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S U M M A R Y

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The Sino-British Agreement on the future of Hong Kong does not directly spell the final settlement of the Hong Kong Question itself although the Sino-British Agreement is an achievement of profound significance. It simply means that the Sino-British diplomatic talks on the future of the territory have arrived at a specific arrangement, and that the territory's future remains unpredictable. Besides the basic question of whether the two countries will follow the newly set rules, there is another question more essential to the people of Hong Kong of whether or not they can continue to enjoy the current economic prosperity or even see increasing economic growth if the both Chinese and British authorities follow those rules. Thus, Hong Kong appears to be on the threshold of a new era. In 1997, Hong Kong will probably face a new, and much longer passage to go through. The future of Hong Kong is regarded as a microcosm inseparable from the grand historic theme of the progress of mainland China as a nation.

And daringly speaking out to an extreme, Hong Kong will be changing from a British colony to a Socialist Chinese colony. All directions running counter to the intentions of the Chinese authorities, for example, the conventional anti-socialistic and anti-communistic features of Hong Kong including a wide range of freedom (of speech, thought, etc.) would therefore be restricted gradually. The head (administrative secretary) of the future Hong Kong SAR should naturally be assigned to a person favorable to the central government in Beijing. It is impossible for Hong Kong to avoid moving in this direction as far as it is due to go under the PRC's sovereignty, despite the status as SAR. But under these conditions, China will undoubtedly

step up to implement positively a variety of economic undertakings, ranging from those monetary and speculative activities that can never happen in the internal arena to those of free-market categories, under the leadership by "red merchants" and "red capitalists," using Hong Kong to a considerable degree. The above is one tentative plot foreseen over the future of Hong Kong, and the coming 12 years, during which Hong Kong will remain being a British colony, can be defined as a transition period towards a "Chinese Hong Kong." Because the intrinsic feature, that the Hong Kong society is basically characterized by a house of cards, will not change soon, all individuals in Hong Kong have to share, for the time being, the fear that the distinguishable prosperity of today might turn out to be only the "aftertaste of a dream" in an instant.

The Japanese influence is felt to a great degree in the society of Hong Kong nowadays. Especially today, when Chinese economy is shifting towards the 'open door' system, Hong Kong means to the Japanese enterprises a direct gateway to a more "liberal China." The approximately 10,000 Japanese in Hong Kong, and number of Japanese tourists averaging nearly 1,500 per day, are also factors indicating the important role of Japan in Hong Kong. The visibility of the Japanese is intensified by the small size of the territory. Under the situation, where British capital investors and corporations have taken a policy of withdrawing their funds and assets gradually from Hong Kong ever since the time around the conclusion of the Sino-British Agreement, Japanese investment towards Hong Kong is becoming brisk again, and so is the US investment. The recent

economic climate between Japan and Hong Kong can well be explained by the total value of trade HK\$62,404 mn (US\$8,000.51 mn), out of which the merchandise exports to Japanese markets amount to HK\$5,151 mn (US\$660.38 mn) and the re-exports HK\$4,633 mn (US\$593.97) while the imports from Japan account for Hk\$52,620 mn (US\$6,746.15 mn), resulting in a lopsided surplus of HK\$42,836 mn (US\$5,491.79 mn) in favor of Japan. These figures [all as of 1984] collectively spell the existence of very strong demand in Hong Kong for Japanese products. Japan, accordingly, shares 23.6 percent of Hong Kong's total volume of import, ranking second after China (25.0%), against the fifth largest share in terms of export [figures also as of 1984] . Its stock of direct investment on manufacturing industries in Hong kong is HK\$2,306 mn (US\$295.64 mn), proportionally the second in rank (29.4%) after the US's (46.2%). Looking at these comparisons from the Japanese side, Hong Kong denotes the fifth largest export market with a share of 3.6 percent of the total foreign export. It also constitutes the seventh significant market economy (or country) for Japan's direct investment abroad (figures here are of 1983).

