



Six-monthly Report on Hong Kong

January-June 2004

*Presented to Parliament
by the Secretary of State for Foreign and Commonwealth Affairs
by Command of Her Majesty
July 2004*

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FOREWORD

This is the fifteenth in a series of six-monthly reports to Parliament on the implementation of the Sino-British Joint Declaration on the Question of Hong Kong. It covers the period from 1 January to 30 June 2004. The six months covered in this report have been dominated by the issue of constitutional reform, against the welcome background of a steadily improving economy.

In our last report we described the delay to the Hong Kong Special Administrative Region (SAR) government's planned consultation process, and the establishment of the Task Force on constitutional reform. On 6 April the Standing Committee of the National People's Congress (NPC) issued an "Interpretation" of the Basic Law, followed on 26 April by a "Decision" which set limits on constitutional developments in Hong Kong. This "Decision" ruled out the possibility of the election by universal suffrage of the Chief Executive in 2007 and the Legislative Council in 2008. This unexpected intervention of the NPC Standing Committee has given rise to significant concerns in Hong Kong, many of which we have shared.

The implications of the NPC Standing Committee's interventions have been the subject of considerable debate. We have expressed our views both privately and publicly. Our main concern has been that these moves seemed to erode the high degree of autonomy promised to Hong Kong in the Joint Declaration. We have discussed these issues both with the SAR Government and with the central Government in Beijing. During Prime Minister Tony Blair's talks with Chinese Premier Wen Jiabao on 10 May both Governments reaffirmed their commitment to the implementation of the Joint Declaration and agreed to continue exchanges of view on the issues. Foreign Office Minister Bill Rammell made our views clear in two statements in April. He repeated our position that we would like to see early progress towards the Basic Law's aim of universal suffrage for the election of the Chief Executive and Legislative Council at a pace in line with the wishes of the people of Hong Kong.

On 1 July, after the end of the period covered by this report, a substantial number of people marched peacefully through the streets of Hong Kong. The single main theme of this demonstration was a call for early progress towards a more democratic and representative system of government.

Over the coming weeks the Hong Kong SAR government is due to continue its consultation of Hong Kong people and then to come forward with concrete proposals for constitutional development for 2007 and 2008. We hope these proposals will meet the wishes of the people of Hong Kong. In order to make a success of the 2007/08 reforms, and for further progress towards the Basic Law's goal of full universal suffrage, there needs to be calm and open dialogue between all sections of Hong Kong opinion and both the SAR government and the central government in Beijing. There have recently been some encouraging signs in this direction.

We look forward now to the September legislative elections, when half of the 60 members will be chosen by direct election. We expect that, as in previous elections, robust election procedures will be adopted and Hong Kong's reputation for freedom of expression and adherence to the rule of law will continue to be enhanced.

The UK will continue to watch Hong Kong developments closely, in line with our firm commitments, our substantial interests there and our support of aspirations for more democratic and accountable government. Recent Ministerial visitors from the UK to Hong Kong include Patricia Hewitt (Secretary of State for Trade and Industry), Peter Hain (Leader of the House of Commons and Secretary of State for Wales), Margaret Beckett (Secretary of State for Environment, Food and Rural Affairs) and Lord Warner (PUSC for Health). These demonstrate the breadth of the UK's engagement in Hong Kong. We are confident that British people and companies will continue to play a full part in Hong Kong's improving economy and hope they will be joined by new investors and traders, taking advantage of the remarkable opportunities offered by Hong Kong and the neighbouring markets of mainland China.

A handwritten signature in black ink, reading "Jack Straw". The signature is written in a cursive style with a large initial "J" and a long horizontal stroke at the end.

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 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, both the British and Chinese Governments 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 assess the success of those arrangements.

CONSTITUTIONAL DEVELOPMENT

2. The last report covered in some detail the discussions in Hong Kong about possible moves towards the Basic Law's ultimate aim of universal suffrage for the selection of the Chief Executive and for the formation of the Legislative Council. During the period of this report there have been significant developments. Some of these have caused concerns in Hong Kong, notably about the possible erosion of the high degree of autonomy promised to Hong Kong under the terms of the Joint Declaration. The British Government shares this concern.
3. Hong Kong's current constitutional framework, including election methods, is set out in the Basic Law, Articles 45 and 68. Article 45 states that:

The Chief Executive of the Hong Kong Special Administrative Region shall be selected by election or through consultations held locally and be appointed by the Central People's Government.

The method for selecting the Chief Executive shall be specified in the light of the actual situation in the Hong Kong Special Administrative Region and in accordance with the principle of gradual and orderly progress. The ultimate aim is the selection of the Chief Executive by universal suffrage upon nomination by a broadly representative nominating committee in accordance with democratic procedures.

The specific method for selecting the Chief Executive is prescribed in Annex I "Method for the Selection of the Chief Executive of the Hong Kong Special Administrative Region".

Article 68 states that:

The Legislative Council of the Hong Kong Special Administrative Region shall be constituted by election.

The method for forming the Legislative Council shall be specified in the light of the actual situation in the Hong Kong Special Administrative Region and in accordance with the principle of gradual and orderly progress. The ultimate aim is the election of all the members of the Legislative Council by universal suffrage.

The specific method for forming the Legislative Council and its procedures for voting on bills and motions are prescribed in Annex II: "Method for the Formation of the Legislative Council of the Hong Kong Special Administrative Region and Its Voting Procedures".

