



Six-monthly Report on Hong Kong

July-December 2005

*Presented to Parliament
by the Secretary of State for Foreign and Commonwealth Affairs
by Command of Her Majesty
March 2006*

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FOREWORD

This is the eighteenth 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 2005.

During the reporting period, constitutional reform and progress towards full universal suffrage once again dominated the political debate in Hong Kong. The SAR Government put forward proposals to reform the methods to elect the Chief Executive in 2007 and Legislative Council in 2008. We considered these proposals offered an incremental step in the right direction. However, the Legislative Council rejected the proposals on 21 December.

Nevertheless, the British Government remains firmly committed to democratisation in Hong Kong. We believe that Hong Kong should advance to a system of universal suffrage, as envisaged by the Basic Law, as soon as possible. I hope that the Commission on Strategic Development will take forward the debate on how this can be achieved.

We continue to maintain very close relations with Hong Kong. I am very glad that the new Chief Executive, Donald Tsang, made the UK one of his first overseas visits in November. During the visit the Chief Executive had very constructive meetings with the Prime Minister, the Lord Chancellor and Ian Pearson. This reflects the strength and breadth of our relationship and demonstrates our continued strong commitment to the people of Hong Kong.

Hong Kong remains a pivotal place for the UK to do business. Hong Kong is a key trade and investment partner for the UK, and offers an excellent route for British companies into the wider Chinese market. I am confident that our strong business relations will continue to develop and prosper.

The eyes of the world were focussed on Hong Kong in December when “Asia's World City” hosted the WTO Ministerial meeting. The Hong Kong SAR Government rose to the challenge of hosting this global event and delivered a first class conference, which was organised with exemplary skill.

We will continue to watch developments in Hong Kong closely and look forward to consolidating and developing our deep and wide-ranging bilateral relationship.



Jack Straw
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 Hong Kong. In this, 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 that the continuation of Hong Kong's social and economic systems, lifestyles, rights and freedoms would be guaranteed. As a party to this international treaty the British Government continues issuing these reports to Parliament, which assesses the success of those arrangements.

CONSTITUTIONAL DEVELOPMENT

2. Our recent reports have commented in detail on Hong Kong's constitutional development and the Hong Kong SAR Government's progress towards the Basic Law's ultimate objective of elections by universal suffrage for the Legislative Council and the Chief Executive.
3. The Constitutional Development Task Force was set up in January 2004 to conduct public consultations and draw up proposals for reform. However, the Task Force's scope for proposing significant change was constrained in April 2004 when the Standing Committee of the National People's Congress (NPCSC) issued a "decision" which ruled out universal suffrage for the election of the Chief Executive in 2007, and stated that, for the 2008 Legislative Council elections, the 50-50 balance of legislators elected from geographical and functional constituencies should remain unchanged. We have commented in detail on these issues in our previous reports.
4. The Task Force published its fifth and final report on 19 October. The report conformed with the NPCSC's ruling and set out proposals for reforming the procedures for electing the Chief Executive in 2007, and the Legislative Council in 2008, most importantly:
 - For the 2008 Legislative Council election, the legislature to be expanded from 60 to 70 seats. Five of the extra seats to be directly elected from geographical constituencies. The remaining five seats to be elected by all 529 District Councillors (427 are directly elected, 102 are appointed).
 - For the election of the Chief Executive in 2007, the Chief Executive Election Committee (CEEC) to be increased from 800 members to 1600. All District Councillors to become members of the Election Committee, expanding the

political sector from 200 to 700. The other three sectors in the CEEC (commercial, social and professional) to each be increased from 200 to 300 members. Candidates for Chief Executive to require 200 nominations (up from 100) from the committee to go through to the final round of elections.

