

## **10. HONG KONG'S STRATEGIC IMPORTANCE UNDER CHINESE SOVEREIGNTY**

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Hong Kong has come a long way since it was dismissed as a barren rock a century and a half ago. This bastion of freewheeling capitalism today is a leading international financial, trading and communications center serving one of the world's fastest growing economic regions. But Hong Kong is also entering a period of considerable change and uncertainty following its reversion to Chinese sovereignty that is likely to have a far-reaching impact on its strategic importance and role over the coming years. As a British colony, Hong Kong was an important outpost for the West to keep an eye on China and safeguard busy sea-lanes. Under Chinese rule, the Hong Kong Special Administrative Region (SAR) will play a crucial role in boosting China's economic growth and promoting Beijing's long-term goal of reunification with Taiwan.

How China handles Hong Kong's return will have major consequences for the territory as well as for China's relations with the international community. The world will be watching very carefully whether Beijing will adhere to its international commitments of allowing the SAR to retain a high degree of autonomy. The U.S. has said that the transition will be a key issue in determining its future relations with China.

This paper will examine the strategic implications of Hong Kong's return to Chinese rule. Several key issues will be explored:

- Hong Kong's past and present strategic significance.
- The stationing of the People's Liberation Army (PLA) in Hong Kong.
- The handover and its implications for China-Taiwan relations.
- Hong Kong's economic role in supporting the strategic dimensions of China's economic development.
- The emergence of a powerful Hong Kong-Guangdong economic core.
- The international implications if Hong Kong's transition were to turn sour.

### **HONG KONG'S STRATEGIC SIGNIFICANCE UNDER BRITISH RULE**

Hong Kong has played a central role in China's economic development and its opening up to the outside world since the late 1970s. Hong Kong companies have made huge investments in China and the territory has also been an important catalyst and conduit in the development of economic relations between China and many of its key trading partners, such as the United States, Japan, and Taiwan.

Hong Kong's role as a bridge between China and the rest of the world has been of immense strategic significance. There are various reasons for Hong Kong's international indispensability:

• *Information-gathering:* Hong Kong has been a premier information and intelligence-gathering post for Western powers on developments in China. Britain and the United States operated electronic eavesdropping stations in the territory to monitor events in China for many decades, although these facilities were moved out of Hong Kong a few years before the change of sovereignty. Hong Kong has also been a window on the world for China, especially before the mainland began to open up from the late 1970s. Numerous Chinese government-owned trading companies have used Hong Kong as a base for transshipment of goods from China.

• *Western military presence:* Hong Kong was once a potent symbol of British imperial power and influence in Asia before the Second World War. But Britain's military presence in Hong Kong declined rapidly to little more than a token presence in the past few decades. The U.S. has had a more significant military presence through regular stopovers of its warships to Hong Kong, averaging between 60 and 70 ship visits annually before 1997. These port visits have been a vivid demonstration of the U.S. security interest in Hong Kong, especially its role as an important shipping center. Following the reversion to Chinese sovereignty, U.S. warships will continue to be allowed to pay port calls to Hong Kong, although they will be reduced to between 20 to 30 visits annually.

• *Trading entrepot and shipping center:* Hong Kong is the world's eighth largest trading entity and is especially important as an entrepot for trade between China and the United States, Japan, Southeast Asia, and Taiwan. Re-exports, for example, account for more than 80% of the value of the territory's total exports. Almost of this trade is transported by sea and Hong Kong is one of the world's busiest shipping hubs. A rapidly growing proportion of cargo passing through the territory is also coming from China, especially the Pearl River Delta in neighboring Guangdong Province.

• *Technology acquisition:* Hong Kong has been an important conduit for the acquisition of advanced Western technology for China. This is because the territory was not subject to Cold War-era technology export controls placed on China and other Communist regimes by Western governments.

• *Mainland investment inflows and outflows:* Mainland Chinese companies, including military and defense-related enterprises, are increasingly using Hong Kong to raise foreign capital to finance projects in China. Hong Kong is by far the largest source of foreign direct investment in China, totaling U.S.\$76 billion by the end of 1995. Mainland money is also pouring into Hong Kong, with Chinese companies investing as much as U.S.\$60 billion in the territory in recent years.

• *Go-between in China-Taiwan relations:* Hong Kong has played a key role in facilitating the development of indirect trade, tourism and other relations between China and Taiwan in recent years as direct ties across the Taiwan Strait is barred by the Taiwanese authorities. Beijing has also insisted that its "one country, two systems" formula for Hong Kong's return is the model for reunification with Taiwan.

