Hong Kong's Reversion and Its Impact on Greater China: A Conference Summary
Edited by John Severance

In this issue of Pacific Rim Report we are pleased to present a summary of a conference sponsored by the University of San Francisco Center for the Pacific Rim and its Ricci Institute at the University of San Francisco on April 17 and 18, 1997. Entitled "Hong Kong’s Reversion to Chinese Sovereignty and Its Impact on 'Greater China,'" the conference convened experts from Hong Kong, China, Taiwan, and the United States who examined the implications of the historic hand-over of Hong Kong to China from political, economic, business, religious, and human rights perspectives.

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Hong Kong and "Greater China"
Stephen Uhalley, Jr.
Conference Chair, Kiriyama Professor for Pacific Rim Studies, University of San Francisco

As dramatic and problematical as Hong Kong's transfer of sovereignty is, it is hardly an isolated event today for it is taking place in a maelstrom of very profound contemporary changes that are transforming much of the world. It occurs in the context of the globally broad changeful environment wrought by a technological revolution which is signaling, in effect, a new major divide in human history.

The Chinese throughout "Greater China" are caught up in the same pervasive global developments and uncertainties—even as they try to cope with the enormous changes and challenges that are quite unique to their own experience. In a dramatic combination, China is awakening to the new global era precisely while it is witnessing the rebirth of its traditional, former glory. The reversion of Hong Kong will add economic muscle to a rapidly developing China and will end the years of humiliation visited upon China by colonial powers. It is both a symbol of China's future and a reclaiming of its past.

It was under significantly reduced circumstances that Hong Kong first came to be alienated from China. In the mid-nineteenth century Hong Kong was a relatively isolated place with only a small fishing population. Indeed, Hong Kong was for a long time not that important in the larger scheme of things. For many decades it took a backseat to Shanghai. It was not until after World War II, and especially after 1949, that Hong Kong, with a population continually swollen with refugees from the mainland—including many Shanghai industrialists—came into its own. And even then it was not until the 1960s and 1970s that it began to prosper.

As Hong Kong prospered, it did so to the increasing economic benefit of China, which used the flourishing port as its main entrepot, window to the world, and important revenue source. Meanwhile, Great Britain gradually receded into the background and into the pages of colonial history. By the early 1980s business interests in Hong Kong insisted on arrangements for the 1997 transfer of sovereignty so that important business decisions could be made. This finally resulted in the 1984 Sino-British Joint Declaration which was followed by the 1991 Basic Law, the product of considerable negotiations and public consultations. During that 1984-1991 interval the economies of Hong Kong and China became thoroughly integrated, generating confidence that Hong Kong and China could evolve a smooth political integration to match their economic one. Such a prospect was shattered on June 4, 1989.

The Tiananmen Incident derailed the reversion process which until then was going largely China's way. The dismantling of the communist regimes in Eastern Europe and in the former Soviet Union within a couple of years also contributed to the new tack taken by London, which now sought to provide for a more representative democratic political order before the handover. China reacted negatively to this changed British approach and in turn was subjected to a new level of scrutiny and suspicion, and the Hong Kong "problem" became one of the most hotly contested issues in world affairs.

Despite the cooled Sino-British political relationship during the transition, the process of integration which had already occurred between Hong Kong and China over the past couple of decades helps provide a firm safeguard against undue disaster. In fact, Hong Kong's autonomy and viability is guaranteed by four considerations: first is the proud desire of the Chinese government to demonstrate that Hong Kong can prosper just as well under Chinese sovereignty as it did under the British—a very important matter of "face" for Beijing; second, Hong Kong's economic health will continue to be important to China's growing economy, and this continued economic prosperity is exceedingly important.
for China's leadership politically; third, Hong Kong's powerful business elite, which has cooperated with Beijing, has a vested interest in making things work; and fourth, there is the all-important need to demonstrate the successful application of the "one country, two systems" theory for Taiwan's benefit.

However, beyond the excitement of the immediate focus on Hong Kong and Taiwan occasioned by the reversion event, the idea of a peaceful and powerful "Greater China" remains affected by memory of Tiananmen, reinforced by recent crackdowns on dissent. As Hong Kong's reversion itself becomes a memory, Hong Kong and China will share a common future. Thus, it is increasingly timely to address the essential issue of political reform. Unfortunately for now, however, it does not appear that adequately robust political reform is on the agenda of this fall's important 15th Party Congress in Beijing. Patience will still be required as China finds the most appropriate ways to soften its authoritarian structure further.

Yet, only when real political reform is truly pursued to the end of bringing about a more effectively accountable government in China will the people of Hong Kong really feel comfortable as part of the China motherland. Only then, in all likelihood, will a reasonable political settlement with Taiwan be achievable. Only then will China make the most of the global information revolution and become a fully accepted member of the world community. And only then will the appellation "Greater China" signify a great country that truly is greater than it has had the opportunity to be in the past.

"Hong Kong's Reversion and China's Future"
Pan Wei
Associate Professor, School of International Studies, Peking University

A pressing need for political reform is again felt in China-this time not out of eagerness to speed up economic reform, but because both the state and society need to be disciplined to protect and fit into China's still vulnerable market economy. To realize its aspiration for "modernization" China must complete one more task in the next two or three decades. It must build an advanced and stable political instrument compatible with the new socioeconomic realities that have come to dominate the reform era.

One direction for reform is to introduce elements of checks and balances by increasing the status and political role of the People's Congress through the dual executive (party and government) system. Popular elections of both representatives and chief administrators at the grassroots levels and the recent tendency in voting patterns of the congresses at all levels are perceived to be the possible starting points of change, indicating a promising future of an eventual Chinese democracy. Yet, this direction does not seem to have a real future as long as "one party rule" is preserved with determination.

In addition, a widespread indifference towards grassroots elections exists, partly because of the party dominance which constrains these elections, but mainly because at the grassroots level such elections do not promise to solve problems of top concern, such as corruption, social disorder, and the inefficiency of the Chinese bureaucracy. The key issue may not be to make more laws or increase the power of the legislative branch; rather, it may be whether the existing laws can be respected and effectively enforced.

An easier-but not easy-alternative is to build a Hong Kong-like rule of law regime with a strong civil service whose range of power is clearly specified and protected by law, hence turning the inefficient dual executive mechanism into one in which the party does not interfere into duties allocated to the civil service and the judiciary. Rule of law as a concept is far simpler than democracy. It means merely ruling in accordance with the established legal requirements in order to avoid anarchy and social confrontation. And it is a far more acceptable policy in China because it does not exclude the power of a paramount party, as evident in both Singapore (People's Action Party) and Hong Kong (the Governor sent from London).

Hong Kong's return will generate great interest in studying the Territory's polity, which may in turn create a significant impact on the shaping of a new Chinese polity. With its strong civil service and independent judiciary, Hong Kong's polity is a feasible image of the mainland's political future. And when all the speculation surrounding the July 1 reversion dies down, it may end up that Hong Kong stands to influence China more than China might influence Hong Kong.

