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**REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN
PARLIAMENT**

Hong Kong Special Administrative Region: Fourth Annual Report - 2001

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HONG KONG: Annual Report 2001

1. INTRODUCTION

Four and a half years after the hand-over, the implementation of the “one country, two systems” principle continues to draw the close attention and interest of the European Union. Indeed, the institutional, economic and social development of the Hong Kong SAR remains very important for the European Union.

The EU and Hong Kong share many common values including the rule of law, respect for individual freedoms and human rights and the right of free enterprise. Maintaining these fundamental values and further developing democracy are essential to the success of the “one country, two systems” principle for Hong Kong.

As in the Commission’s previous annual reports, this report aims to assess the state of development of the Hong Kong SAR and its relations with the European Union.

2. REAFFIRMATION AND IMPLEMENTATION OF THE “ONE COUNTRY, TWO SYSTEMS” PRINCIPLE

– *Reaffirmation of the principle*

The Central People’s Government of Beijing reiterated its adherence to the “one country, two systems” principle in all its official statements in 2001. In a report delivered on 5 March 2001 to the National People’s Congress (NPC), Prime Minister Zhu Ronghi stated “As we enter the new century, we will continue to adhere to the principle of “one country, two systems” and the Basic Law of the Hong Kong and Macao Special Administrative Regions. We will render full support to the Chief Executives and governments of Hong Kong and Macao in their efforts to govern the regions in accordance with the law and defend the long term prosperity and stability of Hong Kong and Macao”.

During his visit to Hong Kong on 8 May, President Jiang Zemin reaffirmed his adherence to the principle, saying: “one country, two systems”, Hong Kong people administering Hong Kong, a high degree of maintenance of the long-term prosperity and stability of Hong Kong are the established principles of the Chinese Government”. He also stated “it is the long term basic state policy of the Government to implement the principle of ‘one country, two systems’. The Chinese Government will never waiver or change this policy come what may”.

– *Implementation of the principle*

Despite these reassurances, the actual implementation of the principle has given rise to some debate and uncertainty. The exercise of certain basic rights and freedoms has tested the Hong Kong SAR Government’s adherence both to the ‘two systems’ and to the ‘one country’ concepts. This has required the government to strike a sometimes delicate balance. The exercise of some basic rights and freedoms nevertheless confirmed the existence of the two systems within one country.

– *The practice of Falun Gong*

Falun Gong has been banned in Mainland China since 1999 as an “evil cult”. It is officially registered and allowed to practice in the Hong Kong SAR under Hong Kong law. The Hong Kong branch of the Falun Gong held a high profile international gathering in a government-run venue in mid-January and demonstrated against Beijing’s stance against the group. Beijing answered that “the Central Government will not allow any organisation or anyone to attempt turning Hong Kong into an anti-China base used by Falun Gong”.

A debate ensued as to whether the Falun Gong should be legally deregistered or banned in Hong Kong. Some local delegates to the Chinese Political Consultative Conference and the National People’s Congress called for accelerated drafting of anti-subversion legislation as provided for in Article 23 of the Basic Law. Despite heated arguments, Chinese President Jiang Zemin said in March that the Falun Gong in Hong Kong was Hong Kong’s affair and a matter for the Chief Executive to handle.

Mr Tung Chee-hwa , the Chief Executive, took an increasingly tough position, saying in the Legislative Council in February that it was "more or less an evil cult" and then in June that Falun Gong was "undoubtedly an evil cult". This label triggered controversy and protests from several legislators and from the Catholic Church in Hong Kong. Nonetheless, the Falun Gong was allowed to stage protests and demonstrations during the visit of President Jiang Zemin to Hong Kong in May. Both the Chief Secretary and the Secretary for Security stated that the SAR Government is committed to the protection of fundamental human rights, including freedom of thought, conscience and religion. The SAR Government also refrained from proposing anti-cult legislation although the press reported rumours that it would do so. However, the government admitted it had studied foreign anti-cult laws and refused to rule out enacting similar legislation if the Hong Kong branch of Falun Gong becomes unruly. Government officials said that the Falun Gong would continue to be allowed to operate as long as it abided by Hong Kong law.

