



Six-monthly Report on Hong Kong July-December 2006

*Presented to Parliament
by the Secretary of State for Foreign and Commonwealth Affairs
by Command of Her Majesty
February 2007*

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FOREWORD

This is the twentieth in a series of reports to Parliament on the implementation of the Sino-British Joint Declaration on the Question of Hong Kong. It covers the period from 1 July to 31 December 2006.

In the last report to Parliament, I described Hong Kong's recent economic growth as remarkable. That growth has continued this period, with the economy outperforming most forecasters' expectations, unemployment falling to a six-year low, and business sentiment very positive about Hong Kong's economic future.

The reporting period has seen significant developments in Hong Kong's increasing economic integration with Mainland China. Not least in October, when the Mainland's largest bank listed its shares simultaneously in Hong Kong and Shanghai in the world's biggest-ever initial public offering. The announcement, shortly before the time of writing, that mainland financial institutions will soon be permitted to issue Renminbi (RMB) financial bonds in Hong Kong is a further significant step. These developments serve to strengthen Hong Kong's position as an international financial centre and to open up new opportunities for the UK's substantial business interests in the region.

We salute Hong Kong's continued economic success, which we believe is a product of a clear, transparent and open business environment. As long as that system is respected, Hong Kong's economic future and status as Asia's pre-eminent financial centre seem secure.

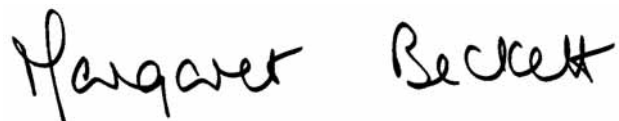
This period also saw the issue of climate change increasingly enter mainstream political consciousness in Hong Kong. The UK's Stern Review, and a visit by former US Vice-President Al Gore, helped to put carbon emissions, global warming, and the possible consequences on the front pages. Hong Kong has a particular role to play in the global response to climate change: as a great world city, itself potentially vulnerable to the effects of climate change, and as a major investor in mainland China's rapid development. I am pleased that there appears to be a growing recognition of the need to address environmental problems, not only to protect public health but also to maintain Hong Kong's economic sustainability and its status as Asia's pre-eminent financial centre.

As in our last report, the issue of how and how quickly Hong Kong should advance to a system of universal suffrage, as envisaged by the Basic Law, dominated political discussion. The Hong Kong SAR Government's Commission on Strategic Development has continued its work, and is due to report in the first half of 2007. We await with great interest the Commission's recommendations which we hope will, following wide consultation, identify a clear roadmap that will allow Hong Kong to achieve universal suffrage as soon as possible in line with the Basic Law and the wishes of the people.

The end of this reporting period saw the very welcome announcement that, following changes to the EU Common Visa List, from 19 January 2007 British National (Overseas) passport holders will be able to visit the Schengen area without requiring a visa. This is something we have argued for over a number of years, and I am delighted that a clear anomaly has been corrected and that BN(O) passport holders will now enjoy the same access to Europe as Hong Kong SAR passport holders.

The reporting period also saw the series of frequent ministerial and other high level visits from the UK continue. Visitors included the Lord Chancellor, the Secretary of State for Trade and Industry, the Minister for Trade and Foreign Affairs and the Economic Secretary to the Treasury. This shows very clearly that the UK's commitment to Hong Kong remains as strong as ever.

Looking ahead, the 10th anniversary of the handover is fast approaching. I look forward to consolidating further our deep and wide-ranging co-operation in the period leading up to this important milestone, which will mark the end of Hong Kong's first decade as an SAR and the beginning of another chapter in our relationship.

A handwritten signature in black ink that reads "Margaret Beckett". The signature is written in a cursive, flowing style.

Margaret Beckett
Secretary of State
For Foreign and Commonwealth Affairs

SIX MONTHLY REPORT ON THE IMPLEMENTATION OF THE JOINT DECLARATION ON HONG KONG

INTRODUCTION

1. This series of six-monthly reports reflects the British Government's continuing interest in developments in Hong Kong and our commitment to the faithful implementation of the Sino-British Joint Declaration on the Question of Hong Kong. In the Joint Declaration, the Chinese Government undertook that the Hong Kong Special Administrative Region (SAR) would enjoy a high degree of autonomy except in foreign and defence affairs, and guaranteed that Hong Kong's social and economic systems, lifestyles, rights and freedoms would continue. This report, like those before it, provides an ongoing assessment of the success of those arrangements.