It is important to note here that the success of Hong Kong has had little to do with democracy. Rather, Hong Kong's vitality is closely related to its free market economy, which represents the extreme of its kind in the world, and a unique political system which may be described as a consultative rule of law regime. What semblance of democracy existed in Hong Kong before the recent elections was not of a participatory nature. Instead, the wishes of the people were made known to the Hong Kong government through consultation committees which met with Hong Kong activists.

And democracy had little to do with the virtual elimination of corruption in Hong Kong, which was in fact due to the implementation of the Independent Commission Against Corruption (ICAC). Corruption occurs in both democratic and civil-service led regimes. Democracy is no panacea for corruption, or at least democratization is hardly the cure. Restraining an authoritarian institution with another authoritarian one conforms with the essence of checks and balances, serving the purpose of protecting social freedom.

The implementation of a rule of law system in China is a viable alternative to the rule by person system which has thus far characterized Communist China. In fact, the transition from one system to the other is a natural process by which Hong Kong itself modernized. In terms of China's modernization process, Mao's era could be understood as "nation-building," and Deng's as "marketization." To complete the cycle, a
new generation of leadership is challenged to reform the existing polity and complete China's "long march."

"The Selection Process of Hong Kong's Chief Executive"
Cindy Y.Y. Chu
Assistant Professor of History, Hong Kong Baptist University

Amidst the growing concern over the fate of Hong Kong vis-à-vis the "one country, two systems" theory, Hong Kong has in fact already received a foretaste of what is to come after July 1. The occasion was the selection of Hong Kong's first Chief Executive, Tung Chee-hwa. During the selection process China showed how it can work within the limits of its own political system, and yet at the same time satisfy the general aspirations of the Hong Kong people who have enjoyed many more liberties and more representation in the government than their compatriots in the mainland.

The selection of Tung as Chief Executive witnessed the first time in Hong Kong's history when the highest policy maker came from its own populace, and when the people could take part in the selection process. The selection was an overall success for Beijing as it was able to manage not only the event, but more importantly the discontent, criticism, and expectations that emerged during the process. It was undeniable that the Hong Kong public could not vote for the Chief Executive and the Selection Committee, but their opinion had a bearing on Beijing, the selection process, and the candidates themselves.

A brief review of the selection process will demonstrate how Beijing tempered its own wishes by those of the Hong Kong people. In January 1996, Jiang Zemin met with the Preparatory Committee members in the Great Hall of the People. When he was about to leave the room, he suddenly approached Tung in the front row and shook hands with him. As a result, many speculated that Tung was hand-picked by Jiang for the job of Chief Executive.

But even if Beijing had slyly endorsed Tung, the Hong Kong public was not obligated to cast their lot with Beijing's choice. Hong Kong people were given the opportunity to express their participation through numerous opinion polls, public debates, and media events. In fact, up until the nomination process, public opinion in Hong Kong favored Tung's chief rival, Sir Yang Ti-liang.

But the nomination process, in which a 400-member, Beijing-appointed Selection Committee chose the candidates who would run in the December election, revealed that Beijing would maintain the upper hand. Although Yang and Tung received nearly the same support in the opinion polls, with Yang on average receiving more support, Tung received 206 of the nominating votes while Yang received only 83. After the nomination process, Tung's popularity began to soar in the opinion polls, revealing that people were preparing to accept the obvious: Tung's leadership after 1997. The participation of the Hong Kong people in the selection process had run its course in that those who had little public support did not make the cut. But from therein, it was Beijing's choice.

As the changes in the polls showed, the local population did not have fixed candidates in mind. They were more eager to know what the outcome would be, and then to prepare for it. In the end, Beijing had skillfully managed to make the selection process seem legitimate. The fact that the candidates not only appealed to the political parties and interest groups, but also to the general public, made the race appear respectable. Such activities demonstrated that Beijing was willing to listen to some extent to the voices of the Hong Kong public. And in turn, Hong Kong people showed that they were ready to work with their future sovereign.

"The Challenge of the 1997 Handover for Taiwan"
Yun-han Chu
Professor of Political Science, National Taiwan University

It has been a widely held expectation that July 1, 1997 may be a make-or-break point for China-Taiwan relations. However, as we are now in closer range of this long awaited event, it appears that the 1997 handover may turn out to be as uneventful and anti-climactic as the death of Deng Xiaoping in February of the same year. The real significance and consequences of the Hong Kong reversion for Taiwan, which are likely to be far-reaching and profound, perhaps will be felt much later. And much of the impact will be highly contingent on the outcomes of the "one country, two systems" experiment itself.

The 1997 handover presents challenges and opportunities to both Beijing and Taipei. For Beijing, political opportunities abound. First, after the reversion, Beijing will be empowered to regulate Hong Kong-Taiwan relations. If Beijing wants to extract some political or economic juice out of the existing Hong Kong-Taiwan relationship, the handover will give it the opportunity to do so for the first time. Second, the reversion will enhance Beijing's diplomatic leverage over the two dozen or so countries which officially recognize the Republic of China on Taiwan. Many of Taiwan's traditional allies will have to weigh their economic interest in maintaining a close tie with Taipei against the prospect of improving trade relations with both China and Hong Kong. Under the "one China principle," Beijing will force them to choose between their Hong Kong diplomatic presence and Taipei embassy.

Third, China can use Hong Kong as a springboard for political infiltration into Taiwan. Beijing can demand that Taipei open its door to Hong Kong-based firms and organizations, or even semi-official representatives, on the basis of reciprocity. Many of these firms and agencies may be China-owned or subject to its political influence. Beijing may try to impose a new regulatory regime on Taiwan-Hong Kong relations which downgrades Taiwan's status to the same level as Hong Kong and links Taiwan's future shipping access to Hong Kong to China's direct
Finally and most importantly, the Hong Kong reversion offers the first test of the "one country, two systems" experiment, which was originally designed for solving the "Taiwan issue." The 1984 Sino-British Joint Declaration, which endorsed "one country, two systems," gave the formula a legal status in the international community. Beijing leadership reasons that a successful implementation of the formula in Hong Kong is likely to further strengthen the legitimacy of the formula in the international community, widen its appeal to the people of Taiwan, and increase political pressure on Taipei leadership.

Over the medium to long term, the reversion of Hong Kong compresses both the space and time in which the cross-Strait relationship is currently operating. The reversion means that Taiwan will eventually lose a critical buffer zone with China. There will be less room for maneuvering for both sides. Hong Kong's reversion may fuel the nationalistic sentiment which has already been on the rise in recent years among the mainland Chinese populace and bolster the confidence of the Beijing leadership in launching a more aggressive reunification campaign toward Taiwan. It may become increasingly difficult for moderates to quell the internal pressure for coming up with a timetable on the retrocession of Taiwan after Macau's reversion in 1999.