5. The SAR Government announced that the proposals would be put to the Legislative Council on 21 December in the form of two resolutions to amend Annexes I and II of the Basic Law. In accordance with the Basic Law, the resolutions would need to be approved by 40 out of 60 members of the Legislative Council.
6. At a press conference after the package had been released the Chief Executive, Donald Tsang, said: “The SAR Government has left no stone unturned in formulating a package that embodies democracy and openness to the highest extent possible, and is consistent with the Basic Law and the Decision of the Standing Committee of the National People’s Congress.” He went on to say: “These proposals will lead us to the ultimate goal of universal suffrage. I hope everyone will give them their full support.”
7. In a speech to the Legislative Council on 19 October the Chief Secretary Raphael Hui defended the absence in the Task Force report of a timetable for introducing universal suffrage. He said: “It is clear that views on the issue remain diverse in the community and that it would be quite difficult to reach a consensus in the near future. To attain universal suffrage, we must first create favourable conditions and provide the necessary supporting measures. Only when conditions are ripe and the supporting measures are ready, and the community has reached a high degree of consensus on the pace of introducing universal suffrage, will a timetable for introducing universal suffrage be meaningful.”
8. The pan-democrat legislators, at a press conference immediately following the release of the Task Force’s fifth report, vowed to oppose the reform package and called on people to join a protest march on 4 December. They criticised the lack of a timetable for universal suffrage and the inclusion of appointed District Councillors in the package.
9. Li Gang, Deputy Director of the Central Government Liaison Office (CGLO), said the proposals “accord to the Basic Law and the interpretation of the Standing Committee of the National People's Congress”. He added that “the plan is suited to Hong Kong's actual circumstances and it realises the principle of gradual and orderly democratic progress.” He said that with public backing, Hong Kong could “move forward along the track of the Basic Law, and achieve the ultimate goal of electing the Chief Executive and Legislative Councillors through universal suffrage”.
10. On 19 October the British Consul General, Stephen Bradley, said: “We support the Hong Kong Government in making progress towards universal suffrage.

Although these proposals will obviously not satisfy those who would like to see universal suffrage in 2007/2008, they are a step in the right direction.”

11. On 7 November eight Catholic and other Christian bodies issued a joint statement calling on the SAR Government to withdraw the Constitutional Development Task Force's fifth report, and to work out a new proposal which would allow Hong Kong to implement universal suffrage as soon as possible. They also called on the public and their followers to join the rally on 4 December. Speaking at a press conference, Catholic Bishop Joseph Zen criticised the Government's proposed package. He said: “The Government has claimed its package represents a major step in democratisation. But I see only the opposite - it makes no progress. I would say this proposal does not merit any support.”
12. In his annual policy address on 12 October the Chief Executive, Donald Tsang, announced that he would expand the membership of the Commission on Strategic Development to over 100 members to provide a platform for all sectors of the community to explore with government major issues pertaining to long term development. The Committee on Governance and Political Development, one of four panels under the Commission on Strategic Development, held its first meeting on 29 November. Speaking after the meeting, Mr Tsang said: “I have explained to members that I wish to focus on the constitutional development of Hong Kong, particularly what precise arrangement Hong Kong should have under the universal suffrage system. During this term of administration I will wish very much to help the Commission on Strategic Development to focus on this issue and bring these discussions to some new level of conclusion upon which we can build definitive proposals.”
13. On 30 November the Chief Executive made an appeal to the public on television and radio to support the Government's reform package. Mr Tsang said: “Various opinion polls indicate that most Hong Kong people support our proposals. We are at a crossroads in our democratic development. If the Legislative Council passes our reform package, we will take a big step towards our goal of universal suffrage. With the success gained, there is a greater chance of reaching a consensus on how to achieve universal suffrage. However, if the package were unfortunately voted down by the Legislative Council, then constitutional development for 2007 and 2008 would come to a halt. If this happens, how can we realistically expect to reach a consensus on proposals for the Chief Executive and Legco elections in 2012 and secure the necessary support from two-thirds of the legislators?”
14. A substantial number of people joined a march on 4 December, organised by the pan-Democrats, in support of early progress towards universal suffrage. Estimates of the numbers marching varied between the organiser's estimate of 250,000 and the more conservative police estimate of 63,000.
15. Speaking to the media after the rally, the Chief Executive said: “Today I saw tens of thousands of people taking part in a rally for democracy and asking for a road map and a timetable for introducing universal suffrage in Hong Kong. Let me say this to them: I have heard their voice, I have felt their feelings and I share their pursuit; and the Central Government perfectly understands their aspirations. I am 60 years of age and I certainly want to see universal suffrage taking place in Hong

Kong in my time.” He added: “There is little scope for me to change. But within the little scope that I have, I will see what I can do to perfect the package.”