Since Hong Kong's importance to Japan is so high, there is a natural fear, on the other hand, that Japan might suffer a strong impact from any political changes in China in future, due to its deep commitment to the Hong Kong society. Needless to say, no impact of vital importance would be given on Japan's economy even if Hong Kong's prosperity were lost, for Taiwan or Singapore is expected to be the crossroads of the Asia-Pacific region then,

instead of Hong Kong. More important than the economic relations between Hong Kong and Japan is the question of possible influence that future changes in Hong Kong may provide in the diplomatic and security phases of Japan. Although the influence is likely to be small (because China's forthcoming resumption of sovereignty over Hong Kong is already taken into account on the Japanese side and friendly relations are maintained between China and Japan), it will increase substantially if disorder brought about in Hong Kong in future due to political and economic insecurity, social disturbance or another unexpected event causes a repercussion in the international environment around Hong Kong, particularly, a spoilage of safety in the Taiwan Strait, for Japan is highly dependent on its external conditions.

1. Real Nature of the Sino-British Agreement

On May 27, 1985, Great Britain and the People's Republic of China (PRC) exchanged the instruments ratifying their agreement on the future of Hong Kong to close the long-standing negotiations between the two nations.

This, however, does not directly spell the final settlement of the Hong Kong Question itself although the Sino-British Agreement is an achievement of profound significance. It simply means that the Sino-British diplomatic talks on the future of the territory have arrived at a specific arrangement, and that the territory's future remains unpredictable. Besides the basic question of whether the two countries will follow the newly set rules, there is another question more essential to the people of Hong Kong of whether or not they can continue to enjoy the current economic prosperity or even see increasing economic growth if the both Chinese and British authorities follow those rules. Thus, Hong Kong appears to be on the threshold of a new era, leaving the so-called 1997 "exit" and "entry" arguments as mere rhetoric. In 1997, Hong Kong will probably face a new, and much longer passage to go through.

The future of Hong Kong is regarded as a microcosm inseparable from the grand historic theme of the progress of mainland China as a nation. Can China maintain the current 'open-door' economic system, not only for the time being, but even after the Deng Xiaoping years?

Will the "Four Modernizations" truly be attained at the end of this century? How would China's relations with neighboring countries become if they were attained? The general feeling of unrest among the six-million Hong Kong residents(*1) should naturally rise when thinking of those questions simply, because "Take No Thought for Tomorrow" has long been the common life style in Hong Kong and is the first thing characterizing the Hong Kong Chinese as well. But they must live from now on "taking thought for tomorrow" day by day.

Moreover, for some 35 years after the PRC came into existence as a result of the Chinese Revolution in 1949 and through the post-war period, Hong Kong has seen remarkable growth to the extent that its population and economy have increased ten-fold and seventy-fold, respectively, whereas the population of mainland China has only doubled with a nearly 0 percent economic growth rate. Although China has made rapid strides in these past two-three years due to the progress of the transition to the open-door economic system, the mutability of its policies in the past, demonstrated by the fact that few political actions or courses lasted for more than five years, continued to have a serious impact on the people in Hong Kong as well. Therefore, anxieties tend to rise in the minds of Hong Kong Chinese, rather than expectations for long-lasting improvement in the PRC.

Then, what exactly should be considered regarding the question of Hong Kong's future? It can be summarized by the following three

points.

The first point is the basic character of the six-million Hong Kong Chinese. It is said that there were about 1.6-1.8 million people living in the territory before and after the Japanese Occupation Period during World War II, when the population reduced to 0.5-0.6 million.

Since this population could only expand to about 2.5 million at most even if a natural increase were added, the remaining 3.5 million are probably refugees and immigrants coming from the Chinese mainland in the postwar period, especially after the foundation of Revolutionary China, and their descendants born in the territory.

In other words, Hong Kong Chinese are mostly the victims of, and runaways from Revolutionary China -- or individuals criticizing and opposing the Revolution -- each having moved to the territory with aspirations for social, economic and political freedom, and their descendants. This fundamental characteristic of the Hong Kong Chinese must never be forgotten. Today, Hong Kong society consists of those who have rejected the Mao Zedong regime or Communist China, including high government officials of the old Manchu sovereignty (Manzhouguo) or the Wang Zhaoming regime, components of the previous military cliques, and revolutionists falling away from the Chinese Revolution. Herein lies a primary point of departure.