A Hong Kong Falun Gong member who had been detained on the Mainland was released and returned to Hong Kong after the intervention of the SAR government. Both he and the local Falun Gong thanked the government for its assistance in securing his release.

– *The return to HKSAR of American professor Li Shaomin*

Mr Li Shaomin - a Hong Kong-based American professor of Chinese origin teaching at City University - was arrested on the Mainland in February and prosecuted in May on charges of spying for Taiwan. He was convicted on 14 July of spying by a Beijing tribunal and expelled to the USA. Professor Li immediately announced his wish to return to Hong Kong. This triggered a legal and political debate on the validity in Hong Kong of a Mainland tribunal decision requiring expulsion from Chinese territory.

Professor Li returned to Hong Kong at the end of July to resume his work at City University, and was readmitted without difficulty by the Hong Kong immigration authorities.

Some commentators (including himself) hailed Professor Li’s return to Hong Kong as an example of the implementation of the “one country, two systems” principle. Other commentators argued that the decision to allow his return jeopardised the basis of the one country concept.

– *Right of abode*

The Court of Final Appeal ruled in July, against the stand of the HKSAR Government, that children born in Hong Kong of Mainland parents are entitled to the right of abode in Hong Kong according to the Basic Law. During debate in the case of the young boy Chong Fung-Yuen, the government asked the Court of Final Appeal to request that the National People's Congress interpret the relevant provisions of the Basic Law. Although the Court of Final Appeal's decision acknowledged the right of the National People's Congress to interpret the Basic Law and the Court respected this right, the Court ruled that the relevant provisions were clear and easy to understand. It therefore decided not to ask for interpretation from the National People's Congress.

The latter's Legal Work Committee issued a statement pointing out that the Court of Final Appeal's ruling did not entirely conform with the interpretation given by the Congress in 1999. Some suggested the HKSAR Government should again request the National People's Congress to interpret the relevant provisions of the Basic Law, but the government decided to stick to its promise that requests for interpretation should be exceptional.

In the case of mainland children adopted by Hong Kong parents, the Court of Final Appeal ruled against their right of abode, in agreement with the government's position.

3. INSTITUTIONAL DEVELOPMENT, ACCOUNTABILITY SYSTEM AND DEMOCRACY.

Mrs Anson Chan announced on 12 January her resignation from the post of Chief Secretary for Administration effective from 1st May, ending her 39-year civil service career. She cited personal reasons for her sudden departure before the expiry of her term of office, which had been extended to June 2002, and brushed off rumours of co-operation problems with Chief Executive Tung Chee-hwa. However, the Hong Kong press extensively reported the existence of strains in their relationship. In a farewell address, Mrs Chan stressed the importance of the professionalism and the political independence of the Hong Kong civil service. In a much-quoted phrase she warned of the importance of civil servants continuing "to speak truth unto power".

Former Financial Secretary Donald Tsang, her successor since 1st May, stressed the importance of improving ties between the executive and the legislature and vowed to study mechanisms for enhancing the accountability of senior officials ahead of the constitutional review in 2007. Before taking up his new duties, he promised that he would not compromise on freedoms, human rights and the rule of law.

Mr Antony Leung succeeded Mr Tsang as Financial Secretary. Mr Leung was a prominent banker and member of the Executive Council before joining the SAR government. His appointment was said to pave the way for more non-civil servants to join the top echelons of the administration.

– *Towards a system of accountability.*

As promised in his Policy Address for 2000, the Chief Executive in this year's Address outlined the results of the government's deliberations on the future accountability system. The declared goal is to separate policy making from policy implementation by introducing political appointees to lead the main government departments instead of the senior civil servants under the present system. These political appointees will automatically be members

of the Executive Council, which will be a real policy making body and no longer a simple consultative organ of part-time members. The political appointees will be answerable to the Chief Executive.

The Legislative Council's (LegCo's) panel on Constitutional Affairs has regularly discussed the accountability system for principal officials. Some legislators suggested that principal officials appointed under the new system should be accountable to legislators rather than to the Chief Executive. The Chairman of the Panel, Mr Andrew Wong, said the accountability system would help improve relations between the executive and the legislature.

