

Hong Kong and the Future of China

Three Years After the Tiananmen Square Massacre

By Senator Mitch McConnell

Introduction

Thank you for the opportunity to be here today to discuss U. S. policy toward Hong Kong and the People's Republic of China. Now that the sun has set on the Soviet empire, only the PRC remains as the last communist superpower. Yet right next to it, on a tiny peninsula, is the capitalist enclave of Hong Kong—probably the freest market in the world.

In fact, Hong Kong's prodigious economic success has inspired a new generation of capitalists on the other side of the border, who have transformed the southeastern province of the PRC into an economic power in its own right. This province, called Guangdong, has already integrated its economy with the free capitalism of Hong Kong, and increasingly looks to the West for its future interests—and away from Beijing.

Just five years from now, sixty short months, the last communist Goliath will swallow up this little capitalist David. One wonders whether the tradition-bound bureaucrats of Beijing will even be able to handle the aggressive, innovative capitalists of Hong Kong—or whether Beijing will simply resort to its traditional and often brutal methods of containing freedom.

Just three years ago today, we watched in horror as PRC tanks and troopers violently suppressed the pro-democracy demonstrations in Tiananmen Square. For the first time in history, mass communication turned the entire free world into a courtroom. We all saw those images of cruelty and bloodshed on CNN; and afterwards, the world delivered its judgment against the butchers of Tiananmen Square. That was only three years ago from this very day.

Accelerated Economic Liberalization. If the old guard in Beijing learned anything from this shameful event, they learned that the world is watching—and that the pursuit of economic and political freedom will continue despite whatever brutal methods are employed against it. Since the Tiananmen Square infamy, these same leaders have accelerated the PRC's economic liberalization program. These efforts are designed to fully integrate the economies of the PRC, Hong Kong, and Taiwan, and to hasten the creation of a "Greater China." Hong Kong and the PRC are moving toward a political integration as well, one that is to be completed in 1997. Even the political deep-freeze that exists between Taiwan and the PRC is thawing somewhat.

In the U. S. this week, President Bush announced his intention to renew China's most-favored-nation trade status, and legislation was introduced in Congress to condition that renewal on changes in the PRC's behavior. So the stage is set for another bitter, divisive debate over the President's policy toward the PRC. It is already clear that this battle will be fought more with an eye on the presidential elections in November than on the long-term future of U. S. relations with the PRC and Hong Kong. I think that is very unfortunate, because there is no doubt that our diplomatic and economic interests in this region are of paramount importance—and they should

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not be used as pawns in the ongoing war between the Republican White House and the Democratic Congress.

I will have more to say about the upcoming battle over MFN for China, but first let me talk about an important aspect of U.S.-China policy that is often overlooked: the U.S.-Hong Kong relationship.

The U.S.-Hong-Kong Relationship

In the last ten months, I have visited Hong Kong twice. During both visits, I was struck by the tremendous U. S. presence in Hong Kong, and by the stake we have in the territory's future. I was also struck, however, by the complete lack of any policy in this country for dealing with the 1997 reversion.

In the past, the U.S.-Hong Kong relationship was considered—if it was considered at all—within the context of a U.S.-China or U.S.-United Kingdom relationship. At the time, that seemed appropriate because Hong Kong was a dependent of the United Kingdom and because U. S. economic interests there were not great.

But all that has changed, and therefore our policy must change.

U.S. Economic Interests. First of all, American economic interests in Hong Kong have grown to an all-time high. Last year, Hong Kong purchased \$7 billion worth of American-made products. On a per capita basis, that is three times more than Japan bought from us. Over nine hundred U. S. companies maintain representative offices in Hong Kong, and U. S. banks have \$99 billion in deposits there. There are 160 U.S.-controlled factories in Hong Kong, employing 35,000 workers. Overall, 22,000 Americans call Hong Kong home.

Confidence and Stability. Despite this massive level of investment, representing a strong economic commitment to Hong Kong's future, many of the territory's residents are concerned about the PRC's intentions after the 1997 reversion—and about America's role in guarding the precious freedoms that Hong Kong currently enjoys.

