

1997 and all that

By Mary Lee

In the exciting times of Hongkong's property market boom (1979-81), it looked as if there was no end to prosperity. Such prosperity was seen as the product of a unique political situation: this capitalist community on communist China's doorstep, under a British administration which believed fervently in free enterprise, was reaping the benefits of a new and pragmatic leadership in Peking.

China's modernisation was good for Hongkong business and — for a while at least — this sparked optimism for the territory's political future. For while the deadline of 1997 (when Britain's lease on the New Territories [NT] expires) was drawing closer each year, it seemed unlikely that Peking would kill off the goose which was laying the golden eggs China needed to help finance its modernisation plans.

Such optimism has since evaporated. The property boom went bust in 1982; the economy was at last beginning to feel the recession in Hongkong's major markets and both were happening at around the time when Sino-British talks on Hongkong's future began in a none-too-friendly atmosphere. Today, there are growing fears, amid China's strident proclamations of its intention to end British rule in 1997, that prospects for continued prosperity are very limited, despite the economic upturn.

The Hongkong-China relationship has become very confused in the past year as a result of the glare of publicity over the territory's future. Most people feel that Hongkong's sovereignty belongs to China, but, apart from this, there are diverse views about how this territory should be run after sovereignty reverts to Peking in 1997. There are three broad classes of opinion — pro-Peking, pro-British and, floating at various points of proximity between the two, the pro-Hongkong group; but differences prevail even within each category.

The pro-Peking faction wants Britain to end its rule in 1997, after which Hongkong will become a special administrative region under Chinese sovereignty and need have no fear for its freedoms, capitalist lifestyle and economy. The pro-British faction asserts that the Chinese leadership's adherence to socialism, the party's track record of internal struggles and the devastating effects this has wrought on the mainland raise serious doubts about Peking's ability to keep its promise of minimal change. This group believes that only a continued British presence — even if this is represented by no more than a governor answerable to London rather than Peking — can ensure continued prosperity and stability.

The pro-Hongkong faction, while not free from doubts about Peking's assurances of minimal change and no interference under Chinese sovereignty, is trying hard to be what some of its members have described as "realistic." The intellectuals and student leaders who dominate this group want a democratically elected structure as the basis for China's proposed "self-administration by Hongkong people" plan; and they want elections to be introduced before Britain withdraws. Underpinning these hopes is a strong belief that China will not allow the British to continue administering Hongkong after 1997.

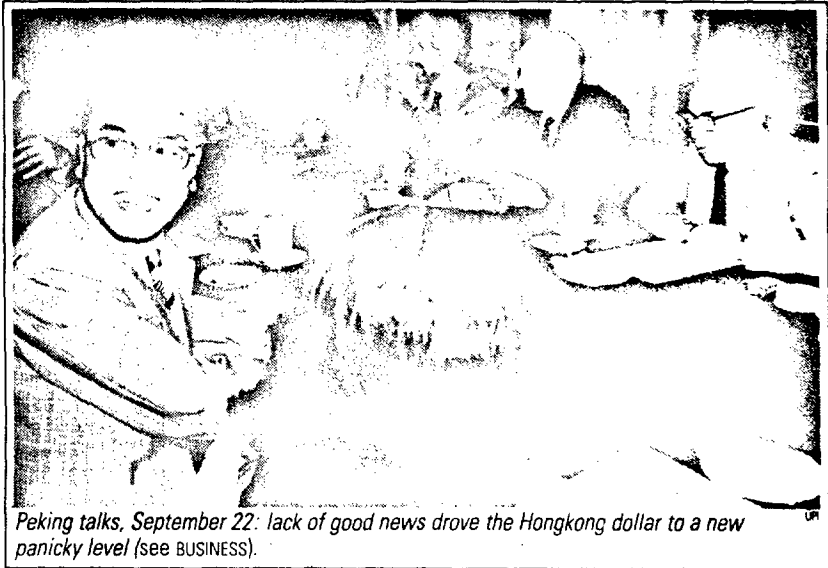
It is impossible to predict which version of Hongkong's future will be hammered out in the Sino-British talks — which resumed in Peking on September 22 and were then adjourned to October 19 the next day. However, there is an interesting, if less well-known, view which holds that the current tension over the 1997 issue was Britain's creation in the first place. Hongkong University law lecturer Peter Wesley-Smith — author of *Unequal Treaty 1898-1997* — argues that "through a

misunderstanding of constitutional law, the British Government [has created] an unnecessary problem [pushing China into dealing with the NT lease]. Like a psychosomatic illness, it exists because it is believed to exist. Forget about it and the patient is cured."