CONSTITUTIONAL DEVELOPMENT

2. Hong Kong's Basic Law states that the 'ultimate aim' is the election by universal suffrage of both the Legislative Council (LegCo), Hong Kong's parliament, and the Chief Executive. Our previous reports have reported in detail on progress towards this goal.
3. In December 2005 the Hong Kong SAR Government proposed a package of reforms to the way in which the Chief Executive would be elected in 2007 and the Legislative Council in 2008. The Legislative Council rejected the proposals. As a result the 2007 and 2008 elections will take place under existing arrangements.
4. At the annual Hong Kong Trade Development Council dinner in London in November 2006, Chief Secretary Rafael Hui spoke of his disappointment that the package of measures had not won the necessary two-thirds majority in LegCo. He said that the Government's main challenge now was to forge community consensus on the best way forward, and that the Commission on Strategic Development, due to report in the first half of 2007 would set out a 'roadmap' for universal suffrage.
5. Our last report expressed the hope that the Commission on Strategic Development would take a concrete step towards achieving the Basic Law's ultimate aim of universal suffrage. During the reporting period there has been a lot of discussion on how to move things forward. However, no clear consensus on the way ahead has yet emerged.
6. On 1 July 2006, tens of thousands of people marched from Victoria Park to the Central Government Offices in support of universal suffrage, labour rights and different livelihood issues. The Civil Human Rights Front, the organisers of the march, said that some 58,000 people took part, while the Police put the figure at around 28,000. In response to the 1 July rally, an SAR Government spokesman said that both the Central and SAR Governments continued to be fully committed to promoting constitutional development in accordance with the Basic Law, with a view to achieving the ultimate aim of universal suffrage.
7. On 3 July Wang Rudeng, Assistant Director of the Central Government Liaison Office stressed while that Beijing attached importance to people's aspirations, he hoped that people would 'treasure the present social harmony and improved economy'.

8. On 19 July former Chief Secretary Anson Chan announced that she intended to form a core group of eight to ten 'like-minded people with integrity' to produce 'concrete and workable' constitutional reform proposals before the Commission on Strategic Development drew up a road map for universal suffrage.
9. Responding to Mrs Chan's announcement, Chief Executive Donald Tsang said that he fully understood people's aspirations for universal suffrage. He added that the Government needed to proceed with its work pragmatically. Central Government Liaison Office Deputy Director Li Gang said that constitutional development should be taken forward in accordance with the principle of gradual and orderly progress.
10. On 27 July the Electoral Affairs Commission released its provisional recommendations on changes to the boundaries and names of the 405 constituencies for the 2007 District Council elections. Commission Chairman Justice Woo Kwok-hing said that most of the modifications were the result of population changes and stressed that they were not designed to favour or disfavour particular political groups or individuals.
11. On 28 July the Committee on Governance and Political Development of the Commission on Strategic Development discussed possible models for electing the Chief Executive by universal suffrage. Donald Tsang said that the committee had reached a consensus that election by universal suffrage should be preceded by the nomination of candidates by a broadly representative nominating committee 'in accordance with democratic procedures'. While most of the committee members agreed that the nominating committee should be modelled on the existing Election Committee, views differed over the level of the threshold for nomination. Asked whether universal suffrage could be introduced in 2012, Mr Tsang said that once a consensus on the election model was reached, the issue of a universal suffrage timetable could be 'resolved easily'.
12. On 23 September former Chief Secretary Anson Chan announced that she had decided not to contest the next Chief Executive election. She also unveiled the membership of her core group to study universal suffrage: NPC deputy Allen Lee, former senior Government officials Lily Yam and Elizabeth Bosher, Hong Kong University's Johannes Chan, Civic Exchange's Christine Loh and Global Institute for Tomorrow's Chandran Nair. Mrs Chan said that she hoped her core group would bring about 'rational debate' on political reform and come up with a proposal and a road map for the introduction of universal suffrage in accordance with the Basic Law.
13. On 3 October the Civic Party's executive committee nominated party member Alan Leong to run for Chief Executive. Mr Leong said that his goal in joining the contest would be to enhance civic participation, promote democracy and resolve what he called 'the present governance problem'. On 5 November it was officially confirmed that he intended to run. He said that he was confident that he would be able to secure the required nominations for the race. In a speech to the Foreign Correspondents Club on 21 November, Mr Leong referred to the difficulties candidates encountered in securing 100 nominations under a system which 'makes it possible for individual electors to be put under intense personal pressures' to 'support the 'preferred' candidate.'

14. On 22 November LegCo voted down a motion moved by Civic Party legislator Ronny Tong that called for the introduction of universal suffrage for the Chief Executive election in 2012. Secretary for Constitutional Affairs Stephen Lam said it would be illogical to decide on a timetable before a consensus had been reached over the mode of universal suffrage. A week later, LegCo voted down a motion calling for universal suffrage for the Legco elections in 2012. Moving the motion, Confederation of Trade Unions (CTU) legislator Lee Cheuk-yan criticised the Functional Constituency elections for safeguarding the interests of a small number of people and urged those returned from functional constituencies to surrender their 'political privileges'. Stephen Lam referred again to the absence of consensus on universal suffrage and criticised some lawmakers for 'merely shouting slogans'.
15. On 23 November the Committee on Governance and Political Development of the Commission on Strategic Development discussed the modes for electing the Chief Executive and LegCo by universal suffrage. Stephen Lam said members generally agreed on the establishment of a nominating committee of between 800 and 1,600 members for the Chief Executive election. Members rejected a proposal to add a vetting mechanism whereby Beijing could screen candidates.
16. On 11 December the Electoral Office announced the result of the sub-sector election to return the 800-strong Election Committee that will choose the next Chief Executive. The pan-democracy camp and its allies won 114 seats in the elections. All the pro-democracy candidates in the IT, higher education, education, legal, health services, engineering and accountancy sub-sectors were returned. Responding to the poll results, Chief Executive Donald Tsang said he was pleased to see a record turnout of 27.44 per cent, adding that the whole election was conducted smoothly and in a very open, transparent and fair manner.
17. **We remain convinced that the best way to safeguard Hong Kong's long term stability and prosperity is for it to advance to a system of universal suffrage as soon as possible. We note indications that broad agreement may be emerging within the Commission for Strategic Development over a possible model to elect the Chief Executive by universal suffrage. We hope that all parties will continue to work together constructively towards similar agreement on the more complex question of how universal suffrage should be introduced for LegCo elections. We look forward to the Commission's final recommendations.**

