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REPORT

drawn up on behalf of the Committee on External Economic
Relations

on the future development of economic and trade relations
between the European Community and Hong Kong

Rapporteur: Mr H-J. SEELER

WG(2)/1811E

PE 96.940/fin.

At its sitting of 23 October 1984 the European Parliament referred the motion for a resolution tabled by Mr Seeler pursuant to Rule 47 of the Rules of Procedure (Doc. 2-720/84) to the Committee on External Economic Relations as the committee responsible and to the Political Affairs Committee for its opinion.

At its meeting of 21 November 1984 the committee decided to draw up a report and appointed Mr Seeler rapporteur.

At its meetings of 25 March, 25 April and 20/21 May 1985 the committee considered the draft report. It adopted the motion for a resolution as a whole unanimously on 21 May.

The following took part in the vote: Dame Shelagh Roberts, chairman; Mr Hindley, first vice-chairman; Mr Seeler, rapporteur; Mr Costanzo, Mr Ford, Mr Kilby, Mr Nordmann (deputizing for Mr de Winter), Mrs Wieczorek-Zeul, Mr Zahorka and Mr Zarges.

The opinion of the Political Affairs Committee will be submitted separately.

The report was tabled on 28 May.

The deadline for the tabling of amendments to this report appears in the draft agenda for the part-session at which it will be debated.

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Motion for a Resolution Doc. 2-720/84

The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution together with explanatory statement :

A

MOTION FOR A RESOLUTION

on the future development of economic and trade relations between the European Community and Hong Kong

The European Parliament,

- having regard to the motion for a resolution tabled by Mr Seeler pursuant to Rule 47 of the Rules of Procedure on the future development of economic and social relations between the European community and Hong Kong,

- having regard to the report of the Committee on External Economic Relations on economic and commercial relations between the European Community and the People's Republic of China (Doc. 1-1345/83) drawn up by Mr Jiri Pelikan,

having regard to the agreement signed in December 1984 in Peking by the United Kingdom and the People's Republic of China on the status of Hong Kong from 1997 to 2047,

having regard to the report of the Committee on External Economic Relations and the opinion of the Political Affairs Committee (Doc. A 2-54/85),

- A. having regard to the importance of Hong Kong as a trading partner of the European Community and as an intermediary in economic relations between the European Community and the People's Republic of China;
- B. recognizing the role of Hong Kong as one of the leading international economic and financial centres in the Western Pacific and the increasing importance of Hong Kong for the economic reforms and modernization which have been introduced and are likely to continue in the People's Republic of China;
- C. recognizing that sovereignty over the territory of the British Crown Colony of Hong Kong will be transferred on 1 July 1997 to the People's Republic of China and that until then the Government of the United Kingdom is responsible for the administration of Hong Kong and for maintaining its economic prosperity and social stability with the support of the Government of the People's Republic of China;
- D. whereas under the Joint Declaration of the United Kingdom and the People's Republic of China, Hong Kong is to be organized as a Special Administrative Region in accordance with Article 31 of the Constitution of the People's Republic of China on the understanding that the present economic and social system is to be maintained for a period of 50 years;
- E. recognizing that over the next few decades Hong Kong as a centre of business and trade can play a major role in economic terms in developing in particular the Western Pacific area;

1. Welcomes the solution adopted by the parties to the Joint Declaration to the future economic and social position of Hong Kong,
2. Notes that this agreement enables economic relations between Hong Kong and the European Community to continue and be further developed and moreover may be of great importance for the development of trade and economic relations between the European Community and the People's Republic of China;
3. Notes in this connection the importance for the foreign trade of the People's Republic of China of Hong Kong as the largest port on the China coast and the third largest financial centre in the world;
4. Notes that because of the de facto retention of its earlier status combined with a certain degree of integration with the national economy of the People's Republic of China as a Special Administrative Region, Hong Kong can develop considerably its present intermediary role in economic relations between the People's Republic and the Western industrialized nations and that such a development could have very positive effects on future economic relations between the European Community and the People's Republic of China;
5. Expects therefore that the European Community and its Member States will closely follow developments in Hong Kong and the People's Republic of China over the next few years;
6. Recognizes however that there is no precedent for a transfer of sovereignty in the manner provided for in the Joint Declaration combined with the retention of the present economic and social system in Hong Kong under the sovereignty of a Communist state and that therefore despite the efforts of all concerned there is no certainty that this political objective will be attained;
7. Calls on the Commission to follow closely the situation in Hong Kong over the next few years, and in particular to consider carefully the practical ways in which Hong Kong's full participation in the benefits and obligations of the international trading system can be maintained after 1997, and especially the question of Hong Kong continuing to be included in the generalized system of preferences;
8. Expects, however, the Commission and the Council to do everything possible on behalf of the European Communities to support firstly Hong Kong and secondly the People's Republic of China in their endeavours to attain the objectives set out in the Joint Declaration and its annexes;
9. Expects in particular the Commission and Council to support efforts to enable Hong Kong to remain a member of GATT and the IMF after 1997 as long as Hong Kong as a Special Administrative Region meets the requirements for membership of these bodies and notes that the British Government will be discussing with the Chinese authorities the continued participation of Hong Kong after 1997 in GATT, which is a matter of the utmost importance;

