

# Preface

The return of Hong Kong (restoration from China's point of view) in July 1997 is an event deserving special note in modern Asian history, not only because this event is extraordinary in that a region which had existed as a colony for roughly 150 years is being peacefully returned to its mainland. This situation is also unique in that Hong Kong is flourishing unprecedentedly as a colony and has made major contributions to the economic development of the mainland as an international business center both officially and behind the scenes. The adoption of the unprecedented style of "one country, two systems," in which China ensures that the colony will "undergo no systematic change for 50 years" following its return, should preserve this prosperity. In addition, the return of Hong Kong will serve as a pointer for the return of Macao, which has been delayed for two years (1999), testing the direction in which unification with the remaining independent Taiwan will proceed.

A large number of difficulties, however, can be expected with both the return of Hong Kong and unification with Taiwan. The majority of these difficulties are generated by differences in the length of the period of economic and political transition between the parties involved – China, Hong Kong and Taiwan – and the stability and economic development of not only East Asia, including Japan, but that of the international community as well, will be strongly influenced by whether these three parties can smoothly weather this transition.

This report is a translation of original Japanese edition, *Honkon henkan to chugoku taiwan* [Return of Hong Kong and China, Taiwan] (Tokyo, Institute of Developing Economies, January 1997). Here we present the final findings of the committee on "Prospects for China's Transition to Market Economy and Unification of Hong Kong and Taiwan" (1996 Stand-by Research for Development Issues) for which researchers (subsequently referred to as committee members) of China, Hong Kong and Taiwan gathered to share knowledge in and analyze the matters just outlined and to present future prospects for the return of Hong Kong and the unification of China and Taiwan from the points of view of each of these countries. Due to the urgency of the topic, the report was compiled within 1996. During the six months from the first committee meeting to the completion of the report, the election for the first chief executive of the Special Administrative Region became news in Hong Kong, Li Teng-hui, the first popularly elected leader in Taiwan, announced a new policy toward China, and patriotism began to strengthen in China and attempts were made to revise and make more practical the policy response toward Hong Kong and Taiwan. Although the relations between Japan and these countries have been unstable, including intensification of the dispute over the Senkaku Islands which makes the timing seem inappropriate for a study concerning the future, the committee members concentrated on the medium- to long-term trends in their respective countries, regions and fields, while at the same time establishing their respective analytical viewpoints by field surveys and survey reports.

Many scenarios concerning the return of Hong Kong and the unification of China and Taiwan are still possible, but three features distinguish this report from others. First, this report attempts to envisage the problems involved in the return of Hong Kong and in the unification of China and Taiwan solely from the viewpoints of the parties involved (China, Hong Kong and Taiwan). While the international effect of these problems cannot be ignored, it being important to analyze the relevant responses of such countries as the United Kingdom and the United States, the committee members felt that concentrating on an analysis of the relationships between the parties involved was most desirable. The members hope, however, that the international aspect of these problems will subsequently be considered.

Second, the analysis is focused on a medium- to long-term view. This is simply due to the fact that the presentation of future prospects was considered essential to this report. A time frame running to the beginning of the next century was specifically set, as this period incorporates the 16th Party Congress of Communist Party of China to be held in 2002, the end of the Special Administrative Region executive officials' term (2002) in Hong Kong, and the

end of President Li's term of office (2000) in Taiwan. It is thought that reasonable future prospects could be made based on an analysis of the present conditions for this period.

Third, the committee has attempted to reflect the most recent trends. Each committee member visited China, Hong Kong and Taiwan between August and October of 1996, gathered information and exchanged opinions with local government officials and scholars. This opportunity allowed all members to become acquainted with certain personal views held by the parties involved. A number of members also had the rare opportunity of locally observing the dispute over the Senkaku Islands. The results of these opportunity are incorporated into the analyses presented in each chapter.

This report is structured as follows: Chapter 1 (Yasuo Onishi) considers the interdependent economic links which form the basis of the relationships between China, Hong Kong and Taiwan. This chapter clarifies China's attempts at modifying the conventional path of reform and open-door policy in order to promote the conversion to a market economy, as well as promoting necessary adjustment to the economic structure, this being influenced by China's policy adjustments, in Hong Kong and Taiwan which have both experienced high growth while deepening their economic relationships with China.

Chapter 2 (Norihiko Sasaki) analyzes the present situation of Chinese policy toward Hong Kong and Taiwan. In working toward the return of Hong Kong, China has established its leadership, and problems in Hong Kong have already been incorporated as domestic political issues. In terms of Taiwan, the analysis indicates that policies designed to undermine Taiwanese relations with friendly nations and cause confusion in Taiwan's economic community have been adopted in order to isolate Li Teng-hui both internationally and domestically.

In Chapter 3 (Nobuo Maruyama), post-return Hong Kong is considered within the Chinese development design oriented toward regional economic leadership. With Hong Kong's return, it is suggested that economic expectations of Hong Kong by China include strengthening the elements of a "buffer zone alleviating the contradictions experienced during the transition phase in the conversion to a market economy" and acting as a "capital procurement and export base." As a model for future regional economic development, it is suggested that the Shanghai-Yangtze link will replace the Hong Kong-Guangdong link in receiving international attention, establishing its leadership in time, and that Hong Kong will change from an "international finance center" toward a position as "one financial base in southern China."

Chapter 4 (Mariko Tanigaki) considers efforts made, including retraining projects for Hong Kong government civil servants, education policy adjustment and maintenance of the U.S. dollar pegged system, as keys to envisage the post-return Hong Kong Special Administrative Region. This chapter points out that, despite these efforts, the future is tied to the Chinese central government and that misgivings on the part of Hong Kong society surely exist in regard to this point. The identity of Hong Kong residents caught up in the return is expected to destabilize, but Tanigaki does not agree with the view that the radicalism seen in the defense demonstrations regarding the Senkaku Islands (Diaoyutai in Chinese) in the summer of 1996 is a precursor of this destabilization.

In Chapter 5 (Yoshio Nakagawa), the relationship between China and Taiwan is analyzed by focusing on the significant environmental change resulting from the return of Hong Kong. The tense situation which culminated with the Chinese military maneuvers in the Taiwanese Strait is easing, and although not expressed in either country's principles, the restoration of a practical relationship is beginning to take place. Signs of intensifying competition in the international community, however, are evident, and it is predicted that likely improvements in this relationship will be tentative.

The reference appendix (Zhang Jinan) presents the basic economic indices and trade and investment statistics of China, Hong Kong and Taiwan. Although concise, these data should prove useful.