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Volume 12
Number 1 *International Business Law
Conference: Investment and Trade with the
People's Republic of China*

Article 11

12-1-1989

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Recommended Citation

Jack Chan, *Hong Kong's Role after 1997*, 12 Loy. L.A. Int'l & Comp. L. Rev. 54 (1989).
Available at: <https://digitalcommons.lmu.edu/ilr/vol12/iss1/11>

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Kong. At this time, Hong Kong plans to develop its own patent registration system; it will not adopt the one used by the People's Republic of China. Similarly, new copyright laws will be enacted in Hong Kong. A change in Hong Kong's ship registry system is now being developed to avoid the cumbersome British registration system. The vessels registered under the British system are required to fly the Union Jack and captains and senior officers must be British subjects.

In short, Hong Kong is evolving rapidly into a "highly autonomous entity," and in the future will possess unprecedented jurisdiction. For example, Hong Kong will have the power to enter into international agreements without being a sovereign state, such as becoming a member of the General Agreement on Tariffs and Trade and the Asian Development Bank.⁸ To conclude, it is unknown how these changes will be successfully implemented in Hong Kong after 1997, but the business world awaits the new developments with excitement.

Hong Kong's Role After 1997

JACK CHAN*

I was born in Hong Kong and, except for a year of study in England, lived there until December of 1988 when I left to come to the United States. Although I was very glad to have the opportunity to come to this great nation, I also enjoyed my life in Hong Kong. It is a fascinating city, full of excitement and action. Hong Kong has so much to offer and everybody there seems to enjoy life to the fullest extent. Hong Kong residents work from sunrise to sunset. Life in Hong Kong is truly a 24-hour business. I believe the people of Hong Kong make Hong Kong what it is today. Our forefathers did a good job in the past and we are determined to make Hong Kong a better place for the future.

Although the title of this panel is "Doing Business in Hong Kong," I am not going to talk exclusively about what a marvelous place Hong Kong is for business. I expect everybody in the business world is fully aware of this. Rather, I would like to discuss Hong Kong's future with regard to the change of sovereignty in 1997.

8. See generally J. JACKSON, *WORLD TRADE AND THE LAW OF GATT* (1969); K. KOCK, *INTERNATIONAL TRADE POLICY IN THE GATT - 1947-1967* (1969).

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As you would obviously expect, I am optimistic about Hong Kong's future. Despite the contrary views expressed by some individuals, I simply do not believe that Hong Kong will be transformed from the prosperous, vibrant, cosmopolitan place it is today into an economic and human wasteland under a totalitarian regime.

Before discussing Hong Kong's future, I would like to give you an overview of Hong Kong's economy as it exists today, four years after the signing of the Joint Declaration and eight years before sovereignty will be returned to China. Contrary to what some press reports would have us believe, Hong Kong is almost exactly what it was four years ago—only better. It is a booming, politically stable, regional business and financial center in the Asian Pacific Rim which continues to attract the confidence of domestic and foreign investors alike. The following facts speak for themselves.

Hong Kong's real gross domestic product ("GDP") grew by over 12% in 1986 and by 13.5% in 1987. In 1988, the economy consolidated and settled for a moderate growth rate of 7.5%. This is still remarkably high by world standards and would give us an average annual growth rate of over 11% in real terms over a three-year period. Private sector investment in plant and machinery increased by 28% in real terms in 1987 and by a further 12% in 1988. Retained imports of industrial machinery for manufacturing use, a key indicator of industrial investment, increased by 18% in real terms in 1987, and by a further 15% in 1988. Foreign investment in Hong Kong, one of the key indicators of overseas confidence, was \$2.5 billion in 1986 and reached \$2.7 billion in 1987. Bank deposits in Hong Kong grew by over 20% each year between 1984 and 1988 from \$45.5 billion to \$108.5 billion. The unemployment rate fell to a record low of 1.3% in the fourth quarter of 1988. Domestic exports increased by 11% in 1988 and re-exports increased by 51%.

Some individuals believe that the current economic boom in Hong Kong is a short-lived phenomenon. Some predict that as 1997 draws near, more and more of our talented people will leave Hong Kong and carry with them a huge sum of capital. However, I do not believe that this will be the case. An unprecedented number of major new public and private projects are now being developed in Hong Kong, with most of them having a pay-back date into the next century. These projects, totalling over \$1 billion, include a new university, a new light rail system, two new hospitals, a major road tunnel linking two large towns and a new cultural complex. The private sec-

tor's performance is even more encouraging. These projects, totalling over \$3 billion, include a second cross-harbor tunnel, a second tunnel through Kowloon Peak, two new container terminals and two new bank headquarters buildings. Other infrastructure projects include a third cross-harbor tunnel, a rail link between the urban area and the new towns, additional container terminals, extensions to the existing subway system and a replacement airport. Such a scale of investment is hard to find among comparable economies elsewhere in the world and is remarkable even by Hong Kong's standards. There is really no legitimate concern that the strong domestic and international business confidence in Hong Kong's future will diminish as 1997 approaches.