10. Calls on the Commission in forthcoming negotiations on a further extension to the world textiles agreement and reorganization of the generalized system of preferences to take due account of this special position of Hong Kong in the light of the Joint Declaration, and in particular to take account of the fact that in the field of textile production there will be more and more cooperation between the People's Republic of China and Hong Kong and transfer of certain sectors of production to the territory of the People's Republic of China;
11. Expects that even after 1997 Hong Kong will be represented in the Community by an economic and trade mission and that the European Community for its part will be duly represented in Hong Kong;
12. Believes it necessary for the Commission to take steps to encourage all Member States of the European Community to facilitate business and trade contacts and consequently personal travel to and from Hong Kong by eliminating the visa requirements for citizens of Hong Kong for visits up to three months and expects from Hong Kong in return reciprocal measures including a waiver of any further increase in airport taxes;
13. Expects further that the Commission will work closely together through the British Government with the Sino British Joint Liaison Group which will begin its work once the Joint Declaration enters into force on 30 June 1985 on all matters relating to relations in future between the European Community and Hong Kong and the People's Republic of China;
14. Calls on the Commission to analyse regularly and carefully political and economic developments in Hong Kong and to monitor closely any effects of the change of the role of Hong Kong on economic and trade relations of other states in the Western Pacific region, including the ASEAN States, and to report regularly to Parliament;
15. Calls further on the Commission and Council to take due account in trade policy of any possible problems arising from the transferral of sovereignty over Hong Kong and in particular to react immediately and appropriately to any divergence from the system provided for in the Joint Declaration for the economic future of Hong Kong;
16. Instructs its President to forward this resolution and the committee's report to the Council and the Commission.

EXPLANATORY STATEMENTI. INTRODUCTION

1. The British Crown Colony of Hong Kong consists of three separate areas which are legally and historically distinct. The Island of Hong Kong, the Kowloon Peninsula and the New Territories. After 1839 the Island of Hong Kong was the main base of the British armed forces in what were known as the Opium Wars.
2. Under the Treaty of Nanking of 29.8.1842 Hong Kong was ceded to Britain as its permanent property. The Peking Convention of 24.10.1860 ended the Second Opium War. Under this treaty China also ceded the Southern parts of the Kowloon Peninsula and Stonecutters Island permanently to the United Kingdom. After China's defeat in the Sino Japanese war of 1894-1895 the United Kingdom secured a convention for the expansion of Hong Kong on 9.6.1898. Under this convention the new territories including the waters of Mirs Bay and Deep Bay and various islands which comprise approximately 92% of the entire land area of the Crown Colony were leased from 1 July 1898 to the United Kingdom for a period of 99 years.
3. The People's Republic of China has never recognized these treaties nor other 'unequal' treaties with Tsarist Russia which conceded extensive territories to Russia. Although this attitude is irrelevant in terms of international law since most treaties ceding territory, such as peace treaties, are usually 'unequal treaties' for the weaker states, it nevertheless helps the People's Republic considerably to pursue its territorial aims.
4. During the Second World War Hong Kong was occupied by the Japanese from 1941 to 1945. After 1945 it became again a British Crown Colony. China, and since 1949, the People's Republic of China, has never, even at the height of the periods of unrest generated by Chinese Communists in 1966 and 1967, tried to regain this territory by force. China has always regarded the territory of Hong Kong, not only the new territories but the entire area of the Crown Colony as Chinese sovereign territory. In a letter to the Secretary-General of the United Nations in March 1972, the Chinese Government made it clear that Hong Kong should not be included in the list of colonial territories for which the United Nations wished to secure independence.

The People's Republic of China was able to adopt this wait-and-see approach because the contractually agreed period for expiry of the lease was fixed and both sides were aware that the territory of Hong Kong Island and the Southern tip of the Kowloon Peninsula alone would be neither politically nor economically viable without the New Territories.