4. Annex I of the Basic Law states that "if there is a need to amend the method for selecting the Chief Executives for the terms subsequent to the year 2007, such amendments must be made with the endorsement of a two-thirds majority of all the members of the Legislative Council and the consent of the Chief Executive, and they shall be reported to the Standing Committee of the National People's Congress for approval." Annex II contains similar language on changing the method for forming the Legislative Council after 2007, but in this case, the change is to be reported to the Standing Committee of the National People's Congress "for the record".
5. On the first day of the reporting period, 1 January 2004, an estimated 100,000 people marched peacefully through the streets of Hong Kong. The central theme of the march was to promote and accelerate moves towards more representative government. In response to the demonstration, a Government spokesman issued the following statement:

"Many citizens took part in the procession today. We will listen carefully to their aspirations. One of their major aspirations is to speed up the pace of democratic development. It is the clear duty of the current Administration to pursue democratic advancement in accordance with the Basic Law. The Government will make full use of the coming three years to address the issues of constitutional development after 2007. We will start listening to and collecting public views as soon as possible.

"Hong Kong is a pluralistic society, and there are differing views on the pace of constitutional development. The Government will adopt an open and receptive attitude and encourage discussion amongst various sectors of the community. We will strive to build consensus on the way forward according to the principle of gradual and orderly progress and in the light of the actual situation in Hong Kong as stipulated in the Basic Law."

6. In his policy address to the Legislative Council on 7 January, Chief Executive Tung Chee-hwa announced that the Special Administrative Region (SAR) Government would actively promote Hong Kong's constitutional development on the basis of maintaining "One Country, Two Systems" and adhering to the Basic Law. Mr Tung also announced the establishment of a Constitutional Development Task Force to examine the relevant principles and legislative process in the Basic Law relating to constitutional development, to consult the relevant departments of the Central People's Government and to listen to the views of the public on the relevant issues. Chief Secretary Donald Tsang Yam-kuen would head the Task Force, which would also include Secretary for Justice Elsie Leung and Secretary for Constitutional Affairs Stephen Lam.
7. At a press conference following the Chief Executive's Policy Address on 7 January, Secretary for Constitutional Affairs Stephen Lam explained that the need for a Task Force had emerged only after the Central Government had spelt out its wishes regarding constitutional reform:

"We originally proposed conducting an internal study to consider whether we should create a timetable [for political review]. But in late-December, the Central Government informed the Chief Executive that they wanted the SAR government to thoroughly discuss the principles and legislative process relating to the development of our political structure as stated in the Basic Law, before determining related working arrangements. The Chief Executive therefore established this Task Force to enhance communication with the Central Government."
8. On 9 January, Secretary of State for Trade and Industry, Patricia Hewitt, who was visiting Hong Kong, reiterated the UK's long-standing view that we continue to hope to see early progress towards the Basic Law's ultimate aims of the selection of the Chief Executive and election of all members of the Legislative Council by universal suffrage at a pace in line with the wishes of the people of Hong Kong. The following day, Zhou Zhekai, the Deputy Director of the Central Government's Liaison Office in Hong Kong, issued a statement to the effect that issues pertaining to Hong Kong were part of China's internal affairs and that foreigners should not make random criticism.
9. On 10 January, the US State Department spokesman Richard Boucher said: "The US strongly supports democracy through electoral reform and universal suffrage in Hong Kong. These will advance economic and social development and contribute to Hong Kong's prosperity within the 'One Country, Two Systems' framework." The following day, the Chinese Ministry of Foreign Affairs issued a criticism of Mr Boucher's remarks saying that "Hong Kong affairs are China's internal affairs and the Chinese government resolutely opposes any foreign interference in whatever form".
10. Since the handover in 1997 mainland officials have generally been reticent in commenting on Hong Kong affairs. However, during the period of this report there has been a series of comments by mainland officials, politicians, and

experts on issues generally considered to fall within Hong Kong's high degree of autonomy. The first of these immediately followed the Chief Executive's Policy Address when Xinhua, the official Chinese News Agency, released a statement quoting a spokesman from the Hong Kong and Macao Affairs Office (HKMAO). It said that the Chief Executive's ideas for improving the economy and governance were "active, enterprising, reliable and feasible". Mainland legal experts Xiao Weiyun (of Beijing University) and Xu Chongde (a drafter of the Basic Law) also commented on Hong Kong's constitutional development. They said that the current pace of reform was not slow; that universal suffrage for the Chief Executive election in 2007 might be against the Basic Law's principle of "gradual and orderly progress"; and that Hong Kong people should focus on improving the economy.