Wesley-Smith's view is supported by the fact that China had previously regarded the Hongkong issue as largely a British problem and had been unwilling to address it until "the time was ripe." Until just before British Prime Minister Margaret Thatcher visited Peking in September 1982, China, through its elliptical references to "this problem handed down by history," indicated a great unwillingness to alter Hongkong's status quo.

According to Wesley-Smith, "the British regime in Hongkong will survive until political, not legal [that is, the NT lease expiry], decisions are made to terminate it. Many people have mistakenly believed that the [British] Order in Council is an essential basis for British jurisdiction in the NT. It is not. It is not a matter of requiring a particular form of statement or enactment [but] of recognising an act of state." Had Britain decided to remain in the NT after the lease expired, it could have decided to extend its jurisdiction — an act of state which, Wesley-Smith maintains, no court could challenge. There was no need for Britain to issue a new Order in Council or to negotiate a new treaty, he said.

However, given that Britain was seeking a political decision from China on Hongkong's status when it pushed hard to start bilateral negotiations on the subject — and the events and



Peking talks, September 22: lack of good news drove the Hongkong dollar to a new panicky level (see BUSINESS).

Peking's statements following Thatcher's visit — Wesley-Smith's view of what should have happened is somewhat academic. It is easy to say, with hindsight, that the 1997 problem would have been better left alone in 1982, but the Hongkong Government was already feeling pressure from business and banking quarters to resolve the uncertainty since investors were unhappy with the 15-year deadline. As a British source indicated in 1981: "Given the political will on both sides, Hongkong can continue as is." Britain evidently felt that elder statesman Deng Xiaoping's words to then governor Sir Murray (now Lord) MacLehose in 1979 ("Tell investors to put their hearts at ease") signified sufficient will to maintain Hongkong's status quo.

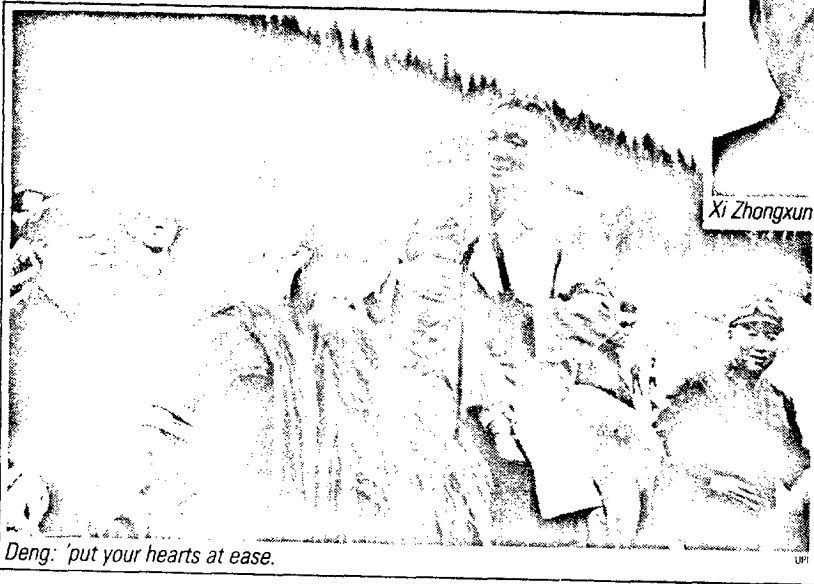
As events have shown, the British were wrong. Peking is now stepping up its pressure on the Hongkong people to accept the termination of British rule in 1997 and to have confidence in its declared plans for Hongkong. Shortly after the start of the summer recess of the talks in early August, Peking-affiliated trade unions began to declare their support for China's stance on Hongkong's future. However, whether "the matter of principle that China has to . . . end British rule over Hongkong no later than July 1, 1997" as *Ta Kung Pao*, which reflects Peking's views, declared on August 18 is in fact a policy statement is open to question.