5. In the course of the second half of the 1970s it became increasingly clear that a solution would have to be found for the future of Hong Kong. Insecurity as to the future was not only affecting the population of Hong Kong itself but also foreign investors. Particularly those who wished to build on leased land found the time for amortization of investments by 1997 shorter and shorter which as a result increased the risk of such investments. All the parties involved recognized that if this insecurity were to continue, the basis for the economic development of Hong Kong, namely confidence in a stable future, would rapidly disappear unless the necessary steps were taken to arrive at agreement between the People's Republic and the United Kingdom on the future of Hong Kong. None of the three parties involved, the United Kingdom, nor the People's Republic of China and certainly not Hong Kong itself was interested in seeing this area lose its economic standing and becoming in many ways a problem area.
6. For the People's Republic of China the main importance of Hong Kong both now and in the past has been as a trading centre with the industrialized nations and also with the entire Pacific area. A considerable proportion of Chinese foreign trade is carried on via Hong Kong. China obtains approximately one-third of its earnings in foreign convertible currencies either in Hong Kong or by virtue of the circumstances obtaining in Hong Kong. The United Kingdom is clearly interested in maintaining the status of its Crown Colony until 1997 in order to avoid being burdened with the economic and social catastrophe which would otherwise be inevitable in this area and Hong Kong itself has an interest in safeguarding the basis for the viability and prosperity of its inhabitants. This economic basis was an important bargaining counter for Hong Kong in negotiations on its future because only a Hong Kong which continues to represent great economic potential for the People's Republic of China could expect to be able to retain more or less its economic and social basis even under Chinese sovereignty.
7. Talks thus began in 1982 between the United Kingdom and the People's Republic of China. On 26 September 1984, representatives of the British Government and the People's Republic of China initialled in Peking a draft agreement on the future of the British Crown Colony of Hong Kong. On 19 December of the same year the agreement was signed in Peking by the British Prime Minister Margaret Thatcher and the Chinese Prime Minister Zhao Ziyang. Under the agreement the entire territory of Hong Kong is to be restored to Chinese sovereignty with effect from 1 July 1997.

II. CONTENT OF THE TREATY

8. This treaty which in many ways is without precedent states that the British Crown Colony of Hong Kong is to return to Chinese sovereignty from 1 July 1997 but that for a period of 50 years afterwards Hong Kong is to have the status of a Special Administrative Region (SAR) with a great deal of autonomy. This means, China with its Communist Government has undertaken to leave unchanged the present capitalist, social and economic system in Hong Kong for 50 years after the end of the lease (until 2047). The government of the Special Administrative Region is to be directly answerable to the Central Government in Peking. The area is to be known as 'Hong Kong, China'.

9. The Joint Declaration, which is binding in international law, consists of eight main items to which three annexes and two memoranda are attached. The three annexes explain in detail the agreements set out in the Joint Declaration and the memoranda deal with nationality.

Annex I relates to the basic policies of the Government of the People's Republic of China towards Hong Kong and elaborates on the provisions set out in section III of the Joint Declaration.

Annex II describes the structure and role of a Sino-British Joint Liaison Group which is to ensure the exchange of information between the two parties until the year 2,000 and arrange contacts and consultations on the Treaty.

Annex III relates to the leases.

The items set out in section 3 of the Joint Declaration which are supremely important for Hong Kong's economic and political future essentially cover the following aspects:

Political system and administration

10. In accordance with the provisions of Article 31 of the Constitution of the People's Republic of China, the Hong Kong Special Administrative Region is to be set up in which the Communist system and basic Communist policies are not to be introduced. The capitalist system and lifestyle are to be retained until the year 2047.

The Hong Kong special administrative region will be directly under the authority of the Central People's Government of the People's Republic of China but will enjoy a high degree of autonomy. It is to have executive, legislative and independent judicial powers including that of final adjudication. The Central People's Government is only to be responsible for foreign affairs and defence.

11. The Government of 'Hong Kong, China' will be composed of inhabitants from the Special Administrative Region. The chief executive, who is to be appointed by the Central People's Government on the basis of the results of elections or consultations to be held locally, will nominate the principal officials for appointment by the Central Chinese Government. The foreigners and Chinese currently in public service (including the police force) may remain in employment. British and other foreign nationals may also be employed to serve as advisers or hold certain public posts. The government of the Special Administrative Region shall be entirely responsible for paying salaries and pensions.
12. The legislature of the SAR which is to be elected will enact legislation for the special administrative region; systems of law and jurisprudence such as British common law, rules of equity, customary law etc. shall remain in force provided they do not violate the basic law (the basic law of the Hong Kong Special Administrative Region which is to be formulated by the National People's Congress of the People's Republic of China in accordance with Article 31 of the Constitution).

Economy

13. The economic system will remain unchanged. The right to the acquisition, use and sale of private property is to remain unchanged; similarly foreign investments will continue to be protected by law.

Investors can invest and withdraw their capital without hindrance. The free movement of goods and capital is to remain and the SAR will continue to pursue a free trade policy. The markets in foreign exchange, securities, gold and futures will remain without controls as in the past.

The Special Administrative Region will have independent finances. The Hong Kong dollar is to remain the legal, local, freely convertible currency. Only those notes and coins which bear symbols which do not correspond with Hong Kong's new status as a Special Administrative Region are gradually to be taken out of circulation.

14. Expenditure on defence, one of the few areas for which the Central Chinese Government is directly and solely responsible is to be borne by the Central Government itself which is to levy no taxes in the SAR. The Special Administrative Region will have its own budget and accounts.

The Government of the Hong Kong SAR can pursue its own policy on shipping; all the existing provisions for merchant shipping and non-military aviation are to remain in force (only warships which wish to enter Hong Kong harbour will require a special authorization from the Chinese Central Government).