– *The Bill for Election of the Chief Executive.*

LegCo adopted on 11 July, by 36 votes to 18, the Chief Executive Election Bill, which detailed provisions for the next election of the Chief Executive, scheduled for 24 March 2002.

The Bill specifies that each candidate must be publicly nominated by at least 100 of the 800 members of the Election Committee, that a candidate may stand only in an individual capacity and must relinquish any party membership if elected. The Bill also sets out the circumstances in which the Chief Executive can be removed by the Central Government in Beijing. The provisions were strongly criticised by some commentators and legislators for being unfavourable to the development of a democratic party system and to Hong Kong's autonomy. Secretary for Constitutional Affairs Michael Suen said that the removal provision was in line with the Basic Law and was designed for circumstances under which a vacancy might arise.

As widely expected, Mr Tung Chee-hwa announced, on 13 December, his candidature for a second term as Chief Executive at an 800-strong rally comprising Hong Kong's top business tycoons, political leaders, celebrities and representatives from leading associations. Mr Tung admitted there had been policy deficiencies in his first term, but promised thorough reforms, increased accountability within the government and a more effective opinion survey system.

His candidature was publicly supported by the Director of the Central Government's Liaison Office in Hong Kong and by top political leaders in Beijing.

Many commentators and legislators condemned the election of the Chief Executive by an Election Committee of 800 people, as set out by the Basic Law. They urged amendment of the Basic Law so that the Chief Executive and all LegCo members could be elected by direct universal suffrage. The manner of election also attracted unfavourable coverage in the international press.

A resolution by unionist legislator Mr Leung Yiu Chung seeking to amend the Basic Law to allow for election of the Chief Executive by universal suffrage was voted down by legislators by 37 to 21 on 4 July.

– *Constitutional Review*

Chief Secretary for Administration Donald Tsang told legislators on 18 May that a review concerning Hong Kong's political development should be taken in a cautious, step-by-step manner. Hong Kong had to draw conclusions from the 2002 Chief Executive election and LegCo elections in 2004 before moving on to a further stage.

4. DEVELOPMENTS IN THE LEGAL FIELD.

International issues

– UN human rights committees.

A delegation from the United Nations Human Rights Committee, led by Justice P N Bhagwati, visited Hong Kong from 6 to 10 February, after the Committee's hearing in November 1999 of Hong Kong's report under the International Covenant on Civil and Political Rights (ICCPR). The two visitors met members of political parties, the Executive Council, the Legislative Council, NGOs, and government officials responsible for ICCPR-related matters. Discussion focused on civil and political rights in general and included issues relating to the Falun Gong.

Secretary for Home Affairs Mr W K Lam attended at the end of April a hearing of the United Nations Committee on Economic, Social and Cultural Rights (ICESCR) in Geneva. Mr Lam said the HKSAR government took the Committee's recommendations very seriously and had undertaken progressively to achieve all the rights recognised in the Treaty.

Chairwoman of the UN Economic, Social and Cultural Rights Committee Virginia Dan Dan visited Hong Kong in mid-July. During her visit, she emphasised that recommendations of the Committee are legally binding. She also urged the Hong Kong government to draft a bill against racial discrimination.

HKSAR Government representatives attended the late July meeting of the UN Committee on Race convention in Geneva (ICERD). The Hong Kong representative, Stephen Wong, reiterated the HKSAR Government's position of relying on education rather than legislation against racial discrimination in the private sector (Hong Kong does have legislation against racial discrimination in the public sector).

– Fight against terrorism.

The Chief Executive of the SAR and senior government officials have, on many occasions, made public statements condemning terrorism. The HKSAR strongly supports international efforts to combat terrorism, and has enacted domestic legislation to implement UNSCRs 1267 and 1333.

