

# The Role of Hong Kong and Macau in China's Relations with Europe

Brian Hook and Miguel Santos Neves

The return of Hong Kong by Britain in 1997<sup>1</sup> and of Macau by Portugal in 1999<sup>2</sup> formally marked the end of one era of Sino-European relations and the beginning of another. Both events had been preceded by protracted negotiations, detailed bilateral treaties and, in the history of imperial withdrawal, extended transition periods.<sup>3</sup> Consequently, since the signing of the Joint Declarations (JD),<sup>4</sup> the local, national and international implications of the two events have been the foci of historical assessment, strategic analysis, contingency planning and policy reformulation.

As the concept of "one country-two systems" is put to the test, this predictable and, indeed, inevitable process continues. An important question emerging from the process is whether, in the rapidly changing conditions of the 21st century, the two territories, as treaty-based Special Administrative Regions (SAR), will be assets or liabilities in Sino-European relations. An alternative, perhaps more focused and, therefore satisfactory form of the question is under what circumstances would the territories be assets and under what other circumstances could they become liabilities in the relations between Europe and China?

## *Historical Factors*

The historical events heralding the end of European extra-territoriality in China had occurred much earlier. The peaking of Chinese nationalism in the 1920s had exposed the vulnerability of the port of Hong Kong to strikes.<sup>5</sup> Had that high-tide permanently extinguished the commercial life

1. According to the Sino-British Joint Declaration initialled 26 September 1984, signed 16 December 1984, ratified 27 May 1985, the PRC government declared it would resume the exercise of sovereignty over Hong Kong as a Special Administrative Region (SAR) of the PRC with effect from 1 July 1997, and the UK government declared it would restore Hong Kong to the PRC with effect from the same date.

2. According to the Sino-Portuguese Joint Declaration initialled 26 March 1987 and signed 13 April 1987, which to a large extent mirrors the Joint Declaration for Hong Kong, Macau would become a SAR of the PRC on 20 December 1999.

3. In the case of Hong Kong, the transition period was 13 years and of Macau 12 years. Although the majority view was that these long periods of transition were ultimately beneficial, there were those who dissented on the grounds that such protracted approaches to retrocession created problems that otherwise would have been avoidable. The die was cast, however, by the perceived needs of the business community in Hong Kong as early as the late 1970s, for certainty beyond 1997. In the event, had the Sino-British negotiations been delayed for five years, they would have coincided with the democracy crisis in China, the subsequent Leninist response to the demonstrations and, had negotiations been protracted, with a period of political paralysis that set in towards the end of the Dengist period.

4. See notes 1 and 2.

5. The Chinese Seamen's Union Strike of 1922 was the first major strike in HK. It was caused by post-war inflation eroding the purchasing power of low wages earned in oppressive conditions. It began in January 1922, lasted for 52 days and involved 120,000 workers,

of the port of Hong Kong, the British position there and, arguably, the Portuguese position in Macau, would swiftly have become untenable. The writing was, so to speak, on the wall for both territories. There it was to remain, surprisingly, for another six decades, when their roles in the international relations of their temporary sovereigns fluctuated from asset to liability and then back once more to asset, before the message was formally delivered.

In the interim period, the split between the KMT and the CCP, civil war, the challenge of Japanese imperialism, the Second World War (WW2) followed by the resumption of the civil war, influenced, in different ways, the history of Hong Kong and Macau. Hong Kong, as a key outpost of British maritime power, was attacked, captured and occupied from 1941 to 1945. Macau, benefiting from Portuguese neutrality in WW2, became a haven for countless Hong Kong citizens fleeing the terror of the Japanese occupation.<sup>6</sup> At the end of WW2, Britain deliberately pre-empted the US wish that their KMT allies receive the Japanese surrender of Hong Kong, thus averting an earlier return to Chinese sovereignty and enabling British administration to be restored.<sup>7</sup> In all the circumstances, however, its expectations were not long-term.<sup>8</sup>

At home, the British had elected a socialist government in the first post-war elections. With it emerged a new view of empire based on realism and nurtured by anti-imperialist sentiments generated by ideology.

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*footnote continued*

including nearly all the seamen in the colony, and sympathy strikes in other industries. The strike was settled by improving workers' pay and conditions. It was damaging economically and was to have a lasting political effect in that it inspired labour unrest elsewhere. This was clear to both the KMT and the CCP. The effect was also apparent in the 16-month Canton-Hong Kong Strike Boycott which started on 18 June 1925 and lasted until 10 October 1926. It was led initially by the Seamen's Union, as a reaction to the "May 30th Incident" when Shanghai police under British command fired on anti-foreign demonstrators. Shortly after, on 23 June, British and French troops were involved in the "Shameen Massacre" in which 52 demonstrators were killed and 117 wounded. At its peak, the total number of strikers in HK reached 250,000. It brought HK and its harbour to a standstill. (Kevin P. Lane, *Sovereignty and the Status Quo: The Historical Roots of China's Hong Kong Policy* (Boulder, Colorado: Westview, 1990), pp. 30–35).

See also Chan Lau Kit-ching, *China, Britain and Hong Kong 1895–1945* (Hong Kong: The Chinese University Press, 1990), pp. 169–239.

6. The population of HK fell from 1.6 m. just before the Japanese invasion on 8 December 1941 to 600 k. by the end of the Second World War on 14 August 1945. Most refugees sought refuge in rural China but many benefited from the neutral status of Macau. The Japanese occupation of Hong Kong was oppressive and living conditions were poor. Elfed Vaughan Roberts, Sum Ngai Ling and Peter Bradshaw, *Historical Dictionary of Hong Kong and Macau* (Metuchen N.J. and London: Scarecrow Press, 1992).

7. Lane, *Sovereignty and the Status Quo*, pp. 45–51.

8. *Ibid.* The UK was pressed to include HK in the Chongqing negotiations on ending extraterritoriality in China held at the end of 1942. China was by then an equal in the war against Japan. The KMT, whose case was strong, sought to include the 99-year lease on the New Territories of HK rather than the "unequal treaties" under which territory had been ceded in perpetuity, in those negotiations. Both the KMT and the UK negotiators knew, however, that to include the lease would be tantamount to the inclusion of the treaties since, without the hinterland, HK was vulnerable. In the event, the KMT compromised by deferring the question of HK until "an appropriate time" while the British agreed the issue would be raised when "victory is won." This enabled the treaties with the UK and the US to be signed on 11 January 1943.

Plans were made for possessions to be granted independence or the right to self-determination. Elsewhere, adjustments to political systems in dependent territories brought greater liberalism and extended local representation. It was intended that Hong Kong should follow suit. It did not do so. The argument that constitutional reform would simply transpose the KMT-CCP rivalry to the territory from which there would be no winners ultimately served to frustrate planned reforms in the late 1940s.<sup>9</sup>

The victory of the CCP brought the People's Liberation Army (PLA) to the Hong Kong border in October 1949, where, to the relief of both long-term residents and the thousands of refugees fleeing the strife, it halted.<sup>10</sup> A plausible explanation for the hesitation to liberate Hong Kong is that to have done so would have been to make a liability out of what was for the CCP a potential asset. Invasion would have closed a window on the world and have given the USA a pretext to move against the PLA. From then onwards, until the treaty settled the long-term future of Hong Kong as a Special Administrative Region,<sup>11</sup> it was popularly regarded as being a "borrowed place on borrowed time."<sup>12</sup>

The effect of the communist victory in China was dramatically to change the order of imperatives for Britain as the sovereign power. Hong Kong, a potential asset for China, had become more of a latent liability for Britain. The controversial proposals for liberalizing politics were first overtaken and then overlaid by events.<sup>13</sup> Plans for reform yielded to the urgent reality of accommodating a huge influx of refugees from the mainland. There, conflict had been followed by persecution. In Hong Kong, the basic necessities had to be met from a dwindling entrepôt economy and priority was given to the promotion of local business confidence. These considerations shaped British policy for Hong Kong in the first two decades of the second half of the 20th century. With the availability of cheap labour, mostly from Guangdong, and the influx of expertise and capital largely from Shanghai, conditions were established for rapid economic growth.<sup>14</sup> Much of the credit

9. The proposals were initiated by the Governor, Sir Mark Young, who had been interned in HK during the Japanese occupation. After his departure in 1947, they were handled by his successor, Sir Alexander Grantham. Ultimately, they were overtaken by events including the CCP victory in the Civil War, the founding of the PRC and the outbreak of the Korean War. N. J. Miners, "Plans for constitutional reforms in Hong Kong 1946–52," *The China Quarterly*, No. 107 (September 1986), pp. 463–482. See also Steve Yui-sang Tsang, *Democracy Shelved: Great Britain, China and Attempts at Constitutional Reform in Hong Kong, 1945–1952* (Hong Kong: Oxford University Press), 1988.