16. On 19 December the SAR Government, in an attempt to persuade enough legislators to support its political reform proposals, announced it would reduce the number of appointed District Council seats gradually until 2016, but only if the constitutional reform package was passed. The SAR Government also pledged that the Commission on Strategic Development would consider additional institutional reforms, including a "roadmap" for universal suffrage, and report by early 2007.
17. The Chief Secretary said on 19 December that the SAR Government had responded to people’s wishes by asking the Commission for Strategic Development to discuss a road map and timetable for universal suffrage. He said there would not be another set of proposals.
18. Foreign Office Minister, Ian Pearson, who was in Hong Kong for the WTO Ministerial, made the following statement on 19 December:

The march on 4 December was an impressive example of Hong Kong people peacefully exercising their political and civil rights.

We support democracy throughout the world as the best means of creating a stable, accountable and transparent government, of protecting rights and freedoms, and of upholding the rule of law.

We believe that the SAR Government’s proposed changes are an incremental step in the right direction and that in the short term they are the best way of making progress.

But we hope they will lead to further progress towards universal suffrage as soon as possible, as envisaged in the Basic Law. We hope that the SAR Government will take into account the wishes of the people of Hong Kong.

19. On 21 December the Legislative Council rejected the Government's package of proposals to reform the methods to elect the Chief Executive in 2007 and Legislative Council in 2008 in two rounds of voting. The proposals required the support of two thirds of the 60-seat legislature. 34 legislators voted for the reforms and 24 legislators from the pan-democrat camp voted against, with two abstentions.
20. The Chief Executive, at a press conference following the defeat of the proposals, said: “It is regrettable because Hong Kong has, gratuitously, missed an opportunity for a giant step towards democracy; it is disappointing because the voting at the Legislative Council today dashed the public’s expectations for the early realisation of more democratic and more open elections.” He said: “We will not come up with a new package on the election of the Chief Executive in 2007 and of the Legislative Council in 2008.” However he added: “I have promised to follow up the discussions on the roadmap and timetable for universal suffrage at

the Commission on Strategic Development. I shall continue to work in this area to the best of my ability so that Hong Kong's political system can move towards universal suffrage in a steady, solid and orderly fashion.”

21. A spokesperson for the Hong Kong and Macao Affairs Office said “we express our appreciation to the SAR government for its efforts in pushing forward the progress of Hong Kong's political system.”
22. Li Gang, the Deputy Director of the Central Government Liaison Office, said “the vetoing of the reforms is regrettable, but I think the communication between the Central People's Government and all sectors of Hong Kong will continue.”
23. Media commentators’ reactions were generally low-key, the majority reflecting that some progress on constitutional reform would have been better than none. They also expressed concern that the relationship between Hong Kong and the Central People's Government had been damaged as well as the relationship between the Executive Council and the Legislative Council.
24. **The British Government recognises that the Legislative Council exercised its right to reject the SAR Government’s proposals. However we hope that the Government and legislators will reach an early agreement on how to implement universal suffrage, as envisaged in the Basic Law, as soon as possible, in line with the wishes of the people of Hong Kong.**