• *Funding economic growth in Southern China:* Until the early 1980s, Guangdong was a poor, backward province. But this began to change as huge amounts of foreign investment poured in from Hong Kong from the mid-1980s, leading to explosive economic growth which has transformed Guangdong into one of the country's most prosperous provinces today. With its expanding economic clout, Guangdong has backed efforts to decentralize power from the center to the provinces, especially economic decision-making authority.

**Table 1**  
**Hong Kong's International Importance (By World Ranking)**

<b>CATEGORY</b>	<b>World Ranking</b>	<b>Remarks</b>
Stock Market	6th (Second in Asia)	
GDP Per Capita	17th	HK\$ 153,372
Foreign Exchange Reserves	4th	US\$ 87 bn
Foreign Trade	8th	Merchandise trade totaled HK\$ 2,820 bn in 1995
Airport (No. Of International Passengers)	4th	
Container port traffic (Throughput)	1st	
Banking (Volume of external banking transactions)	5th	
Foreign Exchange Market (Turnover)	5th	
Economic Competitiveness	3rd	Survey by World Economic Forum

## **THE PEOPLE'S LIBERATION ARMY IN HONG KONG**

The most visible symbol of Chinese sovereignty in Hong Kong is the stationing of Chinese troops in the SAR. While the 1984 Sino-British Joint Declaration on Hong Kong's post-1997 future guaranteed the territory a high degree of political and legal autonomy for half a century after the change of sovereignty, this did not apply to defense and foreign affairs that would be Beijing's responsibility.

Chinese security planners do not see any external security challenges that might threaten Hong Kong. This is reflected in the limited size and light firepower of the Hong Kong garrison. The force is equivalent in rank to a group army, although it is only a little larger than an infantry division, with upwards of 20,000 troops. To keep costs down and maintain a low-profile, only around 5,000 to 6,000 troops are likely to be based in Hong Kong at any one time, with the rest of the force stationed across the border in Shenzhen.<sup>1</sup>

The PLA garrison has few duties during normal times in Hong Kong. While the British garrison closely co-operated with the Hong Kong police in anti-smuggling, border defense and search and rescue, the PLA will not undertake these activities unless the SAR government requests their assistance. The ground element of the garrison

based in Hong Kong comprises a brigade of around 3,000 troops and a small headquarters staff equipped with light armored fighting vehicles while the air and naval components have light helicopters and missile patrol boats respectively.<sup>2</sup> According to the Hong Kong Garrison Law, the garrison will not take part in policing or any other public security duties unless the territory was threatened by serious unrest.<sup>3</sup>

One reason for the limited PLA presence in post-1997 Hong Kong is the lack of major military facilities in the territory, especially for the air force and navy. The PLA navy base on Stonecutters Island is able to handle between six to eight missile patrol boats at any one time, although only two to three are likely to permanently be deployed there.<sup>4</sup> The PLA had originally wanted a naval facility that could accommodate a medium-sized aircraft carrier, but the British turned this request down during negotiations.<sup>5</sup> The rest of the naval force is based in Shantou in eastern Guangdong. The PLA air force has around six Zhi-9 light helicopters stationed at Sek Kong, a small air base in the New Territories, and another six helicopters are based across the border. The air force will also have a warehouse and maintenance facility at the new Chek Lap Kok airport on Lantau Island, allowing it to handle large-sized military aircraft on temporary deployments.

The PLA does not need to make any major deployments of combat forces in Hong Kong because there is already a heavy concentration of military units in Guangdong. The 42nd Group Army, for example, is headquartered in Huizhou, near Shenzhen, although only one division is deployed there. The navy has major naval ports within a day's sail of Hong Kong, including Guangzhou, Shantou and Zhanjiang, the headquarters of the South Sea Fleet. The air force has numerous military and civilian airports to operate out of from the Pearl River Delta region, especially around Guangzhou.

Another reason for the PLA's limited presence in Hong Kong is because the Chinese government is responsible for covering the costs of the garrison. This was a concession made by Beijing in the 1984 Sino-British Joint Declaration. The PLA garrison's upkeep will be expensive and stretch the PLA's already tight budgetary resources, especially limited foreign exchange funds. For example, military outlays by the Hong Kong government for the British garrison in 1994 totaled US\$262 million. The PLA's budget for the same year was RMB 60 billion (US\$7.2 billion). The PLA garrison in Hong Kong is also barred from engaging in commercial operations in the territory to supplement its official allocations, although this restriction does not appear to apply to supporting elements based in China.