11. On 12 January Hong Kong and Macau Affairs Office Deputy Director Chen Zuo'er said that Hong Kong's democratic development must progress in a gradual and orderly way. "The central government is happy to see Hong Kong's political system developing in the direction of democracy ... but it is according to the principle of gradual and orderly progress, keeping prosperity and stability, as well as in line with the Basic Law."
12. On 14 January the Chief Secretary issued a paper to the Constitutional Affairs Panel of the Legislative Council which set out the role of the Task Force and identified two categories of issues relating to the development of Hong Kong's political structure for discussion: principles relevant to the political structure; and the legislative process necessary to amend voting methods. The paper announced that the Task Force would invite interested parties to discuss these issues.
13. Shortly afterwards, two mainland legal experts - Xiao Weiyun and Xia Yong (of the Chinese Academy of Social Sciences) - set out in Hong Kong arguments against early moves towards universal suffrage. Xiao said on 16 January that electing the Chief Executive in 2007 would be contrary to the principles of "gradual and orderly progress"; that "One Country" should take precedence over "Two Systems"; that it could take more than 30 years to achieve universal suffrage in Hong Kong; that if the Central People's Government had intended universal suffrage to be introduced in 2007 they would have written that in the Basic Law; that Hong Kong's courts had exceeded their powers when striking down legislation inconsistent with the Basic Law; that it was a breach of the Basic Law for legislators to cast no-confidence votes against Principal Officials appointed by Beijing; and that it was the central authorities which were vested with the power to decide if there was a need to review electoral arrangements after 2007. Hong Kong's legal community responded, disagreeing with many of his views. The Head of the Hong Kong Bar Association, Edward Chan King-sang, said that he was surprised by, and disagreed with, the remarks made by Professor Xiao. It was his view that Hong Kong courts did indeed have the right to strike down any legislation in breach of the Basic Law. The legal sector representative in the Legislative Council, Margaret Ng Ngoi-yee, also

noted that Xiao's comments should not be taken as the official interpretation of the Basic Law.

14. State Councillor Tang Jiaxuan met Hong Kong reporters on 30 January. Responding to questions on Hong Kong's constitutional development, Tang said that Hong Kong's constitutional development must proceed in an orderly and gradual manner in accordance with the Basic Law. It should also be promoted step by step. Consideration and study of constitutional development should be pushed forward gradually.
15. The Task Force held numerous meetings with various sectors of society in Hong Kong in February. Members also paid a visit to Beijing from 9-11 February where they met middle-ranking officials and legal experts.
16. During this period, there were numerous comments from Xinhua, mainland officials and legal experts that Hong Kong should be run by "patriots". A debate ensued as to what this meant. Newspapers reminded people that the late Chinese leader, Deng Xiaoping, had set out a broad and inclusive definition of patriotism in June 1984 when he had said:

"What is a patriot? A patriot is one who respects the Chinese nation, sincerely supports the motherland's resumption of sovereignty over Hong Kong and wishes not to impair Hong Kong's prosperity and stability. Those who meet the requirements are patriots, whether they believe in capitalism or feudalism or even slavery. We don't demand that they be in favour of China's socialist system; we only ask them to love the motherland and Hong Kong."

17. Other people took a much narrower view of patriotism. On 17 February a Chinese Vice-Minister of Commerce, An Min, criticised those who had "distorted the principles of patriotism" and those who had said that loving the country was not tantamount to loving the Communist Party. He said that the Chinese Communist Party represented the Chinese people and it should also represent Hong Kong compatriots. Although Director of the Central Government's Liaison Office, Gao Siren, said that all Hong Kong people were patriotic, Xinhua alleged on 24 February that a small number of people who were ruling Hong Kong had contravened the political and legal criteria for being patriots by joining organisations aimed at subverting the central government and supporting independence of Taiwan. The Chief Secretary appealed to people not to "tie themselves in knots" over the issue, and former Chief Secretary Anson Chan appealed for "cool heads" and a "calm measured response". But Hong Kong deputy to the National People's Congress, Raymond Wu, compared Hong Kong people to "dogs who had been fed too many biscuits", a comment for which he subsequently made a public apology.
18. On 4 March, three Hong Kong legislators testified before the US Senate's Foreign Relations Committee. The visit provoked critical reactions from certain quarters. State Councillor Tang Jiaxuan said "there is no need at all to run

overseas and pay a visit to a temple, inviting foreign Buddhas to say this and that." Chinese Vice-Minister of Commerce An Min and Director of the Central Government's Liaison Office Gao Siren called the legislators "clowns"; and Hong Kong's Secretary for Constitutional Affairs Stephen Lam told the Legislative Council that it was inappropriate for the lawmakers to discuss the internal affairs of China with an overseas parliament.

19. On 4 March the Chief Executive spoke out on constitutional development, saying that Hong Kong "could not reach the sky in a single step". In remarks widely seen as targeting Martin Lee, a leading Democratic legislator, and one of those who had testified before the US Congress, he said:

"Hong Kong's political development is a family affair, it's a country's affair. It's our own affair. Foreigners should not intervene. We cannot tolerate foreign intervention. More so, we should not go overseas and invite foreigners to interfere in our internal affairs. What does this have to say? This hinges on loving the country and loving Hong Kong, or not loving the country and not loving Hong Kong."

20. Martin Lee defended his actions saying "At least we can come to the US to speak the words in our hearts, although we can't go back to the mainland, which is not ideal." Personal criticism of him intensified. On 7 March Chinese Vice-Minister of Commerce, An Min, described Martin Lee as a traitor and a liar and criticised Lee's deceased father for his allegedly anti-Communist stance. These comments were viewed with distaste by many people in Hong Kong. The British Government also considers them regrettable.
21. During meetings with the Chief Executive in Beijing on 6 and 7 March, President Hu Jintao and Premier Wen Jiabao promised to continue to implement the basic policy of "One Country, Two Systems" and pledged their full support for the SAR Government.
22. On 13 March at a seminar to commemorate the 14th anniversary of the promulgation of the Basic Law, Sheng Huaren, Vice-Chairman and Secretary-General of the National People's Congress (NPC), told Hong Kong delegates to the NPC that the Basic Law overrode all Hong Kong laws. He said that although the central authorities did not interfere in Hong Kong's internal affairs this did not mean they would have a hands-off approach on significant matters of national sovereignty and security. "Amending the election methods of the Chief Executive and the Legislature is a significant issue in Hong Kong's political system. Any changes to the two election methods cannot be decided unilaterally by the SAR. The Central Government has the decision power from the beginning till end."
23. A similar view was also expressed by the SAR Government. On 17 March Secretary for Constitutional Affairs Stephen Lam told the Legislative Council that the central authorities had powers and responsibilities under the Chinese Constitution in overseeing the development of the political structure of Hong