HONG KONG SAR GOVERNMENT

25. In our July to December 2004 report we recorded that the Court of Appeal ruled that the law introduced by the SAR Government in July 2002 enabling them to cut civil servants' pay was contrary to Article 100 of the Basic Law. The Secretary for the Civil Service, Joseph Wong, said in November 2004 that the Government intended to appeal to the Court of Final Appeal and did not rule out the possibility of seeking an NPCSC interpretation if the original ruling was upheld.
26. In a unanimous decision on 13 July 2005, the Court of Final Appeal overturned the Court of Appeal's decision, ruling the Government had not breached the Basic Law. Joseph Wong said, “the Government welcomes the judgement of the Court of Final Appeal which puts beyond doubt that the previous Government decisions to reduce the civil servants' salaries are fully consistent with the relevant provisions of the Basic Law.” Michael Scott, a government lawyer who was instrumental in challenging the government, conceded that the ruling had brought the legal challenge to a close but said, in his view, the Court of Final Appeal had chosen to ignore constitutional law.
27. **The British Government is pleased that a decision on this case has been reached without resorting to an interpretation of the Basic Law by the NPCSC, a political body, whose power to make such an interpretation might have been exercised in a way which undermined Hong Kong's separate legal system and confidence in the rule of law.**

28. The Chief Executive, Donald Tsang, delivered his first annual Policy Address to the Legislative Council on 12 October. In his speech, entitled “Strong Governance For The People,” the Chief Executive identified his main priorities as good governance, social harmony, and economic growth. He made the following proposals: to expand the Executive Council to include more non-official members, who would be involved in policy making at an early stage; to reorganise his own office by appointing a Permanent Secretary, responsible for co-ordination of government, and appointing an Information Co-ordinator; and, to appoint a new cadre of political appointees to support the Chief Executive and Principal Officials in their political work.
29. He also announced that, to improve coordination with the mainland, the SAR Government would establish offices in Shanghai and Chengdu and would also set up a Mainland Affairs Liaison Office in the Constitutional Affairs Bureau to oversee these offices.
30. The Chief Executive also committed to legislating on anti-corruption regulation; to take action on women's rights and domestic violence; emphasising the role of the family; to put forward the delayed anti-racial discrimination legislation; to establish a new Food Safety, Inspection and Quarantine Department; and, to examine the fair competition framework.
31. On 14 October the Chief Executive announced the appointment of eight new non-official members to the Executive Council, with effect from 1 November.
32. On 20 October the Chief Executive, making his first appointment of a Principal Official, announced that the State Council of the People's Republic of China had approved his recommendation to appoint Mr Wong Yan-lung as Secretary for Justice in succession to Ms Elsie Leung who was retiring on age grounds. Mr Wong's appointment was welcomed across the political spectrum. Pro-democracy legislator Martin Lee said, “I believe he will uphold the spirit of the rule of law.” Responding to questions at a press conference, Mr Wong said that he had participated in marches against the interpretation of the Basic Law by the NPCSC in 2005 because, as a legal professional, he was concerned about the impact on Hong Kong's legal system. He said: "There is nothing wrong with expressing one's views that in the future there should be no more need to interpret the Basic Law - none of us would like to see another Basic Law interpretation. I will try my best to avoid the need for us to seek another interpretation within my term.”
33. Hong Kong hosted the sixth Ministerial Conference of the WTO from 13 to 18 December. It was a challenging event with delegates from 149 countries, and accredited NGOs and media attending the conference. There was also a large number of protestors. On 17 December more than 1,000 protestors were arrested, most of whom were released without charge by 19 December. The police decided to prosecute 14 of the protestors, eleven of whom were subsequently released on 11 January after prosecutors said they did not have enough evidence to justify the charges against them. The remaining three face trial in February 2006. Some non-governmental organisations have expressed concern about the action taken by police against the protestors, in particular the use of tear gas and beanbags, the sealing off of the Wan Chai area by the police to prevent protests, and the

treatment of protestors in detention.

34. On 19 December, Ian Pearson, Minister for Trade, who was attending the conference, made the following statement:

I would like to express the appreciation of the UK Delegation for the SAR's exemplary organisation of the WTO Ministerial Conference. Hong Kong looked after us extremely well. No trouble was spared to facilitate progress and dialogue. The government's liaison officers were welcoming, the facilities were excellent and the police carried out their sometimes very difficult duties with consummate professional skill.