The Hong Kong SAR may conclude new air transport agreements with other governments or extend existing ones provided the Chinese mainland is not affected. Hong Kong is to remain a centre for national and international aviation and the free port status of its harbour will be retained.

Social system

15. The social system and social framework are to be maintained in the special administrative region. Freedom of the person, of speech, of the press, of assembly, of association, to found trade unions, of correspondence, of travel, of movement, of strike, of demonstration, choice of occupation, of academic research, of religious belief and the inviolability of homes and marriage are to be ensured by law.

Religious bodies may maintain links with other religious bodies in the world and may run charitable institutions, schools, hospitals, etc.

The education system is to be retained. The government of the Special Administrative Region can adopt its own guidelines for the language of instruction, allocation of budget, examination system and system of academic degrees and qualifications.

16. To ensure a smooth handover of the territory in 1997 a Sino-British Joint Liaison Group is to be formed consisting of a head delegate with the rank of ambassador and four other delegates. This group is to carry on its work until the year 2000, with its seat in Hong Kong from July 1988 with one meeting a year in London, Hong Kong and Peking.

This group is to have no political powers and is in no way to be involved in the running of the Special Administrative Region. It is simply to serve as a liaison body between the two sides to facilitate communication and ensure that the exchange of information on the implementation of the joint declaration runs smoothly and that both parties can consult each other on agreed matters.

.II. ASSESSMENT OF THE TREATY

(a) Political/ideological aspects

17. The treaty between the People's Republic of China and the United Kingdom is in many ways a masterpiece of diplomacy. The United Kingdom managed to obtain contractual guarantees for the economic and social status quo in Hong Kong for a further 50 years after 1997. The United Kingdom's bargaining position was not particularly strong as even without any special treaty the New Territories would have had to be returned in 1997 anyway. The island of Hong Kong and the Kowloon peninsula alone would have not been viable once these territories had been returned.
18. For the People's Republic of China, however, the initial position was at least equally difficult. On the one hand the Chinese attitude was clear. The territory which formed the Crown Colony of Hong Kong had been gradually lost as a result of three (unequal) treaties in the nineteenth century. One of these treaties would expire in 1997. China could not permit the slightest doubt to arise as regards its intention to acquire full sovereignty over this territory. On the other hand in its present economic and, consequently, social position, Hong Kong is very valuable for Chinese economic trade policy. The integration of this territory accompanied by inclusion in the Communist state and economic ideology would have destroyed the value of Hong Kong in this respect within a few years and long before 1997. Capital would have moved away, investment would have fallen to a minimum, much of the population would have emigrated and the millions who remained, above all the poorer inhabitants, would have encountered misery. China would thus have inherited economic chaos with millions of unemployed and poverty-stricken people.
19. The aim of Chinese policy therefore had to be to retain the economic and trade value of Hong Kong for itself. China needs Hong Kong's economic potential if it is to develop further its plans for reform over the next few decades. Essentially the People's Republic has found an extremely elegant solution to this problem. First of all it maintains its legal position by not concluding any agreement to cede territory to the United Kingdom for as far as China is concerned the territory of the British Crown Colony of Hong Kong had never ceased to be subject to Chinese sovereignty and the agreement was simply termed a joint declaration with annexes but one which required ratification like a treaty, something which is not usual in international law.

20. Economic interests in the status quo in Hong Kong are safeguarded by the fact that this area is practically to retain its social and economic autonomy within the People's Republic of China and be given the status of a Special Administrative Region with its own basic law in accordance with Article 31 of the Chinese Constitution. The solution chosen has been one state and two systems. This avoids the error which has often been committed by Communist-ruled states namely to believe that the economic practices and successes of the free Western world can be imitated while retaining the ideological concept of state and society as single party domination to which the people and state remain subject. Only free people can develop initiatives and take the risks without which no economic success is possible. The People's Republic of China is not making this mistake but is allowing the economic and social system in Hong Kong to continue without a major upheaval.
21. Hong Kong will thus remain something of a Western capitalist enclave in Communist China.

So far the question remains unanswered of whether this also represents an admission that the Western system is more effective than the planned Communist system. It will also be interesting to see how public opinion in the People's Republic of China reacts to this solution, namely that the bitterly opposed 'damaging' capitalist system can continue to exist within the borders of the Chinese state, that several million Chinese will enjoy a privileged position and benefit from advantages and that it would chiefly be those Chinese who once fled from the People's Republic to Hong Kong to escape the Communist regime.