Beijing is already showing aggressiveness in its dealings with Hong Kong—even though the reversion is still five years away. By demanding a say in the construction of a new airport, and by attempting to limit the growth of democratic institutions in Hong Kong, Beijing's leaders have made it clear they intend to tightly control Hong Kong's post-1997 autonomy.

I don't want to be an alarmist about such developments. I believe and hope that Beijing will act in its own self-interest, and not kill the goose that lays golden eggs by crushing Hong Kong's economic powerhouse. However, given the unpredictable nature of China's leadership, it seems only prudent for the U. S. to do everything it can to ensure a secure, healthy post-1997 Hong Kong. If nothing else, a firm U. S. policy in this area will calm jittery nerves and shore up the economic climate in Hong Kong.

Growth of Democracy. But there is another reason for the U. S. to take a deeper interest in the 1997 reversion. Hong Kong presents a unique opportunity for the U. S. to influence the growth of democracy in a region where it is sorely needed. The first-ever direct elections to Hong Kong's Legislative Council were held just a short time ago. Although these elections were only a small step towards full democracy—and I would personally like to see more directly-elected representatives in the future—it is nonetheless an important move in the right direction.

After 1997, Hong Kong could end up being the only province of China with any democratic rights or freedoms. That is, of course, if the PRC allows democratic institutions like the Legislative Council to continue. That is why the United States has a role in standing up for political

rights and freedoms in Hong Kong—with the hope that such new institutions will spread to other parts of China, just as Hong Kong's capitalism has overtaken the province of Guangdong across the border.

Emergence of "Greater China"

As many China watchers have observed, the increasing economic and political integration of Hong Kong, Taiwan, and the PRC is producing, for all practical purposes, a single "Greater China." As the PRC seeks to open up its economy, Hong Kong and Taiwan are seeking new markets and new sources of inexpensive labor. Economic necessity and convenience are drawing the three together. Politically, Hong Kong and China will be one after 1997, and even Taiwan and the PRC are warming their political ties.

The creation of a Greater China—whether it is formal union or merely an informal one—poses an economic and security challenge for the U. S. As the European Community moves toward integration, U. S. economic interests risk being locked out. To avoid a similar scenario in Asia, we must deepen and broaden our relationship with Hong Kong, Taiwan, and the PRC—now, before integration proceeds further.

For these and many other reasons, the U. S. needs a coherent policy with respect to Hong Kong, both before and after 1997. The U.S.-Hong Kong Policy Act, which I introduced last year and which passed the Senate last month, lays out such a policy.

The Bill

My bill is based on the 1984 Sino-British Joint Declaration, under which Britain agreed to transfer sovereignty over Hong Kong to China in 1997. The Joint Declaration makes clear that China, as the sovereign state, will exercise responsibility for all defense and foreign affairs matters.

However, it gives Hong Kong responsibility for its own internal affairs under the principle of "one country, two systems." Basically, the Joint Declaration authorizes Hong Kong to pursue independent bilateral relations in nine areas: economic, trade, financial, monetary, shipping, communications, tourism, culture, and sport.

My U.S.-Hong Kong Policy Act establishes policy guidelines for each of these fields. This bill also recognizes Hong Kong's legal status in U. S. law, ensuring that this status will not be affected by the 1997 transition. Finally, the bill requires the Secretary of State to report to Congress on all developments affecting U. S. interests in Hong Kong. As I mentioned, the U. S. - Hong Kong Policy Act has passed the Senate, and it is my hope that the House will act on it in the coming weeks. The Administration supports my approach, and I am confident the bill will become law this year.

Conclusion

Let me reiterate why I think this measure is important. As U. S. economic interests in Hong Kong have expanded, so has our stake in Hong Kong's post-1997 existence. The burgeoning democratic movement in Hong Kong is in great need of international recognition and support. Many of Hong Kong's residents are looking for assurance that the free world will uphold Hong Kong's autonomy after 1997. And, finally, the development of a "Greater China" potentially threatens U. S. access to important markets.