Kong, and that the powers and roles of the central authorities in this respect were not limited to those specified in Annexes I and II of the Basic Law. In the same debate, Donald Tsang said:

"Any amendment to the methods of selecting the Chief Executive and the formation of the Legislative Council must secure the approval of the Legislative Council, the Chief Executive and the Standing Committee of the National People's Congress. No amendment is possible without the support of any one of them."

24. The Basic Law says that changes to the method for selecting the Chief Executive shall be reported to the Standing Committee of the National People's Congress for approval (Annex I, Section 7). However, changes to the method of forming the Legislative Council need only to be reported to the Standing Committee of the National People's Congress for the record (Annex II, Part III). In our view this difference in the wording of the Basic Law suggests that changes to the method for forming the Legislative Council were envisaged as being within the scope of Hong Kong's high degree of autonomy. While the appointment of the Chief Executive may be seen as a matter which concerns the relations between Hong Kong and the central authorities, it is hard to see the formation of the Legislative Council in this way. It is unclear why the annexes of the Basic Law were worded differently if it was envisaged that changing the two election methods was to be handled in exactly the same way. A statement by the Chinese Ministry of Foreign Affairs from 28 February 1994, and quoted in the South China Morning Post of 20 January of this year, supports this analysis. It said "with regard to election of all members of the LegCo of the HKSAR by universal suffrage after 2007, Article 68 of the Basic Law and paragraph 3 of its Annex II contain provisions to this effect. It is a question to be decided by the HKSAR itself and it needs no guarantee by the Chinese Government."
25. On 26 March Xinhua announced that the NPC Standing Committee would, between 2 and 6 April, interpret two aspects of the Basic Law: Annex 1 Section 7; and Annex II Part III. These deal with the procedures for changing the election methods for the Chief Executive and the Legislative Council. This was only the second time since 1997 that the central authorities had conducted an interpretation of Hong Kong's Basic Law; and the first time that they had done so on their own initiative, rather than at the request of the Hong Kong authorities.
26. The Chief Executive said that he had been informed of this decision only on the previous day, but he believed that an authoritative interpretation would "avoid endless wrangling and legal wrangling in courts and in the community as a whole, which in fact might stifle us from moving forward in constitutional reform." The Chief Secretary said, "Constitutional development is a complex matter. The last thing we would like to see were litigations regarding the legislative process of constitutional development under the Basic Law. We

could not afford to have our citizens face a lengthy period of uncertainty resulting from such litigations."

27. Some members of Hong Kong's legal sector voiced concern about the NPC's decision to interpret the Basic Law. Independent legislator and former Bar Association Chairperson Audrey Eu said that the NPC Interpretation was "like a nuclear weapon which should never be used. In fact, it should not really be termed interpretation at all, since what it really amounts to is amending the Basic Law without going through the proper legal procedures". The Article 45 Concern Group said:

"Any exercise of the power to [interpret the Basic Law] runs the risk of damaging confidence in the rule of law, the high degree of autonomy and the stability and prosperity of Hong Kong at home and abroad. The impact caused by the interpretation ... in 1999 has proved to be incalculable and continuous."

28. The British Government believes that important legal differences should properly be resolved through discussion and debate, and when necessary through litigation before the courts. It is an important part of Hong Kong's common law system, guaranteed in the Joint Declaration, that the courts should exercise judicial power - including the power to apply and interpret the law - independently and free from interference. The Basic Law (Article 158) authorised the courts of Hong Kong "to interpret on their own, in adjudicating cases, the provisions of this Law which are within the limits of the autonomy of the region". It follows that the general power of the NPC Standing Committee, a political body, to interpret the Basic Law should not be used in a way which undermines Hong Kong's separate legal system or confidence in the rule of law.
29. The US State Department issued a statement on 2 April saying that a fully autonomous and open society, governed by the rule of law, was essential in maintaining stability and prosperity. It expressed "serious concern" that the NPC had decided to issue an interpretation "before the Hong Kong people have fully aired the issues". Chinese Foreign Minister Li Zhaoxing criticised the US for meddling in its affairs. Secretary for Constitutional Affairs Stephen Lam also criticised the US for "interfering" in China's internal affairs.
30. On 30 March, the Constitutional Development Task Force issued its First Report. This was based on two months of public consultation involving 82 groups and 600 submissions. It concluded that changes were possible to the selection method for the next Chief Executive and for the formation of Legislative Council after 2007.
31. In the days leading up to the Interpretation, some pro-democracy Hong Kong legislators met Central Government officials (for the first time since the events at Tiananmen Square in 1989) to voice their concerns. But a request to debate the Interpretation in the Legislative Council was refused on the grounds that the Chief Executive was too busy.

