IMPACT OF THE SINO-BRITISH AGREEMENT ON HONG KONG'S ECONOMIC FUTURE

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I. Introduction

In December, 1984, following two years of negotiations, the British Government and the Government of the People's Republic of China signed a treaty outlining the return of Hong Kong to the Chinese government in 1997 [1]. Hong Kong's economic success and status as an international financial center undoubtedly will be affected by the Sino-British Agreement. This article examines the Agreement in light of its future impact upon the Hong Kong economy.

Hong Kong's unique historical background and recent economic development will be examined, in the following section, in order to place the Agreement in its proper context [2]. The basic provisions of the Agreement will be introduced in section 3 of this article [3] and a discussion of the Agreement's impact on Hong Kong’s governmental and legal structures will be presented in sections 4 and 5 [4].

Section 6 examines specific sectors of the Hong Kong economy that are likely to be affected by the Agreement [5]. These sectors include the investment, trade, manufacturing, and shipping industries. The concerns voiced by business leaders and their reactions to the Agreement will also be addressed. Finally, future implementation of the Agreement and China's role in administering Hong Kong will be discussed [6].

This article is intended to demonstrate that uncertainty will continue to characterize Hong Kong's future economy. On the one hand, the Agreement's ambiguities and China's unpredictable political and economic future present legitimate sources of concern for Hong Kong's business leaders. On the other hand, China's recent drive toward modernization and rapid economic development, coupled with its demand for foreign capital and technology, augur well for Hong Kong's economy. In the final analysis, a more accurate assessment of Hong Kong's future must await the advent of 1997, the year the Agreement goes into effect.

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2. Factual setting

This section describes "one of the world's most remarkable economic achievements" [7]: Hong Kong's economy. The colony has assumed an important role in international business and finance. Resolution of Hong Kong's future status has therefore emerged as an "international dilemma" [8]. An examination of Hong Kong's economy, and its international aspects will provide a useful background to analysis of the Agreement's impact.

The Agreement and the current dilemma involving Hong Kong's future are the culmination of unique historical developments. This section briefly explores the historical background, focusing on the treaties which led to the negotiated Agreement between China and Great Britain. Because Hong Kong's history has been linked with China's, recent developments in China will also be examined.

2.1. Hong Kong's economy

Hong Kong has risen from a relatively insignificant port, once used only by British shipping, to the world's third largest financial center [9]. The growth of Hong Kong's economy in the post-World War II era is of international consequence. Hong Kong's prosperity has transformed it into "a vital force in generating the prosperity of the newly-industrialized countries of the East" [10] and "a key to the well-being of Southeast Asia and the Pacific Rim" [11].

Hong Kong's economic success is primarily a phenomenon of the last thirty years [12]. The initial stimulus to its economic growth was burgeoning world demand for Chinese manufactured exports, particularly low-priced textiles [13]. The colony's Net Domestic Product (NDP) [14] reflects the economy's explosive growth: the NDP increased from 6.8% annual growth in the 1950s to 9.6% in the 1960s [15].

Since the 1970s, Hong Kong's economy has continued to diversify. While exports have remained strong, domestic demand has assumed importance as an economic mainstay [16]. From 1976 to 1982 employment in trade, services, the financial sector and government increased at a compound rate of eight percent [17]. These increases reflect rapid growth in banking, tourism, and financial sectors [18]. The past decade has been a period of great change for Hong Kong's economy. Preeminent among these changes has been increasing international involvement in Hong Kong banking, real estate, and equity markets [19] as well as the rise of a group of successful, indigenous Chinese investors [20].

The growth of a skilled labor pool has led to the emergence of a service sector in Hong Kong's economy [21]. This development and the growth of domestic demand within the colony have combined to transform Hong Kong's economy from one based on manufactured exports into a diversified, interna-
tional trade and financial center. The colony's relative political stability and its liberal, pro-business policies have proved to be a profitable combination: from 1960 to 1979, Hong Kong's NDP outperformed all other world economies [22].

2.2. The historical roots

Hong Kong became a British colony in the nineteenth century after Great Britain executed several treaties with the Imperial Chinese Government [23]. England was able to exploit the inability of Chinese leaders to deal effectively with an industrialized society. Because the Chinese conception of law was rooted in Confucian philosophy, its leaders were ill-equipped to protect China against the exploitative policies of a Western European power [24].

China's early relations with Great Britain, after it opened its borders to foreign trade, revealed its inability to repel European imperialism [25]. China's objections to Britain's importation of opium were met with military force during the Opium War [26]. Britain's military victory enabled it to obtain Chinese concessions in the Treaty of Nanking, which ceded Hong Kong Island to Great Britain in perpetuity [27]. The 1860 Convention of Peking granted Kowloon Peninsula and Stonecutters Island to Britain [28]. Finally, the 1898 Convention of Peking granted a ninety-nine year lease on the New Territories to Britain [29].

During the period between its defeat in the Opium War and the ascendance of the Communist Party in 1949, China remained a relatively weak state. Western nations exploited it for territory, influence, and trade concessions because China had neither a powerful central authority nor a sizable military force [30]. This century of exploitation and humiliation left a legacy of Chinese resentment toward the West.