'ONE COUNTRY, TWO SYSTEMS'

18. On 1 July more than 50,000 people took part in a parade and an event at Hong Kong stadium to celebrate the ninth anniversary of the establishment of the SAR. Soldiers from the People's Liberation Army's Hong Kong garrison staged a martial arts display and there were performances from local artists. Chief Executive Donald Tsang said Hong Kong's 'most important mission' was to ensure the successful implementation of 'One Country, Two Systems' and 'Hong Kong people running Hong Kong.' He said that by building a harmonious community and keeping the growing economy in good shape the SAR would demonstrate to the world the diverse strengths, competitiveness and solidarity of the Chinese people.

19. On 21 July Liaison Office Director Gao Siren said that the Central People's Government hoped Hong Kong people could focus on the economy and livelihood issues to promote development and achieve harmony in society. Speaking on the 57th anniversary of the establishment of the People's Republic of China, Mr Gao said that the 11th Five Year Programme had singled out Hong Kong's unique and important strategic status. He suggested that the SAR could play a particular role in finance; trading and business; catalysing improvements in economic systems on the Mainland; and becoming a more effective bridge for Mainland enterprises to tap into the global market.
20. On 12 September Vice-president Zeng Qinghong met a delegation from the Democratic Alliance for the Betterment of Hong Kong (DAB) in Beijing. Mr Zeng said that the party should continue to act as 'a bridge' between Hong Kong and the Mainland. Three days later Vice-president Zeng met a delegation from the Liberal Party. Liberal Party chairman James Tien said Mr Zeng had encouraged Hong Kong's business sector to grasp the opportunities brought by the rapid economic development on the Mainland and overseas. Mr Tien said Mr Zeng had told the party that constitutional reform should be conducted in accordance with the principle of gradual and orderly progress under the Basic Law, but had not responded directly when asked about the introduction of universal suffrage in 2012.
21. On 24 October, Liaison Office director Gao Siren refuted media reports that the Central People's Government was intervening in the Chief Executive election, stating that Beijing's invitations to some Hong Kong groups to visit the Mainland were 'regular exchanges'.
22. On 18 November President Hu Jintao and Chief Executive Donald Tsang met in the margins of the Asia-Pacific Economic Cooperation (APEC) summit in Hanoi. Mr Tsang said that Mr Hu was pleased with the situation in Hong Kong, especially the economic growth and improved standards of living, and hoped that Hong Kong would remain vibrant and harmonious. *Xinhua* News Agency reported that, while noting the positive developments in Hong Kong, Mr Hu had urged Mr Tsang to make 'utmost efforts' to maintain and consolidate Hong Kong's economic growth, social stability and the improvement in people's livelihoods.
23. On 29 November, the *Financial Times* alleged that Liao Hui, Director of the State Council's Hong Kong and Macao Affairs Office, had intervened in June 2006 to block the sale of PCCW (Hong Kong's dominant fixed-line telecommunications provider) assets to foreign investors. Following the breakdown of the proposed sale, Richard Li, PCCW chairman, attempted to sell his controlling 23 per cent stake in the company. Many commentators noted that if true, such an intervention would amount to a serious breach of Hong Kong's commercial autonomy.
24. National People's Congress chairman Wu Bangguo visited Hong Kong from 2 to 4 December. In a speech at a welcome dinner hosted by the SAR Government, he called on Hong Kong people to set aside their differences and focus on 'harmony and development', and later called on government officials to 'accurately gauge the pulse of the masses'.
25. During a visit to Macao on 14 December, CPPCC vice chairman and Head of the United Front Work Department of the CPC Central Committee Liu Yandong said that the Central People's Government would continue to uphold the principles of 'One Country, Two Systems', 'Hong Kong people running Hong Kong' and Hong Kong's high degree of autonomy.

26. On 26 December Chief Executive Donald Tsang arrived in Beijing for a four-day visit. Mr Tsang told reporters that the two basic themes for his calls on various ministries and commissions were related to economic and livelihood issues. He said that he would be discussing issues relating to the circulation of the Renminbi (RMB) in Hong Kong, infrastructure, food safety and Mainlanders giving birth in Hong Kong.
27. In an interview with *Xinhua* News Agency on 28 December, British Consul-General in Hong Kong Stephen Bradley said that the handover had been a great success over the past ten years. Britain would continue to conduct exchanges and co-operation with Hong Kong in all sectors to contribute to Hong Kong's prosperity.
28. On 29 December Mr Tsang met President Hu Jintao and Premier Wen Jiabao. President Hu praised Mr Tsang for his achievements in leading Hong Kong and successfully handling 'many complicated economic, political and social problems'. He also recognised Mr Tsang's 'pragmatic' work on developing co-operation and exchanges between Hong Kong and the Mainland. Mr Tsang said that he was glad that the Central Government had fully recognised Hong Kong's competitive advantages and the role it played in the nation's development.