22. We will have to see how the People's Republic copes with the enormous economic discrepancy between Hong Kong and the surrounding Chinese territory. It will also be interesting to discover what led the People's Republic to make such substantial concessions to a system which they oppose ideologically. Was it just the fear of too rapid a decline in Hong Kong and the loss of advantages which the People's Republic has enjoyed as a result of this territory for many years, and were there fears of the enormous burden which reintegration of this territory would place because of the impoverishment of the population or was there, and is there still, at the back of it all a political motive, namely to develop a synthesis between the Communist and Western system in order in the long term to create a new basis for the economic development of the People's Republic.
23. It is remarkable how carefully and cautiously economic and social reforms as a whole are being organized and implemented in the People's Republic. Generally this is an encouraging sign. A crucial factor in this development will be whether these ideas gain ground among the ruling classes in the People's Republic of China. The average age of the present leadership is very high. If it succeeds in passing on its ideas for reform to its successors the treaty as a whole is likely to have a thoroughly positive effect on this area. If this is not possible and if there are ideological and subsequently economic reversals, and it would not be the first time in China's history, then the treaty will be worthless.
24. One reason for a generally favourable assessment is the fact that the treaty, unlike the 'unequal treaties' of the nineteenth century, have been concluded on the 'basis of friendship and equality'. Also that younger political figures have welcomed the treaty and staked their prestige on its success.

The treaty between the People's Republic of China and the United Kingdom is not only important because it is the first time that there has been a binding agreement between a Western, democratic state and a 'people's democracy' to maintain an existing Western economic and social system for 50 years and to guarantee this but also because it is the first time in the history of British decolonialization that a colonial territory has not been given independence but ceded to a different state. Contrary to British practice, for example in the case of Gibraltar, the population concerned was not consulted on this solution in a referendum.

25. The solution adopted for Hong Kong might more generally serve as an example for settling similar territorial issues such as Gibraltar, the Falkland Islands or even Northern Ireland.

By way of summary it may be said that the crucial factors determining the agreement and the concessions by the People's Republic of China were certainly medium and long-term considerations, by regaining Hong Kong ultimately to regain Macao and Taiwan. Both territories are regarded by the People's Republic as Chinese territory. In both cases the People's Republic must find long-term solutions to situations which have evolved over time. The basic formula of 'one country and two systems' to solve the Hong Kong problem is, according to a statement by the Chinese Head of State and Party Deng Xiaoping, directly relevant to the problem of Taiwan, and certainly also Macao.

26. With this treaty the People's Republic of China has considerably strengthened its position in the Western Pacific area. It has thus laid the foundation for a better basis of trust in the forthcoming political, and above all economic, development of this part of the world. It will also depend how this Treaty is managed in practice as to whether the People's Republic succeeds in gradually overcoming the distrust which prevails in the Asiatic sphere, particularly among the ASEAN states, and thus provide the conditions for cooperation among all these states in the economic development of the Pacific Basin.

(b) Economic position

27. The main feature of Hong Kong's development has been a rapidly growing population currently totalling over 5 million inhabitants within a limited area of 1,066 km². Without any significant natural resources Hong Kong has become one of the leading trade centres in the Western Pacific. Hong Kong's economy is chiefly concentrated around a broad spectrum of services. In addition to banks, tourism is particularly important. These two sectors account for some 60% of gross national product. The rapid increase in population - in the period 1978-1980 alone some 530,000 illegal immigrants from the People's Republic of China - forced Hong Kong in the past to expand its industrial production quickly without complicated technology. The main products manufactured and exported are consumer goods and textiles.
28. Hong Kong is extremely dependent on trade. It has to import nearly all the raw materials and food it needs. This is its strength but also the reason for its vulnerability. The economic base in Hong Kong represents a great gain for the People's Republic of China provided it succeeds in keeping Hong Kong functioning.

It will therefore be tremendously important for Hong Kong to retain its membership of GATT and the IMF, as long as there is a international textiles agreement, so that it can continue to exploit these advantages and the benefits of the generalized system of preferences. In all negotiations in future, however, the Community must remember that from 1997 Hong Kong is part of China and will thus acquire an enormous hinterland which can lend a completely new dimension to its role as a centre of trade and business.

29. The Hong Kong economy has reacted very sharply in recent years to the growing lack of security concerning its future. Capital pulled out which led to a collapse in the exchange rate of the Hong Kong dollar and the transfer of firms' head offices to other countries. This development was arrested following the successful conclusion of the negotiations and the signing of the draft declaration at the end of 1984. Since then the economic position of Hong Kong has improved significantly. For example the growth rate for gross domestic product which at the beginning of 1984 was estimated at around 5% reached 9.4% by the end of 1984 compared with 5.1% in the previous year. Growth rates in foreign trade have been disproportionately high. Confidence picked up even more when the Hong Kong dollar was linked to the US dollar in October 1983, a move which was accompanied by a surge in exports. For the first ten months of 1984 Hong Kong's total exports rose by 31% against the comparable period of the previous year.
30. Inflation has gone down and the bank rate fell from its record level of 17% in July to 11% by the end of 1984. The linking by the government in October 1983 of the Hong Kong dollar to the US dollar meant that the currency was generally stable throughout 1984. Foreign investment has picked up again. The USA is the largest foreign investor with a total investment of 6,200 m HK dollars or 53.7% of all foreign investments. This is followed by Japan with 4,000 m HK dollar and the United Kingdom with 800 m HK dollars. There were even signs towards the end of 1984 of a slight recovery on the property market which has been in the doldrums for some years.
31. A return of business confidence is also shown by the fact that the government is continuing to launch a number of major investment projects, particularly in the fields of infrastructure. These include the construction of a nuclear power station in the Chinese province of Guang-dong. When complete this power station will supply 70% of its energy to Hong Kong. In addition the city road and rail network is being expanded with new projects; work has begun on the construction of a new exhibition centre and a cultural centre.

