiwan question had created difficulties, Clinton and Jiang have emphasized the importance of a cooperative US-China relationship and declared their commitment to work towards establishing a more constructive relationship in 1996. Following the death of Deng Xiaoping, President Clinton declared that Administration's policy of engagement would continue and plans for the exchange of visits between the two presidents would not be affected.¹⁸ The importance of the US in Chinese foreign policy under Jiang's leadership was clearly reflected when the leadership insisted that Secretary of State Albright's visit to Beijing in February 1997 should not be affected by the death of Deng. President Jiang also repeatedly spoke of the importance of US-China relations. Yet as the

11. Robert Kagan, 'What China knows that we don't: the case for a new strategy of containment', *The Weekly Standard*, (20 January 1997), p. 26.

12. Gideon Rachman, 'Containing China', *The Washington Quarterly*, (Winter 1996), p. 130.

13. Jin Canrong, 'Sino-US relations: an overview', *Beijing Review*, (21-27 October 1996), pp. 9-11.

14. Zhang Zeyu, 'US containment strategists misled', *Beijing Review*, (16-22 October 1995), p. 4.

15. Shi Yinong, 'Why against China?', *Beijing Review*, (21-27 October 1996), p. 11.

16. Li Xiguang, 'US media: behind the demonization of China', *Beijing Review*, (21-27 October 1996), p. 12.

17. See Si Cheng, 'Chinese say "No" to the United States', *Beijing Review*, (21-27 October 1996), p. 13. The book ranked among other highly serious academic books in philosophy and history, as the number one best seller in *Feng Ru Xiong*, a bookshop for intellectuals located near Peking University, during the author's visit to Beijing in October 1996.

18. White House transcript of President Clinton's questions and answers with reporters on China, (20 February 1997).

debates in both capitals indicate, the fragility of US–China relations, as identified by Harry Harding, has not been fundamentally altered. Hong Kong's return to Chinese sovereignty introduces another element in the complex picture.

From Beijing's perspective, the recovery of Hong Kong not only represents a historic moment in the eradication of China's national humiliation, but also one more important step in enhancing China's rise as a major power. Beyond the emotional dimension of nationalism, Hong Kong is also a key element in the China's development strategy. This recognition of Hong Kong's contribution to the Chinese economy laid the foundation of the Beijing leadership's decision to maintain Hong Kong's special status. The reunification with Hong Kong will bring about changes in the East Asian strategic picture. As a British territory, Hong Kong has been part of the western alliance during the Cold War. Although the description 'Berlin of the East' may not be accurate, the territory did serve as a base for western forces. British troops from Hong Kong were involved in the Korean conflict in the early 1950s. The port of Hong Kong served as a port of call for western naval ships stationed in the region and for the transshipment of strategic goods. During the Vietnam War, Hong Kong was a destination for American soldiers for rest and recreation as well as replenishment. It has continued to offer port facilities to American ships. Although changes in the global strategic balance in the 1970s and the end of US containment policy against China has reduced the significance of Hong Kong, the territory has remained part of the western network in the East Asian region. Although as the US attempts to redefine its strategic role in post-Cold War East Asia, Hong Kong is not usually seen as an element in the equation, the China–Hong Kong reunification will almost certainly enhance China's status as a major power in the region.

Since China has defence and diplomatic responsibilities over Hong Kong, the People's Liberation Army (PLA) are stationed in the SAR. Under the 1994 Sino-British Agreement on the transfer of military sites in the territory the PLA took over major British military sites on 1 July 1997. These included a naval base on stonecutter island equipped with modern facilities. Although it is unlikely that the Chinese leaders would use Hong Kong as a base for military ventures, Chinese military presence, the acquisition of a new naval base at a strategic location, plus the development of a regional military base in Shenzhen could strengthen Chinese coastal defence and possibly facilitate China's military projection in the region.¹⁹

Since 1989 many western observers have also expressed concern about a China threat to regional stability. Although the People's Republic of China has become a major power in the Asia–Pacific region and a rapidly rising economic power, its aspiration has not been completely fulfilled. The China threat theory, as summarized by Denny Roy, suggests that China is still an authoritarian and unstable regime which is more war-prone, and it is also a dissatisfied power seeking to recover lost territory and prestige.²⁰ Chinese leaders have repeatedly denounced the

19. See discussions in James T. H. Tang, 'Hong Kong's political transition and regional security', *China News Analysis*, (15 May 1995). A fuller version is in James T. H. Tang, 'China incorporates Hong Kong: implications for international security in the Asia–Pacific region', in Takashi Inoguchi and Grant B. Stillman, eds, *North-East Asian Regional Security: The Role of International Institutions* (Tokyo: United Nations University Press, 1997), pp. 79–97.