However, it should be noted at the same time that, despite the strong rejection of Communist China, the majority of Hong Kong Chinese do not entirely sympathize with Nationalist China or the

Kuomintang government in Taipei standing against Communist China.

Situated between Beijing and Taipei in the contemporary "Two China" era within the long shadow of the historical Sino-British relations, many Hong Kong Chinese are actually seeking a "Third China"; or, they could have brought up today's energetic society as a result of making a 'bottom-dollar bet' for shining daily life and economic profit, while enjoying the de facto "Third China" position.

Thus, Hong Kong looks like a haven for those persons who have been keeping away from both the Beijing and Taipei governments, or the left and right. Although the sense of belonging to the fatherland is getting weak among the new Chinese generations born and raised in Hong Kong, the Hong Kong Chinese society is made up of the people who once rejected Revolutionary or Communist China and their children, as stated earlier.

Because of this rejection, the approaching restoration to Revolutionary or Communist China is apt to invite unrest and irritation rather than a welcome among the Hong Kong Chinese. Thus the real nature of the Hong Kong Question is not yet resolved although a certain agreement has been reached between Great Britain and China.

The second critical point relates to Beijing's principle that they cannot tacitly permit the unequal treaty which runs counter to the basic ideas assuring the preservation of the revolutionist state PRC at the moment its expiration comes soon, no matter how spectacular the socio-economic prosperity of Hong Kong today is.

As is generally known, PRC professes some particular diplomatic principles, including the so-called "Five Peaceful Principles." Support to anti-colonialism struggles and national liberation wars had been the most important pillar of the "revolutionary diplomacy" of PRC and almost all colonies and protectorates seem to have gone out from the stage of world history. Under these circumstances, it is absolutely impossible, in the light of the PRC's principles, to tolerate the existence of a British Crown Colony on the coast of the Chinese continent (Hong Kong was acquired by Britain as a result of the Opium War, apparently an imperialistic aggression) when the 21st century is so close at hand.

However, there is another important feature of PRC's diplomacy: that every principle set by one party at a negotiating table can be interpreted and/or utilized any way once it is admitted by the other party. In fact, Beijing did not budge on their principles in the negotiations on the Hong Kong Question, but proposed concurrently that they will maintain Hong Kong's status quo for 50 years after 1997. They therefore succeeded in winning a concession from the British side on their fundamental arguments. Since the six-million Hong Kong residents are "anti-PRC," "anti-Socialist" and "anti-Communist" by nature, as has been analyzed in the above, this proposal is not only necessary for preventing the introduction of unfavorable profiteering attitudes into the internal society of the Chinese mainland but also essential to the PRC's national interest viewed from its economic need to leave Hong Kong still under the "foreign

country" treatment in terms of trade and tariffs.

With both "principles" and "conditions" intermingled thus ingeniously, the PRC's diplomacy has been carried out case by case. More precisely, the actual diplomatic conduct by the Communist government largely depends on the course of its domestic policy determined by three factors: nationalism, ideology, and the traditional Chinese view of world order. These three elements, however, will intentionally remain untouched here[*2].

The third essential point is the international environment around Hong Kong today.

If Hong Kong were a colony or protectorate having little influence over the international society, just like Goa in India or Brunei on Borneo, a move towards its restoration or independence would not attract so much international attention as a major problem. Through its economic growth, however, Hong Kong has attained a GNP (gross national product) of US\$5,390 per capita in real terms in 1983, its wealth ranking second after Japan's in Asia and surpassing Singapore. This bears a substantial implication that economically prosperous Hong Kong is positioned as the intersection of the East and West, as a crossroads of Asia, or as a contact point between the Socialist and Capitalist Worlds. It is also often referred to as an international financial center next to New York and London.

Although Hong Kong is physically as small as a pinhead consisting of the islands and areas scattered along the coastal line of the

Chinese mainland, its per-capita GNP is about 20 times as high as the PRC. Even its trade with the external world amounts to US\$44,229 million (as of 1983), a level almost equal to the total of imports and exports of the PRC. This economic status of Hong Kong today is far beyond that of mainland China in all senses.