After thirty years of Communist Party rule characterized by isolation from international relations [31], China recently resumed active participation in international trade and politics [32]. The displacement of Mao Zedong's policies and Deng Xiaoping's ascendance to power have led to a new emphasis in Chinese politics [33]. Mao's revolutionary ideology has yielded to the pragmatism of Deng and his contemporaries. Deng's plan, known as the Four Modernizations, aims to transform China by the year 2000 into a modern state with modern agriculture, industry, national defense, and science and technology [34]. Deng advocates a "market socialism" approach to China's modernization: a combination of market mechanisms and centralized planning, which favors both increased autonomy for production units and increased consumerism [35].

One means of implementing this policy has been the establishment of Special Economic Zones (zones) [36]. These zones are governed by semi-autonomous local governments which have provided special tax breaks and other economic incentives to lure foreign capital [37]. Since their establishment, the
zones have attracted billions of dollars of foreign investment and sophisticated foreign technology [38]. The success of these zones has prompted China to open fourteen coastal cities to foreign investment [39]. These cities have also benefited from the increased foreign investment through rapid development of the cities' infrastructure and heavy industry [40].

During Mao's leadership, official Chinese policy on Hong Kong remained a paradox. While China denounced the treaties as "unequal" and invalid and declared Hong Kong to be Chinese territory [41]. China nevertheless accepted British administration of the territory as its lawful government [42]. In contrast to Mao, however, Deng Xiaoping and his contemporaries have adopted a more consistent policy on the question of Hong Kong's future. They have linked the acquisition of Hong Kong to their drive to modernize China [43]. Since 1979, they have acted quickly in negotiating the Agreement in order to speed modernization of China's economy [44].

3. The Agreement

After the United Kingdom first announced in mid-1982 that it would begin negotiating with China over Hong Kong's future, there was much speculation over the content of any agreement between the two nations [45]. This speculation centered on the future of Hong Kong's capitalist economy under Chinese administration. The basic provisions of the Agreement, discussed below along with initial reactions to the Agreement, seek to preserve Hong Kong's capitalist economy while granting the former colony a certain degree of political autonomy [46].

The Agreement guarantees that "Hong Kong's previous capitalist system and life-style shall remain unchanged for fifty years" [47]. China not only pledges to allow capitalism to continue after 1997, but also promises to pass a law guaranteeing that "the socialist system and socialist policies shall not be practiced" in Hong Kong [48]. Under the authority of its Constitution and pursuant to the Agreement, China will establish in 1997 the "Hong Kong Special Administrative Region of the People's Republic of China" (Hong Kong SAR) [49]. The Agreement specifies that the Hong Kong SAR's government will be "composed of local inhabitants" [50] and will be free to "decide its economic and trade policies on its own" [51].

Hong Kong's future legal system will be established after China's National People's Congress enacts a "Basic Law" for the Hong Kong SAR [52]. The Basic Law will resemble a constitution; only laws enacted in accordance with the Basic Law will be regarded as "valid" [53]. Existing laws will be preserved as long as they do not conflict with the Basic Law [54].

Key sectors of Hong Kong's thriving economy are covered by the Agreement's guarantees. The Agreement seeks to preserve Hong Kong's status as an
international financial center [55]: "[m]arkets for foreign exchange, gold, securities, and futures shall continue" [56]. The Hong Kong dollar will remain a freely convertible currency after 1997 [57]. Hong Kong will retain its status as a major trading center and free port [58].

The Hong Kong SAR will have a high degree of autonomy with the ability to enter into international agreements [59]. The exact scope of Hong Kong’s future ability to conduct its own foreign affairs, however, is unclear [60].

Hong Kong’s internal revenues [61] will not be redistributed to the mainland; the Agreement guarantees that Hong Kong will be “a separate customs territory” [62]. Finally, Hong Kong SAR citizens will enjoy freedom from travel restrictions, thus enabling local business persons to maintain their international trade relationships [63].

Reactions to the Agreement’s guarantees have been mixed. When it was first announced in the summer of 1984 that China had agreed to maintain Hong Kong’s capitalist economy, Hong Kong’s Hang Seng stock index jumped almost sixty-seven points [64]. During the height of uncertainty over Hong Kong’s future, American and Japanese investments in the colony greatly increased [65]. Despite the concerns of some local Hong Kong business persons [66], observers are generally pleased with the Agreement and predict continued expansion for Hong Kong’s economy [67].

4. Impact of the Agreement on Hong Kong’s current government

The Agreement addresses two important concerns of Hong Kong’s business community. The first concern is the role China will play in administering Hong Kong [68]. The second concern involves the degree of government regulation of private business [69].

Hong Kong’s current government structure is decidedly undemocratic: “[t]here are no directly elected members of the central organs of government” [70]. Hong Kong’s major leaders are either appointed by the Crown or subject to its approval [71]. They, in turn, appoint the members of the colony’s two principal governing bodies, the Legislative Council and the Executive Council [72].

The Agreement provides that Hong Kong’s future government will be more democratic. The Hong Kong SAR will have a legislature consisting of elected local inhabitants [73], and the executive authorities will be accountable to it [74]. According to Deng Xiaoping, however, only local inhabitants who are “patriots” will hold government positions [75]. A patriot has “respect for his own nation, earnest and sincere support for the motherland’s resumption of its sovereignty over Hong Kong” [76] and will refrain “from harming the stability and prosperity of Hong Kong” [77]. Nevertheless, Deng stated that “a patriot may adhere to any political ideology” [78].
Observers question China's promise to establish a democratic government. For instance, the description of the selection process for the Hong Kong SAR's chief executive is unduly open-ended [79]. The Agreement states that the chief executive will be "selected by election or through consultations held locally and be appointed by the Central People's Government" [80]. It does not specify, therefore, whether local citizens will elect their chief executive or whether his selection will require Chinese approval [81].