10. *Ibid.*

11. See note 1.

12. Richard Hughes, *Borrowed Place, Borrowed Time: Hong Kong and its Many Faces* (London: Andre Deutsch, 1976). Originally published in 1966, the book, written by an eminent journalist, provides a colourful and entertaining picture of life and politics towards the end of the unreformed colonial period.

13. Tsang, *Democracy Shelved*.

14. Wong Siu-lun, *Emigrant Entrepreneurs, Shanghai Industrialists in Hong Kong* (Hong Kong: Oxford University Press, 1988).

for this is due to the priorities explicit in the policy of the Hong Kong British administration.<sup>15</sup>

Contrary to what that policy formulation might, with hindsight, imply, the survival and progress of British Hong Kong were not plain sailing. The range of inequalities was severe. There were serious riots in 1956, 1966 and 1967.<sup>16</sup> At these junctures Hong Kong appeared to be a serious liability for Britain and an impediment in Sino-British relations. Corruption was endemic until the setting-up of the Independent Commission Against Corruption (ICAC) in 1974.

The significance of the ICAC was that the enforcement of anti-corruption legislation was removed from the police. The ICAC had three roles: policing corruption with wide powers to investigate, to compel disclosure of information, to prevent travel and to arrest and detain; preventing corruption by scrutinizing and recommending changes to existing and proposed legislation, administrative systems and procedures; and public relations, by promoting a sense of civic consciousness that would increase resistance to, and encourage the exposing of corruption. The effectiveness of the ICAC can be gauged from statistics: between 1976 and 1980, 302 members of the police and 209 public sector officials were prosecuted. Over the same period, there were 393 cases against private individuals.<sup>17</sup>

The suppression of corruption, together with the emerging success of the economic policy, fostered the rapid growth of the middle class. Its interests would have been served by a corresponding emergence from governance based on informal consensus to a growth in formal institutions of representative government. Such a development would not and could not have aimed at securing self-determination or self-government for Hong Kong. It had not gone unnoticed that one of the first acts of the PRC on admission to the China seat in the UN in 1972, was to establish that Hong Kong and Macau were not colonies awaiting independence but inalienable parts of China. Accordingly, they were removed from the agenda of the UN Commission on Colonialism. In the event, the British Hong Kong administration chose to move cautiously on constitutional reform, ever sensitive to the priority of maintaining business confidence. Against a background of change in China, the economic performance of

15. Records of correspondence between Hong Kong and London at the time, held in the Public Record Office, Kew, point to the importance given to support for business confidence in Hong Kong. This became a key part of financial policy.

16. The riots in 1956 occurred on the double-tenth anniversary, involving KMT supporters and factions inspired by the CCP. In 1966, rioting broke out over the level of fares on the Star Ferry. In 1967, the Cultural Revolution spilled over into Hong Kong. Once kindled, the rioting spread in each case, fuelled it is claimed, by triad activity. These instances are often cited in support of the pragmatic, conservative policies pursued by the British administration at the time.

17. A significant part of the corruption problem was that some of the major offenders were policemen and the police were required to enforce existing legislation, the 1948 Anti-Corruption Ordinance and in 1971, the Prevention of Bribery Ordinance. The notorious Godber affair, involving a British Chief Superintendent of Police, brought matters to a head. He was unable to account for assets valued at six times his earning capacity in 20 years of service and escaped to Britain. The ICAC was established following the Blair-Kerr Reports in 1973. Its first major success was the extradition and prosecution of Godber.

the territory and the material welfare of the people appeared to be the best guarantors of its longevity.

By 1978 China was ready for major shifts in political and economic policy. Hong Kong had become essential as a vital source of foreign exchange for the Chinese economy. It had become more of an asset than a liability in Sino-British relations. These circumstances had already been in evidence when China declined to accept the “retrocession” of Macau following the Portuguese Revolution in 1974. If Macau had been returned to China, the view of investors would have been that Hong Kong could not be far behind.<sup>18</sup> Consequently Macau, which had also suffered severe rioting in the Cultural Revolution period, the “1,2,3” events in December 1966,<sup>19</sup> survived as Chinese territory under Portuguese administration, formalized in the 1979 Sino-Portuguese secret agreement.<sup>20</sup>

The refusal by China to accept the return of Macau in 1975 reveals the complex symbiosis that had developed between the two territories. Although historically and culturally distinct, the political problem arising from their de facto constitutional status ensured they were dealt with by one office under the State Council, by one leading group under the Politburo and by one local organ of the CCP (the Hong Kong and Macau Work Committee). When visiting the mainland their Chinese populations were given special treatment (normally preferential but in the Cultural Revolution, discriminatory) as Hong Kong and Macau compatriots (*Gang-Ao tongbao*).

During WW2, Macau had been a safe haven for many Hong Kong residents. As Hong Kong grew prosperous from manufacturing, Macau had become its indispensable centre for rest and recreation. For all its wealth, Hong Kong could not replicate the distinctive cultural atmosphere of Macau.<sup>21</sup> At the beginning of the 1980s, in recognition of their potential as conduits for ideas and capital, the PRC located Special Economic Zones in their hinterland: Shenzhen for Hong Kong and Zhuhai for Macau. Consequently, when the PRC decided to recover Hong Kong, it came as no surprise that the procedure of bilateral negotiations leading to a JD and a Basic Law (BL) was adopted for both Hong Kong

18. Macau was the oldest European territory in East Asia. It was settled as a trading base in 1557, having been rented from China. It was declared independent by Portugal in 1849 but not so recognized by China. In 1887 China reached an agreement with Portugal, securing Chinese interests. In 1951, Macau was proclaimed an overseas province of Portugal.

19. The first time Portugal offered to hand Macau back to China was in 1966. In the face of the extremely difficult position in which the Portuguese administration found itself as a consequence of the riots, Portugal offered secretly to hand Macau back to China in order to prevent “a second Goa” from occurring. Contrary to Hong Kong the Cultural Revolution riots resulted in a shift of power to local Chinese interests and a reinforcement of the CCP’s power in Macau and the termination of Portuguese sovereignty.

20. This agreement was signed on 8 February 1979. At the same time diplomatic relations were re-established between Portugal and China, but its content was kept secret until 1987 when Portugal revealed that the agreement implied the recognition of Chinese sovereignty over Macau (Council of Ministers’ note, DN 9.1.1987) and a joint exercise of sovereign rights as Portugal retained the administration.

21. Thousands would attend the races in Hong Kong before leaving for the dog racing and casinos of Macau. Besides gambling, Macau offered good Portuguese and Afro-Portuguese restaurants.

and Macau.<sup>22</sup> However, for Macau the transition was a much longer process which, unlike Hong Kong, did not start with the signing of the Joint Declaration but much earlier in 1966–67 with the de facto termination of the Portuguese sovereignty. The transition had, in fact, two different phases, the first one dominated by Macau as “a Chinese territory under Portuguese administration” incorporated in the 1979 agreement, and the second, the formal transition, marked by the application to Macau, in 1987, of the “one country, two systems” Dengist concept.<sup>23</sup>

### *Contemporary Factors*

The constitutional outcomes of this procedure are vital in maintaining and developing the role of Hong Kong and Macau in Sino-European relations. The comprehensive scope of the JD and the wide range of the BL have enabled the creation of a rule-of-law-based framework for the handling of the majority of social, political and economic issues. Among them are issues that are directly or indirectly relevant to Sino-European relations. These comprise two main categories. The first is a range of issues arising from the complex legacy of extra-territoriality in the two territories such as treaty obligations, co-existing singular and pluralistic cultures, clear and confused identities, major and minor ethnicities, and common and conflicting interests. The second is a range of issues arising from the unique challenge presented by their international roles as Special Administrative Regions (SAR) within the Chinese state. These also involve treaty obligations. There is therefore a degree of overlap between these two broad categories of issues.

The scale of this challenge is evident in the guarantees based on the farsighted but untried concept of “one country two systems,” notably Hong Kong people ruling Hong Kong and Macau people ruling Macau with a high degree of autonomy, and 50 years with no change to their respective ways of life. Moreover, while adjusting to meet its treaty obligations for the Hong Kong and Macau SARs, the PRC must also adjust its state system for the inevitable encounters with the practice of transnationalism and globalization, and the responsibilities associated with membership of supranational institutions, together with the attendant concept of “pooled sovereignty.” This agenda had not emerged when the concept of “one country two systems” was agreed as a basis for solving the historical problem of Hong Kong and Macau.

22. See notes 1 and 2. The Sino-British Joint Declaration was signed in 1984 and the Sino-Portuguese Joint Declaration in 1987. The Hong Kong Basic Law was approved by China in 1990 and the Macau Basic Law in 1993.