After the terrorist attacks of 11 September, the HKSAR received instructions from the Central People's Government, in accordance with the Basic Law, to implement UNSCR 1373 and the HKSAR Government is in the process of preparing the necessary legislation. Hong Kong is working towards strengthening its existing legal regime to enhance the efficiency and effectiveness of freezing and confiscating terrorists' assets and plans to draw up new legislation against terrorism. The HKSAR assumed the Presidency of the Financial Action Task Force on Money Laundering (FATF) in July and took several initiatives to contribute to the global response to combat the financing of terrorism.

Mainland China related issues.

– Article 23 of the Basic Law.

The HKSAR Government continued to proceed with caution in its research on this sensitive issue. On 8 February, the Chief Executive reiterated the government's commitment to wide public consultation before introducing a draft bill. In mid-July, the Secretary for Security, Regina Yip, stressed that the SAR Government does not have a timetable in mind on this issue. She also confirmed that in due course, any government proposal would be submitted for public debate.

– Mainland – Hong Kong mutual notification system.

Following arrangements reached in the year 2000, the mutual notification mechanism for people arrested on the Mainland and in the HKSAR was implemented on 1st January 2001. The administrative arrangements apply only to Hong Kong permanent residents arrested on the mainland by the Public Security Bureau and by the customs administration, and cover 97% of all arrests. The Hong Kong SAR Government has requested the extension of the notification mechanism to include those arrested by the State Security Bureau. The SAR Government is also studying the feasibility of extending the notification mechanism to cover administrative detention.

– Talks on rendition arrangements.

The Mainland and Hong Kong have been discussing rendition arrangements since 1998. Mrs Regina Ip led a delegation to Beijing in April to continue the talks. Some progress has been made but the talks have yet to be finalised. The Mainland and Hong Kong also continue talks on allowing their respective convicted prisoners to serve sentences in their place of origin.

5. THE ECONOMY

2001 witnessed a rapid deterioration of the economy over the previous year. Both the external and domestic sectors performed unsatisfactorily. The business community called for greater government involvement in easing structural unemployment, in developing a competitive industrial policy and for further economic integration with the Mainland after China's accession to the WTO.

Hong Kong's economy was adversely affected by the global downturn and a general fall-off of external demand in 2001, as reflected by its declining exports and imports, particularly towards the latter half of the year. Total exports dropped by 5.8% and imports by 5.4% in 2001. In addition to a sluggish trading sector, domestic demand remained lacklustre, with lingering deflation, a prolonged property slump and rising unemployment. Following a robust year in 2000 with real GDP growth reaching 10.5%, GDP growth for 2001 was only 0.1%.

Interest rate cuts during 2001, following the US interest rate movements, were unable to bring about sustainable growth in the asset and investment markets. The property market continued to be weak. The Hang Seng Index had plunged 25% by the end of the year, placing Hong Kong among the lowest performers of the world's major stock markets in 2001. Funds raised in the capital markets dropped substantially from the previous year. The impact of the 11 September incidents, though short-lived, clouded the short-to-medium term prospect and added another factor of uncertainty, thus further holding back investment and consumption.

Rising unemployment was another key issue during the year. Resulting from a mix of cyclical and structural adjustment, the unemployment rate surged to 6.1% in the three months to December 2001, and the highest in the last two years. Job losses were recorded in most sectors as a result of corporate downsizing, liquidations or relocation of services offshore, in particular to Mainland China.

As a result of China's accession to the WTO, Hong Kong's economy is poised to undergo structural adjustment whereby its functions as a middleman and gateway to China will likely be challenged in the future. The business community has been looking for ways to compete in the new environment and pressing for favourable government policy to integrate further with the Mainland Chinese economy especially the Pearl River Delta. A series of policy actions were adopted in 2001, including the easing of admission requirements for Mainland Chinese professionals to work in Hong Kong and the extension of boundary crossing opening times.

A large and growing budget deficit was another cause of concern, as the deficit reached unprecedented levels. A fiscal deficit of HK\$65.6 billion is estimated for 2001-02. Revenue fell considerably as a result of a sharp reduction of income from land sales, investments and property related taxes. Overall, the fiscal position remained sound with official reserves of HK\$369.5 billion in December 2001.