The scope of the chief executive's power is also unclear. He or she may not appoint any of his or her principal officials, but may only nominate them. The Central People's Government will appoint the SAR's principal officers [82]. Furthermore, the Agreement does not explain how the executive authorities will be accountable to the legislature [83]. China does not guarantee that legislative elections will be competitive [84]. Thus, the actual structure of Hong Kong's government after 1997 remains a mystery.

Hong Kong's government has traditionally avoided major intervention to correct market forces in the economy [85]. Commentators have described Hong Kong's economic policy was "laissez-faire" [86]. Nevertheless, the government has maintained a policy of "discreet guidance" of the economy [87].

Although the government has not influenced the economy by establishing minimum wage laws or by creating tax concessions for capital investment, it has exercised some influence through its monopoly over land ownership [88]. Recently, the Hong Kong government found it necessary to increase its intervention in the economy. Because of a series of budget deficits, the Hong Kong government decided to issue debt in 1984 for the first time since 1975 [89]. The devaluation of the Hong Kong dollar, engendered by uncertainty over Hong Kong's political future, forced the government to raise its banks' reserve requirements and peg the Hong Kong dollar to the U.S. dollar in order to stabilize the currency [90]. Furthermore, the government is considering the funding of electronic research to reduce the start-up costs of electronics firms [91], a step it would not have taken in the past.

Despite business concern that a democratic government might interfere more in Hong Kong's economy than does the present government, there has never been any guarantee that the present government would continue its policy of minimal governmental interference. Sir Christopher Howe, in his assessment of Hong Kong's economy, declared that "[i]n the longer run consideration will have to be given both to a raising direct taxes and to borrowing" [92]. Hong Kong's public sector will probably grow in importance because of current programs for new towns, housing, and social services [93]. These programs could not be curtailed without "severe social and political consequences" [94]. Howe's predictions are materializing faster than even he expected. In February, 1984, for example, Hong Kong's income tax was raised from fifteen percent to seventeen percent [95]. Thus, business in Hong Kong will likely continue to face the threat of increased taxation whatever the future structure of Hong Kong's government.
5. Hong Kong's legal system

The legal traditions of Hong Kong and China differ markedly. Hong Kong's legal system is an outgrowth of England's common law tradition [96], which is characterized by the resolution of adversarial disputes through the procedures of the courts. In contrast, “[t]he notion of guiding major economic relationships through the enactment of legal principles and rules, applied if necessary by courts in adversarial proceedings, has been alien to the experience of most Chinese” [97].

In China, for example, during the period of 1957 to 1965, the bulk of civil disputes were resolved by “conciliation committees” rather than by an independent judiciary [98]. During most of the period of the Cultural Revolution and the Gang of Four, 1966 to 1976 [99], the Chinese government was hostile to the law, lawyers, and courts [100]. Only within the past seven years has China sought to strengthen its legal system through resumption of legislative activity and adoption of codes [101].

Many, including the Chinese, recognize that Hong Kong's existing common law system has been partially responsible for Hong Kong's success. “Hong Kong observers maintain that the colony's prosperity as a center of free enterprise depends as much on the framework of British law and administration as it does on the hard work of the overwhelmingly Chinese population or of the millions of dollars brought in by outside investors” [102]. While China has downplayed the importance of British rule in Hong Kong's success [103], it has acknowledged that “some” of Britain’s policies have “played a role” in Hong Kong’s prosperity [104].

Business leaders fear that China will abandon Hong Kong's legal system in favor of the one presently existing in China [105]. The Agreement addresses doubts surrounding Hong Kong's future legal system by specifying that China's National People's Congress will enact a “Basic Law” for the Hong Kong SAR [106].

The Agreement also provides that “[t]he courts shall exercise judicial power independently and free from any interference” [107], and possess the power of final adjudication [108]. The courts will make decisions based on the Hong Kong SAR's laws [109], and precedents in other common law jurisdictions [110], rather than the laws of China. The Hong Kong SAR may make its own provisions for “local lawyers and lawyers from outside the Hong Kong [SAR] to work and practise in” Hong Kong [111].

Some commentators have questioned the Agreement’s provisions concerning Hong Kong's legal system [112]. Doubts have centered on the provision for the Basic Law. Such doubts continue despite Deng Xiaoping's assertion that because the Basic Law will be based on the Agreement, “[d]rawing up laws based on accord is an easy matter” [113]. No provision exists for either Hong Kong or the United Kingdom to approve the contents of the Basic Law or to amend the Basic Law [114].
The Agreement is also silent on whose interpretation of the Basic Law will prevail. If Hong Kong's independent judiciary consistently interpret the Basic Law in a way that is at odds with Chinese policies, the mainland government could conceivably intervene. It could also prevent such an occurrence by influencing the SAR's chief executive to appoint judges sympathetic to its own policies [115]. Confusion over the status of the Basic Law is compounded by predictions that a draft of the Basic Law will not be completed before 1990 [116]. Thus, uncertainty over the actual legal framework to be implemented in Hong Kong in 1997 will probably continue.