23. It is interesting that it could have been the other way round, i.e. Hong Kong following the Macau model. In fact after the visit of Governor MacLehose to Beijing in 1979, when the question of the future of HK and the renewal of the lease was raised by Britain, and in particular during the second phase of the 1982–84 negotiations. Britain, it is suggested, tried to trade the acceptance of China’s sovereignty over Hong Kong having become convinced that the Macau model was the only solution for the UK to remain in Hong Kong, implying that Britain would accept becoming responsible for the administration of Hong Kong on behalf of China.

*Political and Social Issues*

The severing of colonial links in Hong Kong and Macau did not leave either territory with a legacy of intense political rivalries of the kind that blighted the future of many former colonies. Had extra-territoriality been followed by self-determination there might have been a different story. In the case of Hong Kong, the treaty appeared, at first glance, textually to convey the prospect of a relatively rapid constitutional reform process leading to the development of a popularly based legislature with attendant adversarial party politics. In the event however, the prevailing interpretation of the text, subsequently reinforced by the BL, dictated a period of gradual reform of the Executive-led system.<sup>24</sup> Consequently, so long as the new sovereign, China, succeeded in combining stability with political-economic change on the mainland, there should be no threat of damaging political rivalries being transposed to or emerging in either Hong Kong or Macau that could in any way implicate European interests.

Conversely, in the unlikely event of serious social, political or economic instability on the mainland, such as would unavoidably be reflected in both the HKSAR and the MSAR, both European parties to the respective bilateral treaties would, eventually, inevitably become involved.<sup>25</sup> Were that to occur, precedents suggest both parties would at an early stage seek, through the EU, to establish a unified view and, appropriately, to bring concerted international pressure to resolve the issues causing the instability.<sup>26</sup> The potential for a pan-European (EU) institutional response to such a scenario was not envisaged when the treaties were negotiated. It is now implicit in the development of successful EU integration, propelled by the powerful trends of transnationalism and globalization inconspicuous in the 1980s but conspicuously present at the turn of the century. Whether or not a unified, effective European institutional response were achieved would depend on the current level of EU integration and on significant international factors, such as the strategic perceptions of the USA.

Although the international treaties determining the future of the HKSAR and MSAR are primarily bilateral issues, involving Sino-British and Sino-Portuguese relations, the USA has taken a special position on the HKSAR. The US Congress adopted the controversial (as far as US-

24. The constitutional reform programme which accelerated democratization adopted under Governor Chris Patten in 1994 was reversed in its entirety by the HKSAR Provisional Legislature (PL) appointed by the PRC. The grounds were that the programme was not in accordance with the terms of the JD, a view apparently shared by some on the British side, notably the distinguished former ambassador who had led the negotiations, Sir Percy Cradock.

25. In the approach to such a hypothetical crisis, interested parties would monitor the implementation of the constitution with particular regard to rights, freedoms and the application of laws prohibiting treason, secession, sedition and subversion (such as envisaged under Article 23 of the HKSAR PL) and to the declaration of a state of emergency under which additional PRC laws could be applied to the HKSAR.

26. Precedents include the eventual European response to crises in the Balkans, in Zimbabwe and, more relevant, to the international calls to censure the PRC for human rights violations.

PRC relations are concerned) USA-Hong Kong Policy Act of 1992 (USA-HK PA)<sup>27</sup> which requires detailed annual reporting on Hong Kong and indicates US support for democratization and human rights, together with the terms of the JD. In the case of Macau there is no similar document although there was an attempt to approve one. Reflecting to some extent a recognition of the parallelism and interlinkages between the two SARs, a proposal for a USA-Macau Policy Act, along the lines of the HK Policy Act including a reporting mechanism and a clause of support for democratization and human rights, was presented to the Congress in 1999,<sup>28</sup> but so far the Bill has not been approved and remains formally under consideration.

While the implications of this domestic legislation for international relations cannot be compared to those of the even more controversial Taiwan Relations Act (TRA) of 1979 (which commits the US to provide Taiwan with weapons for self-defence, and to regard any action by the PRC against Taiwan as a matter of “grave concern” on which the US President and Congress would consult and take “appropriate” action),<sup>29</sup> it remains indirectly an important factor for Sino-European relations. This is because the US, with the greater local and regional interests and larger expatriate presence, is directly involved in monitoring the implementation of the treaty. Moreover, the US concern for the security of Taiwan expressed in the TRA has long served as a deterrent to the use of force against Taiwan by the PRC. Following the election of Chen Shui-bian, the Democratic Progressive Party (DPP) candidate as President of the Republic of China on Taiwan (ROC), and in the context of changing leadership patterns in the USA the risk of this deterrent being put to the test has increased and with it, the risk of regional instability involving the HKSAR and the MSAR.<sup>30</sup>

The unexpected success of the DPP in the Taiwan presidential election in March 2000 also had repercussions in the HKSAR. There, local representatives of PRC central institutions urged both the enactment of legislation under Article 23 of the BL (against treason, sedition, subversion, secession and the theft of state secrets) and the exclusion of news about Taiwan that was contrary to the policy of the Central People’s Government (CPG). To the extent that both trends could lead to the infringement

27. 106 Stat. 1448, Public Law 102-888, 5 October 1992. An Act to set forth the policy of the US with respect to Hong Kong and for other purposes.

28. It was introduced first to the House of Representatives in February, sponsored by Doug Bereuter, and later in July to the Senate, sponsored by Senators Craig Thomas and Gordon Smith. The proposals were referred to the Committee of International Relations and the Committee of Foreign Relations respectively.

29. Taiwan Relations Act, *Congressional Record, House*, 125, No. 38, 16 March 1979, pp. H1668–70.

Michael Yahuda, “The international standing of the Republic of China on Taiwan,” in David Shambaugh (ed.), *Contemporary Taiwan* (Oxford: Clarendon Press, 1998), p. 277.

30. The view that the DPP Chen Shui-bian presidency carries a greater risk of PRC intervention than, say a KMT Lien Chan presidency arises from the perception that Taiwan will move even further from reunification and towards independence, thus provoking such a reaction. In practice however, the DPP president may be less historically burdened than his KMT rival would have been in negotiating a *modus vivendi* between the ROC and the PRC.



of right and liberties, guaranteed in the treaty, they could bring the PRC into collision with the USA and through the UK, also with the EU.<sup>31</sup>

Taiwan is also the source of another historical factor that has the potential to influence relations between Hong Kong, Macau and the PRC and by extension, Sino-European relations. With a significant Catholic community it enjoys diplomatic relations with the Vatican. This is an impediment to the development of diplomatic relations between the PRC and the Vatican and to the latter's ability fully to interact with the HKSAR and MSAR. This was evident when the Pope was refused permission to visit the regions as part of his East and South-East Asian itinerary in 1999. The PRC has made it clear the Vatican must abandon its formal link with Taiwan as a prerequisite for formal diplomatic links with the mainland where there is also a large, practising Catholic community.

The discrimination exercised over the proposed papal visit was also evident in the failure to engage the Catholic cardinal in the HKSAR in the extensive governmental advisory system that grew up before the retrocession. Despite the relatively large Catholic presence, reflected not only in the number of adherents but also in local leadership elites and in the fields of education and welfare, compared to the relatively small presence of the Anglican church, the Anglican bishop was given a formal position and has since played a symbolically important role. Contrary to what might have been expected of the Church which is headed by the former sovereign, the Anglicans have adjusted successfully to the new environment.

In this regard, the most important change made by the Anglican Church was unilaterally to upgrade its status in Hong Kong from diocese to province. Decided in the early 1990s, it was formalized in 1998. In consequence, it is a more important presence in Anglicanism world-wide. It is an equal of the other Anglican provinces in South-East and East Asia and of the original province in China, and will nurture the Anglican diocese of Macau. There is now a much less dependence on the Anglican Primate's province of Canterbury, under whose aegis as a diocese it otherwise might have been placed.

Even so, the evidence would suggest that since both Churches represent one of the most conspicuous aspects of the foreign imperialist legacy in the two territories, they would more likely become a liability than an asset in the role of Hong Kong and Macau in relations between

31. Attributed to Wang Fengchao, Deputy Director of the CPG Liaison Office (formerly Xinhua News Agency) and Xu Simin of the Standing Committee of the Chinese People's Political Consultative Conference (CPPCC) in the *South China Morning Post*, 13 April 2000, following an interview on Cable TV by Vice-President Annette Lu Hsiu-tien of Taiwan ROC in which she referred to Taiwan's enjoying independent sovereignty. In addition to the US monitoring the HKSAR under the USHKPA, both the UK and the EU have reporting procedures. In the UK the FCO reports to Parliament. The EU adopted a reporting system in 1999 following an initial report by the Foreign Affairs Committee of the European Parliament in 1997. The appointment of the last governor of Hong Kong, Chris Patten, as EU Commissioner for External Affairs also increased awareness of the HKSAR in the EC.