Hong Kong's return to Chinese sovereignty is unlikely to result in any major reorientation in the PLA's operational outlook and priorities. But the Guangzhou Military Region and the South Sea Fleet, which are responsible for Hong Kong's defense, are likely to gain added recognition of their strategic importance. This could lead to more funding being made available for the modernization of military units under these commands. The Hong Kong garrison is equipped with some of the latest equipment being produced by the country's defense industry, such as the Houjian-class fast patrol craft and the Zhi-9 helicopter.

The South Sea Fleet, headquartered in Zhanjiang in Guangdong, will have additional responsibilities for overseeing Hong Kong's maritime regime, especially the heavy shipping traffic passing through the SAR's ports. Hong Kong's reintegration will substantially boost port capacity in southern China, which has lagged far behind

developments in northern China. Of the country's 29 major ports, 17 are located north of the Fujian port of Quanzhou, while only 11 are in the south. Hong Kong's port facilities increases the handling capacity of China's ports system by 20%.<sup>6</sup>

From a broader strategic perspective, Hong Kong's return to Chinese sovereignty will bolster the arguments of navy chiefs on the increasing importance of the maritime regime in the country's national security priorities. The navy has been paying more attention to safeguarding sealanes of communication as part of its offshore defense strategy in recent years. China's merchant fleet is one of the world's largest shipping fleets and now transports more than 85 per cent of China's total foreign trade. By 1992, China had more than 400,000 ships (including inland vessels) with combined tonnage of more than 38 million tons.<sup>7</sup> But naval protection for shipping is so far limited, primarily because of the logistical limitations of Chinese warships. But with a sharp rise in piracy and smuggling activities in the seas around China in recent years, especially the South China Sea, this may see a more visible Chinese naval and law enforcement presence in this region in the coming years.

As Hong Kong's sovereign master, China could have the power to requisition civilian transport assets of companies in the SAR for official use in times of war or national emergency. This would significantly boost the country's air and sealift capabilities. Hong Kong has three major airlines with more than 70 wide-bodied airliners and the local shipowners own more than 1000 ocean-going vessels totaling 32 million gross tons.<sup>8</sup>

## **HONG KONG'S TRANSITION AND THE CRISIS IN CHINA-TAIWAN RELATIONS**

China is hoping that its smooth resumption of sovereignty over Hong Kong will have a positive impact in its long-standing goal of reunification with Taiwan. At a ceremony celebrating Hong Kong's handover, Communist Party General Secretary Jiang Zemin said "it is the ardent wish of all the Chinese people to eventually solve the Taiwan question and accomplish the great cause of reunifying the motherland according to the basic principle of peaceful reunification and one country, two systems."<sup>9</sup> But the worsening of cross-strait tensions since the early 1990s suggests that the Hong Kong handover will have little effect on Taiwan.

When paramount leader Deng Xiaoping proposed the formula of "one country, two systems" at the beginning of the 1980s, it was originally intended for Taiwan. It was subsequently applied to Hong Kong when Britain and China negotiated the territory's future. Chinese leaders routinely said that the successful implementation of this arrangement with Hong Kong would boost the chances of reunification with Taiwan. Jiang pointed out in early 1996 that "if the work in Hong Kong is properly done, very beautiful and broad prospects for the great cause of the motherland's reunification in future will be displayed."

But the importance of the Hong Kong experiment in the context of the China-Taiwan relationship has been overshadowed by a serious deterioration in cross-strait ties since the early 1990s. A far-reaching debate among Chinese policy makers over the future direction of cross-strait relations took place in 1993. Jiang Zemin had taken over as chairman of the Party's Leading Group on Taiwan Affairs (LGTA), which coordinates discussion of Taiwan policy among all branches of the party, military and

government, from military strongman Yang Shangkun following the latter's retirement at the 14th Party Congress in late 1992.<sup>10</sup> Competing institutions in the LGTA used this change of leadership as an opportunity to put forward new initiatives to respond to the changing dynamics in the cross-strait relationship.

Moderates on the LGTA and the State Council's Taiwan Affairs Office, which is in charge of the detailed management of Taiwan policy, proposed that Beijing should offer concessions to get Taipei to agree to a new framework for cross-strait relations. Hardliners, especially in the military, believed that Lee was plotting to create a separate Taiwanese state and they argued for a tough response to deter him, such as the flexing of military muscle.