Peking's stance on Hongkong, apart from its claim to

sovereignty, has not been very consistent since 1982. Pre-Thatcher, the one memorable occasion when it made a policy statement on Hongkong was in 1972, at the United Nations' Decolonisation Committee, stating that Hongkong and Macau are Chinese territories under foreign occupation and that these problems would be resolved when the time was ripe. That attitude prevailed, embellished in 1979 by Deng's assurance that investors can put their hearts at ease. Then, in 1982, Minister of State at the Foreign Office Humphrey Atkins visited Peking where he told Premier Zhao Ziyang: "Come 1997, if nobody does anything at all, the government's powers over the NT cease, because that's what the actual act of parliament says. Somebody has got to do something . . . I think they recognise that we have got to discuss together how to proceed after 1997 and I believe the message has got through."

Atkins was told, in return, that the solution of the Hongkong problem would be reached through bilateral negotiations, that Peking wanted Hongkong to remain a free port and that neither China nor Britain should do anything in the meantime to jeopardise Hongkong's stability and prosperity. Peking's subsequent behaviour bore little resemblance to Zhao's last point.

To begin with, Deng began talking about Hongkong's future to select Hongkong compatriots in June 1982. He reportedly told a group of pro-Peking compatriots that China would restore sovereignty over Hongkong "around 1997" and take appropriate steps to maintain the territory's stability and



prosperity. In August, Hongkong newspapers reported that Peking's plan for Hongkong included appointment or election of a local Chinese to replace the British governor. Around that time too, local pro-Peking magazines began to publish broad details of China's plan for Hongkong, which promised minimal change apart from the flag, governor, departure of British troops and removal of symbols of its present colonial status.

In September, the Chinese version of the so-called Sino-British agreed statement — released while Thatcher was still in Peking — had an extra line: "The Chinese Government's position on the recovery of the whole region of Hongkong is unequivocal and known to all." It was the first time that Peking had officially used the word "recovery" — a term implying de facto recognition of the so-called unequal treaties which wrested first Hongkong Island, then Kowloon Peninsula and finally the NT from China. Thereafter, China began to invite motley Hongkong groups to Peking — ostensibly to listen to the expressed wishes of compatriots but, in effect, to disseminate its proposed plans for the territory.

Consequently, Peking appeared to be ignoring the principle agreed with Thatcher that the contents of the talks must be kept confidential if confidence was to be preserved. It could, however, argue that these plans were not part of the talks which, stretching the point somewhat, fits in with the standard British response, first voiced by Lord Belstead, Atkins' replacement,

that "it is the talks that count and we must not be prejudiced by anything said outside them."

During these so-called consultation sessions, Peking also communicated the message that not only was sovereignty non-negotiable but that the talks would be confined to arrangements for the transition period which would end on June 30, 1997 (the lease's expiry date), "at the latest." Predictably, these threatening noises from Peking unsettled investors and sent the stockmarket and value of the Hongkong dollar sliding.

The Chinese leadership, however, steadfastly maintained that the fall in the Hang Seng Index and local currency's exchange rate was the result of a tripartite conspiracy between the London and Hongkong governments and the Hongkong and Shanghai Banking Corp. to exert pressure on Peking's position at the talks. Much of the time between October 1982 and July 1983 (when the second phase of the

began) was spent arguing about an agenda for the discussions. The deadlock was broken in March — but evidence of its breach only surfaced in June. It was broken by a letter from Thatcher to Zhao, delivered by British Ambassador to China Sir Percy Cradock who had just returned from London (via Hongkong, where he briefed the Executive Council) after conferring with Thatcher. Governor Sir Edward Youde was also present at the London meeting. Zhao later replied.



The contents of the letters remain a secret but, judging from remarks by politburo member Xi Zhongxun in May and Deng in June, they indicated Thatcher's shift from her stance that the treaties were valid and, therefore, sovereignty was negotiable and, on the Chinese side, that Peking was not going to insist on recognition of China's sovereignty as a precondition for the talks.