Europe and China. To make matters worse, having been localized, in the sense that the majority of the expatriate priests and nuns have departed to be replaced by their local counterparts, they are now symbolically a visible example of an ideological and institutional alternative to the CCP, albeit in the second system of the one country. Yet, on further consideration, it is clear that both Churches indirectly play an indispensable role at the interface between China and Europe, and therefore, constitute a considerable asset in the promotion of good relations.

This indispensable role is based on the long-standing contribution of both Churches to education in Hong Kong and Macau. The enforced exodus of missionary educators from the mainland contributed both to the growth and excellence of established and new schools of both denominations. Consequently, graduates of these schools are conspicuous in the current leadership of government and the professions. For example, the first Chief Secretary for the Administration, Anson Chan Fang On-sheng, and first Financial Secretary, Sir Donald Tsang, of the HKSAR are outstanding exemplars of this system. Similarly, the first leader of the Democratic Party in Hong Kong, Martin Lee Chu-ming, a distinguished lawyer, whom it must be noted the Chinese authorities chose to regard as a thorn in the flesh for his democratic ideals, is also a distinguished exemplar of the system.

In Macau the Catholic Church has been historically very influential, clearly the player with the most consistent and long-term strategy towards China, under the leadership of the Jesuits. For several centuries they were the main brokers between the Chinese and European cultures and became the first generation of sinologists. Their involvement in education was intense as demonstrated by the creation of the first Western style university in East Asia.<sup>32</sup> The importance of Catholic schools, the majority teaching in Chinese, far exceeds the limited size of the Catholic community in Macau (roughly 5 per cent of the population) accounting in 1999 for more than 47,000 students in primary and secondary education, nearly 50 per cent of the total number of students enrolled at these two levels.<sup>33</sup>

Considering that the freedom of education<sup>34</sup> and the orientation of the curricula are not only crucial to the quality of human resources but also constitute a strategic dimension for the preservation of the autonomy of the second system, the Church will probably play a crucial role in

32. The first Western university in Asia was S. Paulo College created in 1594 in Macau.

33. Based on Macau Catholic Church statistics presented by Fr. Rodrigues Lancelot in the paper "The Church of Macau after the handover to the PRC" (submitted to the Conference on Macau on the eve of the handover organized by the Centre of Asian Studies of the University of Hong Kong, October 1999), and *Macau Yearbook of Statistics 1999*, Direcção dos Serviços de Estatísticas e Censos.

34. The Sino-Portuguese Joint Declaration (Annex I ch. V) includes a guarantee that "Schools, hospitals and charitable institutions attached to religious organizations may continue to operate as before." Similarly the Macau Basic Law also includes a guarantee that schools run by religious organizations can carry on developing programmes of religious education (Art. 128).

preparing future generations to understand the difference of the second system and the specific identity of Macau, namely its links with Europe.

The Catholic Church began preparing early to face the challenges of the post-handover situation – starting with the designation of the first Chinese Bishop of Macau, Domingos Lam. The Chinese authorities are concerned that the local structures of the Church are subordinated to an external transnational authority as well as the impact the Macau Church might have on mainland Catholics.<sup>35</sup> The position of the Church is particularly sensitive because of the weak and disorganized civil society. The Catholic Church emerges clearly as the most organized structure and at present probably the only one capable of offering some resistance to any serious violation of basic rights and freedoms.

The same is true of representatives of many other professions located at and contributing to the interface between Hong Kong, Macau, Europe and China. They are leading members of a diverse and talented local population. The issues of ethnicity, nationality and identity can also influence the role of Hong Kong and Macau in relations between Europe and China. The populations of both territories are overwhelmingly Chinese by race.<sup>36</sup> Macau, with a much longer history of European extra-territoriality, has a far greater proportion of Eurasians than Hong Kong,<sup>37</sup> known as “Macaense,”<sup>38</sup> reaching at present nearly 15,000 people largely involved in public administration and the professions. There is also a sizeable community of Macaense in Hong Kong that has been

35. In the Joint Declaration (Annex I, ch. V), China already showed (some concern over this issue and defined the principle of separation, stating that “The relationship between religious organizations in the Macau SAR and those in other parts of the PRC shall be based on the principles of non-subordination, non-interference and mutual respect.”

36. Hong Kong has a significant ethnic minority population originating from South Asia resident on a permanent basis. Numbering over 30,000, many are prominent in, and form an indispensable part of the business community. There are also important resident Eurasian and expatriate communities, the most numerous of which, numbering some 130,000, is from the Philippines. The EU community comprises about 46,000, citizens from all the member states. This reflects the significant local presence of EU companies and EU investment. *Second Annual Report by the European Commission on the Special Administrative Region of Hong Kong*, COM (2000) 294 final, 18 May 2000. The figure in this report is an under-estimate as the 1990 British Nationality Selection Scheme (BNSS) offered full British nationality status to 50,000 heads of household and their dependants. Consequently, up to 250,000 British subjects could have been added to the already significant British minority. The explanation is that the figure in the report reflects the number of expatriate EU nationals in the HKSAR and excludes permanent resident EU nationals.

37. The Macaense, seen by some as a racial mixture of Portuguese and Chinese and by others as descendants of the original Portuguese-Malaccan combinations having no biological links with the Chinese, are a consequence of the much longer history of Macau in relations between Europe and China. Portuguese nationality status with EU rights was granted to Macaense and some Macau Chinese under the JD in a memorandum. It is estimated that up to 200,000 could benefit from this agreement. (Roberts *et al.*, *Historical Dictionary*). The communication from the European Commission to the European Parliament, *The European Union and Macau beyond 2000*, COM (1999) 484 final, 12 November 1999, is silent on and therefore fails to register this aspect of EU relations with China. Permanent resident nationals should normally be a great asset in EU-PRC relations. In times of crisis, they could become liabilities for whose welfare the EU would ultimately be responsible.

38. The specificity of this Eurasian group has been formally recognized both in the JD and the Basic Law which, in Article 42, provides for the protection of the interests and cultural tradition of the Macau residents with Portuguese ascendancy.

particularly active since the foundation of the British colony. However, the majority of the Macaense live abroad in overseas communities scattered around the world with the most important located in the US, Canada, Australia, Portugal and Brazil. These overseas communities, which according to some estimates could include as many as 70,000 people, could constitute a strategic asset for Macau in the era of globalization.

Moreover, Macau was treated as an overseas province of Portugal whose citizens enjoyed Portuguese nationality and all the benefits that thereby accrued. Consequently, much to the envy of many of their Hong Kong neighbours, it was calculated that a very large proportion of the population of Macau qualified for citizenship of the European Union without having shared in its onerous system of personal taxation. In 1999 there were 107,000 people in Macau, 25 per cent of the population, most of them ethnic Chinese, who held Portuguese passports. This was the result of the fact the Nationality Law in force until 1981 was based on the principle of *jus soli*, according to which anyone born in the territory would acquire Portuguese nationality automatically.

As Portuguese citizens, all these people have the right of abode in the EU, including the UK, and are legally entitled to consular protection from Portugal and other EU partners. This remains a very controversial matter, probably the most intractable issue in Sino-Portuguese negotiations which in the end could not be settled. Although China does not recognize the Portuguese nationality of these residents and considers them exclusively Chinese citizens, Portugal still considers them to be Portuguese. In practical terms, the most critical aspect is the question of consular protection, in relation to which China made clear in the memorandum attached to the Joint Declaration that these Macau residents “will not be entitled to consular protection in the MSAR and other parts of the PRC.” In spite of this, Portugal is prepared to grant them consular protection and to mobilize EU support. This might well become a source of tension in EU-China relations. Furthermore it is possible to argue that, in the face of declining economic ties, the most important links Macau will maintain with the EU in the near future will be mainly of a political nature: the human link, associated with the large number of Macau residents who have Portuguese nationality, as well as the legal system based on the European Continental Law tradition.

In the 1960s the British had become extremely circumspect, some would opine blatantly racist, about the implications of according citizenship to colonial nationals. The influx of Afro-Caribbeans, Indians and Pakistanis brought about a tightening of the existing laws governing the right to full British citizenship.<sup>39</sup> Many arrivals in Britain were in

39. Until 1948, acquiring British nationality by birth or otherwise under the law, conferred the right to go to, and to live in the UK. From 1948, the first of a number of laws effectively restricted the availability of “full” British nationality. They included the British Nationality Acts of 1963 and 1981. This legislation reflected domestic concern over the social challenges of immigration to the UK of new Commonwealth (non-white), as distinct from the old Commonwealth Canadian, Australian and New Zealand citizens. The Hong Kong Act of 1985 and the 1986 changes to the British Nationality Act of 1981 created a new category of

response to offers made to maintain the competitiveness of a low-wage, low-investment economy already at the stage where restructuring to create a high-investment high-technology economy was an urgent necessity.

