

The U.S. Role in Hong Kong: More Economics than Politics

By Leung Chun-ying

In November, Martin Lee, a Hong Kong Legislative Council member and the founding chairman of the Democratic Party, wrote in an article in the Wall Street Journal that "...I would encourage President Bush to take a broader view of the Beijing Games. He should use the next 10 months to press for a significant improvement of basic human rights in my country.....instead of the hoped-for reforms, the Chinese Government appears to be backsliding on its promises, including Hong Kong where we have near total paralysis, not the promised road to full democracy." The degree of overseas interest in Martin Lee's article was unknown, but in Hong Kong there was heated debate: was it appropriate for a Hong Kong legislator to ask the U.S. President to press for changes in China and in Hong Kong?

A few weeks later, the Hong Kong Chapter of the American Institute of Architects celebrated its 10th anniversary with a dinner at a leading Hong Kong hotel. The event was sponsored by the American Hardwood Export Council, an agency funded by the U.S. Department of Agriculture. The chapter was established in 1997, after Hong Kong became a Chinese Special Administrative region. Interestingly, the Royal Institute of British Architects, which represented the profession when Hong Kong was a British colony, is looking to re-establish its presence there.

Martin Lee's article and the AIA 10th anniversary dinner are not at all related. But they are typical of the key issues in the relationship between Hong Kong and the U.S. – one political, the other economic. And both have a China dimension. The political debate generated by Martin Lee's article had high visibility. It was also well covered by the international and the Hong Kong media. The AIA business event was not featured at all. But which was more relevant in the relationship between the U.S. and Hong Kong?

The target market of U.S. architects based in Hong Kong is primarily the Chinese mainland, for Hong Kong on its own is too small. U.S. architects have been remarkably successful in gaining significant market shares on the mainland, in many

cases at the expense of local Chinese and Hong Kong architects. Many of the trophy and iconic projects in Shanghai, Beijing and other Chinese cities are designed by American architect firms which operate from Hong Kong, employing local or U.S. trained architects. Many of the materials, components and plant and machinery used in these projects are specified by them and imported from the U.S. by Hong Kong trading companies. This is a role that Hong Kong plays well.

Soon after launching the reforms in 1978, Chinese government authorities appointed Hong Kong architects and other professionals as pro-bono advisers. For nearly thirty years, Hong Kong has been a useful conduit of overseas knowledge, experience and market information, and in the reverse direction, business opportunities. This also is a role that Hong Kong plays well. Its professionals have demonstrated to their clients, the authorities and the professions on the mainland not only the quality of their “hard skills”, but also the high level of professional conduct, ethics and integrity. This positive influence has not gone unnoticed. In 2003, the mainland authorities signed with Hong Kong a free trade agreement (Closer Economic Partnership Arrangement, CEPA). This agreement, together with its annual supplements, allows Hong Kong architects and other professionals to obtain mainland qualifications by taking a simplified examination.

Motivated by the expansion of the real estate markets in Asia, particularly the growth in China since the land reforms of 1988, the U.S. Urban Land Institute has also established an Asian Chapter. A couple of months ago, the Chapter’s secretariat was set up in Hong Kong. A large part of the Chapter’s program is about China. Last year, one of its most successful events in Hong Kong was a dinner speech by the Director of the Construction Department of Guangdong Province on infrastructural projects under the Province’s 11th 5-year plan. The speaker and the audience of Hong Kong and foreign professionals exchanged views on the subject, as freely as would a government official of any country. So Hong Kong is not only a base on which U.S. professionals earn fees from China, it is also a meeting point where American professionals exchange information, knowledge and experience with their Chinese counterparts. Again, this is a role that Hong Kong plays well.

Opportunities in Hong Kong are not limited to the provision of professional services. U.S. investment bankers have by far the largest share in the lucrative market of listing mainland Chinese companies on the Hong Kong stock exchange. Despite fierce competition from Singapore, London and New York, Hong Kong remains the preferred site for Chinese companies seeking to tap global capital. It is part of China,

geographically and culturally close to mainland cities. At the same time, strict corporate governance requirements are vigorously enforced by the Securities Commission and the Hong Kong Exchange. This has been so since 1993, when Tsingtao Beer became the first mainland Chinese enterprise to conduct its Initial Public Offering in Hong Kong, after many years of experience sharing and network building across the border. Today, nearly 400 mainland enterprises are listed on the Hong Kong Exchange, accounting for 60% of its total market cap and 76% of total turnover.