– *EU presence and interest in Hong Kong*

The EU was Hong Kong's third largest supplier of goods in 2001, after China and Japan, and was the third biggest market for Hong Kong's exports, after China and the United States. Total EU-Hong Kong bilateral trade in 2001 dropped moderately by 2.8% to EURO 31.3 billion.

In terms of foreign investment, the EU was the third largest source of external investment for Hong Kong in 2000, after the British Virgin Islands and Mainland China. The stock of direct investment from the EU amounted to HK\$318.2 billion (EURO 44.2 billion), accounting for 9% of the investment total.

The EU is well represented in various sectors in the Hong Kong economy. In the insurance sector, EU companies continued to rank first in the number of overseas insurers operating in Hong Kong in 2001. Out of a total of 118 overseas banks licensed in Hong Kong, 43 were incorporated in the EU as of the end of December 2001.

In the public works sector, EU companies won contracts totalling EURO 62 million in 2001. The EU was also the second largest supplier of goods to the HKSAR Government, accounting for 21% (EURO 198 million) of all procurement contracts awarded.

About 41,470 EU citizens were estimated to be residents in Hong Kong at the end of 2001. There was an increasing number of EU companies using Hong Kong as their regional headquarters and offices. In 2001, there were 299 EU companies using Hong Kong as their regional headquarters and 598 regional offices, up 24.6% and 6.6% respectively from 2000.

6. THE HONG KONG SAR AS AN INTERNATIONAL PARTNER

In accordance with the Basic Law, the HKSAR continues to conduct its own trade policy for which it has full competence as a separate customs territory. Hong Kong is an independent member of the WTO and of a number of other international organisations.

During the preparatory phase for the WTO Ministerial conference held in Doha (Qatar) in November the Hong Kong SAR and the EU worked together to build a consensus to launch a new round of trade negotiations - the Doha Development Agenda. Co-operation between the Hong Kong SAR and the EU included frequent bilateral contacts and participation at some preparatory meetings, such as the mini-Ministerial meetings held in Mexico and in Singapore.

In 2001, Hong Kong's Permanent Representative to the WTO, Stuart Harbinson, played an important and influential role in preparing the 4th Ministerial Conference, in particular in finding compromises for a Doha text which finally all delegations could accept, as Hong Kong held the chair of the WTO General Council.

Several sectors of the Hong Kong business community had been calling increasingly for some type of preferential access to Mainland China markets. In particular, the Hong Kong General Chamber of Commerce requested the HKSAR Government to consider negotiations with a view to setting up a Free Trade Area (FTA). After China's accession to the WTO, the Hong Kong SAR Government announced that it had proposed discussions on the possible setting up of a Free Trade Area between Mainland China and its two SARs: Hong Kong and Macao. The Central Government reacted positively and the first discussions took place in the early part of 2002.

One of the objectives of the Commission in the context of the negotiations on China's WTO accession was also to foster the integration of China within the global economy and within the region, in order to promote its stability and its development. FTAs can be a way to develop trade, provided they conform to WTO principles. The risk of trade diversion is also minimized the more FTAs are open towards the rest of the world. The EU is therefore closely monitoring current discussions for a China-Hong Kong free trade area initiative and its adherence to the criteria set by the WTO.

Discussions also continued on the talks between the Hong Kong SAR and New Zealand on a possible Free Trade Agreement. Some progress was made, reportedly, but a number of issues require further negotiations.

The previous Annual Report from the Commission noted the absence of overall competition legislation in Hong Kong. The Hong Kong authorities remain committed to a sector-specific approach. They have enhanced competition in several sectors e.g., banking, broadcasting, telecommunications and transport. Nevertheless the absence of a general competition law sometimes hinders the Government's own efforts in this area.

Hong Kong has the Presidency of the Financial Action Task Force (FATF) for the period from July 2001 to June 2002. The FATF was set up by the G7 in 1989 to promote policies to combat money laundering. Hong Kong has built up a robust and comprehensive anti-money laundering regime through legislation, enforcement and close liaison with the financial sector. The tragic events of September 2001 put the fight against money laundering at the forefront of international attention and Hong Kong has made a particular effort to continue improving its anti-money-laundering regime. As an international finance centre, Hong Kong is particularly exposed to money laundering practices. The EU encourages Hong Kong to maintain its alertness and dedication to combat money laundering.