When the question of the retrocession of Hong Kong appeared on the agenda, the nationality laws had already been changed to exclude the majority of its citizens. Many had acquired British Dependent Territory (BDT) passports without the right to reside in the UK. This category was subsequently superseded by the status of British National Overseas (BNO). When faced by a brain drain at the nadir of confidence in Hong Kong following the suppression of the Democracy Movement in the PRC in 1989, the British announced the British Nationality Selection Scheme (BNSS).<sup>40</sup> The proportion of the Hong Kong population having full rights to citizenship and residence in the UK and the EU subsequently increased but the overall proportion never reached that of Macau.

It would be fair to say that the issue concerned the number of potential immigrants to the UK and not merely the proportion of the population entitled to immigrate there. Alarmists suggested that, should the political situation in the PRC deteriorate further, resulting in civil strife, upwards of a million people from Hong Kong might flood into the UK. The existing largely unacculturated, unassimilated Hong Kong population of under 200,000 would correspondingly increase, exacerbating problems of triad-based organized crime. Accordingly, the BNSS was deliberately very carefully structured. The aim was to keep young to middle-aged professionals, essential to the running of the sophisticated economy, in Hong Kong by giving them and their dependants the absolute assurance of permanent residence in the UK and the rest of the EU countries, up to and beyond retrocession, should the political conditions deteriorate. Few of the 50,000 beneficiaries and their dependants have actually moved to the EU.

They could, of course, do so at any time though few would exchange the life-style of urban Hong Kong for that in urban Europe. As noted in research elsewhere, the phenomenon of “Hong Kong man” had developed earlier<sup>41</sup> differing from “mainland” and Macau counterparts. Emigration

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*footnote continued*

British National (Overseas) (BNO) which conferred even fewer rights, as a replacement for the British Dependent Territories Citizenship (BDTC) for Hong Kong. BNO remains for those BDTC citizens who applied for it, and those born in HK, up to 1 July 1997.

40. The BNSS was one of the three measures announced in late 1989 in the wake of the 1989 Tiananmen Square massacre. The intention was to bolster sagging confidence in the future of Hong Kong. The other two were the Bill of Rights Ordinance (BORO) and the Port and Airport Development Strategy (PADS). Under BNSS, up to 50,000 heads of household and their dependants, totalling an estimated 250,000 people, would be given full British citizenship. It was directed at reversing the ongoing brain drain of professionals nearing the early peak period of their careers who were key to the current and future operation of the Hong Kong system. In other words, it was an insurance policy for them. It was opposed by the PRC who accused the UK of forming a local “Fifth Column” and threatened not to recognize the rights of those who acquired citizenship.

41. Hugh D. R. Baker, “Life in the cities: the emergence of Hong Kong man,” *The China Quarterly*, No. 95 (September 1983), pp. 469–490.

problems suggest that if need be, the Hong Kong citizen gravitates to Toronto, Vancouver, Sydney or San Francisco. Each location has an extensive Hong Kong Chinese infrastructure that can be imitated but not equalled in London, Manchester or Amsterdam, reflecting the Hong Kong identity that emerged in the 1960s and 1970s.

Many Hong Kong citizens felt seriously let down by the British over the question of nationality and residence. In the late 1970s, Hong Kong students were classified as international students and charged the full commercial fee to study in the UK. This was regarded as unfair since, it was argued, the British Hong Kong administration had not provided sufficient places at the tertiary level for local students. Even when more local places were provided from 1987–91, a significant proportion of Britain's international students continued to come from Hong Kong. At the same time, Britain's leading non-state sector schools had a sizeable cohort of Hong Kong students. Consequently, in contemporary Hong Kong, membership of the professional associations reflects a high dependence on British education and a close affinity with the UK in professional culture. This close link with the UK is a valuable asset in Sino-European business relations but seldom amounts to a measure of cultural identity. At a personal level, the resentment generated by the discriminatory nationality legislation eroded some of the goodwill felt in Hong Kong for the UK.

#### *Political-economic and Legal Issues*

The sections that follow will examine how political-economic issues affected the Sino-British and the Sino-Portuguese relationship and, with reference to salient trade and investment data, the pattern of economic links with selected EU countries. They will also consider aspects of the Hong Kong and Macau legal systems and issues arising from the interface with the system on the mainland. Macau, to some extent, had a symbiotic relationship with Hong Kong, acting as an extension of the territory but, from the signing of the agreement on Trade and Co-operation with the EU in 1992, it began to develop a separate role.

*Hong Kong.* For most of the period from the end of WW2 to the date of the handover, Hong Kong gained a reputation for having absorbed a mass influx of refugees and survived the collapse of its entrepôt economy, to become a successful manufacturing base. When the PRC adopted the policy of reform and opening out to the world, Hong Kong was the main beneficiary. It progressively re-located the main part of its manufacturing to the Zhu (Pearl) River Delta, benefiting from cheap land and labour. There it engaged in outward processing.

As this trend gathered momentum, Hong Kong restructured its domestic economy and emerged as a major capital market, and as the location of regional corporate headquarters. There were attendant booms in property and infrastructural construction until the effects of the regional economic crisis reached Hong Kong in 1998. By that stage, Hong Kong had become part of China. It was no longer a major manufacturing base.

It had, in practice, reverted to its role as an entrepôt economy but with 21st rather than 19th-century characteristics.

For the best part of two decades of this ongoing process, Hong Kong's role in relations between Europe and China was overshadowed by its constitutional links with the UK. This was an outcome of the extended transition period defined in the treaty signed in 1984.<sup>42</sup> Within the shadows however, relations between Hong Kong and the EU were developing on the basis of growing trade, investment and other links with member states. At the same time, the UK not only remained the largest stakeholder in Hong Kong, but its role within the EU increased notably after 1992 with the change of leadership to Prime Minister John Major.

From the beginning of the reform and opening out policy in the PRC, Hong Kong was a key asset. Besides the economic rationale for both the outward processing arrangements and restructuring, other significant political-economic developments were present. Among these was the emergence in Hong Kong of a new generation of outstanding Chinese entrepreneurs, executives and professionals. They included not only the conspicuously successful tycoons such as Y.K. Pao and Li Ka-shing whose companies absorbed some of the existing British *hongs* but also a large number of entrepreneurs operating small and medium-sized enterprises together with experienced managers, professionals and technical support staff.

While Britain remained the sovereign power, Hong Kong was autonomous in most aspects of governance, and economic and political leadership now tended to shift towards local elites and away from the expatriate elites of the earlier generation. Moreover, while the remaining UK *hongs*, notably the Hong Kong and Shanghai Banking Corporation, Jardine Matheson, the Swire Group, and Cable and Wireless were able significantly to contribute to, and profit from, the role of Hong Kong in the modernization of China, they did so alongside groups controlled by Chinese entrepreneurs and, increasingly, with more local executives.

On this basis, the main role of Hong Kong in the external relations of China was reflected first in the development of the Zhu River Delta, including the Shenzhen Special Economic Zone (SEZ), and later in other parts of China, including Beijing, Shanghai, Wuhan and Guangzhou. Until the improvement of transport and communications on the mainland, Hong Kong had a dominant position as the principal point of entry to China. This was determined by the outward processing arrangements located in the hinterland where several million people were producing woven garments, knitwear, electronics and toys for re-export through Hong Kong. It was also due to international companies establishing their regional head offices in Hong Kong.

In this context, the role of Hong Kong in the relations of China and Europe can be illustrated by the linkages in the woven garment and knitwear business. Hong Kong had quotas agreed internationally and traded internally among its exporters. Exporters monitored fashion

42. See note 1.

**Table 1: Hong Kong's Trade with selected EU countries, the USA and the PRC (value: HK\$m.)**

<i>Total:</i>	<i>France</i>		<i>Germany FR</i>		<i>Italy</i>		<i>Netherlands</i>		<i>Portugal</i>		<i>Spain</i>		<i>UK</i>		<i>USA</i>		<i>PRC</i>	
	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>
1980	1665	1404	8096	2906	1327	1370	1742	820	45	42	446	201	7609	5456	25676	13210	6217	21948
1985	2425	3074	9694	6918	1680	3582	2646	1713	80	40	642	645	9780	8450	72392	21896	61212	58963
1990	10041	8906	41397	14828	7886	10842	10875	5095	685	157	3526	1216	25602	14118	154122	51788	158378	236134
1995	20627	28930	57948	32038	13964	27637	21854	14015	1751	391	9451	3702	43198	30448	292247	115078	447598	539480
1999	25918	14382	52665	28114	15113	20712	23541	10685	1159	333	10886	3306	55933	26961	320802	98572	449602	607546

*Source:*

Based on data supplied by the Hong Kong Trade Development Council (HKTDC).



trends in Europe, normally through attending classic events in Milan and Paris. They were then able to interact with teams of European buyers, who converged on Hong Kong twice a year. The outcome was a popularization of the fashion trends for the European and American mass market.