“ONE COUNTRY, TWO SYSTEMS”

35. In recent reports we have welcomed visits to mainland China by pro-democracy legislators, many of whom had not been permitted to do so since the events in Tiananmen Square in 1989.
36. The initiative by the Chief Executive to organise and lead a two-day tour of the Pearl River Delta for 59 of the 60 legislators on 25 and 26 September was a **significant and positive development**. (A Liberal Party legislator was the only legislator not to take part in the visit for work reasons.) This was the first time that all legislators in Hong Kong had been invited to the mainland. 11 of the legislators in the pan-democrat camp, who do not have home return permits allowing them to visit the mainland when they wish, were issued with one-off permits for the visit.
37. The group visited Shenzhen, Dongguan, Guangzhou and Zhongshan. They had a closed door meeting with Zhang Dejiang, Guangdong Party Secretary, and a member of the Politburo. Legislators reported that they were able to conduct a serious exchange with Zhang on democracy in Hong Kong. They also discussed the 1989 Tiananmen crack down. This was the first time there has been any direct discussion between the pan-democrats and the Central People's Government on this issue.
38. Following the visit, the Chief Executive said that he hoped that the Legislative Council would now organise its own visits to the mainland. The Legislative Council Transport Panel subsequently visited Zhuhai, Shenzhen and Guangzhou on 5/6 December. Li Gang, Deputy Director of the Central Government Liaison Office, said that “this was good start and there will be more communications and exchanges in future”.

39. **The British Government is encouraged by the positive and constructive elements of the visit and hopes that this will lead to a more open and direct dialogue between the democrats and the central authorities. We also hope that full home return permits to those legislators who still do not have them will be granted soon.**
40. Chinese Premier Wen Jiabao met the Chief Executive in Beijing on 28 December. During the meeting, Mr Wen said the Chief Executive had “made a great deal of substantial, pragmatic effort to promote the prosperity and Hong Kong since taking on his new position.” He went on to say that the overall situation was good amid sustained economic growth and social stability but that “there are still some deep-rooted contradictions and problems that have not been totally resolved.” The Chief Executive said at a subsequent press conference that Premier Wen’s comments referred to economic, not political, issues: “What the Premier meant is that the economic restructuring is still not finished ... we see problems in our high wages, high rental and land prices.” Referring to Hong Kong’s political development Premier Wen said, “it has been the central government’s policy to help develop democracy in Hong Kong” adding that progress has to be “stable, healthy and orderly”, which is in the wider public interest.

BASIC RIGHTS AND FREEDOMS

41. On 8 July the Court of Final Appeal upheld the conviction of pan-democrat legislator Leung Kwok-hung and two others for unauthorised assembly and public order violations. While ruling that a requirement under the Public Order Ordinance to notify the police before holding a rally was constitutional, the Court judged that the term “*Ordre Publique*” in the Ordinance, allowing the police to refuse a request, was too vague and was in contravention of the rights of residents guaranteed under Article 27 of the Basic Law. The Court unanimously called for the term to be removed from the Ordinance, stressing that freedom of peaceful assembly was “precious” for the stability and progress of society.
42. The Hong Kong Journalists’ Association released its annual report on Hong Kong’s press and speech freedoms on 17 July. The report set out the Association’s concerns that the Central People’s Government had been “interfering” more in Hong Kong affairs and that that this would directly impact on freedom of speech. In the report the Association commented that the Chief Executive had a “wavering stance” on the freedom of speech and had been giving “mixed signals”. A spokesman for the Association said that “the Chief Executive has pledged not to rein in Radio Television Hong Kong yet has called on the broadcaster to drop horse racing and entertainment programmes, implying that it should do more to sell the Government’s policies”. The Association also noted an increase in the number of instances where mainland officials openly commented on local affairs and urged the Government to reflect Hong Kong’s objections to the central authorities. **We will continue to monitor any threat to freedom of expression in Hong Kong closely.**
43. On 5 August the Chief Executive issued the Law Enforcement (Covert Surveillance Procedures) Order to provide interim regulation on the use of covert

surveillance by law enforcement authorities. The Order stipulated that a law enforcement officer must make an application to an authorising officer in accordance with the procedures laid down in the Order before undertaking surveillance duties. The interim measures are aimed at providing a clearer basis for the authorities pending future legislation. A Security Bureau spokesman stressed that the Government fully appreciated the wishes of the public for more transparency in the procedures.