20. Denny Roy, 'Hegemon on the horizon? China's threat to East Asian security', *International Security* 19(1), (Summer 1994), pp. 149–168.

theory as an attempt to prevent the rise of China.²¹ But Chinese nationalism is clearly an important element shaping the outlook of the leadership, and many Chinese people.²² The debate concerning the rise of China is likely to remain controversial for some time, but as one observer put it, 'China's sheer size and growing power are already altering the contours of Asian security, international commerce, and the global balance of power'.²³ American concerns over issues such as human rights and democracy in Hong Kong clearly would have an impact on the engagement–containment debate.

On the other hand, the Chinese leaders are also concerned about 'western influences' in Hong Kong. They are highly suspicious of western motivation in internationalizing the Hong Kong question. Vice-premier and Foreign Minister Qian Qichen, for example, has remarked that while it is understandable for western governments to be concerned about developments in the territory, foreign countries have no right to interfere with affairs in Hong Kong.²⁴ The return of Hong Kong to Chinese sovereignty thus will pose difficult questions about regional security at a time when US–China relations are still highly volatile.

Democracy in Hong Kong

Hong Kong's reversion to Chinese sovereignty would mark, warned an American observer, 'the beginning of the end of most political freedoms and the respect for human rights that the 6.3 million inhabitants of Hong Kong now enjoys—to say nothing of the prospects for democracy' and the territory's fate 'will also pose a formidable challenge to America policy of "constructive engagement" with China'.²⁵

The US government has openly supported the development of 'open, accountable, and democratic institutions' in Hong Kong. In its 1996 annual report to Congress, the Administration made clear that it would like to see the current legislators continue to serve beyond 1997 when their terms expired rather than being replaced by members of the Provisional Legislative Assembly. It has also sponsored a professional journalism exchange programme between the US and Hong Kong with the openly stated objective of equipping the local media with the tools needed to address the question of self-censorship.²⁶

The Chinese government's view towards democracy is, not surprisingly, diametrically opposite to the American position. Until the early 1980s when the Chinese government indicated that it would like to resume sovereignty over Hong Kong, the colonial political structures in the territory had not undergone any significant changes.²⁷ When the Sino-British talks over Hong Kong's future began

21. A number of publications on the subject have appeared in China. See, for example, *Ezhi zhongguo: shenhua yu xianshi* [Containing China: Myth and Reality] (Beijing: Zhongguo yinshi chubanshe, 1996).

22. See, for example, Allen S. Whiting, 'Chinese nationalism and foreign policy after Deng', *China Quarterly*, (June 1995), pp. 295–316.

23. David Shambaugh, 'Containing or engagement of China? Calculating Beijing's responses', *International Security* 21(2), (Fall 1996), p. 180.

24. A full text of Qian Qichen's press conference is in *Wen Wei Po*, (8 March 1997).

25. Tad Szulc, 'A looming Greek tragedy in Hong Kong', *Foreign Policy*, (Spring 1997), p. 77.

26. *United States–Hong Kong Policy Act Report, 1996*.

27. Norman Miners, *The Government and Politics of Hong Kong*, 3rd edn (Hong Kong: Oxford University Press, 1981), p. xv.

in 1982, political power was still highly centralized in the hands of a Governor appointed by the British government in London, who ruled the territory through the appointment of community leaders and key business figures to the colonial establishment and a Legislative Council comprised of senior civil servants and other appointed members.