This interaction and inter-mediation was characteristic of many sectors in manufacturing arrangements developed first for Hong Kong and then adopted for the mainland. Its attendant business disciplines of adherence to contract, observance of intellectual property rights (patents and brand registration), quality control including laboratory testing, working to strict delivery dates, bank finance (letters of credit), and financial management were transposed to and imposed upon outward processing by Hong Kong exporters. The mainland collaborators subjected to this system would not have been able rapidly to access the European, US and other world markets had there been no Hong Kong to play this role.

Before the adoption of the reform policies in China and the restructuring of the local economy in the 1980s, Hong Kong had played a limited role in Sino-European relations. Trade was promoted through the regular Guangzhou Trade Fairs which attracted large numbers of European and other overseas buyers. The impact of the new policies on Hong Kong's trade with Europe is shown in Table 1. Corresponding figures for the USA and the PRC are included for reference.

The most significant aspect of these figures is the huge growth in trade that resulted from the adoption of the new policies in the PRC. It should be noted that the figures for total exports include domestic exports and re-exports. With the success of the outward processing arrangements, re-exports grew at a rapid rate. In 1980, re-exports accounted for 15.32 per cent of Hong Kong's total merchandise trade. In 1995, the proportion had risen to 39.24 per cent of total merchandise trade. At the same time, the restructuring of the Hong Kong economy is evident in the fall in the number of people engaged in manufacturing. In 1980, according to official data, 892,140 people were employed in the manufacturing industry. A labour force survey had put this figure at 947,000 out of a total employed population of some 2.3 millions (65 per cent male, 35 per cent female); a further 460,500 were in wholesale and retail trade, restaurants and hotels and 171,000 in financing, insurance, real estate and business services. In 1995, the figure for manufacturing had fallen to 386,106 out of a total workforce of some 3.1 million (62 per cent male, 38 per cent female); at the same time, 1,030,871 were employed in wholesale, retail, import/export trades, restaurants and hotels and 375,366 in financing, insurance, real estate and business services.<sup>43</sup>

Among the HKSAR's trading partners in 1999, in terms of the total value of trade, the UK was seventh, Germany eighth, France tenth, Italy 11th, the Netherlands 13th, Belgium-Luxembourg 20th, Spain 21st, Macau 22nd, and Denmark 27th. As a whole, the EU enjoyed 12.5 per

43. Based on data extracted from the *Hong Kong Annual Report* published annually in Hong Kong by the Government Printer.

per cent of the HKSAR's total trade, ranking third after mainland China (38.6 per cent) and the USA (15.3 per cent). Japan had 8.6 per cent. The importance of both SARs, but the HKSAR in particular, in trade, is self-evident. In the context of Sino-EU relations, however, it is important to note that, given the increasing volume of re-exports, the HKSAR is the principal entrepôt for Sino-EU trade. Re-exports of EU-origin goods to the mainland increased from HK\$18 million in 1978 to HK\$47 billion in 1998. Over the same period, re-exports of PRC-origin goods to the EU increased from HK\$247 million to HK\$163 billion.<sup>44</sup>

Consequently, the HKSAR is a vital location for EU interests. In 1998, 261 EU companies had their head offices and another 460 had regional offices there. These included major banks, insurance, airlines, shipping, telecoms, construction, oil, retailing, perfume, and wines and spirits companies. As a major financial centre, at the end of 1998, there were 172 licensed banks in the HKSAR of which 141, including 46 EU banks, were incorporated outside the region. Additionally, there were three restricted licence EU banks and 48 with representative offices. Of the 209 authorized insurance companies there, 36 were incorporated in the EU. 174 EU companies were engaged in securities and commodities trading. In the construction industry, from 1991–98, EU companies had about 36 per cent of the value of major contracts awarded by the government, the Airport Authority (AA) and the Mass Transit Railway Corporation (MTRC) amounting to £4 billion (approx. HK\$34.86 billion).

The EU is also an important source of investment in both the manufacturing and non-manufacturing sectors of the HKSAR economy. In 1997, the EU was the largest source in the non-manufacturing sectors; the cumulative value of its realized direct investment amounted to HK\$244 billion or 36 per cent of the total. Among member states, the UK had the largest share, accounting for 27 per cent of the total. In manufacturing industries, in 1997, the EU was the third largest source of overseas investments, accounting for some HK\$7 billion or 15 per cent of the total overseas industrial investments. Among member states, the UK (40 per cent) was the largest investor in this category followed by the Netherlands (37 per cent) and Germany (7 per cent).

The data on trade and investment indicate the scope and scale of the economic role of Hong Kong in relations between the EU and the PRC. Economically, the trend is of increasing mutually beneficial links since the inception of the reform and opening out policy. There is, however, also a political role. Politically, the trend is towards achieving and maintaining an acceptable standard of governance in trade relations that was difficult to achieve at the outset. The gradual adoption of legally binding contracts, of obligations arising from inter-

44. Compiled from data supplied by the HKTDC, the Office of the European Commission, the British Consulate General, other consular offices in Hong Kong and publications of the Information Services Department of the HK government.

national conventions, of workers' and intellectual property rights is a major advance. Although there are many imperfections and progress has yet to include the enforcement of judgements made by foreign courts, the trend promoted by economic links has a wider effect in that it has also contributed to political-legal development.

*Macau.* Since WW2 the evolution of Macau's economy was marked by the succession of three economic cycles and an increasing dependence on Hong Kong's economy. Hong Kong was closely associated with the structural economic changes and the sustained growth and prosperity that the Macau economy experienced between the early 1960s and late 1980s.

The first cycle was that of gambling and tourism which started in the early 1960s with the attribution of the gambling concession to a new monopoly operator, Sociedade de Turismo e Diversões de Macau (STDM) and Stanley Ho. The role of Hong Kong in the launching of this new cycle was extremely important in both the supply side, as STDM was basically backed by Hong Kong capital, and in the demand side, as Hong Kong gamblers became the main market. Gambling became the pillar of the economy and introduced a new dynamism, stimulating the development of tourism and transport and contributing greatly to public revenue. This revolution in public finance enabled the government to invest in public infrastructure, upgrade the administrative capacity and maintain a low level of taxation, creating a favourable environment for foreign investment.

The second cycle, initiated in the early 1970s, was dominated by the process of industrialization based on labour-intensive industries and the promotion of exports. Again the role of Hong Kong was crucial as the majority of the investment in industry, mainly in textiles and garments, was made by Hong Kong firms which transferred some of their productive capacity to Macau where costs were lower. However, their main motivation was to take advantage of Macau's unused export quotas to the US and EEC markets. Following the entry into force of the Multi-Fibre Agreement (MFA) and the expansion of the range of products subject to export restrictions, the pressure intensified as the quotas available to Hong Kong became increasingly insufficient for its levels of production. Therefore it was the dynamism of this situation that generated several years of unprecedented high economic growth. However, it is worth noting that Europe also played an important role in the success as the EEC was, in the early stages, Macau's most important export market, unlike Hong Kong which was more dependent on the US market.

The third cycle was that of "de-industrialization" which started in the late 1980s as a consequence of the migration of the majority of the labour-intensive industries to the Zhu River Delta in mainland China. Although there are no official data available one can estimate that in some sectors between 50 and 60 per cent of the productive capacity moved across the border (in some sectors like toys it reached as high as 90 per cent) causing a sharp reduction of nearly 40 per cent in employment in

industry between 1988 and 1995. With the withdrawal of Hong Kong capital, Macau's era as an export processing zone was over as well as the symbiotic relationship with Hong Kong.

To replace industry, the real estate sector emerged for a while in the early 1990s as the new pillar of the economy but the intense speculation fuelled by capital from mainland China and Hong Kong led to a structural crisis causing a major recession with five consecutive years of negative growth from 1994.

The breakdown of Macau's symbiotic relationship with Hong Kong's economy coincided with an increasing divergence of the two political processes. The Macau transition process begun in 1987 was initially highly influenced and conditioned by the Hong Kong process, but from 1992 Lisbon deliberately attempted to delink the two processes and highlight the differences by adopting a strategy of "appeasement" and harmonious relations with Beijing. This was intended to establish a contrast with the increasingly difficult situation in Hong Kong and the growing tension between London and Beijing over Governor Chris Patten's controversial reform proposals, in the hope of getting favourable treatment for Macau at the negotiating table.