How does Great Britain stand, then? There are many pros and cons about the position of British wealth today, but they all agree on the point that Great Britain no longer retains any vestige of the glorious British Empire of the colonial period, nor has it power capable of leading the world. In contrast with the prosperity in its colony Hong Kong, the suzerain Great Britain is aging and suffering from economic and social diseases. Issues such as the increase in unemployment, failure of welfare policy, depression in trade, etc. are becoming more serious nowadays.

In summary, Hong Kong is really in the paradox that, whereas it is acquiring economic power superior to its suzerain Great Britain -- even capable of outstripping its mother state PRC -- it cannot have any means for determining its future by itself, but is forced to leave its future in the hands of Britain and the PRC, both less prosperous than itself.

Here is one of the essential points of the Hong Kong Question related to the international environment today. As long as Hong Kong's future is determined in this way, irritation and frustration among the six-million Hong Kong Chinese should naturally grow.

2. International Politics and Hong Kong

Hong Kong continued to exist in the midst of the Sino-British confrontation -- where the two nations, each having experienced a number of dramas most colorful in the world history in the Imperial Age, remained standing face to face -- without showing any inclination toward political change. But ever since 1949 when a state under Communist reign was born on the Chinese mainland, Hong Kong has come to take the character of a "Third China." In other words, a new political concept viewing Hong Kong as a buffer zone for the "Two China" (Beijing and Taipei) governments has evolved apart from the historically inherent Sino-British relations, resulting in a situation more or less like the international scene surrounding the territory today. Thus, Hong Kong is now exactly in the middle of the dual hierarchy of international relations -- those between PRC and Great Britain and between PRC and Taiwan.

This evolving relationship means that Hong Kong has become an important focal point of international politics. Particularly in the period of 1950s to 1960s after World War II, Hong Kong was located in the thick of Sino-American confrontation within the international political scene, as a result of the two events, the Korean War and the Vietnam War, when the cold war in Asia became hot. Its importance to the United States has also risen during the period, as a key location for port call for the Seventh Fleet.

However, as the Sino-Soviet confrontation rekindled in the 1960s(*3) evolved into a more serious cold war between the two countries providing impetus for Sino-American rapprochement, the Soviets initiated a new maritime strategy in Asia. So, the British authorities soon grew nervous about the shadow of the Soviet Union approaching Hong Kong stealthily in the 1970s when the confrontation with Moscow became outspoken between the United States and China.

The Local British Government in Hong Kong began to check Soviet vessels often making port call at Hong Kong to find out if its crewmen were conducting intelligence collection activities. In August 1975 when the annual record of port calls by Soviet vessels for nominal reasons of repair and supply reached nearly 100, they arrested two Soviet individuals on suspicion of spying. They even did not permit the disembarkation of an East European tourist party in September 1975, which arrived at Hong Kong for sightseeing by the Soviet ship Baykal due to the continuous increase in the number of Soviet ships making port calls.

Although the shadow of the Soviet Union faded away gradually, Hong Kong saw the increasing need to strengthen its relations with the United States. This bilateral intensification is required, not only as a part of the US strategy towards Asia, but also for deepening the economic interdependence between the territory and the United States, in view of the fact that the United States ranks top among the trading partners of Hong Kong. The total export to the US market reached 42.0 percent far surpassing the second-ranking

British share of 8.1 percent, according to the 1983 statistics on trade of Hong Kong by area of destination. And among the countries investing in Hong Kong, the US capital investment was 46.2 percent in 1983, a level far above the second-ranking Japanese investment of 29.4 percent.