44. The Bar Association issued a statement on 8 August stating that the Chief Executive, who is vested under the Basic Law with executive power only, cannot, under the pretext of regulating by executive order, assert a power to authorise covert surveillance when such surveillance may infringe the fundamental rights of Hong Kong SAR residents. The Association said that only a law could do that.
45. Pan-democrat legislator Leung Kwok-hung and Koo Sze-yiu, a member of the April Fifth Action Group, filed an application for a judicial review with the High Court on 16 August, seeking to overturn the Order on the grounds that it was in breach of the Basic Law and unconstitutional. On 7 November the Court of First Instance rejected an application by the Government to adjourn the judicial review. Justice Michael Hartmann said that covert surveillance had such a profound impact on individual rights that a judicial review into an executive order authorising it needed to go ahead even if the Government thought the exercise was academic. The judicial review took place on 28-29 November and will continue on 2 February 2006. The SAR Government has said that it will table legislation on interception of communications in early 2006.
46. We recorded in our last report the case of Ching Cheong, the Singapore *Straits Times* correspondent and Hong Kong resident, who had been detained in Guangzhou on suspicion of providing intelligence to a foreign agency.
47. Mr Ching was formally arrested on 5 August on charges of spying for Taiwan. We understand that under "normal circumstances" the case should have been handed over to the prosecutors within a two-month period. A Chinese government spokesman, however, said on 9 December that "because the case is complex the investigation and detention period for Ching Cheong was extended for one month". He added that "the courts had approved another extension on 6 November for a further two months".
48. The Chief Executive, who had expressed his concern about the case in June, raised the subject during his meeting with Premier Wen Jiabao on 28 December. The Chief Executive said he had "reflected to the Central People's Government the concerns of various sectors in Hong Kong" and had been told that the case was being actively pursued and would be referred to the prosecution department before 6 January.
49. **Mr Ching is a British National (Overseas) passport holder and we have pressed the central authorities for information on the circumstances of his arrest and will continue to seek consular access, which so far has been denied.**

ECONOMY

50. Hong Kong's economy experienced stronger than expected growth in real GDP of 8.2% (year on year) in the third quarter of 2005. In view of the strong recovery, the SAR Government revised the GDP growth forecast upward from 4.5-5.5% to 7% for 2005 as whole. Hong Kong's growth was widely attributed to improvements in global economic conditions and the robust growth in the China Mainland economy.
51. Labour market conditions continued to improve, with the unemployment rate falling to a 51-month low of 5.3% in Q4 2005 as compared with 6.8% at the end of Q3 2004. The Consumer Price Index showed moderate growth of 1.1% for 2005 as a whole. Interest rates continued to closely shadow movements in the US, with five separate rate increases in the second half of 2005.
52. The Hong Kong stock market hit a record high of HK\$8.26 trillion in terms of market capitalisation by 21 December 2005. Hong Kong ranked fourth in worldwide fund-raising for the first nine months of 2005, the biggest in Asia. The strong performance of the stock market was primarily due to the increasing number and value of new listings by Mainland enterprises.

ECONOMIC COOPERATION WITH THE MAINLAND

53. Financial Secretary Henry Tang and Chinese Vice-Minister of Commerce Liao Xiaohong signed the Closer Economic Partnership Agreement (CEPA) III in Hong Kong on 18 October. Under CEPA III, the Central Government agreed to give all products of Hong Kong origin tariff-free treatment, starting from 1 January 2006. The market viewed this as a prelude to the implementation of the Qualified Domestic Institutional Investors Scheme.
54. The second Pan-Pearl River Delta Forum was held on 25 July. Chief Executive Donald Tsang urged Mainland enterprises to use Hong Kong as a platform to tap the global market, along with suggestion of the "9+2" zone development in the Mainland's 11th five-year plan (2006-2010). He said that enhancing economic cooperation between Hong Kong and the Mainland is a priority.
55. The Central Government introduced measures to relax foreign exchange restrictions that would be beneficial to Hong Kong. In August, the State Administration of Foreign Exchange (SAFE) announced a number of measures designed to facilitate individuals and companies currency exchange between the Hong Kong dollar and RMB. These included increasing the amount of profits firms could retain in foreign exchange; allowing individuals to hold more RMB in Hong Kong-based bank accounts; and allowing travellers to carry more foreign exchange.