Xi told a 12-member group of Hongkong businessmen and professionals: "The British have changed their stance a little. Britain is not pursuing the three unequal treaties now . . . Thatcher made the wrong move in the chess game during her visit to Peking last September. She is now changing, starting anew . . . Sovereignty is not a precondition."

Deng told Hongkong members of the Chinese People's Political Consultative Conference and National People's Congress: "We must let the British get out of an embarrassing situation [having to negotiate under a precondition that they recognise China's sovereignty]. It is possible that the negotiations will not begin with 'regaining sovereignty' but with the second question, that is, what shall we do after 1997? After we have finished discussing the second, then there is nothing in the first question which is worth discussing."

China has thus dropped its previous hard line that the negotiations could only begin after Britain conceded sovereignty and would only be on the "transition" ending in 1997 — a shift which was barely noticed by the nervous Hongkong public.

The second round of talks began nearly 10 months after Thatcher's visit, on July 22, with both sides stating their positions and then reiterating these in greater detail in three sessions. The British stance is that if Hongkong's stability and prosperity are to be preserved and if London is to discharge what it regards as its moral commitments towards Hongkong, some official British presence is essential after 1997 to act as a buffer between the mainland's socialist system and the territory's capitalist one. Peking has ignored this stance, just as it has ignored any

suggestions from Hongkong residents which do not conform to its stated view that "sovereignty without administrative power is meaningless."

China appears intent on impressing upon its Hongkong compatriots that national dignity is incompatible with Britain retaining administrative responsibility for the territory. The key words in its heavy propaganda campaign are "patriotism" and "reunification." Putting further pressure on the hearts and minds of compatriots is China's (or, more precisely, Deng's) hope that a solution be reached by mid-1984. The British share Deng's view that "negotiations cannot drag on for too long; otherwise, people's confidence will be affected," but they maintain that no deadline hangs over the talks.

The suggestion of a Chinese deadline may be nothing more than Peking's attempt to secure a psychological advantage — an agree-or-else pose. This would fit in with China's current attempts to undermine Hongkong people's confidence in Britain's chances of and determination in securing an agreement acceptable to them. But while there may be no gun to London's head at the moment, the possibility is there that the Chinese would whip one out in the future. A popular theory has it that Deng, almost an octogenarian, wants to achieve reunification of Chinese territory in the south before he dies, to pave the way for eventual reunification with Taiwan.

The unknown factor in the talks, then, is how badly Deng wants to go down in Chinese history as the man who secured Britain's withdrawal from Hongkong and so recovered China's dignity lost in the 19th century Opium Wars. However, Xi did say in May that "the solution has to be negotiated between two countries. It cannot be resolved unilaterally." On the other hand, though, recent events have shown that China has a tendency towards unique interpretations of its own statements.

Despite the current political uncertainty over Hongkong's future, its relationship with China, as described by economist Dr Y. C. Jao of Hongkong University, is still one of "mutual dependence and interaction." China, however, maintains that Hongkong depends on China for its prosperity, and not vice versa. Xi said in May: "The relationship has to be made clear. China does not need Hongkong for the four modernisations, but Hongkong depends on China for supplies . . . Members of the European Economic Community cannot be independent of one another. They are interdependent. China does not have this problem."

The fact remains, however, that China earns an estimated US\$6 billion worth of foreign exchange annually (the figure was given by the late Liao Chengzhi, head of the Hongkong Macau Office of the State Council) and that the largest proportion of HK\$2 billion (US\$226 million) worth of investments in the Guangdong special economic zone of Shenzhen comes from Hongkong. The largest state-owned trading corporation in Hongkong — China Resources — has, after some years, recently decided to incorporate itself under Hongkong company laws. Moreover, Chinese investment is also growing — partly due to Peking's desire to boost confidence locally but also because China wants to take advantage of the sophisticated services available in the territory.

A non-government corporation, the first to be set up by a Chinese citizen, Everbright Industrial Corp., was established recently under the chairmanship of Wang Guangying, brother-in-law of the late former Chinese president, Liu Shaoqi, to buy modern equipment which China needs. Everbright and its sister company, Violight, are expected to purchase "millions of US dollars worth of equipment through Hongkong," said Wang. Everbright also intends to take advantage of Hongkong's free-port status to do business with countries which have no diplomatic relations with China.

