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REPORT

of the Committee on External Economic Relations

on economic and commercial relations between the EC and Hong Kong

Rapporteur : Mr Michael HINDLEY

A Series: Reports - B Series: Motions for Resolutions, Oral Questions - C Series: Documents received from other Institutions (e.g. Consultations)

\* = Consultation procedure requiring a single reading

\*\*II = Cooperation procedure (second reading) which requires the votes of a majority of the current Members of Parliament for rejection or amendment

\*\*I = Cooperation procedure (first reading)

\*\*\* = Parliamentary assent which requires the votes of a majority of the current Members of Parliament

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At the sitting of 13 March 1991 the President of the European Parliament announced that he had forwarded the motion for a resolution by Mr De Clercq on the economic and commercial relations between the EC and Hong Kong, pursuant to Rule 63 of the Rules of Procedure, to the Committee on External Economic Relations as the Committee responsible.

At its meetings of 30 April 1991 the Committee decided to draw up a report and appointed Mr Hindley, rapporteur.

At its meetings of 30 January 1992, 28 February 1992, 23 March 1992 and 21 May 1992, it considered the draft report.

At the latter meeting it adopted the resolution unanimously.

The following took part in the vote : De Clercq, chairman; Cano Pinto, Stavrou, vice-chairmen; Hindley, rapporteur; Ib Christensen, Izquierdo Rojo (for Mr. Bettiza), Miranda de Lage, Moorhouse, Ortiz Climent (for Mr. Suarez Gonzalez), Porto (for Mr. de Vries), Price, Sonneveld (for Mr. Chabert, Titley (for Mr. D. Martin), Visser (for Mr. Mihr), Woltjer (for Mr. Sainjon).

The report was tabled on 25 May 1992.

The deadline for tabling amendments will appear on the draft agenda for the part-session at which the report is to be considered.

A.  
MOTION FOR A RESOLUTION

on Economic and Trade Relations between the EC and Hong Kong

The European Parliament,

- having regard to its resolution of 11 July 1985 on the future development of economic and trade relations between the European Community and Hong Kong<sup>1</sup>,
  - having regard to its resolution of 18 June 1987 on relations between the European Community and the People's Republic of China<sup>2</sup>,
  - having regard to its resolution of 17 March 1989 on the economic and trade relations between the European Community and the People's Republic of China<sup>3</sup>,
  - having regard to its resolution of 14 September 1989 on the situation in China<sup>4</sup>,
  - having regard to its resolution of 15 June 1990 on relations between the EEC and China<sup>5</sup>,
  - having regard to its resolution of 21 November 1991 on the forced repatriation of boat people to Vietnam<sup>6</sup>,
  - having regard to the motion for a resolution by Mr. De Clercq on the economic and commercial relations between the EC and Hong Kong (B3-0056/91),
  - having regard to the report of the Committee on External Economic Relations (A3-0198/92),
- A. Whereas with effect from 1 July 1997 the United Kingdom will restore Hong Kong to the People's Republic of China,
- B. Whereas from that date Hong Kong will obtain the status of a Special Administration Region of the People's Republic of China,

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1) O.J. n° C 229, 9.9.1985, p. 102  
2) O.J. n° C 190, 18.6.1987, p. 115  
3) O.J. n° 96, 17.4.1989, p. 200  
4) O.J. n° 256, 9.10.1989, p. 105  
5) O.J. n° C 175, 16.7.1990, p. 202  
6) O.J. n° C 326, 16.12.91, p. 184

1. Considers it in the interest of not only Hong Kong, but also of the People's Republic of China, that after 1 July 1997 Hong Kong, Special Administrative Region retains a genuine economic independence as well as the individual liberties specified in the 1984 Joint Declaration ;
2. Asks the government of the People's Republic of China to work for the creation of a general climate of confidence concerning the future of Hong Kong both among the population of Hong Kong and among potential investors and trading partners ;
3. Stresses in this connection the importance of unconditional respect for human rights in Hong Kong up to and after 1997 in line with the international commitments of the United Kingdom and the People's Republic of China ;
4. Considers that such assurances are essential to avoid a permanent emigration of highly skilled labour and business managers with the right of abode outside Hong Kong ;
5. Welcomes the initiatives taken by certain Member States to offer citizenship to Hong Kong residents on a basis which does not require them to emigrate now and asks all Member States to consider similar measures to encourage the people of Hong Kong to remain beyond 1977 ;
6. Reiterates its demand that the Commission and the Council do everything possible on behalf of the European Community to support Hong Kong and the People's Republic of China in their endeavours to attain the objectives set out in the Joint Declaration and its annexes ;
7. Stresses in particular the need for Hong Kong to remain a member in its own right of various international economic organisations such as GATT and the Customs Cooperation Council if it is to retain the high degree of economic autonomy spelled out in the Joint Declaration ;
8. Points to the fact that from 1 July 1997 relations with Hong Kong will no longer be the main responsibility of one member state but of the Community as a whole and therefore considers it prudent that the Community monitors closely the situation in Hong Kong in order to discharge its duties after 1997 ;
9. Stresses the importance of maintaining the competitiveness of EC trade on the Pacific Rim and in China and recognizes the vital strategic position of Hong Kong in that respect ;
10. Considers it therefore of vital importance that the Community establishes a Delegation in Hong Kong as soon as possible ;
11. Stresses equally the importance of the guaranteed continued individual representation of Hong Kong with the EC after 1997 ;
12. Instructs its President to forward this resolution to the authorities of Hong Kong and to the Government of the People's Republic of China.