6. Hong Kong business interests affected by the Agreement

6.1. Hong Kong's financial markets

Hong Kong has been described as the third largest financial center in the world [117]. It has emerged as the fourth largest gold market after London, Zurich, and New York [118]. At least seventy percent of all banks in Hong Kong are foreign banks [119]. Locally-owned Hong Kong banks have expanded their international operations [120]. As Hong Kong's economy has expanded [121], employment in Hong Kong's financial sector has increased [122].

During negotiation of the Agreement, some Hong Kong business leaders expressed concerns over Hong Kong's status as an international financial center under Chinese administration [123]. These concerns centered on the future of the Hong Kong dollar and on the openness of Hong Kong's foreign exchange markets [124]. Ronald Li, chairman of the Far East Exchange Ltd., the largest and most active of Hong Kong's four stock exchanges, remarked that "[t]he openness of the foreign exchange markets and the free convertibility of the dollar are keys to Hong Kong's commercial success" [125]. The inability to exchange the Hong Kong dollar in international currency markets would cripple Hong Kong's status as an international financial center.

The Agreement's response to the above concerns is a guarantee that "[t]he Hong Kong dollar, as the local legal tender, shall continue to circulate and remain freely convertible" [126]. Moreover, the Agreement directs the government of the Hong Kong SAR to "safeguard the free operation of financial business and the free flow of capital within, into and out of" the Hong Kong SAR [127].

6.2. International trade and shipping

This subsection examines the trade and manufacturing industries in Hong Kong and the Agreement's likely effect on them. These industries were chosen
specifically because Hong Kong is one of the most important trade and manufacturing centers in the world. It is the largest net exporter of textiles in the world [128], the fifteenth largest importer of manufactured goods [129], and a larger overall importer than South Africa, Mexico, Norway, or New Zealand [130].

Victoria Harbor has facilitated Hong Kong's mercantile success. Located between Hong Kong Island and the Kowloon Peninsula [131], the harbor's position as China's only deep-water port initially attracted British traders in the nineteenth century [132]. Hong Kong's port presently offers the world's second largest container capacity [133] and houses ten percent of the world's fleet of ships [134]. In addition to its location "at a major junction of the world's shipping lanes, and at Asia's commercial heart" [135], Hong Kong's port attracts shipowners because Hong Kong offers them certain commercial advantages [136].

A preeminent concern of traders and manufacturers is the degree to which Hong Kong will become embroiled in China's foreign policy after 1997. Traders have been attracted to Hong Kong in part because of its relative political neutrality in Asia [137]. Traders have profited by using Hong Kong as an intermediary port through which they can channel goods between states that have erected trade barriers. Trade disputes between Indonesia and Malaysia and between South Korea and Japan, at times, have forced trade between these countries to be conducted through Hong Kong [138]. Some traders fear that China will not allow Hong Kong to retain such status in the future. They are concerned that China will involve Hong Kong in its own foreign politics, for example by forbidding trade with the Soviets or Israelis [139].

Hong Kong traders also question whether states antagonistic to China will accord Hong Kong businessmen the same treatment once they have become Chinese subjects [140]. Hong Kong's future relationship with Taiwan is of particular concern to these business interests because Hong Kong is Taiwan's third largest market for exports [141]. Some fear that Taiwan will sever its business ties with Hong Kong as part of Taiwan's policy of "non-dialogue"; with China [142].

A corollary to the issue of Hong Kong's future role in China's foreign affairs is the question of whether China will force Hong Kong to become a party to international agreements to which China is a party [143]. In addition, business leaders hope that China will permit Hong Kong to adhere to those international agreements to which it is already a party, such as the General Agreement on Tariffs and Trade (GATT) [144].

The Agreement addresses potential problems that could affect Hong Kong's international trade. In addition to its guarantee that the Hong Kong SAR will retain the status of a free port [145], it assures shipowners that "[p]rivate shipping business and shipping-related business and private container terminals in Hong Kong may continue to operate freely" [146]. Moreover, all ships,
except foreign warships, will be permitted to use Hong Kong's port in accordance with the Hong Kong SAR's laws [147].

Shipowners will be among the first to benefit under the Agreement's provisions for Hong Kong's autonomy. British shipping regulations govern ships presently registered in Hong Kong [148]. Hong Kong's status as a colony has hampered shippers' ability to express their concerns in international forums [149]. Citing the Agreement's provision that the Hong Kong SAR may "maintain a shipping register and issue related certificates under its own legislation" [150], ship owners recently pressed for the establishment of Hong Kong's own shipping register [151]. The present British governor has interpreted this position as consistent with the Agreement [152].

The Hong Kong SAR will have considerable autonomy to enter into international agreements [153]. The Agreement permits the Hong Kong SAR to "participate in relevant international organisations and international trade agreements (including preferential trade arrangements) such as the GATT and arrangements regarding international trade in textiles" [154]. The Agreement pledges that trade arrangements negotiated by the Hong Kong SAR will apply only to the Hong Kong SAR and not to other areas of China [155].

The Hong Kong SAR will have limited autonomy, however, in the field of international affairs. The Agreement specifies that "foreign affairs" are the responsibility of China [156]. Because the conduct of foreign affairs involves more than national defense [157], China could conceivably intervene in international agreements that the Hong Kong SAR negotiates with other states. The Agreement also indicates that international agreements to which China is a signatory may also be applied to the Hong Kong SAR [158]. China's National People's Congress will decide which agreements will apply to the Hong Kong SAR, although the Congress will solicit the SAR's views before making such a decision [159].