32. On 2 April clashes broke out between police and approximately 1000 protestors opposed to Beijing's decision to interpret the Basic Law. 30 district councillors from five pro-democracy groups marched to Central Government offices in protest against the NPC Standing Committee's interpretation of the Basic Law. They were also concerned at what they described as the excessive use of force by the police during a demonstration outside the government premises at which seven protesters and five policemen were injured during scuffles.
33. On 6 April the Leader of the House of Commons and Secretary of State for Wales, Peter Hain, had meetings with the Chief Executive and the Secretary for Justice. He outlined the UK's concerns over the pending Interpretation. Later in the day the NPC Standing Committee issued their Interpretation on two of the annexes of the Basic Law. The British Ambassador to Beijing, Sir Christopher Hum, was invited to a meeting with Vice-Foreign Minister Zhou Wenzhong for a briefing on the ruling. The Consul-General in Hong Kong, Stephen Bradley, was also invited to a briefing at the Office of the Commissioner of the Ministry of Foreign Affairs in Hong Kong. The Chinese Embassy in London also briefed the Foreign and Commonwealth Office.
34. The Interpretation covered four main points. First, "subsequent to" or "after" 2007 included the year 2007. Second, "if there was a need to amend" meant that the methods for selecting the Chief Executive and forming the Legislative Council, and the procedures for voting on bills and motions, may or may not be amended. Third, the NPC Standing Committee would decide on whether there was a need for amendments, following a submission by the Chief Executive. The NPC Standing Committee would then need to approve or "register" for the record the amendment. Fourth, if there were no amendments, the methods for selecting the Chief Executive and forming the Legislative Council, and the procedures for voting on bills and motions, would follow the provisions in Annexes I and II.
35. On 7 April Foreign Office Minister, Bill Rammell MP, issued the following statement:

We understand that the National People's Congress Standing Committee (NPCSC) has the ultimate authority to interpret the Basic Law. However, we are concerned that they should have taken the initiative to offer an interpretation on this issue. We also share the concern in Hong Kong that the procedure set out by the NPCSC requiring a submission from the Chief Executive adds a further step to the procedure set out in the Annexes to the Basic Law. This appears to us to erode the high degree of autonomy which is guaranteed under the terms of the Joint Declaration and which underpins Hong Kong's stability and prosperity. We hope that the NPC will take account of these concerns.

We believe that it is now important for the Hong Kong Special Administrative Region government to continue its consultation of Hong Kong people and come

forward soon with concrete proposals for constitutional development in line with the Basic Law and the wishes of the people of Hong Kong.

We have always said that we would like to see early progress towards the Basic Law's aim of universal suffrage for the election of the Chief Executive and Legislative Council at a pace in line with the wishes of the people of Hong Kong. We note that it is confirmed that changes in the electoral system are possible under the Basic Law in time for the 2007 elections.

We shall continue to monitor closely the implications of these developments for the implementation of the Joint Declaration, including Hong Kong's legislative and judicial power.

36. Responding to Mr Rammell's statement a Chinese Foreign Ministry spokesman on 8 April said " we are strongly discontented with, and firmly oppose irresponsible comments by, the British Foreign Affairs official which interfere in the affairs of the Hong Kong Special Administrative Region". (Mr Rammell is of course not an official, but an elected Member of Parliament and a Minister of the Crown.)
37. The Consul-General in Hong Kong, Stephen Bradley, was invited to a forum on 8 April jointly organised by the Central Government Liaison Office and the SAR Government. The three main speakers were: Qiao Xiaoyang (Deputy Secretary-General of the NPC Standing Committee), Li Fei (Vice-Chairman of the Legislative Affairs Commission of the NPC Standing Committee) and Xu Ze (Vice-Minister of the Hong Kong and Macao Affairs Office of the State Council). Qiao Xiaoyang argued that Hong Kong did not have "inherent autonomy": its "high degree of autonomy" was given to it by the central authorities. However the Joint Declaration guarantees a high degree of autonomy for 50 years from 1 July 1997, with China's commitment that "The Hong Kong Special Administrative Region will enjoy a high degree of autonomy, except in foreign and defence affairs which are the responsibilities of the Central People's Government." (Article 3 (2))
38. Many people in Hong Kong were unhappy with the NPC Standing Committee interpretation, which they believed would delay Hong Kong's progress to universal suffrage. On Easter Sunday (11 April), some 20,000 people attended a rally to express their discontent.
39. On 15 April the Constitutional Development Task Force released its Second Report. This formed the basis for the Chief Executive's Report, issued on the same day, to the NPC Standing Committee. The conclusion was that the methods for selecting the Chief Executive in 2007 and for forming the Legislative Council in 2008 should be amended to enable Hong Kong's constitutional development to move forward. But the Chief Executive added that in considering how the new election methods should be determined, Hong Kong should have regard to nine factors. These included provisions that the pace of development "should not be too fast" and that "any proposed

amendments should ensure that consideration would be given to the interests of different sectors of society".