If Hong Kong's colonial political status has remained unchanged for over a century by the early 1980s, it had risen to be a key financial and trade centre and cosmopolitan metropolis with global economic links, and thrived as a major hub for business information and international traffic, attracting professionals and business people from all over the world. The colonial authority maintained rule of law and a relatively corrupt free and efficient civil service. It has also adopted a hands-off approach in economic management and granted a high degree of freedom to the people living in the territory. This has helped foster Hong Kong's reputation as a free society rather than an oppressed colonial territory. The Hong Kong people have been widely seen as politically apathetic and passive.²⁸ Arguably Hong Kong's success has been possible because of the absence of political agitation. Colonial Hong Kong was dominated by the business elite.²⁹ While there were anti-colonial outbursts and violent demonstrations against the Hong Kong government, most Hong Kong people seemed reluctant to challenge British colonial rule directly. Through a process which has been described as administrative absorption of politics, Hong Kong maintained political stability without democracy.³⁰

By the 1970s, however, much better educated and with a stronger sense of belonging, the people of Hong Kong began to press harder for political change. The Sino-British negotiations on Hong Kong's future in the 1980s further politicized Hong Kong society. Since the conclusion of the Sino-British Joint Declaration over the future of Hong Kong, democratization has become a focal point in local politics. The rapid growth of the democratic movement is partly the result of the rise of middle class and partly the result of greater British tolerance for the demand for political participation in the governmental process. But most important of all, the prospect of reunification generated a degree of uncertainty about Hong Kong's political future under Chinese sovereignty. This led to intense debates about the nature of the political system and the issue of democratization emerged as a focal point of public attention in the territory. In the mid-1980s the Hong Kong government toyed with the idea of introducing limited democratization in the form of elected seats in the Legislative Council in 1988.³¹ The Beijing government,

28. Richard Hughes, *Borrowed Place, Borrowed Time: Hong Kong and Its Many Faces* (London: Andre Deutsch, 1976). See also discussions in Lau Siu-kai, *Society and Politics in Hong Kong* (Hong Kong: Chinese University Press, 1982), pp. 1–23.

29. Richard Hughes, *Borrowed Place, Borrowed Time*, p. 17.

30. See for example, Siu-Kai Lau, *Society and Politics in Hong Kong* (Hong Kong: The Chinese University Press, 1982).

31. *The Further Development of Representative Government in Hong Kong* (Hong Kong: Government Printer, 1984); *White Paper: The Further Development of Representative Government in Hong Kong* (Hong Kong: Government Printer, November 1984). For a useful account of the Hong Kong government's position on development of representative government see Norman Miners, 'Moves towards representative government in Hong Kong'; for the debate on the issue of representative government see Stephen N. G. Davies, 'The changing nature of representation in Hong Kong politics', in Kathleen Cheek-Milby and Miron Mushkat, eds, *Hong Kong: The Challenge of Transformation* (Hong Kong: Centre of Asian Studies, University of Hong Kong, 1989).

which rejected rapid democratization as a British ploy for continuing British colonial influences in the territory, viewed the introduction of representative government in Hong Kong with suspicion. During the Sino-British talks, the Chinese side rejected the inclusion of a detailed plan for representative government in the Joint Declaration.³² Although the Hong Kong government eventually declared its commitment to democratization, it announced that direct elections were to take place only in 1991.³³ The British and Chinese governments sought to establish political institutions which could survive the transfer of sovereignty under the 'through train arrangements' (Zhi tong che) in accordance with the Basic Law—the mini constitution for the Hong Kong SAR.

While the Basic Law (finalized in 1990) spelt out a time-table for the gradual introduction of more directly elected seats in the Legislative Council, democratization became a major issue on Hong Kong's political agenda. Demand for a more representative government intensified as a result of the 1989 Tiananmen Square Incident. The people of Hong Kong had rallied in open support of the pro-democracy movement in China. As part of a number of measures to restore political confidence in post-Tiananmen Hong Kong, the British government announced that the plans for the 1991 elections would have to be reconsidered.³⁴

In the end the pro-democracy camp led by the United Democrats of Hong Kong won a landslide victory in the 1991 elections.³⁵ Out of the 18 directly elected seats, the United Democrats won 12 seats, with 2 other seats going to an allied group, the Meeting Point, another pro-democracy group, the Association for Democracy and People's Livelihood, won one seat. The pro-democratic camp (allied groups and sympathetic independents) as a whole won about 67.5% of the vote. The Chinese government, however, attempted to downplay the significance of the election results by referring to the low turnout rate of the elections (39.15%). In fact the Chinese government has consistently argued that the Legislative Council was only an advisory body to the colonial government and therefore not representative of the Hong Kong public. Ian Scott argued the 1991 elections were 'votes without power for if the Chinese chose to do so they could block the process of democratization'.³⁶