EXPLANATORY STATEMENTINTRODUCTION

The European Parliament's (EP) previous report on Hong Kong/European Community (EC) relations (Seeler report 1985) painted a rosy picture of the future of Hong Kong and by the same token the future of Hong Kong/EC relations. This optimism was based on the general acclaim and approbation expressed about the Joint Declaration on the future of Hong Kong drawn up between the respective governments of the United Kingdom (UK) and the People's Republic of China (PRC). The Seeler report used the current description of that Joint Declaration, calling it "a masterpiece of diplomacy". It was a widely held view that the guarantees of the survival Hong Kong's capitalist system until the year 2047 was adequate to keep business confidence.

The Seeler report emphasised the need for the EP to monitor the transition process and the Committee on External Economic Relations (REX) felt that the time was opportune to review the EC's relations with Hong Kong in the light of actual developments in Hong Kong since 1985. Hence this report.

POLITICAL SITUATION

Hong Kong's fate is part of the fate of China and therefore any consideration of Hong Kong's role must begin and end with its relationship with China.

It is possible to talk of distinct phases in Hong Kong's recent development. The first phase is that from the signing of the Joint Declaration to the Tiananmen Square Massacre. Whatever the criticism of the Joint Declaration, the most trenchant being that it is a treaty drawn up by the UK and the PRC over the heads of the residents of Hong Kong, the actual signing provided the stability on which all parties could plan. It is true to say that once Hong Kong knew its future to be irrevocable and unambiguous, namely that it would return to China in 1997, there was a platform for that pragmatic economic activity which has characterised Hong Kong's development.

In general, Hong Kong was confident of securing its distinct character, as guaranteed by the Joint Declaration until 2047. Moreover, there was a buoyant feeling in Hong Kong from 1984 onwards that Hong Kong could take advantage of China's "Open Door" policy and become the power house for the economy of the whole of South China. In short, Hong Kong was more likely to take over China, as China was to take over Hong Kong in the eyes of the confident Hong Kong community.

This feeling, certainly verging on complacency, was rudely shocked by the events in Tiananmen Square in June 1989. There had been considerable interest in the development of the "democracy movement" in Hong Kong, and there had been considerable support. There had been spontaneous solidarity in the form of donations of money and tents etc for the protesters in the square itself. But even the supporters of the pro-democracy movement were surprised at the size of the spontaneous demonstrations in Hong Kong protesting against the bloody suppression of peaceful movement.

While these protests were clearly primarily an expression of anger and sympathy, there was also a degree of self-interest. Many people in Hong Kong were worried that the Chinese authorities could act in a similarly tyrannical manner to crush opposition in Hong Kong after 1997. The divisions that had always been in Hong Kong relating to the terms of the Joint Declaration regarding the handover of power to China in 1997 came to the fore with greater intensity.

The very size of Hong Kong and its clear dependence on trade and growing trade with China ensures a consensus that "the business of Hong Kong is business" to borrow a US American saying, nevertheless there is a considerable split in Hong Kong politics between a business interest and a liberal professional one. The business interest is hypersensitive to the need, whatever abuses of human rights take place in the PRC, to placate the leadership in Beijing. Whilst not insensitive to the need to accommodate the leadership of the PRC, the liberal professional activists, and trade union activists have felt increasingly moved to protest on behalf of the fellow Chinese in the PRC and by the same token to ensure their own democratic rights after 1997. The more rights they can establish before 1997, the stronger their hand will be after 1997, they believe.

It is significant that in the elections to the Legislative Council in September 1991 it was those candidates who were most closely associated with the pro-Democracy movement who did best.

The question now remains whether these elected representatives can in fact gain any further concessions from the UK and PRC governments.