BASIC RIGHTS AND FREEDOMS

29. In our last report, we recorded Mr Justice Hartmann's decision on 9 February 2006 to grant a six-month period of grace to Section 33 of the Telecommunications Ordinance and the Law Enforcement (Covert Surveillance Procedures) Order to allow law enforcement agencies to continue carrying out covert surveillance. On 5 July April Legislator Leung Kwok-hung and activist Koo Sze-yiu brought an appeal against the decision to the Court of Final Appeal.
30. Philip Dykes SC, representing Koo Sze-yiu, argued that the decision was unconstitutional and that it revoked a fundamental protection afforded to Hong Kong residents under the Basic Law. Senior Government Counsel Kevin Zervos argued that "covert surveillance or telephone tapping is ...an important tool for those fighting terrorism or organised crime" and that the Basic Law had implicit provisions enabling the courts to take measures to uphold the stability of Hong Kong.
31. On 12 July 2006 the Court of Final Appeal set aside Mr Justice Hartmann's earlier ruling and replaced it with a temporary suspension order allowing the Government until 8 August to introduce new legislation regulating the use of covert surveillance.
32. On 6 August LegCo passed the Interception of Communications and Surveillance Bill, following five days and over 50 hours of deliberation. The bill was passed by 32 votes to nil after pro-democracy members staged a walkout, boycotting the final vote in response to the defeat of a proposal for a 'sunset clause' introduced by the Civic Party's Margaret Ng. Chief Executive Donald Tsang welcomed the bill's passage, saying that it was fairer, more open and more protective of citizen's interests than similar laws in the world's most open and democratic countries. He assured the public that the Police would not bypass or act beyond the law. The SAR Government has undertaken to review the Bill in three years time.

33. On 9 August Chief Executive Donald Tsang appointed Court of Appeal vice-president Mr Justice Woo as head of the Commission on Interception of Communications and Surveillance with effect from 17 August. Mr Justice Woo said that he appreciated the rights cherished by individuals in Hong Kong and was conscious of the need to ensure that all interception and surveillance activities must be in accordance with the law and not undertaken unjustifiably. The Chief Executive also announced that Justices Suffiad Azizul Rahman, Pang Kin-kee and Andrew Chung On-tak would form the Judicial Panel to authorise surveillance.
34. Prior to the passing of the Interception of Communications and Surveillance Bill, Legislator Leung Kwok-hung on 5 August sought judicial review, challenging LegCo President Rita Fan's decision to reject certain amendments to the Bill by pro-democracy legislators. The Basic Law does not permit members of LegCo to introduce bills which have a charging effect (ie an impact on the public purse) but is silent on whether, once a bill is introduced, members may propose amendments which have the same effect. However, LegCo has a rule of procedure which effectively prevents members from proposing such amendments. Mr Leung argued that this rule of procedure was inconsistent with the Basic Law. The High Court began hearing the case on 13 November.
35. On 20 July the Court of Final Appeal ruled that a travel restriction under the Bankruptcy Ordinance was unconstitutional. A four to one majority held that the provision, which required bankrupts to notify their trustees before and after travelling abroad, violated the Basic Law as well as the Bill of Rights Ordinance guaranteeing people's rights to travel. Chief Justice Andrew Li said the travel notification requirement was disproportionate and went beyond what was necessary to protect the rights of creditors. Mr Justice Ribeiro, dissenting, held that the requirement was a legitimate and proportionate limitation on freedom.
36. In September the United Nations Committee on the Elimination of Discrimination Against Women issued its concluding comments on Hong Kong's second report under the Convention on the Elimination of Discrimination Against Women (CEDAW). The Committee raised concerns about the SAR's performance in several areas, including the low prosecution rate in domestic violence cases, 'discriminatory' housing policies and the low level of women's representation in politics, particularly in Hong Kong's functional constituencies.
37. On 20 September, the Court of Final Appeal upheld a Court of First Instance ruling in August 2005 that the law prohibiting men aged under 21 from engaging in homosexual acts was unconstitutional. The Court of First Instance had ruled that the law was discriminatory and unconstitutional because it mandated a higher age of consent for homosexuals than for heterosexuals and lesbians, for whom the age of consent is 16. The Court of Final Appeal ruled that it could not see any justification for either the age limit of 21, or, in particular, for the different treatment of male homosexuals compared with heterosexuals.
38. On 24 October Reporters Without Borders issued its Annual Worldwide Press Freedom Index. Hong Kong's ranking slipped to its lowest point in five years, from last year's 39th to 58th. However, the index report noted that Hong Kong's media continued to be very free, and that the Internet was not censored at all.