7. Concerns about the Agreement's implementation

The Agreement's responses to the concerns of Hong Kong business leaders has not eliminated doubts about Beijing's ultimate intentions. Some observers suggest that no matter what China promises, the fears of the Hong Kong business community cannot be allayed [160]. Nevertheless, observers have proffered several theories for Beijing's willingness not only to accept the terms of the Agreement but also to continue to adhere to its promises once it regains sovereignty over Hong Kong [161].

One argument advanced as evidence that China will adhere to the Agreement is that Deng Xiaoping and his protégés are pragmatists who are willing to subordinate ideological concerns to more practical, economic ones [162]. According to Deng: "Some people have asked whether China's policy towards
Hong Kong will be changed. I replied there is no reason to change it. No good will come from changing it" [163]. Yet Deng's assurances fall short of an explicit promise to honor the Agreement. The key factor, according to Deng, is whether the policy is "correct" [164]. He has not specified who will decide the "correctness" of China's policy, nor has he indicated the standard to be applied. Although Deng apparently has sought to allay the fears of the business community, his reassurances have failed to do so [165].

Even assuming Deng should continue his current policies, it is unlikely that the eighty-year-old leader will rule China in 1997 [166]. While Deng has prepared his protégés, Premier Zhao Ziyang and Communist Party Secretary Hu Yaobang, to continue his policies upon his death or retirement [167], no one can be certain either successor will be in charge of China in 1997. They certainly will not be guiding China's Hong Kong policy for the entire fifty-year period of the Agreement.

Deng faces internal opposition from a number of sources [168]. He will continue to encounter resistance from China's military leadership because of his de-emphasis of the military's role in Chinese society [169]. Moreover, certain elements of the Chinese Communist Party and the bureaucracy, who view Deng's pragmatic reforms as a betrayal of China's socialist system, remain a viable threat to the policies of the Deng era [170]. Responding to one of Deng's recent proposals for the sale of shares of stock of companies in China, one finance ministry official lamented that most officials in the provinces still regard shares as "a betrayal of socialism and a reversion to the capitalism of the past" [171]. Deng has recently called for older members of both the military and the Communist Party to step down from their positions of authority in order to make room for younger, less doctrinaire leaders [172], but it is too early to determine if such efforts will reduce opposition to his reforms.

The importance of Hong Kong to Deng's modernization program may reinforce his intention to honor the Agreement. China hopes to quadruple its Gross Domestic Product between 1980 and 2000 [173]. An ambitious development program in the 1980s, which envisions access to foreign capital and technology via Hong Kong, might lead to real economic growth in the 1990s [174]. China's related desire to regain sovereignty over Taiwan provides further incentive to adhere to the Agreement. The successful integration of Hong Kong's capitalist economy into Deng's scheme of Chinese socialism may reduce Taiwanese resistance to Chinese overtures [175].

Observers point to increased trade ties between China and Hong Kong as proof of China's commitment to Hong Kong's success [176]. As discussed above, however, China's continued emphasis upon orderly economic growth cannot be guaranteed [177].

Some commentators argue that China, with a history of honoring past international agreements, will honor this one [178]. Although China repudiated
the original Hong Kong treaties, it still continued to honor their terms. According to these commentators, China's tolerance was requisite to Hong Kong's economic success [179]. Nevertheless, reliance on past Chinese adherence to international agreements, by itself, will not engender confidence in this Agreement. As Wesley-Smith points out: "There is a difference involving international agreements and one in which China commits herself to an agreement concerning its own territory over which it is sovereign" [180]. China, under the guise of national sovereignty, could theoretically adopt any number of alternative policies toward Hong Kong. Moreover, the Agreement itself is sufficiently ambiguous so that China could justify almost any of its actions as being consistent with the Agreement [181].

8. Conclusion

The Sino-British Agreement is a remarkable document in that it represents two nations' attempt to unify a capitalist system, Hong Kong, with its socialist motherland. Because of the Agreement's need to maintain a delicate balance between diverging interests, it has necessarily lacked specificity. Although China and Great Britain expressed satisfaction with the Agreement, its inherent ambiguity has proved to be a source of dissatisfaction for Hong Kong business leaders and independent observers.

Several factors exacerbate the uncertainty surrounding Hong Kong's future. Deng Xiaoping's widely publicized "one country, two systems" policy, for example, may prove to be unsuccessful. Moreover, there are no assurances that Deng's successors will continue to adhere to this policy, which is crucial to Hong Kong's success. Finally, as long as details regarding the Agreement's implementation remain unknown, uncertainty will continue to characterize Hong Kong's future.

The Agreement may raise as many questions as it attempts to resolve. This may not necessarily harm the colony's economic success, however. Under the Chinese policy of national reunification, Hong Kong's economy may burgeon as China opens its markets to the West.
Notes


[2] See infra text accompanying notes 7–44.


[10] Pye, supra note 8, at 456.


[14] A country's "Domestic Product" is what American economists refer to as "National Product." Thus, the Domestic Product is equivalent to Net National Product and Gross Domestic Product is analogous to Gross National Product. See Howe, supra note 7, at 512–13.

[15] Howe, supra note 7, at 512. This performance was topped only by the growth rates of Libya, Iran, and Japan.

[16] Id. at 515, 520.

[17] Id. at 515.