Since the events of Tiananmen there has been some subsidence of political unease leading commentators to describe the UK/PRC agreement on the future Hong Kong airport as being the start of a new phase of Hong Kong/China relations. In the negotiations the Chinese PRC government successfully argued that although the Joint Declaration did not entitle them to interfere in Hong Kong before 1997, nonetheless decisions taken during that time would affect the discharge of China's duties after 1997. This was particularly the case in the financial arrangements of the airport scheme, where the PRC expressed apprehensions that financial commitments binding on the PRC after 1997 would be undertaken without the proper consultation of the PRC now. The UK government conceded this point. In Hong Kong itself, the agreement on the airport was greeted with some relief and adjudged as a sign of a more pragmatic intention by all parties to Hong Kong's future. It is your rapporteur's assessment that the mood in Hong Kong has moved from overconfidence in the period before Tiananmen, to gloom in the immediate aftermath, to a more mature and realistic optimism following the airport deal.

Hong Kong has been the best place for westerners to "China watch" and the degree of sophisticated knowledge of Chinese affairs at hand in Hong Kong is unmatched elsewhere. The continuous dialogue on the future of Hong Kong does give us an excellent indicator as to the mood of PRC politics itself. Though internal politics remain obscure to us, the way in which Hong Kong is treated is open and therefore the PRC's behaviour towards Hong Kong is an accurate barometer for the much hoped for political liberalisation in China itself.

The political unease after the Tiananmen massacre has lead many Hong Kong citizens to seek residential and nationality qualifications elsewhere. Many countries have offered skilled Hong Kong workers favourable terms of

settlement, for the routine and expected, for example Australia provided easy access to allow the recruitment of air traffic engineers, to the bizarre situation where the moribund German Democratic Republic (GDR) offered passports at a price during the period of German unification, so that the recipients would be able to transfer their GDR citizenship to a full German citizenship after the unification.

In this context it must be mentioned that some EC firms in Hong Kong have been helpful in securing member state passports for their employees.

In many of these cases the assumption of another nationality is not the sign of a desire to reside permanently outside Hong Kong, it is simply an escape hatch for future. Nonetheless, such emigration does mean a real loss of skilled personnel and a dispiriting atmosphere.

The passing of the British Nationality (Hong Kong) Act in 1990, whatever its shortcomings, once more provided established rules which the pragmatic Hong Kong citizens could use as a platform for orientation.

The situation of the non-Chinese residents of Hong Kong, particularly other ethnic Asians gives rise to some concern. The PRC has said that the non-Chinese will not have citizenship after 1997 and the UK's British Nationality (Hong Kong) Act makes no provision for people of the Indian sub-continent, many of whom have been in Hong Kong for generations, and who have and still do, contribute significantly to the economic success of Hong Kong.

By and large the talented, the rich and mobile are secure, the fate of the millions who have no option or wish but to remain in Hong Kong after 1997 still gives rise to concern. As a trade union organiser told your rapporteur "it is not residence rights in the UK we want, but human rights in Hong Kong".

The fate of the Vietnamese "boat People" has caused some anxiety and friction. Hong Kong has in fact been more generous in its reception of such refugees than some South Eastern Asian states. Nonetheless, the harsh repatriation measures have drawn criticism from many, including this Parliament. It is hoped that the matter can be speedily resolved with as little distress as possible based on the governmental agreement between the UK and Vietnam.

#### ECONOMIC AND TRADE ISSUES

More than almost anywhere else the economic welfare of Hong Kong has depended on its trade. This has been determined by its very limited size. The correlation between manufacturing and exporting has been particularly, even uniquely close in Hong Kong. Hong Kong's economic welfare remains determined by external events.

Hong Kong occupies a commanding position geographically and economically in the Asia-Pacific region which guarantees success provided that there is continued political security.

It is anticipated that the high economic growth in the Asia-Pacific region will continue and that rising prosperity will generate more inter-regional economic relations. Hong Kong is well placed to exploit this growth, particularly in the service sector. Many non-Asian multinationals use Hong Kong as a regional base. This is already reflected in the move from manufacturing to service sector employment.



The second important reason for optimism is that whatever the political vicissitudes in the PRC, it seems that China's open door policy will continue. Again, this will strengthen the trend in Hong Kong to move from manufacturing based employment to service sector employment.

The unease concerning the Tiananmen massacre has led to the flight, temporary and perhaps permanent of important sectors of the workforce.

There has been a skill shortage in certain areas of the Hong Kong economy and to make up for this labour importation schemes do exist. This is the case with the building of the new airport. In the construction industry this shortfall has been made up by (sometimes) illegal labour from the PRC. Such practices have led to tension between the Trade union movement and the Hong Kong authorities.