The People's Republic of China plays an important part in Hong Kong's foreign trade. Between 1978 and 1983 trade between China and Hong Kong rose by 460%. In absolute terms it rose from 10,800 m HK dollars in 1978 to 61,200 m HK dollars in 1983. As a proportion of Hong Kong's total trade it rose from 9.3 to 18%.

32. Hong Kong mainly exports semi-finished goods, textiles and metal products to the People's Republic. There has also been an increase in processing trade. By the same token the re-export of Chinese goods by Hong Kong has risen. It increased from 3,700 m HK dollars in 1978 to 19,700 m HK dollar in 1982. 46% of all the goods imported from the People's Republic in 1983 were re-exported. This shows the importance of Hong Kong to the People's Republic of China as a trade centre. The main importers of these goods originating from the People's Republic of China are the USA, Indonesia, Singapore and Japan. There has similarly been an interest in the re-export of goods imported by Hong Kong from third countries to the People's Republic of China, from 214 million HK dollars in 1978 to 12,200 m HK dollars in 1983. These goods came chiefly from Japan, the USA, Taiwan, South Korea and the European Community. In 1984 the volume of trade between Hong Kong and the People's Republic of China grew even more. China exported goods to the value of US \$ 5.360 m to Hong Kong and imported goods to a value of US \$ 3.018 m in 1983.
33. In addition to trade, joint ventures are playing a growing role in economic relations between China and Hong Kong. The integration of the two economic areas has proceeded apace. Hong Kong is the largest export market for the People's Republic and the most important source of hard currency. Approximately one-third of the People's Republic's hard currency revenue comes from Hong Kong. This aspect of Hong Kong's role for the People's Republic will increase to the extent to which the People's Republic participates in world trade. In 1978 the People's Republic share of world trade was only 0.75% putting it in 32nd place. In 1983 it had risen to 1.23% bringing it to 16th position among the world's trading nations. It should be noted that the People's Republic has been extremely cautious about expanding foreign trade. It does not wish to repeat the mistakes of many developing countries of achieving too rapid a development at the cost of high indebtedness with the result of major setbacks from growing debt servicing charges which are currently a major feature of the economic situation in many third world countries and even COMECON.
34. Hong Kong therefore plays a supremely important role in the growing participation by the People's Republic of China in world trade and for the economic reforms which have been introduced in the People's Republic.

On the other hand trade between Hong Kong and the European Community has increased. From 1974 to 1983 exports to the Community rose by 250%. Hong Kong's imports from the Community rose by more than 300%. At the present time the Community is the second largest export market for Hong Kong. Hong Kong is a free trade centre. Taxes are only levied on tobacco, alcohol, mineral water, cosmetics and a few oil products. No restrictions are placed on capital transactions. This makes Hong Kong attractive to investors from the Community. Hong Kong offers Community businessmen favourable access to the rapidly developing Pacific area. Moreover it is increasingly important for Community trade with the People's Republic of China. Overall the People's Republic imported goods worth US\$ 25,530m in 1984. It exported goods to the value of US\$24,400 m. Over this period the Community exported to China goods to the value of US\$ 3,360 m and sold goods in China to a value of US\$ 2,100 m. After Japan, Hong Kong and the USA, the Community occupies fourth place in the People's Republic trade statistics.

35. Given the almost certain further economic development of China, China's role in world trade will expand considerably. The Chinese market for investment and consumer goods is bound to grow rapidly in importance for the European Community over the next few decades. Hong Kong will play a major role in these trade relations. Moreover the entire Pacific area will be the economic development area over the next few decades. Hong Kong, as a traditional centre for trade and finance in the Western Pacific area, will have a major role to play.

By way of summary it may be said that it is impossible to overestimate the economic importance of the Treaty between the United Kingdom and the People's Republic of China on the future of Hong Kong for future economic and trade relations of the European Community not only with the People's Republic of China but beyond this with the entire Western Pacific area. The European Community therefore has a vital interest in supporting this Treaty and encouraging its implementation in practice.

Tables

*Trends in foreign trade

	1979	1980	1981	1982	1983	1984
Domestic exports	55,921	68,171	80,423	83,032	104,405	137,936
Re-exports	20,022	30,072	41,739	44,352	56,294	83,504
Imports	85,837	111,651	138,375	142,893	175,442	223,370
Balance	-9,903	-13,408	-16,212	-15,508	-14,743	-1,930

*Source: The 1984/85 Budget: Economic Background
and H.K. Trade Statistics

Hong Kong's trade with the Community

	1974	1983	1984	Growth rates as % 1974/1984
Exports to the Community	6,541.5	22,361.7	27,366	+ 318.3%
Imports from the Community	4,793.1	20,012.3	24,373	+ 408.5%

ALL figures in Hong Kong \$ mill.