The arrival of Chris Patten as Hong Kong's Governor in 1992 marked another period of confrontation between Britain and China over constitutional reform in the territory. The Patten proposal would broaden the electoral base of the functional constituencies considerably, giving all working people in Hong Kong the right to vote in a broadly based functional constituency and widen the scope of representa-

32. A summary of the Chinese attitude can be found in Yu Shengwu and Liu Shuyong, eds, *Ershi shiji de xianggang* [Hong Kong in the Twentieth Century] (Beijing: Zhongguo dabaikequanshu chubanshe, 1995), pp. 309–321.

33. *Green Paper: The 1987 Review of Developments in Representative Government* (Hong Kong: Government Printer, November 1987).

34. House of Commons Debate on China and Hong Kong, (13 July 1989).

35. For analysis of the election results see Rowena Kwok, Joan Leung and Ian Scott, eds, *Votes Without Power: The Hong Kong Elections 1991* (Hong Kong: Hong Kong University Press, 1992); Lau Siu-kai and Louie Kin-sheun, *Hong Kong Tried Democracy: The 1991 Elections in Hong Kong* (The Hong Kong Institute of Asia-Pacific Studies, Chinese University of Hong Kong, 1993).

36. See Ian Scott, 'An overview of the Hong Kong Legislative Council elections of 1991', in Rowena Kwok, Joan Leung and Ian Scott, eds, *Votes Without Power: The Hong Kong Elections 1991* (Hong Kong: Hong Kong University Press, 1992); on voter turnout rate, pp. 6–9, on the limitation of the elections in the democratization of Hong Kong, p. 24.

tion in the Legislative Council. But the proposal clearly went beyond what the Chinese had in mind and represented a departure from the established practice of close Sino-British consultation over political arrangements for the territory.³⁷ The proposal was flatly rejected by the Chinese government as unacceptable for “three violations” (*san wei fan*)—violating the Joint Declaration, the principle of convergence with the Basic Law, and the Sino-British understanding on the pace of democratization for Hong Kong between the two governments.

With the collapse of the ‘through train’ understanding, both sides went ahead with their versions of what would be the most appropriate political arrangements for Hong Kong. The Hong Kong government made the necessary legislative changes for the Patten plan and the 1995 Legislative Council elections resulted in another overwhelming victory for the pro-democracy camp. The Democratic Party, with 19 candidates elected, became the largest party in the Legislative Council.³⁸ The Chinese side unilaterally set up a ‘second stove’ in the form of a preliminary work committee comprising mostly pro-Beijing figures to deliberate on the political structures of Hong Kong beyond 1997. A Provisional Legislative Assembly was subsequently formed in December 1996 in the neighbouring town of Shenzhen just across the border when a 400-strong selection committee was chosen by a preparatory committee for the Hong Kong SAR elected members to the provisional body.

Although over half of the 60 Assembly members serve concurrently in the Hong Kong Legislative Council in Hong Kong, the membership is dominated by those with pro-Beijing backgrounds. Many Assembly members also served in the National People’s Congress or the Chinese People’s Political Consultative Conference, or are members of the Selection Committee themselves. The pro-Beijing groups such as the Democratic Alliance for the Betterment of Hong Kong won 10 seats, while another pro-Beijing group representing business interests, the Liberal Party, obtained another 10 seats. The pro-democracy camp, with the exception of the Association for the Promotion of People’s Livelihood, boycotted the election. Following the establishment of the Provisional Legislative Assembly, Martin Lee, the leader of the Hong Kong Democratic Party, the territory’s most popular political party, declared that it was the darkest hour for democracy for Hong Kong. But Lee indicated his party’s commitment to take part in the first SAR Legislative Assembly elections based on direct polls which is scheduled to take place in 1998.³⁹

While the Clinton Administration supports the ‘one country, two systems’ formula, it has also expressed concerns over specific political developments in the territory. Washington has put on record its disapproval of the Chinese government’s policy to replace the popularly elected Legislative Council with a

37. ‘Our next five years: the agenda for Hong Kong’, the Governor’s Policy Address at the Opening of the 1992/93 Session of the Legislative Council, pp. 30–43.