40. On 19 April it was announced that the NPC Standing Committee would hold a special meeting on 25 April to consider the Chief Executive's Report. In advance of the meeting Deputy Secretary-General of the NPC Standing Committee, Qiao Xiaoyang, held meetings in Shenzhen to solicit views from Hong Kong members of the Basic Law Committee and Hong Kong representatives from the areas of industry, commerce, finance, social services and community groups. Three pro-democracy legislators who had originally been refused an audience with Mr Qiao also travelled to Shenzhen and were finally granted a meeting with Chairman of the Legislative Affairs Commission of the NPC Standing Committee Li Fei on 22 April.
41. Legislative Council President Rita Fan Hsu Lai-tai also approved a request by Frederick Fung of the Association for Democracy and People's Livelihood to move an adjournment debate at the Legislative Council meeting on 22 April, in order to debate the issue ahead of the NPC Standing Committee's decision. This was the first time the Legislative Council had invoked a special provision to interrupt its weekly agenda to stage a special debate.
42. On 26 April the NPC Standing Committee announced their Decision in response to the report submitted by the Chief Executive. Sir Christopher Hum and Stephen Bradley were again briefed by the Ministry of Foreign Affairs in Beijing and Hong Kong respectively and the Chinese Ambassador in London also briefed Foreign Office Minister, Bill Rammell. The Decision ruled out the possibility of universal suffrage for the election of the Chief Executive in 2007 and ruled that in the 2008 Legislative Council elections the arrangement of returning half the seats in the Legislative Council by functional constituencies and the other half by geographic constituencies should remain unchanged.
43. Subject to these premises, the Decision said that the methods for selecting the Chief Executive in 2007 and the legislature in 2008 could be appropriately modified in accordance with the principle of gradual and orderly progress (and must not violate the premise laid down in the decision). It also emphasised that any change to the electoral methods should be conducive to the balanced participation of various social strata and parties, the efficient operation of the executive-led government and the maintenance of Hong Kong's long-term prosperity and stability.
44. Speaking after the NPC Standing Committee ruling had been announced, its Chairman, Wu Bangguo said the Decision had been very prudent in handling issues of constitutional development in Hong Kong, and that the Decision was in the overall and long-term interest of Hong Kong society and conducive to the maintenance of the long-term prosperity and stability of the region.
45. At a press conference in Hong Kong the Chief Executive welcomed the NPC Standing Committee Decision, which formally initiated the amendment

mechanism provided for in the Basic Law Annexes. Mr Tung said that he understood the public's concerns about the Decision but claimed that it was in Hong Kong's best interests and called on members of the public and opposition groups to be rational and calm and to seek a consensus on future political development. Also at the press conference, Chief Secretary Donald Tsang said that the Decision gave the community a golden opportunity to demonstrate its political maturity and called upon people not to waste time on confrontations, collisions or arguments which went beyond the NPC Standing Committee decision. Mr Tsang said that the public could continue to participate in initiating and discussing various proposals relating to constitutional development.

46. Immediately following the Decision on 26 April Foreign Office Minister Bill Rammell issued the following statement:

This decision seems to us to be inconsistent with the “high degree of autonomy” which Hong Kong is guaranteed under the Joint Declaration.

I am also disappointed that the NPC has set limits to constitutional development in Hong Kong that are not required by the Basic Law, especially before the Hong Kong Government has completed its consultation and put forward proposals for development.

I shall be meeting today with the Chinese Ambassador to express our concerns to the Chinese authorities.

We look forward to seeing the proposals that the Hong Kong Special Administrative Region Government (HKSARG) comes forward with in the light of this decision. We continue to hope that early progress can be made towards the Basic Law's ultimate aims of the election of the Chief Executive and all members of the Legislative Council by universal suffrage, at a pace in line with the wishes of the people of Hong Kong.

We will continue to follow events in Hong Kong closely. We value the prosperity and stability of Hong Kong, which is of great benefit to both China and the UK.

47. Also on 26 April, US Consul-General in Hong Kong, James Keith described the NPC Standing Committee Decision as an erosion of the high degree of autonomy. He said it was the right of the people to decide how they wanted to go down the road to democracy. The Hong Kong people and their highly autonomous government should be able to form a consensus on the pace and scope of advances towards democracy in a free and unfettered atmosphere.

48. On 27 April Australian Foreign Minister Alexander Downer said that the people of Hong Kong, the Special Administrative Region Government and the Chinese Government had to work towards the evolution of Hong Kong's democracy in a manner which was consistent with the Basic Law. Canadian

Foreign Minister Bill Graham said on 29 April that the territory's people should be allowed to decide the political arrangements that most suited their needs.

49. Many in Hong Kong were highly critical of the NPC Standing Committee Decision which they believed was contrary to the principle of "One Country, Two Systems" and an erosion of Hong Kong's high degree of autonomy. Legislator Martin Lee sought to move an amendment to a Legislative Council motion which would "strongly condemn" the NPC Standing Committee for abusing its powers, violating the Basic Law and seriously damaging the "One Country, Two Systems" principle and Hong Kong's high degree of autonomy. Legislative Council President Rita Fan blocked Lee's amendment after receiving a letter from Secretary for Justice Elsie Leung saying that it would be "out of order" for the Legislative Council to debate a motion which would be offensive to the NPC Standing Committee. Martin Lee said that Mrs Fan's decision would have serious implications for Legislative Council's ability to criticise Beijing.
50. Another legislator, Albert Ho, moved a reworded amendment, stating that the decision by the NPC Standing Committee countered the "One Country, Two Systems" principle and undermined Hong Kong's high degree of autonomy. The motion was also rejected by the Legislative Council President, ruling that it was tantamount to accusing the NPC Standing Committee of breaching the Joint Declaration and the Basic Law. But Ho was allowed to table the rest of the motion, which sought to have the Legislative Council express regret and discontent that the NPC Standing Committee had ignored public aspirations for democracy.
51. On 10 May Chinese Premier Wen Jiabao had talks on a range of issues with the Prime Minister, the Rt Hon Tony Blair MP, in London. Following the meeting, the two Prime Ministers issued a Joint Statement, which contained the following language on Hong Kong:

"We had a friendly and open exchange of views on issues relating to Hong Kong. We reaffirmed our two Governments' commitment to the implementation of the Joint Declaration and agreed that it is in the interests of both sides to maintain and promote Hong Kong's prosperity and stability in accordance with the "One Country, Two Systems" principle and the Basic Law. We agreed to continue our exchange of views on these issues."
52. The Constitutional Development Task Force released its Third Report on 11 May, setting out the possible scope of amendments to the methods of selecting the Chief Executive in 2007 and Legislative Council in 2008. The Task Force also announced a three-month consultation period, to be concluded by 31 August.
53. On 14 May, Zhu Yucheng (who had earlier in the reporting period been appointed Director of the State Council's Institute of Hong Kong and Macao

Affairs, and had visited Hong Kong in February and March to assess the political situation) led a delegation of six mainland academics to Hong Kong. During his stay, he said that challenges to Beijing's authority in the name of democracy were a ploy to turn Hong Kong into an "independent political entity" - a claim which was dismissed by (among others) Democratic Party member Szeto Wah.

54. On 4 June, at the annual commemoration of the Tiananmen events, an estimated 80,000 people attended a candlelit vigil in Victoria Park. This was the largest attendance since 1991 - and was seen by many as an expression of discontent at the central authorities' recent policies towards Hong Kong.
55. On 9 June, some legislators who support greater democracy in Hong Kong spoke out in a Legislative Council debate in favour of better communication and of a more conciliatory approach to the central authorities. This was followed a week later by meetings between the Chief Executive and members of the Democratic Party and other legislators. Both sides spoke positively about the meeting. On 22 June Chinese Vice-President Zeng Qinghong was reported as saying that Hong Kong "must not be polarised" and said that Hong Kong people could use all forms of expression to fight for democracy as long as it was done "for the benefit of 'One Country, Two Systems'".
56. The British Government was surprised by the intervention of the central authorities on these issues. In 1993 Lu Ping (then Director of the Hong Kong and Macau Office of the State Council) stated that "how Hong Kong develops democracy in the future is entirely within the autonomy of Hong Kong" (People's Daily of 18 March 1993, quoted in South China Morning Post of 30 March 2004). Moreover, although Article 158 of the Basic Law gives the NPC Standing Committee the power to interpret the terms of the Basic Law, Lu Ping reportedly told the Hong Kong Chamber of Commerce on 26 April 1989 that the NPC Standing Committee "would restrict itself to interpreting only the provisions which are the responsibility of the Central Government or the relationship between the central authorities and the SAR". We do not consider that the formation of the Legislative Council concerns the relationship between the central authorities and the SAR. We consider, therefore, that the 6 April Interpretation together with the 26 April Decision place new limitations on the autonomy of Hong Kong which appear to be inconsistent with the Joint Declaration.
57. Nevertheless we hope that the SAR Government will now be able to develop the constitutional process at a pace in line with the wishes of the people of Hong Kong. It has always been the UK's aim to see long-term prosperity and stability in Hong Kong. We do not believe it will be conducive to this prosperity and stability if the reasonable aspirations of the Hong Kong people are ignored: indeed the contrary is true. We note that there have been recent signs of an increase in dialogue between, on one side, the SAR Government and the central authorities, and on the other, some democratically elected legislators who promote greater democracy. We welcome this development,

and hope that a constructive dialogue between the various parties will take place. We also hope those legislators who have not been allowed to enter mainland China since 1989 will now be allowed to do so.

“ONE COUNTRY, TWO SYSTEMS”

58. On 16 June, Hong Kong Police received complaints relating to the presence of suspicious vehicles in the vicinity of a residential building in Mt Davis Road. The Security Bureau subsequently confirmed that patrolling officers had found seven men in two private cars near the building. The Bureau later confirmed that two of the seven men claimed to be mainland public security officials; that one was found to be in possession of a pair of handcuffs; that all seven had been arrested by the Police (later released on bail) for suspected loitering and possession of an offensive weapon; and that investigations were continuing.
59. The Chief Executive expressed serious concern about the incident, and emphasised that it would be absolutely unacceptable if news reports of suspected mainland public security personnel conducting investigations in Hong Kong turned out to be true. He asked the Secretary for Security to follow up the matter with the relevant mainland authorities. The Security Bureau subsequently confirmed that the Hong Kong Police had sought confirmation as to the men's identities, as well as the purpose of their visit, from the mainland public security authorities. The Bureau also confirmed in a paper to the Legislative Council Security Panel that law enforcement actions must only be taken by the local law enforcement agencies; and that under no circumstances could police officers take enforcement actions on their own in the territory of another jurisdiction. We welcome the actions and statements by the Hong Kong authorities, and note that (as at time of writing) a response from the mainland authorities is still outstanding.

ARTICLE 23 OF THE BASIC LAW

60. In our last three reports, we have covered in some detail the SAR Government's moves to introduce national security legislation to meet its obligations under Article 23 of the Basic Law, which ultimately resulted in draft legislation being withdrawn in September 2003. During the period of this report, there have been no indications that the SAR Government has any imminent plans to reintroduce draft legislation. We hope that there will be the widest possible consultation before legislation under Article 23 of the Basic Law is reintroduced into the Legislative Council. It is vital that the final legislation neither undermines, nor is perceived to undermine, the basic rights and freedoms of the people of Hong Kong.