EU ACTIVITY IN HONG KONG

56. This report covers the period of the UK's presidency of the EU. During this period the President of the European Commission, Jose Manuel Barroso visited Hong Kong on 17 and 18 July had meetings with the Chief Executive, the Financial Secretary and the Commercial Secretary. Mr Barroso also met the President of the Legislative Council and a number of Legislative Councillors.
57. The EU and the Hong Kong Government issued the following statement at the end of the visit:

“Hong Kong and the European Union are important economic partners with much common interest. At our meeting today, we agree that it would be mutually beneficial to put in place a more structured dialogue between the Government of the Hong Kong Special Administrative Region (HKSARG) and the European Commission (EC) in such areas of interest.

We note the long-standing relationship between Hong Kong and the European Union, including Hong Kong's representation in Brussels since 1965 and the establishment of the Office of the European Commission in Hong Kong in 1993; we also note the successful implementation of the “one country, two systems” principle in the governance of the HKSAR and the principles established in its constitutional document - the Basic Law.”

58. The European Commission's annual report on Hong Kong for 2004 which issued on 7 August, raised concerns about the implementation of the “One Country, Two Systems” principle following the process by which the Central Authorities produced a ruling allowing only minor changes to the electoral system in 2007 and 2008. The report said that this ruling appeared inconsistent with the high level of autonomy given to the SAR under Hong Kong's Basic Law. A government spokesman responded by saying: “The various systems of the Hong Kong SAR have been preserved and maintained in accordance with the Basic Law. Our electoral systems are progressing in a gradual and orderly manner.”

BILATERAL RELATIONS

Visits

59. The Chief Executive paid his first visit to the UK, in his new position, from 2 - 5 November. We were delighted that the Chief Executive chose the UK as the destination for one of his first overseas visits. He had important discussions with the Prime Minister, the Lord Chancellor and with Minister for Trade and Foreign Affairs, Ian Pearson. During his visit he made the keynote address at the annual Hong Kong Trade Development Council dinner and gave the opening speech at the Wilton Park Conference on “Hong Kong and its role in the region.”

60. Ian Pearson paid his first visit to Hong Kong on 4 - 5 July. He had very productive and useful discussions on a broad range of issues with the Chief Executive, the Financial Secretary, Henry Tang, and the Secretary for Commerce, John Tsang. He also met Rita Fan, President of the Legislative Council and a small group of legislators, and attended a dinner where he met a broad cross-section of leading Hong Kong people from the Government, politics and business.
61. Lord Goldsmith, the Attorney General, visited Hong Kong from 12-13 December when he met the Secretary for Justice, the Chief Justice, the President of the Legislative Council, the Secretary for Constitutional Affairs and members of the Legislative Council Panel on the Administration of Justice and Legal Services.
62. Other senior visitors included the Earl of Wessex, who made a private visit to attend the Duke of Edinburgh's Award International Association Asia Pacific Conference in September.
63. In November Angela Smith MP, Parliamentary Under Secretary in the Northern Ireland Office, led a trade mission to Hong Kong. In the same month Sir Stephen Brown, Chief Executive of UKTI, attended the Second Plenary Session of the Hong Kong/UK Business Partnership.
64. HMS York and RFA Black Rover made a goodwill visit to Hong Kong in September and 1300 guests from invited local interest groups, charities and the Hong Kong Police, the PLA Navy and the Government Flying Service, visited the two ships.
65. In December Hong Kong hosted the WTO Ministerial at which the UK delegation was led by Trade Secretary Alan Johnson, Environment Secretary Margaret Beckett, International Development Secretary Hilary Benn and Ian Pearson. In the margins of the WTO meetings Ian Pearson held useful bilateral discussions with Chief Secretary Raphael Hui.
66. In the other direction Professor Arthur Li, Secretary for Education and Manpower visited the UK from 18 to 21 July when he was able to update Mr Pearson on constitutional reform in Hong Kong and share ideas on our significant relationship in education matters.