38. For an in-depth treatment of the 1995 elections see, Kuan Hsin-chi, Lau Siu-kai, Louie Kin-sheun and Wong Ka-ying, eds, *The 1995 Legislative Council Elections in Hong Kong* (Hong Kong: Hong Institute of Asia-Pacific Studies, The Chinese University of Hong Kong, 1996).

39. The results were covered extensively by the local media. See for example reports in *South China Morning Post*, *The Hong Kong Standard*, *Ming Pao*, *Wen Wei Po*, (22 December 1996).

Provisional Legislative Assembly chosen by a selected group of people many of whom are known to be close to the Beijing government. The Clinton Administration also accused the Beijing government of being insensitive to the way how Hong Kong works politically over issues such as the scrapping and amending parts of the Bill of Rights, and the exclusion of the Democratic Party from the Preparatory Committee.⁴⁰

In fact a number of outspoken Congressional members, suspicious of Chinese intentions in Hong Kong, even went further in expressing reservations about whether democracy could flourish in the territory. Senator Jesse Helms, Chairman of the Senate Foreign Relations Committee, for example, stated in a Congressional hearing that the US should not 'let Hong Kong go by the boards or be swept in a Tiananmen Square sort of thing, because a leopard may not change its spots, and neither will Beijing, until there is a new regime in'.⁴¹ While not all Congressmen share this view, their support for the 1997 Hong Kong Reversion Act clearly indicated bipartisan and broad Congressional concerns over Hong Kong. The Act stated that 'the failure to have an elected legislature would be a violation of the Joint Declaration of 1994 and calls upon the Government of the People's Republic of China to honor its treaty obligations'.⁴² When the Speaker of the House, Newt Gingrich, passed through Hong Kong after his visit to China in March 1997, he expressed concern over the dissolution of the elected Legislative Council and the protection of civil liberties. He remarked that any changes to laws concerning civil rights in Hong Kong would 'significantly affect Hong Kong's attractiveness as a regional center for commerce', and unilateral changes would 'indicate that China values power over keeping its word'.⁴³ In a Senate Foreign Relations Committee hearing on US-China relations after Deng Xiaoping, former Ambassador to China, James Liley, maintained that how China would treat Hong Kong could be a litmus test of China's intentions and ambitions.⁴⁴

The Chinese government, naturally, resented American criticism of its Hong Kong policy. Beijing maintained both that the election of Tung Chee-hwa by the Selection Committee as Chief Executive and that the formation of Provisional Legislative Assembly were steps towards more democracy for the territory, referring to the fact that all the previous governors of Hong Kong under British rule were appointed by London. On 25 December 1996, in response to a statement by the Foreign Office in London, *Xinhua* newsagency rejected British criticism against the Provisional Legislative Council and referred to British efforts in seeking international support to exert pressure on the Chinese government as ridiculous. The commentary reiterated the official stand that 'the question of Hong Kong is a matter between China and Britain before it returns to China. After that, Hong Kong will be an internal affair of China, and no foreign government will have the right

40. Winston Lord's remarks at a hearing of the East Asian and Pacific Affairs Subcommittee of the Senate Foreign Relations Committee, (18 July 1996).

41. Hearing of the East Asian and Pacific Affairs Subcommittee of the Senate Foreign Relations Committee, (18 July 1996).

