

HONG KONG Roundtable.

I thought I would try to give an overview of the Hong Kong political situation, why it matters to China and why it should matter to us here in the US.

As you know, Hong Kong is governed by a "one country, two systems" policy. Broadly speaking, this means Hong Kong is recognized as an integral part of China but with generally separate civil, political, legal and economic standards. "Hong Kong people running Hong Kong with a high degree of autonomy" is the golden rule—with Beijing responsible for foreign affairs and security issues.

The stated "ultimate" goal is that local elections eventually will be by universal suffrage, though no official timeline has been set—and that lack of a definite schedule remains a basic issue inside Hong Kong to this day. Progress toward that goal has been limited. But there has been some, and Beijing has said universal suffrage could be (not necessarily will be) applied to the 2017 election of a new chief executive and to the 2020 election of all legislators.

The reality of this "high degree of autonomy" does not always match the theory. But the broad political outline could be considered rather generous, considering that it comes from a Leninist state with no tolerance for political disagreement or dissent—even if implementation has been much slower and much more grudging than hoped for 10 or 20 years ago.

Why did Beijing do this, and—given its enormous suspicions of and frustrations with pro-democrats in Hong Kong—why has Beijing allowed this separate political system to continue? Let me suggest a few reasons.

In the beginning, Beijing almost certainly wanted to enhance its international reputation and prestige. By negotiating terms with London, organizing a lavish handover ceremony and absorbing Hong Kong with no more than a token presence of the military (and the PLA has essentially been kept out of sight ever since), China could portray itself as a nation willing and able to seek its objectives by normal diplomatic means. In reality, China was of course an incredibly difficult negotiator, with its officials seeing nonexistent British conspiracies everywhere. They accused the British of trying to loot the Hong Kong treasury, plant political agents and otherwise deny China its just rewards—as in the 19th century.

The handover ceremony was also a great domestic political event for the Communist Party. It could and did take credit for regaining lost territory, something its predecessors could not do. The final ceremony, with a beaming President Jiang Zemin taking charge as Prince Charles and the last British governor sailed away into a stormy night, was a brilliant propaganda event for the ruling party—partly because it was a bit humiliating for the British.

And ever since, Beijing has taken credit for living up to terms of that agreement, and it is important for Beijing's international reputation to be seen as doing so—even if many people would argue about important aspects of how it has done so.

Beyond that, there are three other reasons often cited by those who speak for China.

The first is economic. Hong Kong is no longer as crucial to the Chinese economy as it was a few decades ago; well into the 1970s it was by far the main source of foreign exchange for China, which then had nothing like its current \$2.5 trillion of reserves in the bank. But Hong Kong still has much to teach about management, logistics, finance, law and so forth. For example, China is using the Hong Kong stock exchange to float mainland IPOs on the international market, and it is gradually letting the renminbi be used in international trade and settlements through Hong Kong-based financial institutions. That edges the renminbi toward convertibility and gives some practical experience, though there is a long way to go. A Chinese ambassador once told me that Hong Kong is safe as long as it keeps ahead of the mainland economically and sets a positive example. Its exact role is changing but Hong Kong remains important and it is being tied ever closer to the mainland economy.

Second, there is Taiwan. The one country, two systems policy was devised originally by Deng Xiaoping for Taiwan, not Hong Kong. And Taiwan, for the most part, has not been particularly impressed by the offer, and doesn't want to join the mainland in some variation of the Hong Kong system. But Beijing still hopes that success in Hong Kong will set a positive example that will influence Taiwan to some degree and speed reunification. What happens across the strait directly between Beijing and Taipei will always be more important. But China hopes Hong Kong will have a positive influence, and knows that if things go seriously wrong in Hong Kong the negative impact would be enormous.

Thus during the past year direct links between the Taiwan and Hong Kong governments have increased dramatically. There are now several quasi-official

agreements on trade, finance, travel, and so forth. Senior officials from both sides have made visits for the first time, and Hong Kong Chief Executive Donald Tsang will probably call on Taipei by the end of the year. From the mainland side, all this supports the broader effort to improve relations across the strait.

Finally, there is politics. For the record, mainland spokesmen have said "full democracy is good for Hong Kong." Further, they say Hong Kong needs a free society if it is to develop further its economic potential. "Democracy can best free human beings, and humans are the most important element of productivity," according to Wang Zenmin, vice dean of the Tsinghua University Law School, and a member of the Hong Kong Basic Law Committee under the Standing Committee of the NPC—and who, I understand, is in line for a promotion within the Communist Party. Professor Wang also says the development of a democratic system in Hong Kong can help the mainland improve its own political system—even if the two develop at quite different speeds and in different ways—though it remains to be seen if the Communist Party will ever adopt any of Hong Kong's freer political ways.

You can take all this with however many grains of salt you choose. But my main point is that Beijing has several good reasons for wanting to avoid any kind of social or political crisis in Hong Kong, and will work hard to prevent one. For example, when 500,000 people demonstrated against legislation that threatened to undermine civic freedoms back in 2003, it had the Hong Kong government withdraw the bill and in effect fired an unpopular chief executive. And last month, it offered the Hong Kong democratic camp a political concession to ensure that an election reform bill would pass in the legislature. More important may be the fact that the concession resulted from the first-ever direct negotiations between mainland officials and Hong Kong democrats, people China often has denounced as un-patriotic, working for foreigners and so forth.

This suggests that Beijing, for the sake of political peace in Hong Kong (and to avoid more radical politics there) will bend from time to time. There are limits, but China has several good reasons for wanting to avoid trouble.

As for the US interest in all this:

First, like China, we also have an economic motive. Hong Kong is an important financial and commercial center, and a base for corporate operations in China and East Asia.

For example, about 1,400 American companies have offices in Hong Kong, of which more than 900 have regional responsibilities. More than 60,000 American citizens live there. US exports to Hong Kong last year exceeded \$22 billion, and US investments in Hong Kong equal about \$40 billion. It is a free port, low tax city with a reliable legal system based, like ours, on British common law. Beyond that, the US government has direct cooperation with the Hong Kong government on a variety of issues, such as money-laundering, counterterrorism and port security. In brief, the US has large economic and financial interests in Hong Kong and this won't change.

Second, as a nation we believe that more democracy is better than less democracy. So we have an interest in encouraging the development of a free political system in Hong Kong for its own sake. There is also the hope that Hong Kong will set a positive example for China regarding its own political system, the free flow of information, legal standards, fighting corruption and other matters. Needless to say, the current Chinese record on that isn't particularly encouraging. But time passes and things do change, and the US has an interest in seeing change. So there is every reason to maintain a serious interest in Hong Kong's internal developments while avoiding the kind of heavy-handed interference that could backfire.