[18] Id.

[19] Id. at 517–19.

[20] Id. at 519–22.

[21] Id at 520–21.

[22] Id. at 512.


[24] Confucian philosophy stressed social, political, and economic harmony through a focus on man's virtues. The leaders of China were men who sought to avoid hostilities through a process of negotiation and compromise. This philosophy was the basis of China's legal system and subsequently proved ineffective against the aggressive imperialism of Europe. See Tay, Law in Communist China – Part I, 6 Sydney L. Rev. 154, 155–62 (1969).
China was first opened to European trade in the eighteenth century when Europe recognized the trade value of Chinese products, particularly silk and tea. At the outset, the trade was favorable to China since the British had no export commodity for which there was a Chinese demand. Britain, however, eliminated its Chinese trade deficit in the 1830s when it began exporting a product of high demand to China—opium. Comment, supra note 12, at 111–12; Government Information Series, Hong Kong [1979] 231 (1979); Endacott, A History of Hong Kong 4–13 (2d ed. 1973).


Endacott, supra note 25, at 22–25.

See generally P. Fay, supra note 26.

Mao sought to isolate China from the world in order to purge elements of Western imperialism from Chinese society and to transform the country into a communist state. Even though Chinese economic policies changed focus throughout his reign, Mao sought to use the masses to reorder social institutions. Through constant upheaval, Mao sought to instill China with his values of selflessness and the virtues of serving the collective. Comment, supra note 12, at 111–13. See generally Van Ness & Raichur, Dilemmas of Socialist Development: An Analysis of Strategic Lines in China, in China from Mao to Deng: The Politics and Economics of Socialist Development 81–62 (Bulletin of Concerned Asian Scholars ed. 1983) (examination of Communist rule in China from historical and economic perspectives).


Deng's new course for China can be viewed as a reaction against the policies of Mao, especially the policies enacted during the Cultural Revolution (1966–76). The Cultural Revolution began as Mao's attempt to revitalize class struggle in order to press Chinese society towards communism. The movement was soon submerged into a mass movement to maintain Mao's power by removing his opponents from power. When Mao died, the factions which were struggling for power within the party were brought to public notice. One group, led by Mao's widow Jiang Qing, and known as the "Gang of Four," sought to continue Mao's policies of mass politics and to oppose any westernization of China's economy. The other group, China's current leadership, was led by Deng, who had been disgraced by Mao during the Cultural Revolution and subsequently rehabilitated. Id. at 80–82.


Chinese Premier Zhao Ziyang summarized the new pragmatism in the Four Modernizations by stating: "We should adopt whatever system, structure, policy and method are most effective in promoting the development of the productive forces." Beijing Rev., Nov. 23, 1979, at 3.

Initially, in 1979, China set up four Special Economic Zones: Shenzhen, near Hong Kong; Zhuhai, near Macau; Shantou, in the Guangdong province; and Ziamer, in the Fujian province. J. Com., Apr. 24, 1984, at 1A, col. 3; Wall St. J., June 27, 1984, at 39, col. 2.


Id. Of the four zones, Shenzhen has been the most successful in luring the largest amount of foreign investment. Located near Hong Kong, Shenzhu has been transformed from a small village into a modern city. Beijing Rev., Dec. 3, 1984, at 19.

Id. These cities will be granted decision-making autonomy similar to that given the existing zones.
Of the new cities opened to foreign investment, several large industrial cities such as Chongqing, Canton, and Shansai have been included. See, e.g. Wall St. J., Sept. 5, 1984, at 36. col. 1 (Chongqing, an industrial city in the Sechuan province, increased its industrial and agricultural output to 5.5 billion dollars in 1983, an 11% increase from 1982). Beijing Rev., Nov. 19, 1984, at 23 (Quangzhou, another example of China's new open policy, has already attracted $1.1 billion dollars of foreign investment).


Dicks, supra note 41, at 435-36, 439-40.


Id., Howe, supra note 7, at 457.

The climate of uncertainty that prevailed during the negotiation process produced a number of dislocations in Hong Kong's economy. The Hong Kong Stock Exchange, for example, declined from 1300 on the Hang Seng stock index in mid-1982 to below 700 in December of 1982. Pye, supra note 8, at 460 n.14. Hong Kong currently has four stock markets: the Hong Kong, the Far East, the Kam Ngan, and Kowloon exchanges. Plans exist for their consolidation into one exchange sometime in 1985. See Asian Wall St. J., Nov. 5, 1984, at 25, col.4. During this period of uncertainty, property values declined. Id. The press reported that some wealthy Hong Kong residents transferred their assets abroad or even emigrated. Christian Sci. Monitor, Aug. 24, 1984, at 9, col. 1; see also id., June 13, 1984, at 11, col.3.

See infra text accompanying notes 64-67.

Agreement, supra note 1, annex I, art. I, at 14.

Id.

Id. China's Constitution specifies that "the state may establish special administrative regions when necessary. The systems to be instituted in special administrative regions shall be prescribed by law enacted by the National People's Congress in the light of the specific conditions." Constitution of the People's Republic of China art. 31, reprinted in Beijing Rev., Dec. 27, 1982, at 10, 16.

Agreement, supra note 1, annex I, art. I, at 14.

Agreement, supra note 1, annex I, art. VI, at 17.

Agreement, supra note 1, annex I, art. I, at 14.

Agreement, supra note 1, annex I, art. II, at 15.