But the most significant feature of the economy in recent years has been the dramatic rise in reexports. In the first quarter of 1991 the growth rate has been 22% in real terms. Most of this activity is based on outward processing in co-operation with the PRC.

Hong Kong and the PRC province of Guangdong are increasingly interdependent. The whole of the Pearl River Delta has blossomed largely due to investment from Hong Kong, a fact your rapporteur can testify, for I returned to Guayngzhou in September 1991 after a five year absence and was quite surprised to see the obvious signs of increased economic activity and prosperity.

Travel across the Hong Kong-PRC border is easy and an estimated 50,000 Hong Kong residents cross daily to engage in economic activity including the management of factories in Guangdong. It has been further estimated that Hong Kong companies employ as many as 3 million workers in Guangdong province.

Hong Kong and the PRC are developing a symbiotic economic relationship and the distinction between the Hong Kong and PRC economies, particularly in trade related areas, is increasingly blurred and meaningless. Hong Kong now provides nearly 40% of China's foreign exchange earnings and is the source of 66% of foreign investment in the PRC.

This investment is reciprocated, the PRC has invested over US dollars 10 billion in Hong Kong, provides 60% of Hong Kong's water and 80% of its fresh food.

Hong Kong's imports from the PRC on the same basis have risen from 21.3% to 31.1% to 36.8% for the above years.

Despite the political unease subsequent to the Tiananmen massacre, the Hong Kong/PRC economic interdependence has continued apace. There is no reason to question the confidence expressed in Hong Kong that it will remain and indeed grow in importance as the gateway to the economic development of the PRC.

#### EC/HONG KONG

The much vaunted and sought direct EC investment in PRC China has not come about and Hong Kong will remain the easiest and most successful intermediary for dealing with the PRC.

Despite its tiny size Hong Kong remains an important trader with the EC in its own right. Hong Kong's continued membership of GATT and other trading arrangements (MFA for example) is essential to the EC. It is in the EC's interest to safeguard the guarantees of Hong Kong future as set out in the Joint Declaration.

Clearly, Hong Kong as a crown Colony remains essentially a UK prerogative. However, the EC should gradually and increasingly involve itself in the affairs of Hong Kong for reasons of prudence and using the PRC's successful argument in favour of involvement before 1997 in the airport issue.

Clearly, until 1997 Hong Kong remains paramountly in the sphere of UK/China relations, but after 1997 the UK will have discharged its duties and the EC will be the partner for the new Hong Kong with special status in the PRC.

So while it was prudent and proper of the PRC to insist on cooperation before 1997 on the airport to safeguard its interests after 1997, it is by the same logic, prudent of the EC to take an active interest in Hong Kong before 1997 in order to better discharge its duties after 1997.

The Hong Kong government office plays a constructive and active role in promoting good relations and in solving trade disputes. It is essential that this role continues and that safeguards given in this regard in article 156 of the Basic Law are honoured after 1997.

Equally, the arrangement must be reciprocated. The EC Hong Kong Delegation is well overdue. Its speedy establishment would not only enhance the EC presence in an important trading area it would provide a focal point for trade with Hong Kong and the rapidly developing Guangdong province in the PRC. As important as these commercial considerations it would give a boost to Hong Kong morale by indicating the EC commitment to its future.

## MOTION FOR A RESOLUTION

tabled pursuant to Rule 63 of the Rules of Procedure

by Mr DE CLERCQ

on the economic and commercial relations between the  
EC and Hong Kong

### The European Parliament.

- A. Whereas the United Kingdom and the People's Republic of China signed an Agreement on 19 December 1984, comprising a Joint Declaration and three Annexes,
- B. Whereas in the Joint Declaration:
- a) the UK declares that it will return Hong Kong to the People's Republic of China in 1997,
  - b) the Chinese government declares its basic policies, under the guiding principle of "One Country, Two Systems" towards Hong Kong after resuming exercise of sovereignty over it.
- C. Whereas the policies set out in the Joint Declaration and its Annex I will be stipulated in a Basic Law to be enacted by the National People's Congress of the People's Republic of China, and will remain unchanged for 50 years after 1997.
- D. Whereas the Joint Declaration provides amongst other things for
- a high degree of autonomy as a Special Administrative Region (SAR) of the People's Republic of China,
  - the Hong Kong SAR to be able to negotiate agreements and participate in international organizations in appropriate fields, including the GATT, to which Hong Kong is a contracting party,
  - the Hong Kong SAR to have autonomy in economic, financial and monetary fields.
1. Instructs its relevant committee to examine the possible developments of economic and commercial relations between the EC and Hong Kong before and after 1997.