After lengthy deliberation, the leadership decided to be conciliatory. It would show greater flexibility on the issue of reunification if Lee accepted that Taiwan was part of China and stop his diplomatic maneuverings. But in case this offer was rejected, the military was ordered to begin preparations for a strategy of intimidation to contain Lee. The military were allowed to resume war-games in areas close to Taiwan.

Jiang unveiled this softer line in January 1995 in an eight-point initiative. He offered that, "on the premise that there is only one China, we are prepared to talk with the Taiwan authorities about any matter."<sup>11</sup> Such a reference suggested that Jiang and the moderates may have come to the realization that its "one country, two systems" offer of reunification with Taipei was inadequate and that they had to find new ideas to break the logjam in cross-strait relations.

Taiwan, however, did not take up the opportunity to explore the matter. Lee refused to accept Jiang's offer and made his own counter-proposals several months that were rejected by the Chinese authorities. Washington's decision in May 1995 to allow Lee to make a private visit to Cornell University, his alma mater, triggered an angry reaction from military hardliners and conservatives in Beijing. They said the moderates' conciliatory approach had failed and the visit was conclusive evidence that Lee was seeking independence. The only way to deal with him, they successfully argued, was to use intimidation through provocative military exercises and a savage propaganda onslaught.

The PLA conducted missile tests near Taiwan shortly after Lee's U.S. visit. It followed this with more missile tests and war-games ahead of parliamentary elections in Taiwan. The mainland media at the same time viciously attacked Lee, condemning him as a traitor of the Chinese people. Beijing also indefinitely suspended all semi-official contacts with Taipei.

Beijing stepped up its military intimidation in the run-up to Taiwan's presidential election in March 1996 with threatening missile tests and large-scale air, naval and ground exercises off the Fujian coast. The war-games were partly aimed at deterring Taiwanese voters from supporting Lee and pro-independence advocates. While the saber-rattling succeeded in reducing the support for independence-minded candidates, voters rallied around Lee who won with a convincing majority. Since the election, tensions across the Taiwan Strait have subsided. PLA units taking part in the exercises have returned to barracks and the mainland authorities have adopted a wait-and-see approach towards Lee, although official relations between the two sides have remained frozen.

Taiwan went on the propaganda offensive during the Hong Kong handover to reject the "one country, two systems" formula. Li Teng-hui said Beijing's plan to apply the formula on Taiwan was "wishful thinking" and that he would only seek reunification if the mainland were democratic and as wealthy as Taiwan.<sup>12</sup> Nonetheless, Hong Kong's change of sovereignty has forced Taiwan to relax its restrictions on direct transportation links with the mainland, especially in air and shipping ties. A few months before the handover, for example, airlines flying between China and Taiwan were allowed to use the same aircraft with only a brief stopover in Hong Kong. Taipei had previously required airlines serving the island and the mainland to change aircraft in Hong Kong. In addition, the Taiwanese authorities approved direct shipping routes between selected ports in Taiwan and China in mid 1997, although cargo carried on mainland vessels was not allowed to be imported into the island.

### **THE STRATEGIC FINANCIAL AND ECONOMIC IMPLICATIONS OF HONG KONG'S RETURN TO CHINESE SOVEREIGNTY**

Hong Kong's gross domestic product is almost one-fifth the size of the Chinese economy and the SAR government has more than \$80 billion in foreign exchange reserves. If the Chinese government were to acquire these financial assets, it would significantly strengthen the state's financial capabilities and could be used to bolster funding in such priority areas as science and technology, industrial renovation, and defense modernization.

But under the terms of the 1984 Joint Declaration, the SAR government is allowed to keep its foreign exchange reserves and maintain economic independence from the Chinese government, especially in fiscal and budgetary affairs. Beijing could take the foreign exchange reserves, but such a move would cause catastrophic damage to Hong Kong's status as an international financial center and prompt a mass exodus of foreign financial institutions. It would also lead to a run on the Hong Kong dollar and trigger a meltdown of its capital markets. With such potentially dramatic consequences, Beijing is likely to be careful not to make any fiscal demands on Hong Kong, at least in the first few years after the change of sovereignty.

But the Chinese authorities urgently need to increase their fiscal revenues to cover pressing funding requirements. Fiscal revenues have sharply fallen as a percentage of gross domestic product in the past decade and a half of economic reforms, reaching 11.3 per cent in 1995 compared to 12.4 per cent a year earlier.<sup>13</sup> This comes at a time when the government is seeking to boost infrastructure and social spending in order to maintain high growth rates and prevent social instability.