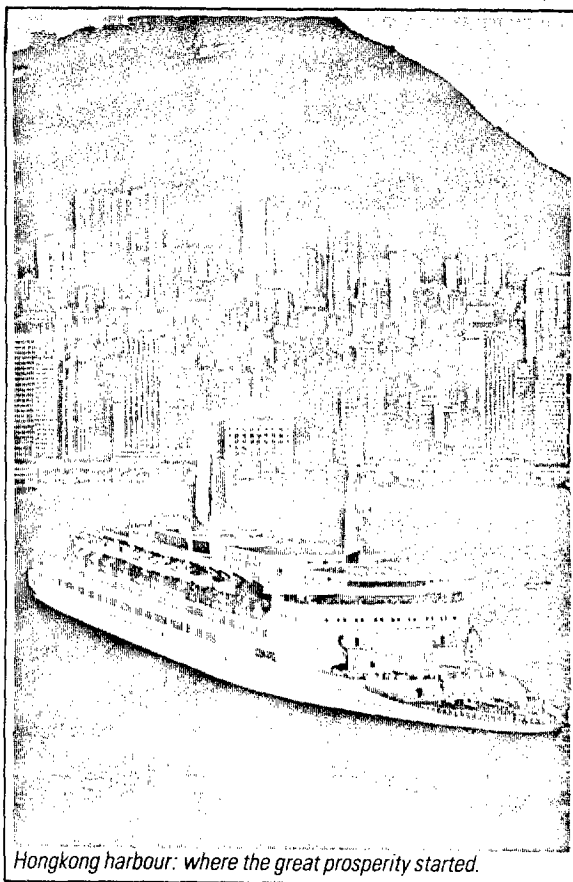
More state-owned Chinese corporations are planning to invest in local manufacturing; these include a brewery for the well-known Tsingtao brand of beer, a cement plant and textile processing. Shanghai's Patriotic Construction Corp. also plans to open a branch office and some processing factories in Hongkong. In June, a delegation from the Ministry of Machine Building Industries visited Hongkong to seek partners for joint ventures both here and in China.

On a day-to-day level, there is now a far closer relationship than ever before between the Hongkong and Guangdong

authorities over common problems like pollution of rivers, transport facilities and smuggling.

Unfortunately, a stable relationship of political and economic interdependency is slowly being distorted by the increasingly vituperative remarks in the local pro-Peking press about people who want an official British presence in Hongkong after 1997. Matters are not helped by the fact that Hongkong has no representative structure which can reflect credibly the wishes of the majority for maintenance of the status quo (but under Chinese sovereignty), or by the fact that such wishes cannot be expressed publicly under the present circumstances. There are two main reasons for this: most ordinary compatriots are not only mindful of the dangers of incurring Peking's wrath when they have no other option but to remain in Hongkong whatever happens, but are unwilling to express their views because they are not sure Britain really wants to keep its official links with the territory. In addition, there is no credible public figure who can provide leadership for the community and who can publicly champion Hongkong's interests.

A logical analysis of the current atmosphere of Sino-British talks on



Hongkong harbour: where the great prosperity started.

Hongkong's future must conclude that a deadlock will arise sooner or later over Britain's role after 1997 — unless, of course, one side amends its position. And there are real dangers that a deadlock might well precipitate panic which cannot be contained. However, it could be argued that any British compromise on London's present determination to retain a link with Hongkong after 1997 would start a highly visible exodus of talent and capital anyway. A deadlock, therefore, would not make that much of a difference to the mobile. For the vast majority, however, it heralds the possibility of a unilateral takeover by China.

On the other hand, a deadlock could well demonstrate to the people of Hongkong — who are totally in the dark as to London's stance in the talks — that Britain, at any rate, is not trying to sell out for potential gains in Sino-British trade. Should the talks produce an agreement in which China's sovereignty is acknowledged to Peking's satisfaction and an official British link kept, which would satisfy London and the people of Hongkong, then the territory's future holds potential for a prosperity which exceeds even that of the last boom. □