39. In our sixteenth report we expressed the hope that Hong Kong would soon introduce legislation to meet in full its obligations under the International Covenant on the Elimination of All Forms of Racial Discrimination (ICERD). On 29 November the Government unveiled the Race Discrimination Bill. The draft Bill made discrimination and harassment on the grounds of race unlawful in six areas: employment; education; provision of goods, facilities, services and premises; election and appointment to public bodies; pupillage and tenancy by, and instructions to barristers; and membership and access to clubs. It also prohibited serious vilification on the grounds of race. Permanent Secretary for Home Affairs Carrie Lam said the Bill sought to strike a balance between safeguarding the rights and freedoms of persons against racial discrimination and respecting the legitimate rights and freedoms of others.
- 40. We welcome the introduction of legislation to outlaw discrimination on the grounds of race, and the Court of Final Appeal's 20 September ruling. Equality and non-discrimination are fundamental tenets of international human rights law. Governments have a duty to respect, protect and fulfil the human rights of all people, so that they are able to exercise their rights freely and fully, regardless of their race, colour, sex or sexual orientation.**
41. In our previous report we described how the Secretary for Commerce had asked the Director of Broadcasting to respond to a critical report by the Director of Audit on the public broadcaster Radio Television Hong Kong (RTHK). On 1 August RTHK set out to the Legco's Panel on Information Technology and Broadcasting proposals to pave the way for its independence from the Government. RTHK Assistant Director Cheung Man-sun suggested a statutory governing board with 10 to 20 members nominated or elected from different sectors should be established and that RTHK should be allowed to receive commercial sponsorship for certain programmes while maintaining stable funding from the Government.
42. On 9 August the SAR Government announced that Deputy Director General of Telecommunications Gracie Foo had been appointed Deputy Director of Broadcasting with effect from 14 August, and would become the 'second-in-command' at RTHK.
43. On 27 September the Public Service Broadcasting Review Committee proposed that RTHK should become a statutory body independent of the Government. It proposed setting up a governing board of not more than 15 directors, with up to four directly appointed by the Chief Executive and nine others nominated from various sectors (but also appointed by the Chief Executive). A CEO/Chief Editor, and a staff representative would complete the board's make-up. The Committee suggested that the broadcaster should be fully funded from the public purse for the first three years. However, within ten years its public funding should be gradually reduced to 80 per cent, with the remainder coming from other sources, such as sponsorship (but not advertisements). Committee chairman Raymond Wong said that the governing board's proposed composition would allow the broadcaster to operate free from political interference.
44. The Hong Kong Journalists Association stated that it could not accept the proposal that the Chief Executive should have the authority to appoint members of the RTHK's governing board after it was made independent. Association chairman Serenade Woo suggested that board members should be elected by community groups in the relevant sectors and by media organisations in a democratic, fair and open manner.

45. On 23 November the Catholic Diocese of Hong Kong lost its judicial review against a July 2004 amendment to the Education Ordinance that required all government-aided schools to set up management committees by 2012, and set a 60% limit on appointments to the board by the sponsoring organisation. The Catholic Diocese argued that the policy, in diluting its control of school boards, undermined its right to run schools 'according to previous practice'. The High Court held that educational institutions' autonomy must be subject to SAR Government policies to develop and improve education.
46. We have recorded in a number of our previous reports the case of Mr Ching Cheong. Mr Ching is the former chief China correspondent for Singaporean newspaper *The Straits Times*, and a British National (Overseas) passport holder. On 31 August he was convicted of espionage and sentenced to five years' imprisonment by the Beijing No 2 Intermediate People's Court. Mr Ching was also stripped of his political rights for a year and had personal property worth RMB300,000 confiscated. In a statement delivered through his family, Mr Ching insisted that he was not guilty and said that he intended to lodge an appeal.
47. Hong Kong and Macao Affairs Office Deputy Director Chen Zuo'er said on 31 August that Mr Ching's trial and prosecution had been in accordance with the law, and that his legal rights had been fully protected. Chief Executive Donald Tsang noted that in rendering assistance to residents, the SAR Government must respect the 'One Country, Two Systems' principle and not interfere with the law enforcement and the judicial process on the Mainland. He stressed that the Administration would continue to keep in touch with Mr Ching's family and provide every possible help in accordance with their wishes and appeals.
48. On 5 September a large number of people (the figures quoted ranged from 400 to nearly 1,000) took part in a two-hour vigil to proclaim Mr Ching's innocence and pray for his early release. They included Mr Ching's wife Mary Lau, Cardinal Joseph Zen, legislators Yeung Sum, Cheung Man-kwong and James To, and League of Social Democrats' Raymond Wong.
49. Speaking at the Asia-Europe Meeting (ASEM) Summit in Finland on 12 September, Premier Wen Jiabao maintained that the Mainland had an independent judiciary that would try a case according to its facts and the law.
50. On 23 November the Beijing Higher People's Court rejected Mr Ching's appeal against his conviction for spying. In a 15-minute hearing, the Court found that the verdict handed down in August was 'accurate in application of the law and an appropriate punishment'. Mr Ching's family expressed disappointment and anger at the ruling.
- 51. We repeatedly asked the Chinese authorities to clarify the circumstances of Ching Cheong's case but they gave no response. In accordance with current Chinese law his trial took place in a closed session. As a result, we have not seen and so are not in a position to comment on the strength of the evidence on which he was convicted. Every country has a right and a duty to take action to safeguard its national security. But we believe that such action must take place within a framework that properly protects the rights of all its citizens, including defendants and their defence lawyers.**