Id. ("[L]aws previously in force in Hong Kong (i.e., the common law, rules of equity, ordinances, subordinate legislation and customary law) shall be maintained save for any that contravene the Basic Law and subject to any amendment by the Hong Kong (SAR) legislature.")

Agreement, supra note 1, annex I, art. VII, at 18.

Id. Outside parties may not be as interested in dealing with Hong Kong. In 1974, the Chicago Mercantile Exchange established an international futures trading link with the Singapore International Monetary Exchange. Hong Kong was among several Asian exchanges considered but not chosen. Cf. Telephone interview with Dr. Clayton Yeutter, President, Chicago Mercantile Exchange (Feb. 28, 1985) ("A significant factor in our decision to deal with Singapore rather than Hong Kong was the political uncertainty. We look forward to a long term relationship; Hong Kong might not have been able to give us that.") Telephone interview on file at this Journal.

Agreement, supra note 1, annex I, art. VII, at 18.

Agreement, supra note 1, annex I, art. VI, at 17.

The Agreement permits the Hong Kong SAR to "maintain and develop relations and conclude and implement agreements with states, regions and relevant international organisations in the appropriate fields, including the economic, trade, financial and monetary, shipping,
communications, touristic, cultural and sporting fields.” Agreement, supra note 1, annex I, art. XI, at 20-21. In addition, the Hong Kong SAR may participate as a member of China’s delegation in organizations that allow only states to be members. Id. at 21.

[60] For a discussion of recent taxation in Hong Kong, see infra text accompanying notes 85-95.


[63] Agreement, supra note 1, annex I, art. XIII, at 22. See also Agreement, supra note 1, annex I, art. XIV, at 22-23, which discusses the Hong Kong SAR’s power to issue passports and other travel documents.


[65] See, e.g., Big Business Sees Profit In a Chinese Flag Over Hong Kong, Bus. Week, Oct. 8, 1984, at 55 [hereinafter cited as Big Business]. American investment increased in 1983 by 10% to $3.3 billion. Japanese investment during the same year climbed by 41% to $2.3 billion.


[69] Id.


[71] See id. at 494.

[72] See id. at 491.


[74] Id.


[76] Id.

[77] Id.

[78] Id.


[81] Id.

[82] Id.


[84] Id.

[85] See Howe, supra note 7, at 521-22.


[87] Id. at 258 (quoting R. Hughes, Hong Kong: Borrowed Place – Borrowed Time (1976)).


[92] Howe, supra note 7, at 526.

[93] Id. at 529.

[94] Id.

https://scholarship.law.upenn.edu/jil/vol7/iss2/3
[95] Int'l Currency Rev., supra note 89 at 118 (the first adjustment in Hong Kong's income tax rate since 1966).


[99] The Gang of Four refers to the group of four people, including Mao Zedong's wife, who seized power towards the end of Mao's leadership. This group was responsible for killing and imprisoning a countless number of people, particularly artists and intellectuals in the “anti-rightest” backlash of the Cultural Revolution. See Immanuel C.Y. Hsu, China Without Mao 24-25 (1982).


[101] Id.


[103] See e.g., Beijing Rev., Sept. 26, 1983, at 14, 18 (the author of this article wrote: “people may ask if British rule had such a magical effect why so many other British-administered areas in Asia, Africa, and Latin America which were under British rule for decades or even hundreds of years remain in poverty and backwardness without much change even to this day”); see also Benton, The Hong Kong Crisis 19 (1983). (Presently, under British rule, there is tremendous inequality in Hong Kong with at least half a million people living in “appalling poverty.”)


[105] Goodstadt, Is China Turning Capitalist?, Euromoney, Oct. 1984, at 18. For example, one businessman voiced his company's concern: “I don't think it's generally known that China doesn't have a company law; nobody knows what kind of corporate legal framework will exist in Hong Kong after 1997.” Id. Maintenance of an independent judiciary may also be crucial to business confidence in Hong Kong, and remains an unresolved issue raised by the Agreement. Wilson, supra note 68, at 28.


[108] Id. Currently, final adjudication of disputes in Hong Kong lies with the British House of Lords. For an excellent synopsis of Hong Kong's current governmental structure see Hook, The Government of Hong Kong: Change Within Tradition, 95 China Q. 491 (1983).


[110] Id.

[111] Id.

[112] The Economist, Dec. 1, 1984, at 43, 44 (“[N]early a quarter of Hong Kong's 220 barristers have declined to endorse the agreement.”).


[115] It is unclear what influence China will retain over the chief executive of the Hong Kong SAR. Id.

[116] The Economist, supra note 112, at 43.


[119] Howe, supra note 7, at 518.

[120] Id.

[121] A recent survey of the world's economies rated Hong Kong as the fourth best-performing
developing country in the world after Singapore, Taiwan, and Malaysia. In the past ten years, Hong Kong has had the fourth fastest-growing economy, with its Gross Domestic Product growing an average of 7.6% annually, after Singapore, Taiwan, and South Korea. See Across the Globe, Economic Growth Perks Up, Euromoney, Oct. 1984, at 290.

[122] Howe, supra note 7, at 515 (noting that employment in the financial sector, as well as in government, trade, and services grew at an average of eight percent during the years 1977–1983 because of the rapid growth in banking, the financial sector, property, and tourism).