Hong Kong is also a member of the World Customs Organisation.

7. EUROPEAN UNION-HONG KONG RELATIONS

– *Exchange of visits*

As in previous years, high-level visit exchanges continued to enhance EU-Hong Kong relations. Commissioner Pascal Lamy visited Hong Kong in February. He met the Chief Executive, Mr Tung Chee Hwa, the Chief Secretary, Mrs Anson Chan, the Financial Secretary, Donald Tsang, and the Secretary for Commerce and Industry, Mr Chau Tak Hay. He discussed political and economic developments both in the EU and Hong Kong and more specifically, in his discussions with Secretary Chau Tak Hay, he discussed multilateral issues and progress towards the launching of the new WTO trade round. He also addressed the EU/Hong Kong and Hong Kong/EU Business Co-operation Committees.

A delegation of senior officials from Hong Kong's Food & Environmental Hygiene Department made a study visit to six EU Member States in May and saw various health, food and environment facilities and agencies. The delegation also met their counterparts at the Commission where they discussed matters related to food chain management, including the operation of the European Food Agency.

Financial Secretary Mr Antony Leung paid a visit to the Commission in June on his first overseas trip since taking up his new post. Mr Leung met Commissioners Solbes and Monti, with whom he discussed the EU's and Hong Kong's economic situations, the share of Hong Kong's foreign currency reserves held in euros and competition policy issues.

Secretary for Security Mrs Regina Ip visited the Commission in September. She met the Commissioner for Justice & Home Affairs, Antonio Vitorino, to discuss a wide-ranging number of issues including immigration, money laundering, progress on EU-Hong Kong readmission negotiations and the EU enlargement process.

Chief Secretary Mr Donald Tsang visited the Commission in November. He met Vice President Kinnock and Commissioner Vitorino and, following the successful completion of the negotiations for an EC-Hong Kong Readmission Agreement, Commissioner Vitorino and Mr Tsang witnessed the initialling of the final text. Negotiations for the Readmission Agreement took place in Hong Kong in October and followed on from the EU decision, taken in March, to grant visa-free access to Hong Kong SAR passport holders (see below). The Agreement will be the first ever Readmission Agreement that the EC will enter into, and its ratification is expected to be completed in the second half of 2002. In addition to immigration issues, economic and political developments in Asia and in Europe, the international

economic climate and the process of China's accession to the WTO were discussed at the meetings.

European Central Bank Executive Board Member Mr Domingo Solans was invited to make a keynote speech at a seminar on economic and monetary union and on the switchover to euro notes and coins held in Hong Kong on 13 December 2001. Mr Domingo met the Chief Secretary, Mr Donald Tsang, and the Hong Kong Monetary Authority Chief Executive, Mr Joseph Yam.

– *Visa free access to the EU*

The Council of Ministers of the European Union adopted on 15 March 2001 a regulation detailing countries and territories whose citizens may or may not enter the EU territory with or without a visa. This regulation granted visa free access to the passport holders of the two SARs of China, Hong Kong and Macao. The regulation came into force on 10 April and has since then been implemented without any difficulties. The granting of visa free access to the EU for SAR passport holders had long been a request of the Hong Kong authorities and of the Hong Kong business community. The Commission was pleased that the Council accepted the Commission proposal and adopted it in a very short period. The HKSAR Government the Hong Kong business community the media all expressed their satisfaction. Several EU candidate countries subsequently emulated the EU decision.

– *Customs Co-operation*

Customs co-operation between the European Community and the HKSAR continued in 2001 on the basis of the 1999 Agreement on Co-operation and Mutual Administrative Assistance in Customs Matters. The third annual Joint Customs Co-operation Committee meeting was concluded in Brussels on 13 December, with constructive and fruitful results.