Taipei is forced to rule out any sort of non-cooperative approach from the very beginning. The economic stake for Taiwan is simply too high to risk any set-back in Taiwan-Hong Kong relations. Hong Kong is Taiwan's gateway into the mainland market. It is also the most important strategic node for Taiwan's transnational business links with transnational corporations and overseas Chinese business networks. Hong Kong also looms large as a Taiwan's single largest source of trade surplus and its second largest export market after the United States. A continuation of Taiwan-Hong Kong relations in turn serves Beijing's strategy toward Taiwan well, which was best expressed by Qian Qichen: "to blockade Taiwan diplomatically, to check Taiwan militarily, and to drag along Taiwan economically."

Yet, Taiwan can see some silver lining in the looming dark sky. In the short run, the transition may provide Taipei with a brief breathing space as the Beijing leadership has its hands full with managing the Hong Kong transition. Over the medium to long term, it is likely that Beijing has to sustain one more ball in the air in its diplomatic juggling. Hong Kong is potentially another thorny issue between Beijing and Washington (as well as the European Union), on top of Tibet, human rights, arms sales, nuclear proliferation, the trade deficit, and WTO negotiations. Hong Kong is not the place and 1997 not the time to score political points in the cross-Strait relationship. Pragmatism prevails in the end, and the emerging consensus is as follows: Taiwan is in a position neither to endorse the "one country, two systems" experiment nor to stir things up in Hong Kong. On the one hand, Taiwan does not have the leverage to affect the outcome of the transition one way or another. On the other hand, any major political and economic set-backs during the transition could also spell trouble for Taiwan. Furthermore, no matter how the "one country, two systems" experiment will come out eventually, the formula will not gain much support among the people of Taiwan. Taiwan is not and will not be another Hong Kong, not only because Taiwan can defend its political autonomy militarily, but because the island has completed its democratic transition. There is no way China can turn back the political clock.

"Japan Views Hong Kong's Return"
John Quansheng Zhao
Associate Professor and Asia Coordinator, School of International Service, American University

Since the normalization of relations between Japan and China in 1972, economic cooperation between the two countries has remained one of the most important factors in their development and in regional stability in the Asia Pacific. Bilateral exchanges in trade, investment, and personnel have been flourishing. And at the center of all this activity lies Hong Kong, which has been Japan's gateway to China and a linchpin in Japan's China policy.

A look at the three-way trade between Japan, China, and Hong Kong reveals how Japan has used Hong Kong as an integral element in its China policy. While Japan enjoys a sizable trade surplus with Hong Kong, it suffers a trade deficit with China. But if one combines Japan's trade with both China and Hong Kong, a new picture emerges. Given that the majority of Japan's exports to Hong Kong are destined for re-export to China, Japan actually maintains a trade surplus with China. Japan has allowed a trade deficit with China to smooth bilateral relations, while it has kept Hong Kong trade in surplus to fill the gap.

After the July 1 reversion, Japan will be forced to adjust its China policy to accommodate the disappearing gap between the economies of Hong Kong and China. Hong Kong's reversion will force Japan to link its investment and trade policy more closely to its foreign policy as it will no longer be dealing with a go-between, but with China directly. Surprisingly, however, Japan has chosen not to abandon Hong Kong, but to accelerate its investment in the soon-to-be-former colony. Japan has shown that Hong Kong's attractiveness as an investment opportunity outweighs the fear of any political conflict with China which may occur after the reversion.

As Hong Kong promises to retain its dominance as an international financial center, Japan's latest charge into Hong Kong has been led by its banks. Most Japanese bankers do not expect much to change after Hong Kong reverts to Chinese rule on July 1. Takeshi Tanimura, general manager of Dai-Ichi Kangyo Bank's Hong Kong branch, for example, believes that Hong Kong's reversion is a business opportunity, as connections with mainland China will be even greater in the future. Additionally, Hong Kong affords Japanese banks proximity to the economic boom in Southeast Asia.

Still, Japan's new push into China via Hong Kong will present some political problems.
along with the economic opportunities. As Japan becomes more economically dominant in East Asia, this may resurrect fears of Japanese militarism. Most Asian nations are still uncomfortable with a strong Japan abroad. With sufficient provocation and an appropriate domestic environment, the militarism issue could reappear in Japan's relations with China and Hong Kong. Perhaps the most inflammatory issue in this regard is the debate over the ownership of the Diaoyu/Senkaku Islands. The issue remains a source of tension between China and Japan and may have important ramifications regarding the future of Sino-Japanese economic relations. Hong Kong's reversion may provide China with a boost of leverage on this issue.

But the political realm is also where Japan may wield its greatest advantage over China. With their strong desire for stability and prosperity, the Hong Kong people see Japan's political system, which is closer culturally and socially to China than is Europe or the United States, as a prototype that would support economic development and satisfy popular demands for democratization in both Hong Kong and China. The political development of post-war Japan prior to 1993 created a situation in which one large party—the Liberal Democratic Party (LDP)—functioned as the ruling party and several minor parties served as the opposition. This phenomenon of one-party domination has set an example as a transitional stage for political development in several other East Asian societies, such as South Korea and Taiwan; and for the Chinese government, it offers a way for the Communists to maintain their rule in China while allowing opposition forces to exist.

Japan's so-called "1955 political system," which is fundamentally democratic in nature and thus likely to meet the growing demand for democracy, seems flexible enough to meet various social demands and yet stable enough to meet the requirements of high-speed economic development with little political and social turmoil. Although it is unlikely to find favor among China's current leadership, this model may prove attractive to the people in Hong Kong and the next generation of China's political leaders as a transitional step toward democracy.

"Southeast Asia's Response to Hong Kong's Reversion"
Shalendra Sharma
Assistant Professor of Politics, University of San Francisco

As the nations of the world have been voicing their concerns over Hong Kong's reversion to China, the countries that make up the Association of Southeast Asian Nations (ASEAN) have been conspicuously silent. The ASEAN states have remained extremely cautious, if not tight-lipped, about the entire Hong Kong question. There has been essentially no meaningful public discourse or dialogue in the nations of Southeast Asia on this issue. The occasional remarks that have been put forth by the ASEAN governments have been not only muted, but even decidedly pro-Beijing.

From their collective silence, one might be able to make a compelling argument that the ASEAN states really do not care about what fate awaits the 6.3 million inhabitants of Hong Kong. After all, there has been an affinity between the authoritarian states of Southeast Asia and the quasi-Leninist one in Beijing. The systems of both the Chinese and ASEAN states are fundamentally antithetical to the liberal democratic principles of the free market. They think that economic development can be combined with some kind of an authoritarian state. The ASEAN states are themselves the chief proponents if not practitioners of the notion of Asian democracy that is nothing more than a combination of hard and soft authoritarianism grafted onto Confucian principles.

But from another perspective, their aloofness appears not only understandable, but even reasonable. The policy of the ASEAN states towards Hong Kong must be seen in the context of their larger China policy, which is a policy of constructive engagement. What the Southeast Asian nations hope to do is to distance themselves from any type of confrontation with a China they see as aggressively expansionist, if not hegemonic. The ASEAN states have concluded that China is already a global power which is rapidly upgrading its military. And they have also come to a conclusion that any kind of punitive, cold war type of containment strategy with China is bound to fail, resulting in potentially disastrous consequences for themselves.