One of the main reasons for the accelerated expansion of Hong Kong's economy in recent years is its newly established economic relations with China. Hong Kong has always depended on China for much of its food and fresh water. But it is only in the last few years, as China has opened up to the rest of the world through its modernization program, that Hong Kong has become a major factor in China's economic development. Since then, economic relations between Hong Kong and China have grown dramatically. For example, the two-way trade between Hong Kong and China increased almost by a multiple of 27 between 1978 and 1988. China's share of Hong Kong's global trade jumped from 9.3% (\$1.4 billion) in 1978 to 29.1% (\$37 billion) in 1988. In 1981, China overtook Japan as Hong Kong's second largest trading partner and overtook the United States in 1985 to become Hong Kong's largest trading partner. At present, Hong Kong remains China's largest trading partner.

In 1988, Hong Kong's total domestic exports to China equalled \$4.9 billion, representing a 36.5% increase over 1987. In the same year, Hong Kong's total re-exports to China reached \$12.2 billion, a 57% increase over 1987. One of the main reasons for this remarkable growth in exports and re-exports to China is the significant increase in Hong Kong's outward processing trade with China. Much of Hong Kong's industrial processing is sub-contracted to China by Hong Kong businesses. Presently, there are approximately 2 million workers in the Pearl River Delta region who are directly or indirectly employed by Hong Kong companies.

Furthermore, China's exports to Hong Kong have also increased remarkably during recent years. In 1982, China regained its position as Hong Kong's principal supplier, a position which it had lost to Japan in 1967. The average annual growth rate of imports from

China between 1978 and 1988 was 30.9%. In 1988, Hong Kong imported \$20 billion worth of goods from China, representing 31.2% of its total imports.

Hong Kong is now the largest source of outside investment in China, accounting for about 60% of utilized foreign investment in China. Hong Kong also provides one-third of China's total foreign exchange earnings. Additionally, China has increased its investments in Hong Kong and is now the third largest source of foreign investment in Hong Kong.

These strengthened economic relations between China and Hong Kong reflect the growing interdependence of the two economies, as well as the significant role that Hong Kong plays in the modernization of the Chinese economy. As China's economy continues to develop, Hong Kong's position as her gateway to the world will continue to flourish. Furthermore, Hong Kong has emerged as the principal intermediary for trade between China, Taiwan and Korea. For example, last year Hong Kong handled an estimated 80% of China-Taiwan trade, valued at \$1.5 billion.

Hong Kong is, of course, a major manufacturing center. In addition to its leading role in textiles and apparel, Hong Kong is the biggest toy manufacturer in the world, and ranks number one in the quantity of electronic clocks and watches that are manufactured. Furthermore, Hong Kong has a significant and expanding electronics industry. However, Hong Kong's future growth will not exist in manufacturing, but rather in services and in its rapidly expanding role as an entrepot for China. Particularly over the last decade, Hong Kong has become a place through which business may be conducted with the countries of the entire region—a place suitable for a business' regional headquarters. Over 2,200 international companies operate in Hong Kong, including companies like IBM, ICI, Hewlett-Packard, and GEC.

Hong Kong's emergence as an international financial center represents another new development, but it is something for which Hong Kong is well suited. The absence of exchange controls, its time zone location, the English language, its highly developed infrastructure, and many other factors have attracted over 400 licensed banks and depository institutions to establish themselves in Hong Kong. The value of gold and securities in Hong Kong's market is now a concern to dealers in both New York and London. In finance, as in trade, Hong Kong is a leading player.

One might say that this is all very well, but what about the future? What will Hong Kong become after July 1, 1997? The Sino-British Joint Declaration on the future of Hong Kong entered into force on May 27, 1985. It is the highest form of treaty that two sovereign states may enter into and is a product of two years of earnest negotiations between the British and Chinese governments. The Joint Declaration is a very detailed document, which testifies to the seriousness and pragmatism with which the two governments endeavoured to resolve the questions concerning the future of Hong Kong. Among other things, the Joint Declaration commits the Chinese government to ensure that

- (1) Hong Kong will retain its capitalistic system and lifestyle for fifty years after 1997.
- (2) Hong Kong will enjoy a high degree of autonomy as a Special Administrative Region of China.
- (3) Hong Kong will have its own elected legislature.
- (4) Hong Kong will retain its common law system and independent judiciary.
- (5) Hong Kong will have autonomy in economic, financial and monetary matters.
- (6) There will be no control of exchange, which will allow the Hong Kong dollar to be freely converted.
- (7) Investors will be able to put in or withdraw their capital freely.
- (8) Hong Kong will be able to negotiate agreements and participate in international organizations, particularly in the fields of economic and trade relations.
- (9) Hong Kong residents will continue to have rights and freedoms they enjoy under existing law.