China has been tapping the Hong Kong talent pool, a major international source of financial and professional services. Hong Kong also has the largest pool of bi-lingual human resources. Since the beginning of mainland economic reforms in 1978, many Hong Kong Chinese professionals have taken up full-time and part-time positions in mainland Chinese authorities. An ex-Vice Chairman of the China Securities Regulatory Commission, for example, was a Hong Kong Chinese resident educated in the U.S. and who once practiced in the Hong Kong office of an American law firm. Others have served on the Banking Commission and other bodies as part-time advisors.

In the bilateral economic relationship, the balance of trade remains one of the most important issues for China and the U.S. In September 2006, during the visit of President Hu Jintao to the United States, a Strategic Economic Dialogue was conceived to recognize the importance of long-term strategic issues affecting both countries. The intent of the dialogue “is to discuss long-term strategic challenges, rather than seeking immediate solutions to the issues of the date”. The SED occurs twice a year, alternatively in the U.S. and China, at the highest official level to address crucial issues facing both countries such as re-valuation of the renminbi, the growing U.S. trade deficit, safety of Chinese products, pollution and accessibility to Chinese markets, especially for U.S. financial institutions.

The first SED meeting was held in Beijing in December 2006, the second in Washington D.C. in May 2007 and the third took place in Beijing in December. As a result of the previous two meetings, a wide range of key agreements have been concluded. Relevant to this article are:-

1. resumption of the licensing of securities companies in the second half of 2007 and, before the third SED, China will announce its intention to gradually expand the business scope of qualified joint-venture

- securities companies so they can engage in securities brokerages, propriety trading and asset management;
2. allowing foreign incorporated banks qualified for RMB retail business to issue RMB bank cards which meet the operational and technical standards of China's banking cards, and to enjoy the same treatment as Chinese banks; and
 3. allowing foreign property insurance companies to apply for conversion into subsidiaries.

U.S. companies operating in these business sectors will find Hong Kong useful in many ways. First, Hong Kong provides barrier free entry for foreign businesses. The process of registration is simple and speedy. Second, Hong Kong offers a low-tax environment, which is mandated in its constitution – the Basic Law. Third, it has the longest and broadest experience in the China trade. Lastly, China experts who understand both the Chinese and Western business culture are readily available, thus shortening the learning curve. Yet again these are roles that Hong Kong plays well. Among all Chinese cities, Hong Kong will be best suited to implement many of the agreements under the Strategic Economic Dialogue. More importantly, these roles and contributions are welcome by all three sides – the mainland of China, the U.S. and Hong Kong.

The return of Hong Kong to China was a major political event, not only in the year 1997 when it happened, but also throughout the 15-year transition during which negotiations between China and the United Kingdom took place. There were indeed apprehensions about the intent of the Chinese Government, the practicality of the “One-Country, Two-Systems” concept, the compatibility of the two systems, the degree of autonomy to be enjoyed by Hong Kong and a host of other matters. In the end, Hong Kong survived the transition, practices the new constitution and prospers. In June, in his speech to mark the 10th anniversary of the establishment of the Hong Kong Special Administrative Region, James Cunningham, the U.S. Consul General in Hong Kong, said “As Asia's world city, Hong Kong plays an important role which benefits China, the U.S and many others in the globalized, interdependent 21st century.”

Two other issues remain.

First, democracy in Hong Kong. Unlike other former colonies, Hong Kong did not become an independent state at the end of colonial rule. Instead it

became a special administrative region of a country. From the central government, it derives a high degree of autonomy but not full autonomy. The central government reserves unto itself through the written constitution the right, substantive and not ceremonial, to appoint its Chief Executive, which designates a candidate for such appointment by direct or indirect election. The process is in two parts. Neither the central government nor the electorate in Hong Kong has the complete power to determine the outcome. The system also has a built-in dual accountability as the Chief Executive is accountable at the same time to both the Hong Kong electorate and to the central government. This constitutional design is without parallel, and so is the meaning of democracy in this context. Ignoring this unique design and its complexity by putting onto it a simple “democracy” label does not help Hong Kong, nor any other party that shows an interest in the subject.

Secondly, developments in the mainland. For more than 100 years, the Chinese people shared the common goal of putting the country back on its feet. It was only in the last 20 years that results became tangible. The people of Hong Kong have made significant contributions to China’s modernization in many ways, but never as advocates for foreign intervention in its affairs. If there are aspects of life in Hong Kong that are worthy of emulation by China, the quiet model of Hong Kong has always been far more effective.



Leung Chun-ying is chairman of DTZ Debenham Tie Leung Global, a property services company in Hong Kong. He is also convenor of the Executive Council of Hong Kong (Exco), the 21-member cabinet that advises the Chief Executive on government policy.