Southeast Asian nations are hesitant to believe that a "Greater China" would be a friendlier China. The conventional wisdom which purports that China was never a hegemonic nation in the past and so will never be one in the future does not hold much weight with the ASEAN states. They argue that contemporary China is no longer feudal China and so one should not use a historical yardstick to measure the current international situation. China has every intention of forming a first class power projection military. And this fact is very unsettling, given the repeated Chinese claims to total sovereignty in the South China Sea. The ASEAN states also see a China which is marked by internal fragmentation to be a nation prone to external confrontation. Thus, as many ASEAN states as can afford to are engaged in rapid military modernization as an added measure of safety in their otherwise defenseless policy of constructive engagement.

In the contours of the post-cold war world, the ASEAN states see themselves as inherently weak and vulnerable. And they also see a United States that is unreliable and increasingly isolationist. So in this unforgiving and harsh international post-cold war system, they have made their bets. And the best bet is to have some kind of a constructive engagement with China, which they argue suits both their long and short term security interests. To hold China accountable for any mishaps in Hong Kong jeopardizes their best interests. Instead, Southeast Asia will follow the advice of Lee Kwan Yu and form a relationship with China that acknowledges the greatness of China's civilization, respects its current political and economic stature, and avoids thorny issues such as human rights. China will then be appeased and willing to bargain at the international table.

The ASEAN states have invested a lot in what they consider to be the long term strategy of constructive engagement. Even after Hong Kong returns to China and if tragedy does befall the citizens of Hong Kong, it is not likely that the Southeast Asian nations are going to change their policy of constructive engagement in any way. That is the harsh realpolitik in the Asia Pacific today.
"Economic Consequences of Hong Kong's Reversion on 'Greater China'"

Chu-yuan Cheng  
Professor of Economics, Ball State University

Despite Beijing's proclamation that under the "one country, two systems" arrangement Hong Kong will maintain its capitalist system for fifty years, the change of sovereignty from a British Colony to a Chinese Special Administrative Region (SAR) will significantly affect the operation of the Hong Kong economy. One significant effect will be a further integration with China. Unlike Taiwan and Singapore, Hong Kong is geographically inseparable from the mainland. Its economy is already closely intertwined with that of South China.

In addition, to replace the exodus of British capital, the Chinese government has poured huge amounts of capital into Hong Kong. As Hong Kong approaches 1997, China has sped up the investment spree. There are now 1,756 Chinese state-owned enterprises in Hong Kong. Chinese companies are also rushing to list subsidiaries on the Hong Kong stock exchange. Beijing-backed China International Trust and Investment Corp. (Citic) has increased its stake in the colony's flagship airline, Cathay Pacific, from 10 percent to 25 percent. Citic also holds 46 percent of Hong Kong's Dragon Airlines, 8 percent of Hong Kong Telecommunications and a 20 percent stake in China Light and Power, the colony's largest electric utility. Beijing-run China Resource Enterprise supplies most fresh food and water, as well as many petroleum products, apartments, warehouses, and even cellular telephones.

In the past, Hong Kong was separated from China and was insulated from China's cyclical fluctuations. Now, as these two economies are closely intertwined, any change in China's macroeconomic policy will affect Hong Kong's business directly and immediately. In fact, the recent slowdown of Hong Kong's economic growth resulted partly from China's new round of cyclical downturn. The days of Hong Kong's immunity from Chinese influence may be gone forever. Even Tung Chee-hwa has noted that "the long-term interests of China and Hong Kong are one and the same."

For "Greater China" as a whole, the reversion of Hong Kong will have many consequences. Notable among them are closer contact between Taiwan and the mainland, which will reduce Hong Kong's role as an intermediary; increasing competition among Hong Kong, Shanghai, and Taipei as regional financial centers; and growing interdependence among the three constituent elements of "Greater China."

When Hong Kong was a British colony, it served as a third party in relations between Taiwan and China. The reversion changes this situation. After July 1, Hong Kong will be a part of China. While the political disadvantages of this situation for Taiwan are obvious, Taiwan will benefit economically by saving money on shipping expenses. As for Hong Kong, it will inevitably lose its designation as an entrepot and will suffer a sizable decline in tourism from Taiwan. In the short term, however, the effect should be only marginal, since facilities and services in China's ports remain inadequate.

While Hong Kong's position as the world's third largest financial center seems secure in the intermediate term, competition from Shanghai and Taipei is forthcoming. The Taiwan government has announced a grand plan to build six regional centers under the umbrella of the Asia-Pacific Operations Center (APOC) including manufacturing, sea transportation, air transportation, finance, telecommunication and the mass media. The plan calls for the development of a financial hub modeled after Singapore.

On the other side of the Taiwan Straits, Shanghai has also set a goal to rebuild itself into a regional financial center. In the 1930s, Shanghai was the world's third largest financial center, next only to London and New York. It lost its glitter under the Communist closed-door policy between 1949-1979, and now has been preparing for a renaissance. It is projected that by the year 2010, Shanghai will achieve its goal of becoming a full-fledged financial center serving the entire country. While challenges from Taipei and Shanghai are still remote, their potential competition will force Hong Kong to identify its niche role as an international financial center.

Since the mid-1980s, with the growth of trade and investment, interdependence among Taiwan, Hong Kong, and China has developed rapidly and has produced a integrated inter-regional economy, with China serving as the engine of growth as well as unifying factor. The reversion of Hong Kong will further accelerate these phenomena as a new era of mutual dependence will pave the way for further integration. Proposals have been made by business communities to form inter-regional banks owned by capitalists from China, Hong Kong, and Taiwan. Other proposals call for the organization of multinational corporations by combining Taiwan's capital, Hong Kong's managerial skills and China's manpower to engage in international construction projects.

This growing cooperation has helped to highlight Hong Kong's future as a financial center. After July 1, Hong Kong will increasingly resemble the headquarters of China's economic development in the south, exercising various degrees of control over the design, finance, and marketing of manufacturing facilities located in China and providing Chinese affiliates with whatever guidance and support they need. The result is that Hong Kong's future will be solidified as a major service center for China's industrialization and modernization and as a torch bearer for the economic and political integration of "Greater China."

"A Post-1997 Business Outlook"  
Stephen J. Lewis  
Managing Director, Generation Ventures, LLC
Hong Kong's reversion to China is viewed by China's leadership as the most important event since the creation of the People's Republic. How the Chinese handle Hong Kong will be critical to China's political and economic position in Asia and to the next phase of U.S.-China relations.

From the perspective of business and economic issues, Hong Kong represents a litmus test of how China will be viewed in the rest of Asia. Asia's business leaders are watching the transition to assess the likely delimiters on China's transition towards capitalism within a Communist state. How Beijing deals with all facets of Hong Kong's business community will be monitored by business executives throughout the world who will interpret reported actions by China largely through the lens of the foreign media and often with marginal insight or understanding of why Hong Kong's new government may have taken any specific action. Beijing's actions toward the Hong Kong business community, whether viewed as positive or negative, will result in real and immediate consequences for China's economy-over 95 percent of the investment in China is tied to Fortune 500 and equivalent companies around the world.