The main mechanisms for steering the efforts of the Chinese and British Governments in the implementation of the Joint Declaration is the Sino-British Joint Liason Group ("JLG"). The JLG first met in July 1985, and has held eleven plenary sessions so far. I have been informed by my colleagues that both governments take their obligations under the terms of the Joint Declaration very seriously. In particular, my colleagues were impressed most by the sincerity of the Chinese teams towards their obligations, by the importance the Chinese attached to maintaining the prosperity and stability of Hong Kong, and by the Chinese desire to effect a smooth transition in 1997.

The JLG's achievements have been substantial. From its inception, the JLG recognized the importance of maintaining Hong Kong's international economic relations beyond 1997. Therefore, one of its

main tasks was to safeguard Hong Kong's ability to trade with the world freely and independently. As a result, Hong Kong became a separate contracting party of the General Agreement on Tariffs and Trade in 1986 and a separate member of the Customs Cooperation Council in 1987. Both statuses will be retained after 1997. Hong Kong will continue to participate in the Asian Development Bank after 1997. These involvements will enable Hong Kong to better protect its own interests in world trade. Steps are also being taken, in advance of 1997, to establish Hong Kong's own shipping register and Hong Kong's own separate air service agreement.

Another area of importance to Hong Kong's future is the continued application of international rights and obligations to Hong Kong, including Hong Kong's participation in international organizations and treaties. Under the Joint Declaration, Hong Kong will be permitted to participate in no fewer than fourteen international organizations, including the International Labour Organization, the World Health Organization, the United Nations Conference on Trade and Development and the Interpol. Hong Kong's continued participation in these organizations will ensure that Hong Kong maintains its present status as an international business center.

The ongoing work of solidifying and implementing the post-1997 arrangements is proceeding steadily. However, a few areas still remain the subject of debate.

A major concern involves the future constitutional arrangements. These will be set out in what is known as "The Basic Law." It is, in essence, the mini-constitution of the future Hong Kong Special Administrative Region ("SAR"). The Basic Law translates the Chinese government's policies regarding Hong Kong, as set out in the Joint Declaration, into a legally enforceable form. Although drafting of the Basic Law is the responsibility of the Chinese government, both the British government and the Hong Kong government have intense interest in its outcome.

Two weeks ago, the second draft of the Basic Law was published in Hong Kong with the authority of the Standing Committee of the National People's Congress. This will be followed by a five-month consultation exercise to solicit opinions from the public in Hong Kong. These opinions will be considered so that they can be taken into account when the Basic Law Drafting Committee ("BLDC") begins to draft further revisions later this year.

The present draft of the Basic Law, which represents over three

years of hard work by the BLDC, is a comprehensive document containing 159 articles and three annexes. One can find a blueprint for the future Hong Kong SAR in this document. In many ways, this draft reflects the provisions of the Joint Declaration, in some instances virtually word for word. The drafters have an unenviable task at hand, i.e., to produce a unique document in the form of the Basic Law that embodies the unique concept of "one country, two systems." To date, the drafters have done an admirable job.

Some senior Chinese officials have given assurances that the latest draft of the Basic Law is not perfect and, therefore, is subject to further amendments in light of public comments in the second round of consultation. At this crucial stage in the drafting of the Basic Law, the people of Hong Kong must try to formulate among themselves an acceptable political model for the future.

As previously stated, I am optimistic about Hong Kong's future for three main reasons. First, everyone involved, including the Chinese government, has a strong interest in making the Joint Declaration work. Second, the evidence over the past four years clearly shows that the Joint Declaration is working. Finally, domestic and foreign investors continue to maintain their confidence in Hong Kong, and believe that Hong Kong's economy will continue to flourish, that its regional business role will continue to expand, and that the economic interdependence of Hong Kong and China will continue to increase.

Hong Kong certainly has a long way to go. There are bound to be highs and lows during the transitional years. However, no place in the world can claim to be entirely devoid of problems. On countless previous occasions when times were tough, the people of Hong Kong turned the most adverse circumstances to their advantage. I truly believe that in 10, 20, and 50 years time Hong Kong will still be a major international business and financial center with a highly skilled and dedicated work force, an enviable standard of living and outstanding international communications and transportation links.