42. Congressional Record, (11 March 1997), House, H842.

43. Remarks by Newt Gingrich at the Hong Kong American Chamber of Commerce, (27 March 1997).

44. The Senate Foreign Relations Committee: Subcommittee on East Asia and Pacific Affairs, (18 March 1997). The author was present at the hearing.

to interfere in China's affairs'.⁴⁵ Popular sentiments as reflected by works produced by young intellectuals in China described the US policy towards Hong Kong as a conspiracy with other western governments in internationalizing Hong Kong in pursuit of American interests in the Asia-Pacific region as well as testing China's ambition and determination.⁴⁶ Responding to the passing of the Hong Kong Reversion Act by the House of Representative, a *Xinhua* newsagency commentary referred to a record of American intervention on matters related to Hong Kong, describing the US as displaying the ugly hegemonic mentality of some Congressional members.⁴⁷ The Chinese Foreign Ministry spokesman formally rejected the Act as a brutal interference of China's internal matters.⁴⁸

Different opinions on the nature of implications of democratization for Hong Kong have thus continued to generate political tensions between China and the West and are a source of political polarization within Hong Kong. The establishment of the SAR government on 1 July is not going to remove the issue from Hong Kong politics. The SAR administration under Chief Executive Tung Chee-hwa would not be able to restore the colonial-political framework which existed prior to the 1980s. In any case the present system will have to give way to institutional arrangements specified in the Basic Law which are making electoral politics an essential part of the political process in Hong Kong. By 2003 the Legislature will be comprised of 30 directly elected members and 30 functional constituency elected members. Electoral politics and political parties may be conducted differently under the SAR administration, but they have become an accepted part of the political process in the territory. The population of Hong Kong have also become far more politicized and more vocal in their political demand as a result of the developments since the mid-1980s.

Given the different political cultures and values in mainland China and Hong Kong, the aspiration for more democracy in Hong Kong will no doubt be a major challenge in the process of Hong Kong's transition. Recent surveys on political attitudes in Hong Kong suggest the commitment to democracy of the Hong Kong people is still marked by ambivalence. Kuan and Lau identified that rising demand for democracy in Hong Kong is matched by intricate ambiguities and can be characterized as merely partial commitment.⁴⁹ Moreover, the people of colonial Hong Kong may also become highly nationalist, as evidenced by their protest against Japanese militarism over the disputed Diaoyu islands (or Senkaku islands according to the Japanese) in the summer of 1996. Thus the impact of the Hong Kong's political transition on the direction of democratic change in the territory and the population's identity and aspirations remains a question which is not easy to answer.

Nonetheless, how China's more conservative approach to politics interacts with

45. *Xinhua*, (25 December 1996).

46. *Erzhi zhongguo: shenhua yu xianshi* [Containing China: Myth and Reality] (Beijing: Zhongguo yinshi chubanshe, 1996), pp. 268–382.

47. *Xinhua*, (19 March 1997). Full text in *Wen Wei Po*, (20 March 1997).

48. *Wen Wei Po*, (14 March 1997).

49. Kuan Hsin-chi and Lau Siu-kai, 'The partial vision of democracy in Hong Kong: a survey of public opinion', *The China Journal* 34, (July 1995), p. 263.

the aspirations of a politically more active Hong Kong will clearly be a critical issue in the political development of the Hong Kong SAR. US-China differences over the development of democratic institutions in Hong Kong is not the core problem in their relationship, but such differences may intensify bilateral difficulties.

Economic relations

Hong Kong is dependant on both China and the US for its economic survival. China is Hong Kong's production base, an important source of supply, and increasingly, investments. At the same time the US is one of Hong Kong's most important markets and investors. While both the US and China share common interests in developing bilateral trade and economic cooperation, their economic relations have been rather problematic. Hong Kong is often caught between the economic conflicts of its two most important economic partners. The Hong Kong government estimated in 1997 that if the US were to revoke China's Most Favored Nation trading status, the territory would lose HK\$246 billion trade and up to 86,000 jobs, leading to a reduction of its GDP growth rate by almost 50%.⁵⁰ The territory has always lobbied Washington to grant MFN status to China, arguing that otherwise Hong Kong would suffer economically.