On the economic front, China will play by the rules. China's economy and business environment will continue to mature and converge towards a system more familiar to western businessmen as China marches inevitably towards becoming the world's largest economy. This process will be driven by an influx of western entrepreneurs, continued heavy investment from leading western companies, and the accompanying demands of these constituencies for a more western-compatible legal framework, regulatory environment, and business practices. Indeed, the Chinese themselves may well prove to be the engine of convergence as increasing numbers of Chinese join western companies, form joint ventures with them, or simply do business with and in the west.

On the political front, there may be confrontation, but nothing that will be able to significantly alter the strong underlying maturation or the long-term favorable outlook for China's economy and business environment. In fact, Hong Kong and U.S.-China relations may well be, in large measure, red herrings. There is no reason to believe that any significant changes will occur in China's business environment on July 1, or that the somewhat rocky road of U.S.-China relations can or will have a serious negative impact on the business outlook for China-at least from the perspective of the Chinese.

There are clearly risks inherent in both the reversion of Hong Kong and the state of U.S.-China relations. Hong Kong is a potential flashpoint which could have a significant near term negative impact on China's business environment, in particular from the perspective of other Asian business executives. However, judging by the relatively short-lived impact of the Tiananmen Incident on business, it is unlikely that even a series of major mistakes in Hong Kong would detract from the strong, favorable trends in China's business environment.

U.S.-China relations could also deteriorate markedly should the Taiwan Straits again become a crisis area. In that case, the primary impact would be felt by U.S. business interests alone. China would simply accelerate an already strong trend towards developing strong European Union (EU) relations in all key sectors of its economy. While this would be tragic for many U.S. companies, colleagues in the EU would not be overly distressed. The time when the U.S. could derail the Chinese economy is effectively over.

In sum, the years ahead promise continued strong evolution and growth of China's economy and business environment. There will almost certainly be problems along the way, but none which would significantly alter China's long term path. Chinese and Hong Kong leaders, factions, and opinion makers will devote the necessary time to understanding each other and will find reasonable solutions for all concerned. They all know that no other path makes sense, and geography and culture may make that path easier than many in the West now predict.

"The Division Between the Political and Economic Climate in Hong Kong"

Orville Schell
Dean, Graduate School of Journalism, University of California, Berkeley

In the latter half of the twentieth century, the world, particularly Asia, has entered a mercantile era which is unparalleled in world history. The enormous momentum of business which this has produced, and which we are only beginning to measure, has eclipsed certain issues which traditionally have received a more equitable share of attention in foreign policy and in the make-up of people's everyday lives. If one looks at business alone, as most people often do when they try to assess what's going to happen in Hong Kong, one sees various possible scenarios and a number of interests worth protecting. But it is important to remember that there are other things in life besides business and that a more sophisticated analysis of contemporary Asia might lead to different conclusions about the fate of Hong Kong.

What is missing in the debate about Hong Kong is the "meaning of life" question, which has been resoundingly buried beneath the assumption that business is not only king, it rules the realm. In traditional China the currency of the realm was emphatically not business. In the Confucian hierarchy, the scholarred gentry was at the top and the businessmen at the bottom. A tectonic change in values has swept throughout Asia as business alone, as most people often do when they try to assess what's going to happen in Hong Kong, one sees various possible scenarios and a number of interests worth protecting. But it is important to remember that there are other things in life besides business and that a more sophisticated analysis of contemporary Asia might lead to different conclusions about the fate of Hong Kong.

This change has led to the current debate over human rights and to the question which lies at the heart of the issue: Are human rights encapsulated in the mere getting and spending of wealth, or by speaking of human rights, are we talking about the ability of an inquiring mind to function and an imagination to flourish? If we choose the latter, the concern regarding Hong Kong's reversion to China is whether the environment in China really permits the flourishing of these aspects of life.

If we view Hong Kong's reversion only through the lens of business, then we miss the growing separation of politics and economics that distinguishes contemporary China and threatens the future of civil liberties in Hong Kong. We also fail to recognize the glaring contradictions
that constitute the seamy side of Asia's economic miracle in which economic growth is often pursued at the expense of civil liberties. And most importantly, in the context of Hong Kong's reversion, we fail to grasp the real significance of China's "one country, two systems" policy.

What Deng Xiaoping was actually talking about, and what his followers are talking about, is not "one country, two systems" with the line of demarcation between China and Hong Kong, where there would be a different system at work in Hong Kong from the one in China. What is meant, at least subliminally, is the reality we already see in China, which is one country that already has two systems. China has a political system based on a Marxist-Leninist model. Then there is the economic model which is very un-Marxist, very un-Communist, and which depends increasingly on free market mechanisms. It is the one country which already has two systems that is now being applied to Hong Kong.

"A Perspective on Hong Kong's Reversion from the Front Line"
Mike Chinoy
Hong Kong Bureau Chief, CNN

On the eve of reversion, Hong Kong presents us with two distinct pictures. On the surface, Hong Kong is booming. The stock market has been hitting one record after another, the property market is soaring, and the currency is strong. One notices a palpable sense of energy and vibrancy everywhere. Opinion polls consistently show a surprisingly high degree of public confidence about Hong Kong's future, especially on economic matters, even though political concerns exist and are frequently articulated. The prophets of doom have so far been proved wrong in the sense that there has been no mass exodus of people or capital. In fact, more people are returning to Hong Kong now than leaving it. Foreign companies are not racing to pull up stakes and move their headquarters elsewhere in Asia, and investors are not, by and large, pulling their money out. So it appears to be very much business as usual, and business right now is booming.

However, beneath this sheen lie many unanswered questions and muffled concerns. The whole notion of combining an environment that is as wide open as Hong Kong's with a system that is as politically repressive as China's has always been problematic. How can a modern, information-based, free market society, which depends on the free flow of information to operate, co-exist with a system like the one on the mainland? The Joint Declaration and the Basic Law were supposed to put most of these concerns to rest and, in fact, if the commitments contained therein are carried out, this could well be the case.

But a whole series of recent developments in the past several months have made a lot of people in Hong Kong nervous. Last fall, the Chinese Foreign Minister, Qian Qichen, told the Wall Street Journal that Hong Kong's annual commemorations for the 1989 Tiananmen Square massacre would no longer be allowed after the handover. And he also said that personal attacks on Chinese leaders would be forbidden, and people would not be allowed to advocate independence for Tibet or Taiwan. One of the likely tasks of the provisional body chosen last December by a 400-member Beijing-appointed selection committee is to draft a new law on subversion and sedition, with the prospect that this law could be used to suppress dissent as laws have been used previously in China.

To be fair, it must be acknowledged that China does have an immense amount riding on a smooth transition, which would go a long way towards reassuring Asia and the rest of the world that China is, as its government likes to say it is, a nation that abides by agreements. It would do a lot to erase the lingering stain of Tiananmen Square and, of course, if "one country, two systems" works or is perceived to work in Hong Kong, it will have a potentially significant impact on the prospects of China and Taiwan arriving at some kind of agreement. By the same token, if the transition encounters trouble or turns into a political crisis, the negative consequences could be equally immense in terms of harming China's international reputation.