ECONOMY

52. Hong Kong's economy continued to perform strongly over the reporting period. In the third quarter of 2006, the Government reported GDP growth of 6.8%. Unemployment fell to a 6-year record low of 4.4% between September-November 2006, and inflation stood at 2.3% year-on-year at December 2006.
53. The Hong Kong stock market broke records in market capitalisation, transaction volume and initial public offering (IPO) capital-raising capacity in 2006. Total equity capital, raised by 62 IPOs, reached a record HK\$341.9 billion, more than double the HK\$160 billion of last year. On 27 October, Industrial and Commercial Bank of China (ICBC), the largest Mainland bank, listed its shares simultaneously in Hong Kong and Shanghai, in the world's biggest ever IPO. Of the US\$21bn raised, approximately US\$15bn was raised in Hong Kong and around US\$6bn in Shanghai. The deal valued the bank at around US\$130bn, putting it among the top seven largest banks globally.
54. The Government continued to consider the case for a comprehensive competition policy for Hong Kong. On 4 July the Competition Policy Review Committee released proposals for a cross-sector competition law. They included establishing a new government body with powers to investigate anti-competitive conducts, along with a tribunal to hear cases and decide penalties. On 6 November the SAR Government announced a three-month consultation. Secretary for Economic Development and Labour Stephen Ip said that the Government was keeping an open mind to the need for such legislation, but that the law would be ready for lawmakers' scrutiny next year if it had public support.
55. On 19 July Financial Secretary Henry Tang defended the SAR Government's proposal to introduce a goods and services tax (GST) to broaden Hong Kong's tax base. He reiterated that the new tax was aimed at reforming the tax system rather than generating more revenue, and would in fact be revenue neutral. On 26 July, Secretary for Financial Services and Treasury Frederick Ma said that the Government would not violate the principle of prudent fiscal management should a GST be introduced. Mr Ma said the Government would strictly adhere to Article 107 of the Basic Law which stipulated that the SAR should keep expenditure within revenues and achieve a fiscal balance.
56. On 5 December, following significant adverse public reaction, Henry Tang shelved the controversial GST proposal. The move was well-received by the majority of the business sector, the exception being accountancy firms and credit rating agencies, which believed that a GST was the best option to broaden the tax base. The government stated that it would continue its campaign to convince the public that broadening the tax base was necessary, and would explore the feasibility of a green tax in the remaining four months of the public consultation.
57. The 'World Investment Report 2006', released on 17 October by the United Nations Conference on Trade and Development (UNCTAD), ranked Hong Kong as the world's sixth largest recipient of Foreign Direct Investment in 2005, retaining its position as Asia's second-largest destination for FDI behind the Mainland.

ECONOMIC CO-OPERATION WITH THE MAINLAND

58. Chief Executive Donald Tsang made a number of trips to Mainland Provinces to discuss economic development. On 1 August the Chief Executive met Zhang Dejiang, Secretary of the Guangdong Provincial Party Committee, in Guangzhou and attended the opening of the Ninth Plenary Hong Kong/Guangdong Joint Conference, focusing on economic development and environmental protection. Tsang also led business delegations to Hunan (at the end of September) and Guizhou (end November).
59. On 11 August, Hang Seng Index Services announced that three new companies would be added to the Hang Seng Index of leading Hong Kong-listed enterprises. These were China Construction Bank, Hong Kong Exchanges & Clearing and Foxconn International (the Taiwanese electronics company). Analysts described China Construction Bank's addition as the first mainland-based firm as 'an historic change' to the composition of the Index. This reflected the growing weight of Chinese companies on the Hong Kong stock exchange.
60. On 11 September the Hong Kong Government hosted an Economic Summit on 'China's 11th Five-Year Plan and the Development of Hong Kong' at the Hong Kong Convention and Exhibition Centre. The Summit formed a core element of a wide-ranging consultation exercise on how best Hong Kong should fit into the Mainland's 11th Five Year Plan. A report on the outcome of the consultation will be published in early 2007.

THE ENVIRONMENT

61. There has been widespread debate in the reporting period in the media, among politicians and in civil society over the visible decline in Hong Kong's air quality. Speaking on 23 July, Donald Tsang acknowledged that Hong Kong's air quality was worse than 10 years ago. The Chief Executive urged all investors in the Pearl River Delta to observe the Hong Kong General Chamber of Commerce's voluntary "Clean Air Charter" and adopt cleaner manufacturing practices there.
62. Throughout the reporting period officials from Hong Kong and Guangdong continued to discuss details of a joint emissions trading scheme between the two jurisdictions. The scheme is due to be up and running in early 2007.
63. A June poll of 140 executives from the American Chamber of Commerce's member companies found that almost four out of five business leaders knew someone who was thinking of leaving or had left Hong Kong as a result of the poor quality of the environment. The survey also showed that 95 per cent of respondents were 'worried' about the air quality in Hong Kong and the potential long-term effects on their health and the health of their children.
64. The think-tank Civic Exchange warned in November that much of Hong Kong and the Pearl River Delta could be hit by frequent floods within five years if governments and businesses did not react more strongly to the dangers of global warming. It said that a potential 30cm rise in sea level in the next couple of decades, along with storm surges, could generate tides over three metres higher than now.