To cover these fiscal shortfalls, the central authorities have required prosperous coastal provinces such as Guangdong to transfer large sums of tax and other revenues to the central treasury and also directly support poorer inland provinces. Hong Kong could face similar demands from Beijing in the future for handouts either by direct treasury transfers or indirectly through the buying of government bonds. At present, however, the Chinese authorities are tapping into Hong Kong's wealth to finance economic development indirectly by attracting private investment and allowing state-owned enterprises to be listed on the Hong Kong stock market.

Hong Kong may also be eventually required to provide financial assistance to the PLA garrison. Although the Chinese government is obliged to cover all the expenditures

of the post-1997 PLA garrison in Hong Kong under the terms of the 1984 Joint Declaration, senior PLA officials say they expect the Hong Kong authorities to meet some of the costs. Maj-Gen. Yang Fukun, director of the Central Military Commission's Legislative Bureau, has pointed out that while the central government will meet the garrison's military expenses, the SAR government would be expected to provide support and conveniences such as land, goods, and materials, energy, transportation and telecommunications, which are necessary for defense purposes.<sup>14</sup>

The central authorities in Beijing would only consider drawing upon Hong Kong's financial reserves if the country were going to war or confronted with other equally grave crises. Although China does not face any serious military threats at present, deep-seated tensions across the Taiwan Strait and in the South China Sea has led to a growing urgency in the military's efforts to modernize its war-fighting capabilities. The PLA has begun to substantially boost its spending on sophisticated weapons systems in the past few years. For example, it is estimated to have been buying around \$1 billion worth of Russian arms annually since the early 1990s. This represents a heavy financial burden for the Chinese government at a time of tight budgets, but this pace of spending on arms acquisitions is likely to accelerate in the coming years as the armed forces needs to replace large amounts of increasingly outdated weapons systems. Hong Kong is unlikely to have to directly contribute to the PLA's military modernization efforts, but it could be pressed to assist indirectly by paying the Hong Kong garrison's upkeep or providing financial assistance to the central government more generally.

Another indirect way that Hong Kong could contribute to China's defense modernization is with the growing presence of army enterprises and civilian defense manufacturers in the SAR looking to make money. A handful of prominent PLA conglomerates have already become firmly established in Hong Kong. They include the China Poly Group, which belongs to the PLA General Staff Department's equipment sub-department, China Carrie Corporation, one of the PLA General Political Department's top commercial arms, and the PLA General Logistics Department's China Xinxing Group.<sup>15</sup> Poly and Carrie have listed some of their companies on the Hong Kong stock market to raise funds for investing in their mainland commercial operations. A proportion of the earnings of these conglomerates flows back to the PLA coffers.

Leading civilian defense manufacturers have also flocked to Hong Kong in the past few years and many more will follow. Top aerospace, munitions, space, electronics and nuclear corporations have set up subsidiaries in the territory and a small number of them have listed on the stock market. (See table below.) The main aim of these companies is to raise capital to finance projects in China. Through its role as an international financial market and trading center, Hong Kong is likely to make an important contribution to the modernization of the Chinese defense-industrial complex and the PLA over the long-term.

Mainland Chinese companies may also seek to take advantage of more liberal Western policies on the export of high-technology items to Hong Kong to obtain sensitive technology that is prohibited for sale to China. Even after the return of sovereignty, Hong Kong remains a separate customs territory from the rest of China and retains its status as a free port. The U.S. government has permitted Hong Kong to continue to have the same access to sensitive technology exports it enjoyed as a British colony. But there is growing concern that Chinese companies are using Hong Kong to obtain sensitive technology illicitly and as a transshipment center to ship controlled technologies to other countries.<sup>16</sup>

**Table 2.  
Mainland Corporations in Hong Kong**

<b>Chinese Military and Civilian Defense Corporations</b>	<b>Representative Companies in Hong Kong</b>	<b>Companies Listed on the Hong Kong Stock Exchange</b>
China North Industries Corp.	Silver City International (Holdings) Ltd.	
China Aerospace Corp.	China Overseas Space Development & Investment Ltd.	China Aerospace Ltd.
Ministry of Electronics Industry	CEIEC (Hong Kong) Ltd.	
China National Nuclear Corp.	Yenaut Industrial Ltd.	
China National Aero-Technology Import and Export Corp. (CATIC)	CATIC (Hong Kong) Ltd.	
Poly Group Corp. (Belongs to PLA General Staff Department)	Ringo Trading Ltd.	Continental Mariner Investment Ltd/Poly Investment Holdings Ltd
China Carrie Group Corp. (Belongs to PLA General Political Department)	Carrie Ltd.	Hong Kong Macau International Ltd.
China Xinxing Group Corp. (Belongs to PLA General Logistics Department)	Xinxing (Hong Kong) Ltd	

Source: Tai Ming Cheung, *The Rise of the Red Chips: Tomorrow's Corporate Giants*, Kim Eng Securities, Hong Kong, April 1996.