The many unanswered questions regarding Hong Kong's future and the list of possible scenarios is endless. Benchmarks to help judge where things will be going include the following: Will continued commemorations of Tiananmen Square be allowed? Will newspapers or local political figures be permitted to praise Taiwan or the Dalai Lama publicly or to discuss the Taiwan and Tibet issues without too much interference from Beijing? Will political arrests ensue, or persecutions for reports critical of Beijing that appear in the local media? How quickly will the provisional legislature vote itself out of existence, and what kinds of arrangements will be made for the 1998 Legislative Council elections? Will Hong Kong Democrats be allowed to contest them? Will the elections be seen as basically fair or blatantly rigged and lacking in credibility? And finally, will Tung Chee-hwa crack down on corruption and pursue corruption cases even if there is a mainland Chinese connection?

The jury will be out on these issues, and it will be very interesting to watch the outcome of China's proposed "one country, two systems"-a concept which no country has ever tried to implement.

"How Hong Kong Business Has Abandoned Human Rights in Accommodating Beijing"
Stan Sesser
Senior Fellow, Human Rights Center, University of California, Berkeley

The line heard over and over again about the future of Hong Kong is that China is not going to kill the goose that lays the golden egg. The assumption is that if China cracked down on Hong Kong, making it a repressive place, then the business community would flee because it depends on a free flow of information to operate. But the problem with this analysis is that Singapore discovered long ago that there are two kinds of geese. There are the business geese whose eggs are golden and there are the other geese whose eggs can be eaten for breakfast.
Singapore has developed a two-track system to govern the often conflicting spheres of business and private life. There is one track for business, which features open access to information, and one track for everyone else, which is monitored by government censorship. For example, the Singaporean government has banned satellite dishes for use by the general public but has allowed businesses to use them to stay competitive. Singapore then extended the same policy to cable television and the internet. In the larger scheme, what Singapore has done is to separate business from democracy, and business has willingly backed government on this.

This situation prevails now in Hong Kong. With surprising uniformity the business community has turned against the democratic institutions that exist in Hong Kong and has totally abandoned any pretense of supporting democracy. The business community has said to Beijing, "We're behind you one hundred per cent whatever you do, and of course we understand that, in turn, you will leave us alone."

The chief economist at Lehmann Brothers in Hong Kong summarized the growing separation between the business and private sectors perhaps best: "In the fifteen years I've been here, Hong Kong has evolved from a business-dominated society to one more balanced. Now there's a substantial middle class with greater demand for participation in the political process. I would argue that the business community has not entirely welcomed this trend."

This attitude has also extended to newspapers in Hong Kong, where one after another the press is knuckling under to Beijing without any formal censorship guidelines. Looking at the Hong Kong press, they have already begun to censor themselves because they do not want to lose the chance to expand their media empires into the mainland. Nor do they want to lose the advertising they get from companies that would never, at this point, advertise in publications that voiced dissent. There are very few holdouts. The South China Morning Post has already abandoned any pretense of engaging in hard-hitting investigative reporting, and Ming Bao has just very recently become muted.

When July 1 comes there be will nothing much for Beijing to do. The press has already silenced itself. Civil liberties have already begun to erode. And Hong Kong's "golden goose" has firmly indicated in what yard he is going to eat his grain.

"Academic Freedom in Hong Kong: Past, Present, and Future"

Uldis Kruze
Associate Professor of History, University of San Francisco

Hong Kong's reversion to Chinese sovereignty on June 30, 1997 has drawn worldwide attention and produced an enormous amount of speculation on what may or may not happen, with commentators focusing almost exclusively on economic and political issues. But overlooked in this flood of words has been the situation of China's academic community and questions that need to be asked: How will Hong Kong's professoriate fare after 1997? Will academic freedom be curtailed or maintained under the new regime of Tung Chee-hwa? Have they already begun to censor themselves? What sensitive issues may arise in the future? Will students be allowed to organize or participate in peaceful political protests or political activities?

Academic freedom is a component part as well as an indicator of the level of democracy in a society. A muzzled or intimidated professoriate is not free to explore all avenues in the search for truth. If academic freedom is perceived to be restricted in a post-97 Hong Kong, international recruitment of new faculty, essential to maintaining Hong Kong's international status, would be greatly hampered. And a faculty of lesser ability would impact negatively on educating Hong Kong's next generation and on maintaining and increasing Hong Kong's competitiveness in the global market.

In order to address the question of academic freedom in Hong Kong, Kruze conducted a survey on the subject by sending 1,000 questionnaires to university professors at Hong Kong's seven universities. Only 30 responded, and 10 of these resulted in in-depth telephone interviews. Obviously, the data available is extremely limited, but nevertheless the interviews conducted were quite telling. Before addressing the results of this survey, however, it is important to put the issue of academic freedom in historical context.

Hong Kong's educational system cannot be viewed as a timeless and abstract variant of the Oxbridge system, but as one that was created and geared to specific purposes by the British colonial administration. The purpose of Hong Kong's educational system (that is, until quite recently under Governor Patten, i.e., since 1992) was never to create a civic minded citizenry that enjoys vast democratic rights and responsibilities. Hong Kong has been a colony first and last, and its citizens were taught those skills and values-economic efficiency and political docility-congenial to British interests.

Yet, Britain's enlightened form of autocratic rule over Hong Kong also had beneficial consequences for the college and university scene. Academics were kept on a far more comfortable leash than their counterparts in Taiwan, in the two Koreas, and even in Singapore. Academic freedom, while not enshrined in any legal document or university faculty handbook, also was not overtly threatened by Hong Kong's authorities. And by the 1980s, salaries for academics had become extremely lavish, even by international standards, and left little for professors to complain about in terms of their economic well-being.

A look at what the questionnaire respondents had to say about the future of academic freedom after July 1 shows that the pessimists, who were the minority, view the transition as potentially curbing academic freedom and muzzling a vital part of what is and should remain a democratic institution. Their fear is not based on current or large-scale purges of dissident faculty, but on the emerging practice of a more insidious form of self-censorship that goes beyond what even Beijing or Hong Kong's pro-Beijing forces require. The optimists, who constituted the majority...
of the respondents, see some cause for concern, but are not overwhelmed by it. They are confident that faculty will still be able to say what they want to say and write what they want to write.

Yet virtually all respondents commented that more and more faculty are adjusting their loyalties and activities in light of the fact that a new power structure would be in place after 1997. Some respondents were disgusted by what they saw as "opportunists" who had changed their standpoints and were now embracing the new regime in order to ingratiate themselves with the new power holders.

Some alluded to a phenomenon which has become prevalent at Hong Kong universities-"ghostbusting." Certain universities have not renewed the contracts of prominent advocates of human rights, the majority of whom are foreigners. These faculty have been replaced by local Chinese or by mainland Chinese who have secured advanced degrees in American universities.