In the past US-China political relations have always been important in determining their economic relations. The expansion of bilateral trade throughout the 1970s and the 1980s was only made possible by the improving of US-China diplomatic relations. Washington extended the Most Favored Nation (MFN) treatment to China in a bilateral trade agreement in 1980, subject to renewal on an annual basis. Since 1989 Washington has used MFN as a political instrument, such as requiring China to meet certain human rights conditions. But the Clinton Administration decided to delink human rights with trade matters in 1994, reversing the order of importance between economic and political considerations. In fact US direct investment in China reached \$1.7 billion at the end of 1994 and China was the US's thirteenth largest export market in 1995. According to Washington, US trade deficit with China reached US\$39.5 billion in 1996, \$5.7 billion greater than in 1995. US merchandise exports to China for 1996 were nearly \$12 billion, up \$230 million, or more than 2% from 1995.⁵¹

US-China frictions over trade matters have concentrated in three areas: China's trade surplus with the US, the protection of intellectual property rights, and market access. China had strengthened its intellectual property legislations from the early 1990s onwards and acceded to major international agreements on copyrights and trade marks. But the US has been dissatisfied with the enforcement of the laws, describing it as 'sporadic at best, and virtually nonexistent with regard to copy righted works'. Market access is another difficult issue. Although the two signed a Memorandum of Understanding on market access in 1992 and introduced appropri-

50. *South China Morning Post*, (5 April 1997).

51. US Trade Representative Office, *The 1996 National Trade Estimate for the People's Republic of China*, (March 1997).

ate measures to open its market, there are still differences over license and quota requirements, additional non-tariff measures, as well as the transparency of the Chinese trade regime.⁵²

The Chinese government, however, rejected American assertions that the US suffered from a huge trade deficit in its trade with China. The Chinese figures were far more moderate than the US figures. For example, the Chinese government suggested that it had a trade surplus of only US\$8.59 billion in 1995 when the US claimed that its trade deficit with China was US\$33.81 billion. The Minister of Foreign Trade and Economic Cooperation, Wu Yi suggested that a large proportion of trade between China and the US was entreport trade through Hong Kong. Wu maintained that bilateral US-China trade had been held hostage to different understanding of trade balance.⁵³ Over intellectual property protection, the Chinese government also maintained that the US government were making unwarranted accusations against Beijing's efforts.⁵⁴ Their differences have resulted in very tough trade negotiations which brought the two to the brink of a trade war several times.

China's desire to gain entry to GATT/WTO has also been a source of tension between the two countries. The US has insisted that Beijing must commit to a range of WTO rules, but Beijing maintained that as a developing economy undergoing a complex economic transformation, special treatments are necessary. The US government maintained that China's accession to the WTO should be based on the same rules that other members follow, and Americans should be able to do business in China without going through a centralized government entity. Washington also linked broader economic relations with China to the Hong Kong issue. In the words of the Secretary of Agriculture Dan Glickman, 'Hong Kong is an economic dynamo. They are our 8th largest agricultural market, 4th in terms of consumer-oriented products, with much of it headed into China ... We need a smooth transition that nurtures their success and shows good-faith on China's part'.⁵⁵

The economic role of Hong Kong in US-China relations has to be viewed from the perspective of an increasingly integrated Hong Kong-Southern China economy. The territory and China have become closely integrated economically since the end of the 1970s. Economic integration and the narrowing of the income gap between Hong Kong and mainland China have no doubt facilitated the process of Hong Kong's transition to Chinese sovereignty. The tremendous changes in China as a result of the economic transformation has been so significant that it was described as a second revolution marked with far reaching consequences for not only the Chinese economy but also polity and society. The economic reform not only closed economic distance between Hong Kong and China, but also cemented the two together as economic partners.⁵⁶ Their close economic relationship is reflected in

52. 1996 Annual Report of the President of the United States on the Trade Agreements Program: Part VII Bilateral Negotiations (section on China).

53. Wu Yi, 'China-US trade imbalance: an objective evaluation', *Beijing Review* 39(24), (10-16 June 1996).

54. 'China hits back US sanctions', *Beijing Review* 39(23), (3-9 June 1996).

55. Speech on China by Dan Glickman, Council on Foreign Relations, New York, NY, (2 April 1997).

56. Harry Harding, *China's Second Revolution: Reform after Mao* (Washington, DC: Brookings Institution, 1987). See also Nicholas R. Lardy, *Foreign Trade and Economic Reform in China, 1978-1990* (Cambridge: Cambridge University Press, 1992).

growing bilateral trade, Hong Kong's role as the entrepot for China, in cross border manufacturing activities, and in mutual investments and business involvements. Mainland China has become the third largest investor in the territory with substantial investments in all the major commercial activities in Hong Kong. One estimate suggested that mainland-backed enterprises registered in Hong Kong have reached more than 1,700, employing 53,000 people with US\$44 billion of assets.⁵⁷