## **THE RISE OF THE GREATER PEARL RIVER DELTA REGION AND ITS STRATEGIC IMPLICATIONS**

Economic ties between Hong Kong and Guangdong have blossomed in the past decade and a half of economic reforms to the point where their economies have become closely integrated. For example, most of Hong Kong's manufacturing sector has been relocated to the Pearl River Delta in southern Guangdong in the past decade, and these factories are among the biggest employers in the province, providing jobs for more than three million workers. These economic linkages will become even more intimate after the handover. The Guangdong and Hong Kong authorities have begun to regularly consult with each other on such matters as infrastructure development, especially over the building of highways and power stations.

The Hong Kong-Pearl River Delta nexus, or Greater Pearl River Delta as it is sometimes called, is one of the fastest growing economic regions in the world and is on course to become one of the world's most powerful industrial centers over the next one to two decades. In 1993, for example, the combined GDP of the Greater Pearl River Delta (which includes Hong Kong, Macau and the Pearl River Delta) totalled more than \$150 billion,<sup>17</sup> exceeding traditional bastions of economic might such as Shanghai or the Manchurian industrial rust-belt in Northeast China.

The emergence of the Greater Pearl River Delta as one of China's leading economic centers holds potentially far-reaching strategic ramifications. One of the most obvious is the growing strategic importance of the South China Sea. The growing energy and raw material needs of this rapidly industrializing area is leading to increasingly aggressive exploration and development of offshore resources by Chinese companies in the South China Sea. Some of these activities are taking place in waters that are also claimed by Vietnam and this has led to occasional frictions between the two countries. With the two countries also fiercely contesting sovereignty of the Spratly Islands, the militarization of the South China Sea is gathering momentum.

The exploitation of offshore oil and gas deposits in the South China Sea as well as in other surrounding seas is becoming increasingly urgent as the country's onshore oil fields are unable to meet rapidly rising domestic demand. At present, offshore oil output accounts for only 2.5% of the country's annual oil production, or 3.5 million tons. Annual gas output is around 490 billion cubic meters. But officials from China National offshore Oil Corporation, which is responsible for the country's offshore oil activities, estimate that oil and gas output could grow to 12 million tons and four billion cubic meters by 1997 as they exploit new oil fields in the East and South China Seas. Total offshore "oil in place" reserves are estimated to be up to 850 million tons, although not all of this is cost-effective to recover.<sup>18</sup>

The rise of the Greater Pearl River Delta as one of China's main economic power-houses will further accelerate the shift in the country's strategic orientation from its traditional continentalist focus and increasingly towards the maritime regime, especially in the south. This shift in strategic thinking is already reflected in changes in military doctrine and its growing emphasis on fighting local wars, especially in maritime regions as well as force modernization priorities which are concentrated on upgrading naval and air force capabilities.

## **HONG KONG'S POLITICAL ASSIMILATION AND IMPLICATIONS FOR CENTER-REGION RELATIONS**

The assimilation of a freewheeling, cosmopolitan Hong Kong could pose major headaches for the Chinese authorities. The "one country, two systems" formula is an untested concept devised in the early 1980s when the central government was in firm control of the country. But Beijing's influence and power over the regions has been steadily eroded by the rapid economic reforms, especially among prosperous coastal provinces such as Guangdong. Hong Kong's return could exacerbate center-province relations and further weaken Beijing's grip on southern China.

Political contacts between Guangdong and Hong Kong, both officially and informally, have been limited so far. Beijing has placed tight restrictions on provincial and local authorities in Guangdong from interacting with their counterparts in Hong Kong. For example, Guangdong officials have to get permission from the central government before they are able to meet with Hong Kong officials.<sup>19</sup> This is partly to thwart any possible forging of close ties between these culturally and linguistically homogenous regions and to also to prevent the spread of Western political influences from Hong Kong.

But these tight central restrictions are virtually impossible to be enforced, especially as immigration controls between Hong Kong and Guangdong have been substantially relaxed in recent years. This has led to growing informal contacts between Guangdong and Hong Kong officials. Closer interaction between Hong Kong and Guangdong appear inevitable in the coming years and this could see the gradual emergence of a powerful "Cantonese" linguistic bloc. With converging interests, Hong Kong and Guangdong could join together to push for greater influence in decision-making and the management of their economies. A more autonomous Guangdong and Hong Kong would create worrying problems for Beijing as other provinces and regions might also demand the same treatment. This could lead to increased center-region frictions in the future, although the break-up of the country would still be a remote possibility.