– *Intellectual Property Rights*

As in previous years, the Commission has continued to monitor developments in this area with great interest. The efforts of the HKSAR Government to combat piracy and counterfeiting continued with strengthened legislation and increased enforcement, including the introduction of criminal sanctions for the use of copyright infringing products. The EU continues to co-operate with Hong Kong in international fora such as the WTO and the WIPO. Hong Kong Customs carried out a number of raids concerning corporate use of pirated software. The HKSAR Government issued a consultation paper on this area and pending the result of the consultation some provisions of the copyright ordinance were temporarily suspended.

Although substantial progress was made in strengthening intellectual property legislation, still, like elsewhere in the region, copyright piracy and trademark counterfeiting in Hong Kong remain key concerns for EU industry. The Hong Kong SAR should sustain its efforts to enforce intellectual property rights.

– *Business Co-operation Committee*

The Business Co-operation Committee brings together business representatives from the EU and from Hong Kong to discuss economic developments and other matters of mutual interest. The Committee met on 19 February 2001 in Hong Kong. Commissioner Lamy addressed the opening of the Committee meeting and the Chief Executive, Tung Chee Hwa, hosted a luncheon for the members of the Committee.

– *European Chamber of Commerce*

The European Chamber of Commerce in Hong Kong, which was set up in 2001, hosted a well-attended luncheon meeting for Commissioner Pascal Lamy, who gave a speech on WTO matters. The Chamber also co-organised, with the Office of the EU Commission in Hong Kong and the Hong Kong Trade Development Council, a seminar on the Euro, where ECB Executive Board Member Mr Domingo gave a keynote speech, and an exhibition on Euro notes and coins was held at the Chamber.

8. CONCLUSION

The Commission welcomes the commitments given by the Central People's Government and the Hong Kong SAR Government to maintain and safeguard the "one country, two systems" principle. The implementation of the principle during 2001 showed that in broad terms, Hong Kong maintained its unique and separate identity within China. The Commission acknowledges the statement of President Jiang Zemin that the HKSAR Government should handle such issues as the Falun Gong. The safeguarding of Hong Kong's system of values and its high degree of autonomy require the full and unequivocal commitment and vigilance of both the Mainland and Hong Kong authorities.

The EU will continue to watch developments very closely, particularly concerning the possible introduction of anti-cult legislation and its effect on freedom of expression in Hong Kong.

Five years on from the hand-over, Hong Kong remains a free and open society, underpinned by the rule of law. It retains a lively press and a vibrant political culture. Its international ties remain strong.

The introduction of a more accountable government system is very important to the overall constitutional development of Hong Kong, so the continuing debate on this issue was a healthy sign in 2001. But it will be very important to make sure that changes introduced reinforce rather than undermine Hong Kong's civil service, which is one of the most professional in the world, and which deserves much of the credit for Hong Kong's success as a community over the years. If Hong Kong is to do as well in the future as it has in the past, it is vital that its civil service remain meritocratic, apolitical and able to give impartial and fearless advice in the overall interests of the people of Hong Kong.

It is inevitable that in the coming years public attention in Hong Kong will increasingly focus on the question of democratic development. The Basic Law stipulates that the ultimate aim is universal suffrage. It also includes provision for the Hong Kong people to have their say, in 2007, in deciding the timetable according to which this should be achieved. A free and open debate on this question in the next few years will be a valuable re-affirmation of the concept of one country, two systems, and offer further re-assurance both within Hong Kong and outside that Hong Kong people really are running Hong Kong with the promised high degree of autonomy.

Hong Kong today faces a difficult and testing time. Many Hong Kong people are understandably nervous about the future. The difficulties are largely economic rather than political, and for the most part they are due to the Asian financial crisis and to the global economic slowdown, and not of Hong Kong's or China's own making.

Hong Kong will weather today's troubles, just as it has overcome past challenges, and it will emerge stronger from them. But it will do so by retaining confidence in itself and by staying true to itself. Hong Kong's greatest strength is that it is Hong Kong: unique and special, unlike anywhere else. That is what one country, two systems is all about. That is the notion that lies at the heart of the Joint Declaration. It remains as true in 2002 as it did in 1997. The challenge for Hong Kong, and for mainland China, will be to continue to protect and uphold not just the concept of one country, but the equally important commitment to two systems.