HONG KONG SAR GOVERNMENT

65. On 25 July the Central People's Government announced that it would nominate Dr Margaret Chan, formerly Hong Kong's Director of Health and incumbent World Health Organisation (WHO) assistant director-general, for the post of WHO Director-General, which had been vacant since the sudden death of Lee Jong-wook in May.
66. On 26 July the SAR Government released a consultation paper on further developing the political appointment system. The proposals would create 22 new political appointees (11 Deputy Directors of Bureau and 11 Assistants to Directors of Bureau) at a cost of around HK \$60 million. Secretary for Constitutional Affairs Stephen Lam said that the proposal would create more room for participation in political affairs. He stressed that the appointments would not be limited to members of pro-Government political parties or be dominated by one single party.
67. On 28 September the SAR Government announced a pilot scheme beginning in January 2007 to allow the District Councils in Wan Chai, Wong Tai Sin, Tuen Mun and Sai Kung to participate in the management of community facilities. It promised to provide additional resources to initiate community-involvement projects under the new model. The SAR Government is expected to roll out the scheme to all 18 districts from 2008. Permanent Secretary for Home Affairs Carrie Lam said that the Government hoped that devolving power would encourage more people to contest the next District Council elections and help to nurture political talents.
68. In his Policy Address to the Legislative Council on 11 October, Chief Executive Donald Tsang identified the three main challenges for the Government beyond next year's Chief Executive election as sustaining economic development, developing a democratic political system and building a harmonious society that protected the interests of low skilled workers.
69. On 31 October Fanny Law was appointed Commissioner of the Independent Commission Against Corruption (ICAC), trading posts with Raymond Wong who became Permanent Secretary for Education & Manpower.
70. On 9 November the WHO's executive board nominated Dr Margaret Chan for the post of Director-General. Dr Chan is the first Chinese national to head the WHO in its 58 years, and the first Hong Kong citizen to lead a major international organisation. Chief Executive Donald Tsang said that Dr Chan's achievement was an honour for the Mainland and for Hong Kong people. He added that her experience in handling epidemic outbreaks and medical sector reform would assist the WHO's work. **We congratulate Dr Chan on her appointment.**

BILATERAL RELATIONS

Visits

71. Our last report noted the high frequency of British Ministerial and other senior-level visits to Hong Kong. The trend has continued over this reporting period. Ian McCartney, Minister for Trade, Investment and Foreign Affairs began a tour of East Asia with a two-day visit to Hong Kong from 10-11 July. During his visit, Mr McCartney held talks with senior Hong Kong SAR Government figures including Financial Secretary Henry Tang and Secretary for Commerce, Industry and Technology Joseph Wong, and Legislators. He also gave a speech on sustainable development and climate change, which made the case for urgent action, setting out some of the action the UK is taking domestically.
72. Lord Falconer, the Lord Chancellor, visited Hong Kong from 6-8 September. He discussed Hong Kong's constitutional development with Chief Executive Donald Tsang. He also met the Justice Secretary, Hong Kong's Chief Justice and senior representatives of Hong Kong's Bar Association and Law Society.
73. Ed Balls, Economic Secretary to the Treasury, visited Hong Kong on 12-14 September. He met a wide range of Hong Kong financial services players including Frederick Ma, the Secretary for Financial Services and the Treasury (FST), the Chief Executives of Hong Kong Exchanges and Clearing Ltd and the Hong Kong Monetary Authority, and the Chairman of the Securities and Futures Commission.
74. British parliamentarians from the Hong Kong sub-committee of the Westminster All Party Parliamentary Group on China visited Hong Kong in September as guests of the Hong Kong SAR Government.
75. Alistair Darling, Secretary of State for Trade and Industry visited Hong Kong on 30 November following a visit to China. He met with Joseph Wong, Secretary for Commerce, Industry and Technology, and a number of leading business people.
76. The Governor of the Bank of England visited Hong Kong from 17-19 December as a guest of the Hong Kong Monetary Authority, and called on the Chief Executive Donald Tsang.

Trade and Inward Investment

77. Hong Kong is the UK's 3rd largest export market in the Asia Pacific region after Japan and mainland China, and the UK is the second largest European exporter to Hong Kong. Bilateral trade has continued to develop over the reporting period. UK exports of goods to Hong Kong from January to October 2006 amounted to £2.39 billion, down by 5.9% on the same period of 2005. UK imports from Hong Kong for January to October 2006 were £6.13 billion, up by 14.4% over the same period of 2005.
78. Over the course of the reporting period, UK Trade & Investment (UKTI) has supported 12 Trade missions to Hong Kong and 16 British groups at international trade fairs. UKTI also works to support around 180 Hong Kong investors in the UK and to promote the UK to new potential investors. UKTI assisted one new investment into the UK during the reporting period.

Education

79. Educational links between the UK and Hong Kong remain strong. In the academic year 2004-05, there were 19,365 Hong Kong students studying in the UK. 7,800 were in independent schools, 685 in further education colleges, 7,895 were enrolled on higher diploma or undergraduate programmes and 2,985 on postgraduate courses. The number of Hong Kong students in UK independent schools in 2005-06 was estimated to be around 7,650. The numbers for other sectors have not been released yet.
80. This year there are 23 Chevening scholars in the UK, studying a wide range of courses. The British Government's Chevening Scholarship Scheme has operated in Hong Kong since 1996. The generosity of Sir Li Ka-Shing (Chairman of Cheung Kong Holdings and Hutchison Whampoa Ltd), and that of Cambridge University, matched by the Foreign & Commonwealth Office, has made this number of scholarships possible.
81. Hong Kong remains an important centre of activity for the British Council. The Council's Teaching Centre in Hong Kong provides courses to over 35,000 students a year, complemented by an extensive community based programme of English. It is the Council's largest English-language teaching operation in the world. In 2005-06 it administered 36,000 examinations and attracted over 100,000 visitors to its website each month. The British Consulate-General works closely with the British Council in promoting better awareness of the UK's creativity and innovations in science, creative industries and the arts, its cultural diversity and its recent achievements. Further information can be obtained from the British Council Hong Kong web site.