1 Hong Kong \$ = 0.2 ECU

*Main trading partners as
percentage of total trade

<u>Domestic exports</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>Imports</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
USA	37.3	41.9	44.5	China	23.1	24.4	25.0
UK	8.6	8.1	7.6	Japan	22.0	23.0	23.6
West Germany	8.4	7.7	6.9	USA	10.8	10.9	10.9
China	4.5	5.9	8.2	Taiwan	7.1	7.1	7.8
Japan	3.8	3.7	3.7	Singapore	7.1	6.0	5.5
Canada	3.1	2.1	3.3	UK	4.8	4.2	3.9
Australia	3.4	3.5	2.8				

Re-Exports

<u>Country of origin</u>	<u>Total %</u>			<u>Country of Destination</u>	<u>Total %</u>		
	<u>1982</u>	<u>1983</u>	<u>1984</u>		<u>1982</u>	<u>1983</u>	<u>1984</u>
China	33.1	35.0	33.7	China	18.0	21.6	33.6
Japan	20.5	20.6	22.4	USA	12.7	14.2	14.5
USA	11.1	10.7	10.2	Singapore	8.2	8.0	5.4
Taiwan	5.6	4.6	6.1	Indonesia	10.4	6.9	4.4
South Korea	3.1	2.5	2.8	Taiwan	6.0	6.0	5.8
				Japan	5.8	5.7	5.7

Foreign trade trends (in millions of Hong Kong dollars)

January - December

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Domestic exports	2,924	3,806	6,223	11,283
Re-exports	8,044	7,992	12,183	28,064
Imports	29,510	32,935	42,821	55,753
Total volume of trade	40,478	44,733	61,227	95,100

Balance of trade	-18,542	-21,137	-24,415	-16,406
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Source: HK Trade Statistics

British-Chinese Joint Declaration on the Question of Hong Kong

**Joint Declaration
of the Government of the United Kingdom of
Great Britain and Northern Ireland
and
The Government of the People's Republic of China
on the Question of Hong Kong**

The Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China have reviewed with satisfaction the friendly relations existing between the two Governments and peoples in recent years and agreed that a proper negotiated settlement of the question of Hong Kong, which is left over from the past, is conducive to the maintenance of the prosperity and stability of Hong Kong and to the further strengthening and development of the relations between the two countries on a new basis. To this end, they have, after talks between the delegations of the two Governments, agreed to declare as follows:

1. The Government of the People's Republic of China declares that to recover the Hong Kong area (including Hong Kong Island, Kowloon and the New Territories, hereinafter referred to as Hong Kong) is the common aspiration of the entire Chinese people, and that it has decided to resume the exercise of sovereignty over Hong Kong with effect from 1 July 1997.
2. The Government of the United Kingdom declares that it will restore Hong Kong to the People's Republic of China with effect from 1 July 1997.

3. The Government of the People's Republic of China declares that the basic policies of the People's Republic of China regarding Hong Kong are as follows:

- (1) Upholding national unity and territorial integrity and taking account of the history of Hong Kong and its realities, the People's Republic of China has decided to establish, in accordance with the provisions of Article 31 of the Constitution of the People's Republic of China, a Hong Kong Special Administrative Region upon resuming the exercise of sovereignty over Hong Kong.
- (2) The Hong Kong Special Administrative Region will be directly under the authority of the Central People's Government of the People's Republic of China. The Hong Kong Special Administrative Region will enjoy a high degree of autonomy, except in foreign and defence affairs which are the responsibilities of the Central People's Government.
- (3) The Hong Kong Special Administrative Region will be vested with executive, legislative, and independent judicial power, including that of final adjudication. The laws currently in force in Hong Kong will remain basically unchanged.
- (4) The Government of the Hong Kong Special Administrative Region will be composed of local inhabitants. The chief executive will be appointed by the Central People's Government on the basis of the results of elections or consultations to be held locally. Principal officials will be nominated by the chief executive of the Hong Kong Special Administrative Region for appointment by the Central People's Government. Chinese and foreign nationals previously working in the public and police services in the government departments of Hong Kong may remain in employment. British and other foreign nationals may also be employed to serve as advisers or hold certain public posts in government departments of the Hong Kong Special Administrative Region.

The Government of the Hong Kong Special Administrative Region may on its own issue travel documents for entry into and exit from Hong Kong.

(11) The maintenance of public order in the Hong Kong Special Administrative Region will be the responsibility of the Government of the Hong Kong Special Administrative Region.

(12) The above-stated basic policies of the the People's Republic of China regarding Hong Kong and the elaboration of them in Annex I to this Joint Declaration will be stipulated, in a Basic Law of the Hong Kong Special Administrative Region of the the People's Republic of China, by the National People's Congress of the the People's Republic of China, and they will remain unchanged for 50 years.