Hong Kong's semiofficial newspaper, South China Morning Post, once remarked on an unrest, saying "If Hong Kong were restored under Chinese sovereignty in 1997 it would naturally happen that even our port would be excluded from the list of ports for US fleet calls." The remark went on to say: "We tend to often underestimate the fact that the US Seventh Fleet vessels' staying in the port means a great deal to us"; specifically, the tens-of-thousands of dollars the 7,500-man crew of the Seventh Fleet would spend at bars and shops in Wanchai (an entertainment district on Hong Kong Island where many US sailors usually gather). (*4)

There was criticism of "the PRC's capitalistic exploitation in Hong Kong" and "the new colony called Shenzhen Special Economic Zone (Shenzhen_jingji_teyu)" appearing in the Soviet Communist Party organ paper Pravda (dated August 4, 1981), etc. on the Soviet side while the above development occurred with Hong Kong. But, as is identified in the substantial improvement of Sino-Soviet relations indicated by Soviet First Deputy Premier Ivan Arkhipov's visit to China in December 1984, as well as in the "praise of special economic zones" he made during the call in Shenzhen, the Soviet criticism toned down along with the advance of rapprochement bet-

ween Beijing and Moscow, proving the gradual inclination of Kremlin to acknowledge Chinese policies towards Hong Kong. The future of Hong Kong, therefore, shall be more closely linked with the further development of the open-door system in China.

3. Hong Kong's Future, and the PRC in the 21st Century

It is not easy to fully appreciate the prospect of such a fluid and multi-dimensional international society or "city-state" as Hong Kong, in which the developing climate of China, still left in a controversy with many unknowns, would reflect accurately. Forecasting Hong Kong's future is made more difficult by the fact that the PRC, expected to guide Hong Kong's future, has just started a full-scale "takeoff" towards modernization after the longstanding turmoil created by the "Angry Lion."

Since it is already pledged internationally in the historical Sino-British agreement that the status quo of Hong Kong will be maintained for 50 years after the Chinese resumption of sovereignty on July 1, 1997, by designating Hong Kong as a special administrative region (SAR) named "Hong Kong China," the future of Hong Kong could may be guaranteed for as long as the legal status is concerned. However, this does not imply that the social realities in Hong Kong today will remain unchanged; in fact, Hong Kong society has begun to change step by step.

If the question of Hong Kong's future is viewed from the basis of the above premises, in the light of historical probability a certain gradually developing course seems likely. This course will certainly bring Hong Kong into the scope of political influence of Beijing and thus indicate the extinction of the freedom and vital-

ity hitherto evidenced in every sector of the current Hong Kong society. It can also be said that whether the socio-economic prosperity would be retained in Hong Kong under such situation depends heavily on the direction Mainland China is heading for. China will probably make substantial efforts to facilitate the maintenance and good use of freedom and vitality because the socio-economic prosperity of Hong Kong is indispensable. However, it is yet uncertain whether the retention of prosperity can be assured when the government and "red merchants" and "red capitalists" of the PRC take the leadership instead of the Royal Crown Government and British capital of Hong Kong. It should be said that Hong Kong will be put to the test of the century. The idea of "one country, two systems" (or "one country, three systems" if special economic zones such as Shenzheng count as another separate system collectively) or Gangren_zhi_Gang (the administration of Hong Kong by Hong Kong residents) may denote a sort of solution alleviating the political instability, but has not yet matured as a complete means for endorsing the future.

Needless to say, the Communist Chinese society would receive a tremendously large influence from the outstanding energy that Hong Kong's socio-economic prosperity holds if their government continues to exercise the open-door policy. This issue further implies the possibility that Hong Kong's economic future will be linked and integrated gradually with Shenzheng and other special economic zones, and with coastal 'open' cities of the mainland as well. The

Chinese leaders necessarily designated those special economic zones and open cities, and set up large barriers (represented by the Secondary Control Line in Shenzheng) against other Chinese societies, because they wanted to limit the possible influence of non-socialistic property on the interior, unless they are willing to relinquish the fundamentals of being a socialist state.

Daringly speaking out to an extreme, Hong Kong will be changing from a British colony to a Socialist Chinese colony. All directions running counter to the intentions of the Chinese authorities, for example, the conventional anti-socialistic and anti-communistic features of Hong Kong including a wide range of freedom (of speech, thought, etc.) would therefore be restricted gradually. The head (administrative secretary) of the future Hong Kong SAR should naturally be assigned to a person favorable to the central government in Beijing. It is impossible for Hong Kong to avoid moving in this direction as far as it is due to go under the PRC's sovereignty, despite the status as SAR. But, under these conditions, China will undoubtedly step up to implement positively a variety of economic undertakings, ranging from those monetary and speculative activities that can never happen in the internal arena to those of free-market categories, under the leadership by "red merchants" and "red capitalists," using Hong Kong to a considerable degree.