We've reached a point where we need a Hong Kong policy that conveys our deep concern about Hong Kong after 1997. It's time for the U. S. to stand up and say to Beijing that—despite its insistence that Hong Kong is a private issue between Britain and the PRC—the United States does have a stake in, and does care about, the former colony's future. We need to make clear to Beijing that America intends to fully support the autonomy promised to Hong Kong under the Joint Declaration after reversion to the PRC.

My bill prepares the U. S., both legally and politically, to provide that support.

MFN for China. Clearly, the threat exists that China could severely harm Hong Kong after 1997. At the moment, however, I am concerned about a more immediate threat to the territory and the entire region: withdrawal of China's MFN trade status by the United States Congress.

Despite protests to the contrary by my Democratic colleagues, there is simply no way around it: Given the economic and political integration of Hong Kong and China, denial of China's MFN status will devastate Hong Kong. And in addition to causing harm to Hong Kong, there are many other reasons for not withdrawing—or conditioning renewal of—China's MFN status.

I am one of those who support President Bush's policy of active engagement with China, and I believe this policy is working. When you think about it, active economic engagement is really a very simple concept—even members of Congress ought to be able to figure it out. By engaging economically with the PRC, the U. S. can support and promote continued economic development in China. Economic development undermines central political control, which will bring about the social and political reforms we all want to see in China.

One need look no further than Guangdong Province for proof that capitalism conquers Communism. Guangdong is a bustling, economically liberated, free-market province. If you visit around Canton or Shenzhen and talk to the people, you quickly realize that Beijing is largely irrelevant to the lives of the people there. Even the Party leaders in Guangdong believe in the capitalist system. To put it bluntly, everyone is too busy making money to be concerned with party dogma. And you can bet on this: The next thing this new generation of capitalists is going to want is some say in how their government operates.

News of Opportunity. Word about the economic success in Guangdong is spreading to the interior. Peasants who leave the rice paddies of interior China to take jobs in the coastal provinces return to their villages with news of opportunity, prompting more people to head for the coast. In fact, controlling the population shifts from the interior provinces to the economically free coastal provinces is a major problem for Beijing.

This is the good news. The bad news is that such promising developments can be quickly snuffed out with a simple congressional withdrawal of MFN. Yet this is exactly what Democrats in Congress proposed to do this week.

Now, I am the first to recognize that arguments for removing or conditioning MFN status are based on some very real behavioral problems within China's communist leadership. Human rights violations, illegal trade practices, and dangerous arms sales are all serious problems which both the Administration and Congress have a responsibility to address.

Nevertheless, I believe—and many in Hong Kong believe—that MFN is the wrong tool to fix these problems.

I also believe that President Bush's policy of active engagement is starting to bear fruit. For example, the PRC ratified the Nuclear Nonproliferation Treaty and has agreed to abide by the Missile Technology Control Regime. Selective use of our trade laws has wrung significant concessions from China on intellectual property rights protection. China also has promised to ban the export of falsely labeled goods and products manufactured by prison labor.

Moreover, the Administration's policy toward the PRC is anything but laissez-faire. It is investigating Chinese trade barriers and threatening future targeted trade sanctions. Under pressure from the Administration and the rest of the world community, China is slowly releasing political prisoners and has accounted for others still held.

Political Year. I agree that the pace of progress is frustratingly slow. The recent harassment of *Washington Post* reporter Lena Sun is a deeply discouraging sign. And as China's political leadership prepares for the Fourteenth Party Congress in December, we can expect more such occurrences. We shouldn't forget that in China, like here, this is a political year and the struggle between the conservatives and the reformers is particularly acute this time around.

However, withdrawing or conditioning China's MFN status would only play into the hands of the hard-liners—those who want less engagement with the U.S. and less influence from the West. While it might provide some emotional satisfaction, such a diplomatic blunder would most definitely retard, not speed, the process of reform in China.

And just as important, the withdrawal or effective withdrawal of China's MFN status would severely compromise the present economic health and future security of Hong Kong.

The reversion of Hong Kong to the PRC in 1997 promises to be one of the final great confrontations between communist totalitarianism and capitalist freedom. As the old communist Goliath of China squares off with the robust capitalist David of Hong Kong, the United States needs to take its position and clearly announce its intentions: that we will support—and maintain solidarity with—all those in the world who aspire to economic and political freedom.