Hong Kong has always acted as the middleman between mainland China and the outside world. The fact that it is one of the world's freest economies, with almost no restrictions for foreign businesses and trade, has enabled it to act as a buffer between China and major industrialized economies when economic difficulties arise between them. In recent years, however, Hong Kong has also been a target for US action over intellectual property protection and place of origin of textile products. According to the US government Hong Kong's intellectual property laws are among the best in the world, but a massive increase in pirate compact disc production in China has weakened enforcement efforts in the territory. Washington also identified Hong Kong businessmen as central players in the production of such on the mainland as co-venturers in more than two-thirds of the pirate CD plants operating in mainland China. The US government has suggested that, 'as reversion to China moves ever closer, the challenge for Hong Kong will be to establish a fundamental respect for intellectual property rights which will endure beyond 1997'.⁵⁸

Hong Kong is caught between its economic linkages with the mainland which have become its manufacturing base on the one hand, and its economic linkages with the US which have always been based on open and free trade. US-China differences over trade and economic matters could easily have a very significant impact on the well-being of the territory. Observers in Hong Kong would still like to see the territory playing a useful role in promoting understanding between the two ideologically divided giant economies.⁵⁹ If the US perceives the Hong Kong economy as merely the extension of the mainland economy, its trade policy towards the territory will likely to be far more aggressive. In the context of the debate over the rise of China, Washington may perceive a politically submissive Hong Kong with suspicion, thus adopting a less sympathetic view about bilateral economic problems with Hong Kong.

Conclusions

The process of Hong Kong's reunification with China is highly complex and full of ambiguities. While most Hong Kong people are Chinese, reunion with the mainland has brought about anxieties and raised concerns on the territory's future. Although the 'one country, two systems' formula is a recognition of the special circumstances, the Chinese leadership is also determined to recover sovereignty over Hong Kong.

Upon his election in December 1996 as the Chief Executive of the first Hong

57. Hong Kong Trade Development Council Reports.

58. US Trade Representative Office, *1996 National Trade Estimate: HONG KONG*.

59. See for example, editorial in *Ming Pao*, (7 April 1997).

Kong SAR government, Tung Chee-hwa announced that the people of Hong Kong would become their own master, as the territory returns to the motherland.⁶⁰ Tung, however, also maintained that foreign cultures, which have made the territory's outlook more international and cosmopolitan, is also an essential part of Hong Kong. His vision of Hong Kong is, 'a caring society that has a strong social fabric; a prosperous society filled with opportunities for all; and a proud society with a global outlook that will play its part as China moves to the centre stage in the 21st Century'.⁶¹ In April 1997 Tung proposed changes to the Public Order Ordinance and Societies Ordinance which would put restrictions on public demonstrations security and require all societies to be registered (registration could be rejected in the interests of national security) as well as prohibit political organizations to establish ties with foreign political organizations.⁶² Responding to Tung's proposal, a White House spokesman warned that, 'The People's Republic knows the entire world is watching very closely ... We viewed with some concern any effort that would diminish the civil liberties and freedoms the people of Hong Kong has enjoyed'. The Chinese government, irritated by American concerns over developments in the territory, rebuked that Washington had made 'irrational accusations against necessary measures the Chinese government has adopted to safeguard a smooth return of the territory to the motherland'.⁶³ While Tung would probably prefer to steer Hong Kong away from the troubles in US-China relations, his vision that Hong Kong would be an important part of China with a global outlook, is precisely the reason that Hong Kong would find it difficult to stay away from difficulties in US-China relations.

The role of Hong Kong in US-China relations must be viewed through the complex inter-play of *strategic*, political, and economic factors as discussed in this paper. If Hong Kong could continue as a prosperous and free society with a global outlook, it will probably facilitate China's integration with the global community. But if the transition of Hong Kong turned out to be a transition towards authoritarian rule and a SAR with diminishing capacity in running its own affairs and maintaining its position as an autonomous and free economy, then those who advocate a more confrontational approach to the management of US-China relations on both sides of the Pacific may gain the attention of wider audiences in their respective domestic constituencies with highly undesirable consequences for both countries.