The above is one tentative plot foreseen over the future of Hong Kong, and the coming 12 years, during which Hong Kong will remain being a British colony, can be defined as a transition period

towards a "Chinese Hong Kong."

Because the intrinsic feature, that the Hong Kong society is basically characterized by a house of cards, will not change soon, all individuals in Hong Kong have to share, for the time being, the fear that the distinguishable prosperity of today might turn out to be only the "aftertaste of a dream" in an instant.

Thus, everything about Hong Kong is solely dependent on the future of China. The matter allows no easy approach to an optimistic conclusion at all.

As is well known, China has established an aim of achieving a per-capita GNP performance of US\$1,000 at the end of this century under a new national goal called the "Four Modernizations." It should be remembered, however, that the Chinese leaders themselves have admitted that attaining this will be somewhat difficult. Since the current GNP falls between US\$250 and \$350 per capita at present, improving this three- to four-fold in the next 15 years is not a simple target for the Chinese society to achieve in the light of PRC's economic statistics in the past, even if there were brisk movement in part of the market.

In addition, the attainment of the above aim hinges on the premise that not a single increase occurs in the current one-billion-odd population -- a precondition impossible in the Chinese society without a miracle, no matter how strictly the population control policy is carried out throughout the country. The more the Chinese society becomes civilized, the more the criticism about the forcible

population control measures would spread.

The PRC needs to pay continuously for the large debts resulting from the Mao Zedong politics based on 'Theory of Human Capitalism,' up until the 21st century. Supposing this is the only problem lying ahead, it cannot be helped but to reach a considerably pessimistic view about the future of China. Much more, change of the industrial structure is an outrageous proposition for the Chinese society where, reportedly, 80 percent of population is engaged in farming. China is also suffering from those debts of Mao Zedong politics attributed to the "Theory of Agriculture-based Industrialization." Even if the Four Modernizations program is accomplished satisfactorily with the expected outcome of US\$1,000 per-capita GNP, the gap between mainland China and its neighbors such as Japan, Taiwan and South Korea is widened because the economies of those neighbors should see additional expansion, probably by an increment greater than managed on the Chinese side.

In this context, the experiment called 'open' economic system will prove to be not an easy task. The road that China is likely to go until the 21st century will be steep and winding. Those windings will also influence the future of Hong Kong. The Chinese society will gain maturity and stability of the sort that the countries within the "Confucian Culture Area" of Asia (i.e., so-called Asian NICs) enjoy in these days, at a certain point of time during the 21st century when its per-capita GNP exceeds the US\$2,000 level. Although this GNP level expresses a guideline for the modern-

ization of a state, there is an anxiety at the same time that the socialist system under the one-party rule by the Chinese Communist Party, itself, might become questioned thoroughly in a modernized Chinese society. And perhaps until that time the true stabilization of Hong Kong will not be realized.

4. Hong Kong and Japan

The Japanese influence is felt to a great degree in the society of Hong Kong nowadays. Anyone can see how closely Hong Kong is linked with Japan, even by casting a glance over the advertisements and neon signs of typical Japanese enterprises displayed in busy streets while on a Star Ferry boat crossing the harbor between Hong Kong Island and Kowloon. Japanese goods flood the market place and representatives of Japanese firms, banks and manufacturers are moving about actively promoting business to the best of their abilities.

Especially today, when Chinese economy is shifting towards the 'open door' system, Hong Kong means to the Japanese enterprises a direct gateway to a more "liberal China." The approximately 10,000 Japanese in Hong Kong, and the number of Japanese tourists averaging nearly 1,500 per day, are also factors indicating the important role of Japan in Hong Kong. The visibility of the Japanese is intensified by the small size of the territory.

So, there is some possibility that "Chinese Hong Kong" once released from the British rule would suddenly turn out to be a fierce anti-Japanese movement base if relations between Beijing and Tokyo deteriorate or any change occurs in the Beijing's policies towards Japan.