[124] Id.
[125] Id.
[127] Id.
[128] Wilson, supra note 68, at 31
[129] Id.
[130] Id
[132] See Benton, supra note 103, at 19; Baker, supra note 131, at 469.
[134] Id.
[135] Benton, supra note 103, at 19.
[136] Shipowners are attracted to Hong Kong's port because, unlike many European ports, Hong Kong only applies duties to ships that use its port. Consequently, ships are not taxed on profits earned outside of Hong Kong. Shipowners, seeking to reduce crew costs, are also attracted to Hong Kong because of the absence of strong labor unions. See Asian Wall St. J., Nov. 5, 1984, at 10, col. 1; Wilson, supra note 68, at 32.
[137] See Wilson, supra note 68, at 31.
[138] Id.
[139] See id. at 27.
[141] Id.
[142] Id.
[143] Dicks, supra note 41, at 440 n. 47.
[144] See id. at 438–39.
[145] Agreement, supra note 1, annex I, art. VI, at 17.
[146] Agreement, supra note 1, annex I, art. VIII, at 18.
[147] Id.
[149] See id. (For example, Helmut Sohmen, vice chairman of Worldwide Shipping, one of Hong Kong's largest shipping concerns, recently observed: "We are one of the world's biggest shipping centers.... But we have had to express our views in international circles through other governments.")
[150] Agreement, supra note 1, annex I, art. VIII, at 18.
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[154] Agreement, supra note 1, annex I, art. VI, at 17.

[155] See id.

[156] Agreement, supra note 1, annex I, art. I, at 14. China's authority over Hong Kong's foreign affairs will determine which states may maintain consular and other official missions in Hong Kong. For example, a state with diplomatic ties to China may establish a mission in the Hong Kong SAR. Agreement, supra note 1, annex I, art. VI, at 17. If a state does not have diplomatic ties with China, however, then the Agreement indicates that individual "circumstances" will determine whether that state will be permitted to have a mission in Hong Kong. Id. The Agreement does not specify what "circumstances" must be taken into account. Importantly, a state not recognized by China cannot establish official ties with the Hong Kong SAR. Id. This provision of the Agreement will no doubt have considerable effect upon Hong Kong's relations with Taiwan, which China does not recognize as a state. The exact language is "[s]tates not recognized by [China] can only establish non-governmental institutions." Id. Thus, unofficial trade relationships between individual importers in Hong Kong and exporters in Taiwan may not be adversely affected by this provision.

[157] See Agreement, supra note 1, annex I, art. I, at 14. (China reserves to itself the areas of "foreign and defence affairs" indicating that these will be considered separately.)


[159] See id.


[161] See infra text accompanying notes 162-81.

[162] See Pye, supra note 8, at 463.


[165] See Pye, supra note 8, at 463.

[166] Id. at 457.


[169] Id.


[172] Christian Sci. Monitor, Nov. 27, 1984, at 13, col. 3 (Deng called on the country's aging leadership to step aside for a new generation); id., Nov. 6, 1984, at 9, col. 1 (Deng said he wanted a new generation of military leaders who are "more open-minded" and called on the armed forces to give their full support to the reforms announced at the Communist Party plenum).


[174] Id., see also Int'l Currency Rev., supra note 89, at 116; Christian Sci. Monitor, Apr. 8, 1980, at 11, col. 1. One reason Hong Kong may be important to China is that China obtains between 25 and 40% of its foreign currency through Hong Kong. Pye, supra note 8, at 461. By establishing subsidiaries of its Bank of China in Hong Kong, it has obtained Hong Kong dollars and other foreign currencies. However, China has begun establishing branches of its Bank of China in cities such as New York and London, indicating China may be seeking to be less dependent on Hong Kong as a source of foreign exchange. See Int'l Currency Rev., supra note 89, at 116.

has noted that "There is every reason to believe that the formula of 'one country, two systems' will have a significant bearing on the eventual coming together of the mainland and Taiwan." Beijing Rev., Oct. 1, 1984, at 4. The "one country, two systems" concept refers to the uniting of Hong Kong's capitalist system and Beijing's socialist system under one sovereign government. Id. Indeed, China's Premier Zhao Ziyang appealed to Taiwan for consultations shortly after details of the Agreement were released. Chai, at 18, col. 3. Officials in Taiwan have refused to accept Beijing's overtures and to recognize any Sino-British agreement to relinquish Hong Kong to the Chinese. The Times (London), Aug. 3, 1984, at 6, col. 1. Taiwan's Foreign Minister described the Agreement as "another trick in China's peace offensive against Taiwan." Christian Sci. Monitor, Oct. 5, 1984, at 2, col. 3.

[177] Pye, supra note 8, at 457.
[178] See Christian Sci. Monitor, Aug. 2, 1984, at 1, col. 3. For example, Sir Geoffrey Howe has noted: "I think one of the features which is most noteworthy about the position of China and the Chinese government is the respect which it shows for international agreements." Id. Peter Wesley-Smith, one of Hong Kong's leading legal scholars, observed that he could not "think of any treaty China has not complied with that it's signed." Id. at 32, col. 3. But see Chai, supra note 175, at 18, col. 3. In a 1951 agreement, China promised not to interfere in Tibet's political system. Eight years later China invaded Tibet and has since suppressed the Tibetan culture, polity, and life-style.

[181] For a discussion concerning Chinese reservation of the conduct of foreign affairs to itself, see supra text accompanying notes 156–59.

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