## **INTERNATIONAL SCRUTINY OVER HONG KONG'S CHANGE OF SOVEREIGNTY**

Hong Kong's return of sovereignty to China on 1 July 1997 passed remarkably smoothly, despite fears that it might be marred by protests by pro-democracy politicians and activists who were opposed to China's intent to roll back political and civil liberties after it became the sovereign master. Nonetheless, there is still considerable anxiety in some quarters in Hong Kong and internationally that the transition could still run into substantial turbulence.

Despite its promise of a "high degree" of autonomy for the Hong Kong SAR, China has played a prominent role behind the scenes in deciding the line-up of the SAR power structure and heavily influencing many of its policies, especially those related to political freedoms and public order. Beijing has taken this heavy-handed approach because it fears that Hong Kong may become a base for subversion against the mainland, either through the spread of political propaganda across the border by Hong Kong political activists or through meddling in Hong Kong affairs by the international community after the handover.

Beijing was especially tough in its handling of Hong Kong affairs in the run-up to the transition, especially in response to an acrimonious dispute between 1992 and 1995 with then governor Christopher Patten over democratic reforms to Hong Kong's political system. Beijing disbanded Hong Kong's democratically elected Legislative Council immediately after the handover and replaced it with a body of handpicked appointees. Senior Chinese officials have also strongly hinted that Beijing will restrict press freedoms and limit the right of free expression, especially against political and labor organizations it regards as unpatriotic or subversive. The Chinese authorities have especially singled out the Democratic Party, the most popular political party in Hong Kong, for harsh treatment because of its highly critical posture against Beijing.

If China were to severely crack down on political and press freedoms, such as arresting opposition politicians and activists, closing down newspapers or outlawing public demonstrations, this would almost certainly lead to a massive loss of confidence in Hong Kong. This could trigger a wave of emigration out of the territory, especially from key groups such as civil servants, business executives and members of the legal profession, as well as massive capital outflows. It would also prompt harsh international condemnation, especially from Western countries such as Britain, the U.S., Australia and Canada that have substantial interests in the territory. Canada, for example, has drawn up detailed contingency plans for a large-scale air and sea evacuation of its citizens in the event the transition turned violently wrong.

The international community will pay close attention to China's handling of the transition over the next few years. Hong Kong is likely to figure prominently in U.S. policy towards China for several years after the handover. U.S. officials have said that Beijing's commitment to preserving Hong Kong's political and social freedoms will be an important test for Sino-U.S. relations. But because Hong Kong's transition is a bilateral affair between the British and Chinese governments, the U.S. government has no official role to play in the matter. Nonetheless, the U.S. has substantial economic interests in Hong Kong, including \$14 billion of investment, annual bilateral trade of \$24 billion and more than 40,000 Americans living in the territory.<sup>20</sup> While the U.S. government would be reluctant to risk its relations with China by taking tough measures against Beijing if Hong Kong's transition were to turn sour, it would likely face strong pressure from powerful political forces in the U.S. Congress more willing to press for forceful action.

Britain has pledged that it would take a forceful line if China were to disrupt the transition by interfering directly in Hong Kong's affairs. Although Beijing views Hong Kong as a domestic issue after the change of sovereignty, Britain says that it has a continuing stake in the territory because of the 1984 Sino-British Joint Declaration and huge stakes it has there. What actions Britain could take if China were to renege on the Joint Declaration appear to be limited given its lack of diplomatic or military clout in the Asian region. When asked during a trip to Hong Kong in 1996 what Britain would do if China breached the Joint Declaration after the handover, then British Prime Minister John Major responded vaguely that London would mobilize the international community against Beijing.

After the handover, Hong Kong's fate will be in Beijing's hands. The international community appears relatively powerless to intervene directly to help Hong Kong should the transition go badly. Few countries would be willing to jeopardize their relations

with China to stand up for Hong Kong's defense. The days of Hong Kong's international diplomatic significance after 1997 appear numbered.

## CONCLUSION

Hong Kong's return to Chinese sovereignty will have long-term ramifications for the evolution of the Asian strategic order. It will help to accelerate the shift that is already taking place in China's strategic outlooks, especially to a more maritime focus in its southern reaches. Hong Kong's role as an international financial center and its huge foreign exchange reserves will also help to boost China's economic development, including with possible benefits for the PLA and the defense-industrial complex.