4. The Government of the United Kingdom and the Government of the People's Republic of China declare that, during the transitional period between the date of entry into force of this Joint Declaration and 30 June 1997, the Government of the United Kingdom will be responsible for the administration of Hong Kong with the object of maintaining and preserving its economic prosperity and social stability; and that the Government of the the People's Republic of China will give its cooperation in this connection.

5. The Government of the United Kingdom and the Government of the People's Republic of China declare that, in order to ensure a smooth transfer of government in 1997, and with a view to the effective implementation of this Joint Declaration, a Sino-British Joint Liaison Group will be set up when this Joint Declaration enters into force; and that it will be established and will function in accordance with the provisions of Annex II to this Joint Declaration.

- (5) The current social and economic systems in Hong Kong will remain unchanged, and so will the life-style. Rights and freedoms, including those of the person, of speech, of the press, of assembly, of association, of travel, of movement, of correspondence, of strike, of choice of occupation, of academic research and of religious belief will be ensured by law in the Hong Kong Special Administrative Region. Private property, ownership of enterprises, legitimate right of inheritance and foreign investment will be protected by law.
- (6) The Hong Kong Special Administrative Region will retain the status of a free port and a separate customs territory.
- (7) The Hong Kong Special Administrative Region will retain the status of an international financial centre, and its markets for foreign exchange, gold, securities and futures will continue. There will be free flow of capital. The Hong Kong dollar will continue to circulate and remain freely convertible.
- (8) The Hong Kong Special Administrative Region will have independent finances. The Central People's Government will not levy taxes on the Hong Kong Special Administrative Region.
- (9) The Hong Kong Special Administrative Region may establish mutually beneficial economic relations with the United Kingdom and other countries, whose economic interests in Hong Kong will be given due regard.
- (10) Using the name of "Hong Kong, China", the Hong Kong Special Administrative Region may on its own maintain and develop economic and cultural relations and conclude relevant agreements with states, regions and relevant international organisations.

6. The Government of the United Kingdom and the Government of the People's Republic of China declare that land leases in Hong Kong and other related matters will be dealt with in accordance with the provisions of Annex III to this Joint Declaration.

7. The Government of the United Kingdom and the Government of the People's Republic of China agree to implement the preceding declarations and the Annexes to this Joint Declaration.

8. This Joint Declaration is subject to ratification and shall enter into force on the date of the exchange of instruments of ratification, which shall take place in Beijing before 30 June 1985. This Joint Declaration and its Annexes shall be equally binding.

Done in duplicate at Beijing on 1984 in the English and Chinese languages, both texts being equally authentic.

For the

Government of the United
Kingdom of Great Britain
and Northern Ireland

For the

Government of the
People's Republic
of China

MOTION FOR A RESOLUTION (DOCUMENT 2-720/84)

tabled by Mr SEELER

pursuant to Rule 47 of the Rules of Procedure

on the future development of economic and commercial relations between the European Community and Hong Kong

The European Parliament

- A. having regard to the report drawn up by Mr Jiri Pelikan on behalf of the Committee on External Economic Relations on economic and commercial relations between the European Community and the People's Republic of China (Doc. 1-1345/83),
 - B. having regard to the significance of Hong Kong to economic relations between the European Community and the People's Republic of China,
 - C. having regard to Hong Kong's role as a commercial and financial centre in the western Pacific,
 - D. whereas British rule over the New Territories and the Crown Colony of Hong Kong will end in 1997 and sovereignty over these territories will revert to the People's Republic of China,
1. Considers that:
 - (a) in the interest of commercial relations between the European Community and the People's Republic of China, and between the European Community and the States in the West Pacific area, the run-up to the end of British rule over the New Territories and the Crown Colony of Hong Kong must not be allowed to develop on its own between now and 1997, since this would create an unpredictable economic climate for Hong Kong and exceptional difficulties and insecurity for Hong Kong's trading partners;
 - (b) as far as possible, Hong Kong must retain its importance as a stabilizing factor, for economic and commercial life, even after British rule has ended and these territories have been restored to the sovereignty of the People's Republic of China;
 - (c) the European Community, in harmony with Hong Kong, must enter into negotiations with the People's Republic of China in order to clarify what the economic situation in this part of the western Pacific will be after the end of British rule in Hong Kong;
 - (d) new approaches must be sought at an early stage, in collaboration with Japan in particular, with regard to Hong Kong's particular role as a financial centre in the area and that the future of the Hong Kong dollar and the possible consequences of abandoning this currency should also be included in the discussion;
 2. Instructs the Commission to conduct a careful analysis of the political developments in this area that may result from the transfer of sovereignty over Hong Kong to the People's Republic of China, and from Hong Kong's modified commercial and economic role, and to report to Parliament on this;

Such an analysis must also examine the possible effects of the change in Hong Kong's status on the economic and commercial role of Taiwan and the effects on the position of Singapore as the major financial centre in the area encompassing the ASEAN states;
 3. Instructs its President to forward this resolution to the Commission.