It is true that the process of fostering friendship between

China and Japan started in the early 1970s has had a great influence over Hong Kong. Japanese influence in the Hong Kong society increased dramatically, while Britain was retrogressing through the devaluation of sterling and withdrawal from the Suez and eastward arena along with the tendency of the United States to withdraw from Asia in the aftermath of failure in the Vietnam War.

Under the situation, where British capital investors and corporations have taken a policy of withdrawing their funds and assets gradually from Hong Kong ever since the time around the conclusion of the Sino-British Agreement, Japanese investment towards Hong Kong is becoming brisk again, and so is the US investment. The recent economic climate between Japan and Hong Kong can well be explained by the total value of trade HK\$62,404 mn (US\$8,000.51 mn), out of which the merchandise exports to Japanese markets amount to HK\$5,151 mn (US\$660.38 mn) and the re-exports HK\$4,633 mn (US\$593.97) while the imports from Japan account for HK\$52,620 mn (US\$6,746.15 mn), resulting in a lopsided surplus of HK\$42,836 mn (US\$5,491.79 mn) in favor of Japan. These figures (all as of 1984) collectively spell the existence of very strong demand in Hong Kong for Japanese products.

Japan, accordingly, shares 23.6 percent of Hong Kong's total volume of import, ranking second after China (25.0%), against the fifth largest share in terms of export (figures also as of 1984). Its stock of direct investment in manufacturing industries in Hong Kong is HK\$2,306 mn (US\$295.64 mn), proportionally the second in

rank (29.4%) after the US's (46.2%). Looking at these comparisons from the Japanese side, Hong Kong denotes the fifth largest export market with a share of 3.6 percent of the total foreign export. It also constitutes the seventh significant market economy (or country) for Japan's direct investment abroad (figures here are of 1983).

Because of the importance of Hong Kong, Hiroaki Fujii, the Japanese consul general to the territory stated the following three basic points in explaining the necessity for the maintenance of Hong Kong's prosperity: "In the first place, Hong Kong's role is essential in attaining modernization in China; secondly, Hong Kong is capable of providing substantial contribution to the economic development of ASEAN and other Asian countries; thirdly, Hong Kong is the most internationalized city in the entire region of Asia and will probably act as a catalytic agent for attracting the attention of non-Asian countries to the region." (*5)

Since Hong Kong's importance to Japan is so high, there is a natural fear, on the other hand, that Japan might suffer a strong impact from any political changes in China in future, due to its deep commitment to the Hong Kong society. Referring to this question, Chinese General Secretary Hu Yaobang reassured Japanese businessmen after the Hong Kong dollar had dropped suddenly due to anxiety about the consequences of Sino-British negotiations. On September 30, 1983, when he met the Japanese Socialist Party (JSP) delegation headed by Chairman Ishibashi, he said, "There

are many Japanese enterprises in Taiwan and Hong Kong, and we will avoid harming those enterprises. We guarantee to let them grow further."(*6)

Furthermore, when Japanese Foreign Minister Shintaroh Abe had a meeting with Chinese Foreign Minister Wu Xueqian in Tokyo on August 18, 1984, he could have a favorable response from Wu regarding protection. In the response Wu stated that the rights and interests of foreign enterprises would be protected to maintain their economic activities in Hong Kong" even after the restoration of sovereignty to China(*7).

As the Sino-British Agreement recovered from the initial shock, inroads by Japanese enterprises into Hong Kong have been revitalized, especially in the distribution industry. Apart from Daimaru Hong Kong established in the early 1960s, three Japanese department stores -- Isetan, Matsuzakaya, and Mitsukoshi -- started their businesses in Hong Kong in the 1970s. Recently, Yaohan, one of biggest supermarket corporations in Japan opened a branch in Shatin within the New Territories, followed by a Sogo department store launched in Causeway Bay close to Daimaru Hong Kong. The scales of their businesses and severe competition among them are becoming topics of conversation between the Hong Kong people.