INTERNATIONAL INTEREST IN HONG KONG

82. The Australian Foreign Minister, the Hon. Alexander Downer MP, visited Hong Kong on 2 and 3 August. During a speech hosted by the Australian Chamber of Commerce he said that he hoped that universal suffrage could be introduced in Hong Kong as soon as practicable.
83. On 26 October the European Commission published its first Communication on Hong Kong and Macao SARs since Communications issued on Hong Kong's return to Chinese sovereignty in 1997 and Macao's in 1999. The Communication reflected developments since then in the EU's relationship with Hong Kong and Macao, and made recommendations for deepening co-operation with the two SARs, taking into account the EU's increased co-operation with mainland China.
84. The Communication stated that since the transfer of Hong Kong (and Macao) to Chinese sovereignty, the principle of 'one country, two systems', had been respected and had worked well. It called for early and substantial progress towards the election of the Chief Executive and LegCo by universal suffrage. It also noted Hong Kong's impressive economic performance, which it attributed to Hong Kong's ability as a liberal, open gateway to and from China to capitalise on the mainland's rapid growth and increasing economic prosperity.

85. In order to deliver deeper EU engagement (including in ongoing trilateral co-operation between Hong Kong, Macao and mainland China), the Communication proposed new annual meetings between the Commission and Hong Kong SAR Government. It recommended that dialogue and co-operation should focus on seven key areas of mutual interest: trade and customs, finance, people-to-people links (including academia), transport, the environment, health and food safety, and that this should be supported and reinforced by a range of events and activities funded by the EU.
86. Chief Executive Donald Tsang met the president of the European Commission, Mr Jose Manuel Barroso, in Brussels on 7 November. In a joint statement, the two said, 'We agreed that Hong Kong provides European companies with an unrivalled platform from which to develop their commercial interests in Asia. EU companies benefit from the HKSAR Government's efforts to provide an efficient business environment for all. We agree to maintain close contacts at all levels to ensure that our increasingly important relationship develops positively and any challenges and opportunities are recognised quickly and responded to effectively.'
- 87. We welcome the European Commission's assessment that the 'one country, two systems' principle has generally worked well in practice since the handover of sovereignty. Like the Commission, we believe that while in almost every aspect Hong Kong is a success story, there is still a need to make progress towards universal suffrage, in line with the ultimate aim of the Basic Law. We agree that there is great potential further to develop relations between the EU and Hong Kong and welcome the proposal to deepen co-operation over the next few years.**

VISA FREE ACCESS FOR BRITISH NATIONALS (OVERSEAS)

88. There are nearly 3.5 million British Nationals (Overseas), the vast majority of whom live in Hong Kong. We remain fully committed to providing the highest standard of consular and passport services to British National (Overseas) (BN(O)) passport holders. We offer an identical level of consular service to BN(O) passport holders in third countries to that we offer to all British Nationals.
89. In our ninth Six Monthly Report, which covered the period from January to July 2001, we reported on the implementation of the EU Common Visa List which granted Hong Kong SAR passport holders visa-free access to the Schengen area. At that time we said that 'we are keen that BN(O) passport holders should enjoy the same visa-free access in Europe as SAR passport holders'.
90. In July 2006, following a review of the Common Visa List Regulation, the European Commission proposed that British Nationals (Overseas) should be added to the 'visa not required' list. The amended Regulation (Council Regulation (EC) No 1932/2006) was adopted by the European Council in December 2006 and was published in the Official Journal of the European Union on 30 December. The Regulation will take effect from 19 January 2007.

91. We have argued over a number of years that British National (Overseas) passport holders (BN(O)s) should not require visas to enter the Schengen area. Progress has at times been frustrating slow. But we are delighted that a clear anomaly has now been corrected and that BN(O) passport holders will now enjoy the same access within Europe as SAR passport holders.

CONCLUSION

92. At the end of this reporting period we conclude that the ‘One Country, Two Systems’ principle has generally worked well in practice and that the rights and freedoms promised to Hong Kong in the Joint Declaration and the Basic Law continue to be upheld.

93. We await with great interest the recommendations of the Commission on Strategic Development which we hope will, following wide consultation, identify a clear roadmap that will allow Hong Kong to achieve universal suffrage as soon as possible in line with the Basic Law and the wishes of the people. We salute Hong Kong’s continued economic success, which we believe is a product of a clear, transparent and open business environment. As long as that system is respected, Hong Kong’s economic future and status as Asia’s pre-eminent financial centre seem secure.

94. As the 10th anniversary of Hong Kong’s return to Chinese sovereignty approaches, we will continue to follow developments closely and take appropriate action, where necessary, to fulfil our obligations under the Joint Declaration.



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ISBN 978-0-10-170372-7



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