Trade and Inward Investment

67. Over the period of the report bilateral trade has continued to expand healthily. UK exports to Hong Kong from July to October 2005 amounted to £1.1 billion, an increase of 18.4% over the same period of 2004. UK imports from Hong Kong for July to October 2005 were £2.5 billion, an increase of 11.4% over 2004.
68. During the reporting period UK Trade & Investment (UKTI) has supported 16 trade missions to Hong Kong and 19 British groups at international trade fairs, in the process working with 181 British companies looking to develop their business in Hong Kong. UKTI has also continued to work with the over 180 existing Hong Kong investors in the UK and in promoting the UK to new potential investors.

Education

69. Educational links between the UK and Hong Kong remain very strong. There are currently around 20,000 students from Hong Kong studying in universities, schools and colleges in the UK.
70. The British Government's Chevening Scholarship Scheme has operated in Hong Kong since 1996. This year there are 35 Chevening scholars from Hong Kong in the UK, studying a wide range of courses. The generosity of Dr Li Ka-Shing (Chairman of Cheung Kong Holdings and Hutchison Whampoa Ltd), and Cambridge University, with a matching contribution from the Foreign and Commonwealth Office, has made this significant number of scholarships possible. In November 2003 Dr Li Ka-Shing pledged a further £2 million over three years, matched by the British Government under its Dorothy Hodgkin Postgraduate Awards scheme, to support mainland and Hong Kong scholars in doctoral studies in the UK.
71. Hong Kong remains a major centre of activity for the British Council. The Council's Teaching Centre in Hong Kong provided courses to over 33,400 students a year. It is the Council's largest English-language teaching operation in the world. During 2005/6 it also administered 34,000 examinations and attracted 670,000 visitors to its website. The British Consulate-General works closely with the British Council in promoting better awareness of the UK's educational and training credentials, its creativity, cultural diversity and recent achievements. Further information can be obtained from the British Council Hong Kong web site www.britishcouncil.org.hk.

BRITISH NATIONALS (OVERSEAS)

72. There are nearly 3.5 million British Nationals (Overseas), most of whom live in Hong Kong. The British Government remains fully committed to providing the highest standard of consular and passport services to the holders of the British National (Overseas) (BN(O)) passport. We continue to offer the same level of consular service to BN(O) passport holders in third countries as we do to other British Nationals and regularly remind all our overseas missions of their obligations towards BN(O)s. The Passport Section of the British Consulate-General in Hong Kong continues to be the largest passport issuing operation outside the UK.
73. Following the introduction of the European Union Residence Permit in 2003 the British Government implemented the United Kingdom Residence Permit (UKRP) Scheme for non-visa nationals wishing to stay in the UK for more than six months. The Scheme has been running successfully in Hong Kong since November 2003, where - uniquely - BN(O)s can apply for UKRPs directly from a dedicated UKRP Section at the British Consulate General - free of charge. In 2005 3,593 gratis UKRPs were issued, mainly to students.
74. We continue to lobby other European countries and the European Commission to ensure that BN(O) passport holders enjoy the same access within Europe as SAR

passport holders. The Foreign Secretary has written to the EU Commission to take this forward and we are working hard to secure early and positive progress.

CONCLUSION

75. This has been another eventful period in Hong Kong. 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.
76. We look forward to the debate on constitutional reform moving forward and to the Government and the Legislature making progress in reaching an agreement which will allow Hong Kong to achieve universal suffrage as soon as possible, in line with the wishes of the people.
77. We shall continue to follow developments closely and take appropriate action, when necessary, to fulfil our obligations under the terms of the Joint Declaration.



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