The July 1 reversion does represent a major power shift in Hong Kong, and it would be entirely reasonable to see that the power shift will also be reflected in Hong Kong's universities as well as in its political leadership. This change will involve uncertainty and a degree of apprehension, both of which have been reflected in the comments of respondents. Yet it also embodies new opportunities for Hong Kong's academic community, including the development of closer cooperative ties with universities in the mainland. And moreover, Hong Kong faculty know all too well not to rock the boat from their own experiences of having fled the communist system on the mainland and adapted to the British colonial system in Hong Kong. As one respondent put it, Hong Kong scholars have always "tailored their cloth to fit the situation."

"Hong Kong After 1997: The Issue of Political Corruption"

Lowell Dittmer
Professor of Political Science, University of California, Berkeley

In the volatile mix of issues that may align themselves against Hong Kong after 1997, perhaps one issue stands alone in its ability to damage Hong Kong's vaunted economic efficiency: political corruption. Conventional wisdom has it that corruption in Hong Kong is likely to increase after the reversion for three reasons: first, corruption in China has increased greatly during the reform era and shows no signs of abating in the near future; second, the economies of Hong Kong and South China have grown increasingly interlinked, a process that can only accelerate upon repatriation; and third, the ability of the Hong Kong government to resist the growth of official corruption will necessarily be compromised by its incorporation into the Chinese political system.

Although Hong Kong has gained a reputation as one of the least corrupt political economies in East Asia, this reputation is of surprisingly recent vintage. During the 1950s and 1960s corruption was rife in Hong Kong. It was not until February 1974 that Governor Murray MacLehose established the highly successful Independent Commission Against Corruption (ICAC). And despite the ICAC's achievements since its inception, there has been a resurgence of corruption in the early 1990s, generally associated in the public mind with aspects of the 1997 transition to Chinese rule.

Though it is difficult to assess the extent to which corruption may invade Hong Kong after the reversion, one can assume that corruption will vary according to three variables: the emergent opportunities for corruption, the weak points in the control apparatus, and the points of stress in the new political structure within which Hong Kong's traditional civil service will be ensconced.

Addressing the first concern, the economic integration that has been occurring between Hong Kong and China over the past years is itself the main opportunity for corruption. Both polities trace corruption to the same roots in Chinese culture: tightly knit kinship structures and personal patron-client networks, weak legal traditions, and patterns of reciprocal gift exchange and informal influence. It is therefore a safe bet that those on both sides of the border who regulate the channels through which capital, personnel, and commodities flow will be sorely tempted to assess informal tolls. There is already some supporting evidence.

The ICAC has reported that an upward trend in political corruption has been noticeable since the middle of 1992, particularly in "one or two" Hong Kong government departments, such as customs. A 1993 ICAC survey found that 70 percent of Hong Kong companies with business interests in China admitted to some form of graft. The sudden influx into Guangdong of ethnically indistinguishable southerners flaunting a much higher standard of living has had a "demonstration effect" that provides an inducement to do whatever is necessary to catch up quick-an extreme pragmatism, as it were. In this sense the very presence of Hong Kong is corrupting.

The same Chinese businessmen who have been extorting bribes in China have been moving into Hong Kong for business purposes. These "red capitalists," who are already difficult targets of Hong Kong anti-corruption enquiries, have begun integrating themselves into the local economy in such a way as to become even more inextricable. Not having been socialized in a capitalist system, their imperfect acquaintance with the rules of the game has already precipitated a number of costly faux pas and scandals. Having no formal role in the system but with privileged guanxi and access to scarce resources, they have been moving into an alliance with the post-colonial economic elite similar to the old link between the British hongs and the colonial government.

Regarding the control mechanisms for curbing corruption, the ultimate guarantor of the integrity of Hong Kong's economic system is its civil service, and particularly the agency charged with corruption control, the ICAC. Although the ICAC as an institution will be preserved after the reversion, it may be subject to a dramatic personnel overhaul in which its store of institutional memory may be greatly depleted. Many positions have been vacated under duress by the requirement that expatriates will no longer be permitted to fill high-ranking posts of secretaries or heads of departments. The prospective dismissals will not be the only cause of personnel instability. Inasmuch as a relatively
large cohort of senior officials will be offered exceptionally generous provisions for early retirement, a sort of voluntary self-purge of the hard-core anti-communist contingent can be anticipated, leaving only those who are pro-Beijing or at least politically neutral. Also affected will be the police force, which anticipates up to 3,000 vacancies including more than a third at the inspectorate level.

If Hong Kong is to stem the tide of corruption, it must maintain its autonomy. Yet, it already seems likely that Hong Kong will be less autonomous than the "one country, two systems" formula had led many to hope. If Chinese cadres continue to meddle and second-guess constituted Hong Kong civil authorities, there may be multiple chains of command, most of them invisible. These will provide the kinds of loopholes in which corruption thrives. And this environment of structural ambiguity in Hong Kong may give rise to a proliferation of factionalism and informal networking. Perhaps the most worrisome problem on this point is the ensnacement of a small army of Chinese businessmen and political figures in Hong Kong who seem to be legally untouchable. Are their actions something Beijing would prefer to police directly? Or is it an area that local authorities are expected to regulate?

At the outset, any adverse impact of reversion will not be massive or conspicuous, but more likely subtle and unintended. Corruption will not take the form of hordes of relatively deprived Chinese petty officials swarming into the territory and "liberating" every unattached asset. Beijing has minimal authority to dispatch its own cadres to Hong Kong and the territory will maintain control of its own immigration and customs. Reversion will have no significant impact on border corruption which has already taken firm root. Furthermore, the Hong Kong government has been taking the obvious preventive steps: salaries have been raised to reduce the allure of bribery, and in October 1994 a new pension plan was introduced. In an effort to ensure continuation of the rule of law, a five-member court of final appeal is set to take the place of the Privy Council.

There is room for hope. If China's long term prosperity is not sacrificed to the short term gain of individual Chinese, Beijing might learn a useful lesson in the Hong Kong solution to corruption. China itself badly needs a more effective institutional antidote. Chances of its adapting this from a Special Administrative Region of the PRC will certainly be much better than when Hong Kong was still a British colony. But for this to occur, the Hong Kong anti-corruption model must first survive the transition.

"The Future of Religious Freedom in Hong Kong"
Reverend Nai-wang Kwok
Founding Director, Hong Kong Christian Institute

Religious freedom is one of the many basic freedoms every person should enjoy in any civilized society, but it rarely exists by itself. Without the freedom of expression, speech, assembly, and especially of the press, there will hardly be religious freedom. It is therefore necessary, when discussing the future of religious freedom in Hong Kong, to examine how China has dealt with these other freedoms in preparation for its reversion.

Perhaps most telling in this regard is the selection process of Hong Kong's first Chief Executive. To form the Selection Committee for this job, China hand-picked 400 people from Hong Kong. As such they were all "politically correct." The general populace in Hong Kong could hardly expect these "China appointees" to reflect their interests and protect their basic rights. On December 13, 1996 they selected Tung Chee-hwa, a business tycoon. And at the request of China, the Selection Committee also elected the 60 members of the Provisional Legislature.