This reflected not only the remarkable lack of co-ordination and co-operation between Portugal and the UK, both members of the EU, in managing the transition processes but also the dominant EU perception that Macau and Hong Kong were not European questions but rather mere bilateral problems to be dealt with individually by the two member states. In this context, and also because London (more than Lisbon) resisted the "communitarization" of the Hong Kong question, it was assumed that the EU should not interfere. Consequently, although the process of building the Common Foreign and Security Policy (CFSP) was already in motion, the EU was remarkably absent and silent with respect to Macau's transition and its involvement did not go beyond the formal diplomatic statements of the European Council.

Macau-EU economic relations have been dominated by trade flows which registered a gradual decline in recent years.

Among its most important trading partners in 1999 the EU as a whole accounted for 21.8 per cent of Macau's total trade, ranking third after the USA (26.8 per cent) and mainland China (21.9 per cent). For the last two decades the EU has been Macau's second most important trade partner (after Hong Kong until the mid 1990s and since 1995 after the US) but lost this position to mainland China in 1999. Among individual European countries, Germany has been consistently the most important partner accounting in 1999 for one-third of total trade with the EU and ranking fourth among Macau's trading partners, followed by the UK (sixth) and France (seventh). It is interesting that Macau's trade flows with Portugal are insignificant and lower than those with Sweden.

The EU was for a long time Macau's first export market. However, in

Table 2: Macau's Trade with Selected EU Countries; the USA and the PRC (MOP millions)

<i>Total:</i>	<i>France</i>		<i>Germany FR</i>		<i>Italy</i>		<i>Netherlands</i>		<i>Portugal</i>		<i>Sweden</i>		<i>UK</i>		<i>USA</i>		<i>PRC</i>	
	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>	<i>Exports</i>	<i>Imports</i>
1980	423	12	511	12	166	2	870	4	85	12	51	14	221	45	537	114	5	731
1985	755	29	718	48	98	24	139		35	57	75	30	432	104	2325	442	479	1314
1990	1099	128	1597	140	261	60	287		75	92	168	91	1059	358	4931	634	616	2194
1995	1106	332	1586	345	147	214	448*	68	49	189	150	60	1141	680	6693	1206	1562	3539
1999	920	281	1547	864	124	185	534		35	141	175	65	1302	384	8249	831	1617	5809

*Notes:*

\* 1996 data. MOP = Macau Pataca (exchange rate HK\$ 1 = 1.036).

*Sources:*

*Macau Yearbook of Statistics* (1980, 1985, 1990, 1995, 1999), Direcção dos Serviços de Estatísticas e Censos, Macau Government.

**Table 3: Share of Exports/Imports to the EEC/EU in Total Macau Exports/Imports** (MOP millions and percentage (data in brackets refer to exports/imports to/from USA))

<i>Year</i>	<i>Exports</i>	<i>Share</i>	<i>Imports</i>	<i>Share</i>
1980	1487	54.2% (19.6%)	78	2.8% (4.0%)
1984	2483	34% (32.4%)	243	3.9% (7.2%)
1990	4679	34.3% (36.2%)	1036	8.4% (5.1%)
1995	5047	31.7% (42.0%)	2397	14.7% (7.4%)
1999	5304	30.2% (46.9%)	2103	12.9% (5.1%)

*Source:*

*Macau Yearbook of Statistics* (various years), Direcção dos Serviços de Estatísticas e Censos, Macau Government.

the mid-1980s it lost its leading position to the US. In 1999 European countries absorbed exports to the value of MOP 5,304 million accounting for 30.2 per cent of total exports, compared to MOP 8,249 million of exports to the US accounting for 47 per cent. Exports to Europe are mainly composed of labour-intensive products and highly concentrated in clothing/garments and footwear, which together account for 80 per cent of Macau's exports.

The most striking aspect in the evolution of EU-Macau trade is the weakening of ties since the beginning of the "open door policy" in China and the acceleration of Macau's industrialization process in the early 1980s. In fact, as demonstrated by Table 3, the share of exports to the EU has dropped from 54 per cent in 1980 to only 30.2 per cent in 1999, the lowest level ever. The trend is clear, Macau has diversified its exports away from Europe to become increasingly dependent on the US market. It seems difficult to determine the fundamental causes of the decline of trade with Europe, but they include problems of market access and EU's increasing protectionism, the lack of diversification of Macau's exports highly concentrated in "sensitive products," and a less dynamic European demand resulting from low economic growth in the EU in contrast with more robust growth rates in the US.

EU investment in Macau is very limited, with the exception of infrastructure and banking. The EU is the most important source of investment in the infrastructure which is dominated by Electricité de France and the Portuguese EDP in electricity; Cable and Wireless and Portugal Telecom in telecommunications; Lyonnaise des Eaux in water; Siemens in airport construction.

In banking there is also a visible presence of European firms. In 1999 there were 22 licensed banks in Macau of which nine were European (40 per cent) including six Portuguese and three from other European coun-

tries (Banque Nationale de Paris, HKSBC and Deutsche Bank). However, the relative weight of European banks is far more limited than their share in the total number of banks suggests, accounting for 20–25 per cent of the sector activity, as the Bank of China group has a dominant position controlling around 60 per cent of the banking sector. There are few European interests in manufacturing. The two single exceptions are two medium-size projects in pharmaceuticals (Hovione) and electrical equipment (EFACEC).

It should be noted that there have been almost no fresh European FDI inflows in the 1990s. The small size of Macau's economy (GDP of US\$6.2 billion in 1999) was certainly a limiting factor.

In addition, the reduced level of integration of the Macau economy in the South China Growth Triangle (Hong Kong, Taiwan, Macau, Small Zhu River Delta and Fujian SEZ), as demonstrated by the levels of cross trade and investment flows,<sup>45</sup> the lack of an effective policy to attract foreign investment, together with excessive red tape and a lack of bureaucratic transparency, have prevented Macau from becoming more interesting for European businessmen.

It is noteworthy that a new phenomenon has emerged since the mid-1990s: the growth of Macau's investment in Europe. This was mainly the consequence of STDM's new internationalization strategy, which invested in Portugal and France in the areas of tourism, shipping and gambling.

Macau's visibility in Europe has been consistently low, despite a slight increase in the second half of the 1980s as a consequence of Portugal's accession to the EU and the signature of the 1987 Sino-Portuguese Joint Declaration. The lack of interest of individual member states with very limited trade and investment links with Macau and the absence of a proactive strategy on the part of Macau were considerable obstacles to upgrading the territory's status in Europe.

The 1992 EU-Macau Trade and Co-operation Agreement has been, so far, the most important exception to the dominant picture of benign neglect. It was only possible because of the impulse given by Portugal during the Portuguese presidency of the EU in the first semester of 1992. For Portugal, the main objective was both to mobilize European support and to upgrade Macau's image and status in Brussels, especially when fears of greater protectionism were associated with the completion of the single market.

The conclusion of the agreement was also facilitated by the negative climate in EU-China relations following the Tiananmen crisis and the implementation of EU sanctions. The perception of Macau and Hong Kong under threat helped create a consensus that the EU should do something to provide outside support to help Macau. In this light it is not

45. The results of the research project on Macau and the South China Triangle, conducted by the IEEI and INESC shows that Macau is the least integrated of all economies in terms of the weight of intra-regional exports in total exports with 14.5% when compared with 32% for HK, 27.6% for Taiwan and 88% for Guangdong in 1998. The share of intra-regional exports for Macau has declined sharply from 34.7% in 1990 to 14.5% in 1998.

surprising that “a democracy and human rights clause” was incorporated in the agreement.

The agreement is a “third generation” comprehensive and multi-dimensional agreement which in theory combines economic/technical dimensions (covering areas ranging from investment, tourism, trade, transport, telecommunications and statistics to science and technology, mass media, cultural heritage and anti-drug enforcement) with a political dimension involving the promotion of democracy and the protection of human rights. However, despite the relevance attributed in the text, political co-operation or actions aimed at promoting democracy and human rights were clearly neglected and marginalized in the practical implementation of the agreement. Technical co-operation became paramount.

Undoubtedly the EU-Macau Agreement constitutes an important signal of the EU recognition of Macau’s autonomy and specific identity vis-à-vis mainland China and Hong Kong as well as an important asset to strengthen Macau’s international status. This is already a very positive and relevant political result of the agreement, by far the most significant international treaty ever signed by Macau.