But Hong Kong's potential role as a bridge-builder in China-Taiwan relations appears to have been marginalized. Even if its transition goes successfully, it is unlikely to have much of an impact persuading Lee Teng-hui to come to the negotiating table with Beijing. Indeed, if tensions across the Taiwan Strait were to deteriorate drastically, it could even threaten Hong Kong's smooth transition.

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<sup>1</sup> Interviews, Beijing and Hong Kong, 1995.

<sup>2</sup> Huang Caihong, Li Xiangdong and Chen Qizheng, "Naval Vanguard Force Displays Dignified Airs: On People's Liberation Army's Naval Flotilla to be Deployed to Hong Kong," *Xinhua Domestic Service*, 25 February 1996, in Foreign Broadcast Information Service (FBIS), China, 25 February 1996.

<sup>3</sup> "Law of the People's Republic of China on Garrison Troops in the Hong Kong Special Administrative Region: Adopted at the 23rd Meeting of the Eighth National People's Congress," *Xinhua Domestic Service*, 30 December 1996, in FBIS, 10 January 1997. Article 5 of the Garrison Law defines the four main duties of the troops: "1) Guard against and resist aggression and safeguard the Hong Kong SAR's security; 2) undertake defense duties; 3) manage military facilities; and 4) undertake relevant foreign-related military affairs."

<sup>4</sup> See "An Interview with the Hong Kong Garrison's Naval Force," in *Xiandai Bingqi* [Modern Weaponry], July 1997, pp. 2-4.

<sup>5</sup> Interview with Western military diplomat, Hong Kong, May 1995.

<sup>6</sup> "Could Hong Kong become a Naval Base?," *Jianchuan Zhishi* [Naval and Merchant Ships], June 1997, p. 6.

<sup>7</sup> "Country Ranks Ninth in World Shipping," *Xinhua English Service*, 1 March 1993, in FBIS-China, 2 March 1993, p. 37; and "Huang Zhendong Addresses Maritime Conference," *Xinhua English Service*, 12 September 1991, in FBIS-China, 16 September 1991, p. 1.

<sup>8</sup> Hong Kong Government, *Hong Kong 1997*, Government Information Services Department, Hong Kong, 1997, pp. 253-254.

<sup>9</sup> "Taiwan will have to take the road of 'One Country, Two Systems' sooner or later," *Ta Kung Pao*, 8 July 1997, p. A2.

<sup>10</sup> Interviews, Beijing, March and September 1994.

<sup>11</sup> Jiang Zemin, "Continue to Promote the Reunification of the Motherland," *Xinhua News Service*, 30 January 1995.

<sup>12</sup> "Li, Lien Say Hong Kong Reunification Model 'Unacceptable'," *Kyodo News Service*, 3 July 1997, in FBIS, 3 July 1997.

<sup>13</sup> Peter Montagnon, "China pressed to boost tax to aid growth," *Financial Times*, June 25 1996, p.6.

<sup>14</sup> "General on Provisions of Hong Kong Garrison Law," *Xinhua Hong Kong Service*, 1 April 1996, in FBIS, China, 1 April 1996.

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<sup>15</sup> For an account of the PLA's commercial involvement in Hong Kong and more broadly in the Chinese economy, see Tai Ming Cheung, "Can PLA Inc. be Tamed?" *Institutional Investor*, July 1996.

<sup>16</sup> United States General Accounting Office, *Hong Kong's Reversion to China: Effective Monitoring Critical to Assess U.S. Nonproliferation Risks*, Washington D.C., May 1997.

<sup>17</sup> Yun-Wing Sung, Pak-Wai Liu, Yue-Chim Richard Wong and Pui-King Lau, *The Fifth Dragon: The Emergence of the Pearl River Delta*, (Singapore: Addison Wesley, 1995), p. 227.

<sup>18</sup> Interview with Chen Bingqian, vice-president, China National Offshore Oil Corporation, Beijing, October 1992. See also "Oil Official on Development Plans, Potential," *Xinhua English Service*, 16 April 1993, in FBIS-China, 19 April 1993, p. 45.

<sup>19</sup> Interviews with Guangdong government official, Hong Kong, April 1996.

<sup>20</sup> Marcus Brauchli and Robert Greenberger, "U.S. Set to Play U.K.'s Role as Defender of Hong Kong," *The Wall Street Journal*, 2 July 1997.