Hence China has skillfully disposed of all the democrats who were well supported by the people of Hong Kong. Further, in order that China might control the whole political process in Hong Kong, it has been declared that only those who love China and Hong Kong (aiguoaigang) can continue to serve in the two municipal councils (the Urban Council and the Regional Council) and the 18 district boards. And perhaps most disturbing is the fact that although Hong Kong's future freedoms are enshrined in the Basic Law, the interpretation of the Basic Law is left to China-not to Hong Kong. In effect, religious freedom will exist on paper only. China, not Hong Kong, will determine when religious freedom jeopardizes Chinese sovereignty.

These foreboding prospects remain largely hidden behind the facade of economic success that defines Hong Kong. The world continues to be fascinated by Hong Kong's impressive trade statistics and its very high per-capita GDP figures. But it must be remembered that outside the margins of this success story are 10 percent of the Hong Kong population who live below the poverty line. It is one of the chief missions of the Christian Church in Hong Kong to care for these people.

In order to run its huge social service network by which it cares for Hong Kong's poor and under-privileged, the Church in Hong Kong enjoyed a close working relationship with the local government. Churches in Hong Kong were allowed to use land at a minimum or nil premium. In return the government expected the churches in Hong Kong to provide much needed social services. The government considered the Christian Church as its most important partner. But the church-state partnership has never been on equal footing. The government laid down stringent guidelines for social service and paid all the bills. In a word, the government is in full control of all the schools, hospitals, and social centers.

This dependency syndrome is a direct cause for the silence of the Christian Church on social issues in recent years. Churches in Hong Kong are now extremely cautious not to offend China. A denomination recently refused to sponsor a lecture given by a theologian from Taiwan. Many Christian organizations in Hong Kong will not publish anything that might irk China. Evangelical Churches are forming worship services at home, and several have moved their headquarters away from Hong Kong. Churches in Hong Kong are prepared to give up their autonomy in order to survive.
Historically, one of the main functions of the Christian Church was that it served as a social conscience. That being the case, it is quite unrealistic to hope that religious freedom will be safeguarded, for the future Hong Kong government will be more than eager to stifle any opposition, those of the religious communities included. And if the Church abandons its social role after the reversion, masses of people will continue to be exploited, and their civil rights will be curtailed further. Once these rights are taken away, concerned citizens including religious people will find it even more difficult to raise questions of social justice.

Therefore, the people of Hong Kong must not be afraid to speak up now. To voice their fears and hopes must not be perceived as confronting China. As a matter of fact, unless the people speak their minds, the decision makers will not know how to act and respond. Contrary to what the Chinese leaders think, Hong Kong's most important contributions to China may not be economic, but rather cultural. The Hong Kong experience can help China to become more modern and more internationalized. But first, China must give Hong Kong more room to maneuver. If Hong Kong is stifled, it will cease to be an asset and becomes a liability to China.

Conference Summation

Robert Scalapino
Robson Research Professor of Government Emeritus, University of California, Berkeley

In considering the effects of the reversion of Hong Kong to Chinese rule and its relevance to "Greater China," we must consider the backdrop of three conflicting or incompatible forces: internationalism, nationalism, and communalism. These three forces co-exist and form the tensions that drive and animate nearly all international issues today. The adjustments among and between these forces are critical to country-to-country relationships, including those which relate to "Greater China."

On the frontier of internationalism, organizations such as ASEAN, APEC, and the WTO are working toward developing a more open and equitable trading and investment system on the part of an increasingly interdependent world. Additionally, at the non-official level, trends such as natural economic territories (NETs) are developing. Hong Kong was a critical part of a pioneer NET, one between Hong Kong and Guangdong, with Taiwan playing an important role.

Nationalism, both in benign and militant forms, is on the rise for several reasons-as a response to the pressures of internationalism; as a substitute for the decline of ideology; and as an assertion of self-assurance and self-confidence as a result of success, but with a residue of insecurity. Nationalism is not only rising in China, but in other parts of Asia and in the West, including the United States.

And communalism has placed increasing emphasis on ethnic consciousness, on religious commitment, and on politics in the sub-regional community. At a time when individuals and societies are being shaken by the extraordinary rapidity of change and the undermining of tradition, it is perhaps natural to seek some sense of assured community.

Given the above context, it is easy to see how certain assumptions regarding Hong Kong's reversion to China have come to be widely held, assumptions which were voiced at this conference and are summarized here.

From an economic perspective, Hong Kong's reversion to Chinese rule has already been occurring to the extent that the Territory has been integrated over the years with the economy of Guangdong and South China. Adjustments, both institutional and personal, have been made on a large scale, and there is nothing in the Hong Kong system that would be fundamentally subversive to China in economic terms. China, with its economy so deeply enmeshed in Hong Kong, has every reason to want to see the pending transition take place effectively, and, in the process, demonstrate that the "one country, two systems" formula is a valid one.

The international business community will most likely continue-unless it is proved otherwise-to believe that Hong Kong and China are good sources for investment and will continue transferring technology, along with capital, to these regions. But the business community is wary with respect to three issues. First, will the rule of law continue in its present British form? Second, will it prevail over guanxi, and will an independent judiciary be protected? And third, will the pervasive corruption that now characterizes mainland economics and politics further infiltrate Hong Kong?

As we enter the political realm, the reversion assumes a new level of complexity. Some observers hold that Hong Kong potentially represents a threat to China. That is to say, the degree of freedom in Hong Kong, while very recent in many respects, is quite different from that existing in China. And, despite the "one country, two systems" formula, if Hong Kong's system is allowed to continue intact, it will infect portions of China, particularly South China.

Regarding the reaction of outside forces to the reversion of Hong Kong, of primary importance is Taiwan, especially since the "one country, two systems" model was originally developed for Taiwan. However, there is still skepticism as to whether the success of this formula will have any great impact on Taiwan longer term. Taiwan will watch the Hong Kong reversion intently because it has an economic stake in the results. The Taiwan-China relationship will stand separately.

Japan will be most of all concerned about promoting peace, prosperity, and stability in the region because of its enormous economic investment. It will conceive of its relationship with China as very important, but that relationship will be as delicate in the future as it has been in the past. As with Taiwan, Japan's relations with China will not hinge upon Hong Kong.
Southeast Asia has no alternative but to keep a low profile. ASEAN has given the region more international leverage, but not enough to engage in a showdown with China over Hong Kong or any other issue. Most Southeast Asian nations will continue to desire an American presence in the region to maintain the balance of power.

And what about the United States? Put simply, the American government's position is that the engagement of China is its key policy. "Engagement" is a developmental process which provides various mechanisms for continuous intercourse and dialogue-strategic, economic, and political-to abet the increasing pluralization of a society, and in the long run to advance the causes of human rights, political openness, and economic development. And that is likely to be the essential U.S. position, although there will always be a fallback position in case the premise is wrong.