However, the results of the agreement were less positive in strengthening economic and political relations between Macau and the EU. To date, the agreement has not been a catalyst for major change in bilateral relations in the fundamental aspects of EU-Macau relations. It did not contribute to reversing the decline in bilateral trade flows. On the contrary, the EU position as a trade partner was further weakened.

Similarly, there was no real progress in investment promotion and no real contribution to the diversification of Macau’s production base. The idea of attaching priority to co-operation between European and Macau small and medium enterprises (SMEs) was not realized.

Further, the agreement did not stimulate the development of political dialogue and co-operation between the EU and Macau which could have contributed to strengthening Macau’s civil society. Although institutional official contacts were developed, the agreement has not contributed so far to helping Macau raise its profile in Europe.

Nevertheless it should be also recognized that positive results have been achieved. The most visible results have been obtained in the area of training, notably in tourism, intellectual property rights and the development of European studies. Another example is the co-operation in the preservation of historical archives. However, none of those results had a major impact on the development of bilateral relations.

There is clearly room to improve and use the agreement to its full potential. Some suggestions<sup>46</sup> have been made pointing to a greater involvement of the private sector, better prioritization and long-term

46. The suggestions were presented in the Eminent Persons Group (EPG) Report of March 1999 entitled “Macau in the context of EU-China relations,” elaborated by a group of European personalities, chaired by Peter Sutherland.



focus on strategic areas for the future of Macau and EU-Macau relations, and a greater exploration of the regional context. The recent designation by the Commission of a resident programme co-ordinator in Macau, in spite of being still too dependent on the Hong Kong office and lacking the desirable autonomy and a direct link to Brussels, can be regarded as a first step in the right direction that might well help to speed up the implementation of agreed programmes and improve global results. However, for the agreement to induce a major structural shift in EU-Macau relations Macau has to pursue complementary channels and seek, through a proactive policy, a greater diversification and decentralization of its ties with Europe.

Macau's legal system is based on the principles of the European Continental Law system and therefore distinct from both Hong Kong and mainland systems. Furthermore, the EU has an interest and is the best positioned actor to contribute to its preservation and development, crucial to secure the autonomy of the second system in Macau.

The integration model, originally conceived as "one country, two economic systems," is increasingly associated with the idea of "one country, two legal systems" as pre-existing economic systems converged and China became increasingly integrated in the world economy. The legal system and the "rule of law," in China sometimes confused with "rule by law" as if the law was simply a technical instrument of management, became in the present context the distinctive feature of the Macau and Hong Kong system and the cornerstone of their autonomy.

The Macau legal system is still very fragile and its consolidation constitutes one of the major challenges ahead. There is a shortage of trained and experienced legal professionals to operate the system. Many lack practical experience while others were trained in China in the first system and therefore are inadequately prepared to understand the system in Macau. It should be noted that the group of eight Portuguese judges who were appointed to Macau's courts (one-third of 23 judges appointed by the Chief Executive according to Executive Order no. 4/1999) have a critical role to play in guaranteeing the sustainability of the system. Also, the translation of the legislation from Portuguese to Chinese was not only excessively delayed but quality was not properly controlled and certified.

Finally, the level of social support and legitimacy of the system is low as the Macau population had no opportunity to participate in the law-making process, and know little about the laws that govern their lives, since no information campaigns were developed to make them accessible to the ordinary citizen. This will strengthen the position of the radical sectors who would like to see the present legal system abandoned and replaced by a different one with fewer guarantees for individual rights and fewer limitations on the SAR government.

The EU, in particular Portugal, is in a privileged position to contribute positively to help Macau preserve its legal rights. In this light, co-operation in legal matters should become clearly the priority for

EU-Macau bilateral co-operation in the near future. The Macau system cannot survive in isolation and therefore it is crucial to have permanent channels of contact with the systems that constitute the “legal family” to which it belongs and where it can look for references and better capture the spirit of the system. The EU has a double strategic interest in this process. One is the consolidation of Macau’s autonomy and the preservation of the European legacy. The other is that the existence of a living and efficient continental law system in South China has an important demonstration effect in the rest of China and can provide a positive stimulus for China’s legal reform and the advance of the rule of law.

In sum, Macau’s links with Europe have been excessively concentrated in the Commission and the EU as such, centred on the implementation of the 1992 EU-Macau Agreement. There is clearly a need to diversify and invest more in relations with individual European countries. The main challenge is then to cultivate more bilateral and decentralized relations with Europe while preserving the interest and commitment of the Commission.

The main argument put forward is that the implementation of an effective strategy towards Europe requires the implementation of a proactive paradiplomacy, which takes the nature of Macau as a non-state actor as its point of departure. Macau’s strategic option should be in the direction of decentralization of relations with priority attached to relations with non-central governments, and even other non-state actors, in Europe.

### *Conclusion*

This study has attempted to identify historical and contemporary factors in the role of Hong Kong and Macau in relations between the PRC and the EU. Although the territories have distinct histories and cultural features, a symbiotic relationship developed, beginning in WW2 when Macau was a sanctuary for Hong Kong refugees. Among the social-political issues discussed is the complex legacy of extra-territoriality in the two territories. Although both were handed over in good order and remain socially and politically stable and economically relatively prosperous, the negative aspects of the legacy will remain a potential liability in Sino-British and Sino-Portuguese relations for some time to come. This does not, however, extend to immediate relations between the EU and the PRC. In practice, the EU could play a positive role in resolving residual problems as it was not directly involved in their generation. If serious issues were to arise, a search for bilateral solutions outside a multi-lateral framework would risk reviving controversies already laid to rest. Moreover, a EU with a unified external policy is a significant influence in world governance.

The same principle may be applied to the other main social-political issue arising in the international politics of the PRC. In Greater China, the sovereign status of Taiwan remains a serious unresolved problem. It was

noted that US domestic legislation links the security of Taiwan to the US through the TRA, and the implementation of the JD on Hong Kong to the US through the USHKPA. It would appear unthinkable that the reunification of China would be achieved other than by mutual agreement of the parties, including the people, involved. To act otherwise would place at risk the economic and political gains of two decades and cause turmoil in international relations. Hong Kong and Macau would both be at risk in such a scenario. The EU could not but be engaged politically were such a catastrophe to loom. Although this issue is primarily a matter for China and the United States, the EU has an important diplomatic role to play in ensuring this worst-case scenario does not become a reality.

Assuming that the agreements on Hong Kong and Macau continue to be observed, and tension over Taiwan is reduced, the trends established over the past two decades appear likely to continue. In this optimistic scenario, communications between Hong Kong and Macau will be improved by infrastructural development in the Zhu River Delta, and both will continue to provide trade and investment services for the EU member states, principally in the hinterland. The demand for these services will initially be boosted by WTO membership. As those areas mature, however, the role of Hong Kong may become closely linked to the further development of Fujian, of northern Guangdong and of South-West China. In this context, the EU's corporate presence in Hong Kong, in banking, investment services, insurance and construction, together with some 40,000 EU nationals, would be a major factor in opening up these relatively less developed or underdeveloped parts of the PRC.

The opening of the PRC market under WTO rules is likely to generate more foreign direct investment (FDI) than in the past. This will occur as foreign companies, among them EU transnationals, seek to gain control of Chinese firms as a means to maximize market access. Although this is certain to be a gradual process, it is inevitable. It will be preceded by the consolidation of existing large and medium-sized state-owned enterprises (SOEs) that otherwise would be uncompetitive in the new trading environment. Conversely, once the PRC has its own share of companies among the Fortune 500, it will be necessary for them to deploy FDI in the EU to gain control of indigenous companies and secure markets for their own products.

There is already one good HKSAR precedent for this process in the EU. Hutchison Port Holdings, one of Li Ka-shing's companies, has gained control of Felixstowe and Thamesport in the UK, and Europe Combined Terminal in the Netherlands. With control of port facilities in the HKSAR, mainland China and Panama, it has now become the world's biggest port operator. This strategic initiative overshadowed a not inconsiderable amount of existing HKSAR and mainland China investment in the EU. Moreover, it occurred shortly before another of Li's companies, Hutchison Whampoa, gained hugely from a stake in Orange plc in the Mannesmann-Orange, Vodafone Airtouch-Mannesmann sequence of intra-

EU takeovers. This demonstrates that the HKSAR may be well-placed to play a major role in the stages involved in adapting the PRC to successful membership of the WTO when, in practice, the reform and opening out policy will meet, and must overcome, the challenges of a new century of modernization.<sup>47</sup>

47. These include the complexities of the political-economic-legal-commercial challenges of corporate transnationalism in the context of state-owned enterprise reform and of WTO regulation. Although Shanghai is advancing as a location for international business, the HKSAR should retain its competitive advantage as the principal source of expert services to facilitate the attainment of the next stage in the modernization of the PRC.