There is also an influx of Japanese undertakings in sectors other than distribution and commerce. For example, a big building is being constructed in Tuen Mun, a new town in the New Territories, to become the second plant in Hong Kong of YKK (Yoshida Kogyo Co.,

Ltd.). In addition, more than 50 percent of contracts for the subway extension project is given to major civil engineering corporations of Japan.

Economic interdependence between Hong Kong and Japan is thus increasing, helped by improvement in their political relations. But a few problems yet remain to be solved.

In November 1978 -- that is around the time Hong Kong had bought a number of semi-finished goods and other production materials from Japan and constituted a market excessively favorable to Japan -- a group of representatives including Hong Kong Governor Maclehorse and Chairman of the Bank of East Asia Y. K. Kan visited Japan on an economic mission to improve relations between the two countries and achieved the establishment of a Japan-Hong Kong Economic Joint Committee. Further, after the Sino-British Agreement in September 1984, another economic mission headed by Governor Sir Edward Youde paid a visit to Japan, together with a Member of the Executive Council S. Y. Chung, Chairman of the Hongkong and Shanghai Bank M. G. R. Sandberg, and the Representative of the Worldwide Shipping Group Y. K. Pao, and made a strong demand for Japan's policy measures for correcting trade unequilibrium and removing items excluded from preferential tariff treatment.

There are growing private exchanges between the two countries today. For example, approximately 1,000 Japanese enterprises are already open for business in Hong Kong, and 500,000 Japanese

tourists come to Hong Kong annually while 200,000 visiting from Hong Kong to Japan. In addition, a remarkable preference for learning the Japanese language arises in the Hong Kong society. It is because of this situation that a steady and calm observation is needed on the future course of Hong Kong which can be regarded as a historic experiment.

Needless to say, no impact of vital importance would be given on Japan's economy even if Hong Kong's prosperity were lost, for Taiwan or Singapore is expected to be the crossroads of the Asia-Pacific region then, instead of Hong Kong.

More important than the economic relations between Hong Kong and Japan is the question of possible influence that future changes in Hong Kong may provide in the diplomatic and security phases of Japan.

Although the influence is likely to be small (because China's forthcoming resumption of sovereignty over Hong Kong is already taken into account on the Japanese side and friendly relations are maintained between China and Japan), it will increase substantially if disorder brought about in Hong Kong in future due to political and economic insecurity, social disturbance or another unexpected event causes a repercussion in the international environment around Hong Kong, particularly, a spoilage of safety in the Taiwan Strait, for Japan is highly dependent on its external conditions.

It is therefore natural for Japan to hold much concern about the future stability and prosperity of the Taiwan society along with

the security of the Taiwan Strait area. As for myself, I am rather optimistic about Taiwan's future, since I feel doubts about the future of Hong Kong[*8].

- *1 Hong Kong's population is said to have reached approximately 5.4 mn at the end of 1983. However, since more people seem to live in Hong Kong actually, I dare to put it at 6 (six) mn in this paper.
- *2 For details on this point, see Chapter 2 "Chugoku no Atarashii Sekai Senryaku" (China's New World Strategy) in Mineo Nakajima, Gendai Chugoku no Seiji to Senryaku -- Kakumai Kokka wa Konomama Nishigawa-ka Suru-no-ka (Politics and Strategies of Contemporary China: Will the Revolutionist State Be Westernized? Continuously?), PHP Institute, Tokyo, 1984.
- *3 As is known well, the existence of Hong Kong and Macao was a matter of controversy in talks between Mao Zedong and Nikita Khrushchev, and in the International Communist Movement as well, during the Sino-Soviet confrontation in the 1960s.
- *4 Editorial, South China Morning Post, August 8, 1984.
- *5 Hiroaki Fujii, "The Future of Hong Kong and Japan," speech at the Japan Universities Alumni Society, Hong Kong, October 9, 1984.
- *6 Jiji Press wire report from Beijing, printed in the Sankei, September 30, 1983.
- *7 Asahi, August 18, 1984.
- *8 For further details on my view regarding the history, status quo and future of Hong Kong, see Mineo Nakajima, Hon-kon Utsuriyuku Toshi-kokka (Hong Kong: A Changing City-state), Jiji Press, 1985.