BASIC RIGHTS AND FREEDOMS

61. Hong Kong's basic rights and freedoms have generally been well respected, but fears that freedom of expression were under threat emerged in May when three popular radio-show hosts abruptly resigned. First was Albert Cheng who was

well known for his outspoken pro-democracy views on his Commercial Radio morning show, *Teacup in a Storm*. On 3 May he resigned citing "political pressure" as the reason. He said that he felt angry, helpless and frustrated as many friends had told him not to criticise the government as fiercely as before. He left Hong Kong for Europe and was replaced by local NPC deputy Allen Lee.

62. On 13 May Wong Yuk-man, another Commercial Radio radio-show host, resigned. He too was known for his pro-democracy views, and said that following Cheng's resignation, he had come under increasing pressure to "talk less". There were rumours in Hong Kong that both Cheng and Wong had been threatened by triad societies.
63. A few days later on 19 May, Allen Lee - who had replaced Albert Cheng - announced that he too would stop hosting *Teacup in a Storm* immediately. He also resigned from the National People's Congress. On that same day, a Chinese official newspaper, the China Daily published an article, heavily critical of Allen Lee, accusing him of making use of his radio show as a platform to criticise the Decision of the NPC Standing Committee.
64. On 27 May, Allen Lee gave evidence to the Legislative Council Home Affairs Panel on why he had resigned. Lee said that a number of mainland "friends" had requested meetings with him to talk about his radio programme *Teacup in a Storm*. He had continually refused to discuss it as he did not want to be pressured to alter his style. On 18 May he was phoned at 10.30 pm by someone claiming to be a retired mainland official called Chan. Although Lee said he did not recall "Chan", the latter claimed he had once sat next to Lee and his wife at an event. He made comments about Lee's wife and daughter and then asked to discuss *Teacup in a Storm*. Lee resigned the following day on the grounds that he did not want his family to be harassed. It was later revealed that the caller was Cheng Shousan, a former Deputy Director of the Hong Kong and Macau Affairs Office. Cheng claimed that he had not intended to pressure Lee, but had wanted to meet to improve his understanding of Hong Kong. Wong and Cheng declined to give evidence to the Legislative Council claiming that they were too scared for their safety to attend. Lee said that the other two radio hosts had been terrified by the pressure that had been put on them. He urged the government to investigate their cases.
65. The resignations prompted 400 academics to write a letter to the *Apple Daily* on 27 May expressing their fears that "there is growing alarm at the threat to freedom of speech and we need to be vigilant against the signs of its erosion". Some also told reporters that they were under pressure not to criticise the SAR Government by university authorities for fear that it would impact on their funding. Others said that if the climate worsened, they would move abroad.
66. In early June, former Chief Secretary Anson Chan wrote an article for *TIME* magazine in which she noted that Hong Kong society was becoming polarised. She asked for Beijing's leaders to put a little more trust in the people of Hong

Kong. This prompted a response from the pro-China press: Wen Wei Po published an article on 8 June (subsequently published in the China Daily on 9 June) personally attacking Mrs Chan. The article said that Mrs Chan "should be ashamed of herself" for her "evil tricks"; that the "way she attacked and smeared the central government ... was similar to what was practised in the cultural revolution"; and that "the way she attempted to seize power was identical to that of the 'Gang of Four'". It also accused her of having "no tolerance for different opinions".

67. Freedom of expression is a basic human right. All individuals should be free to express their opinions without fear of political persecution or the threat of physical violence. Chief Secretary Donald Tsang told a constitutional review forum that, despite recent disputes, Hong Kong's core values such as freedoms, the rule of law and equality remained unchanged. He called on the media to remain outspoken and to continue to uphold and protect the core values of the community. We welcome this and urge the SAR Government to ensure that freedom of speech is protected.
68. During this period there have also been other concerns about intimidation. In the middle of May the media widely reported a number of allegations that some mainland officials and pro-Beijing groups had put pressure on relatives of Hong Kong residents to vote for particular political parties in the Legislative Council elections in September. Many papers reported that the Hong Kong residents had been told that it would help their relatives if they recorded their vote using a mobile phone camera inside the polling stations to prove they had voted for a particular candidate. Chief Electoral Officer Li Wing said that anyone who intimidated or forced another person to vote would face a maximum fine of \$500,000 and imprisonment of up to seven years and that clear signs would be placed at all polling stations to remind people of existing laws prohibiting the use of mobile phones and cameras. Secretary for Constitutional Affairs Stephen Lam said that the ICAC was investigating complaints and that those who violated the law would be prosecuted according to the Election Ordinance. We shall continue to watch developments closely.
69. Pro-democracy legislators Frederick Fung, Leung Yiu-chung and Emily Lau also reported acts of intimidation against them over the period of this report. In the most recent incident on 21 June Ms Lau's office was vandalised; pro-democracy posters were burned and a slogan "Chinese traitors must die" was scrawled on the wall. Ms Lau's offices have been a repeated target of vandals over the years. Secretary for Security, Ambrose Lee Siu-kwong, voiced serious concern and promised a full investigation.
70. In past reports, we have commented on the SAR Government's failure to meet its obligations under the International Covenant on the Elimination of Racial Discrimination by implementing legislation prohibiting discrimination on the grounds of race. In our last report, we noted that the SAR Government's timetable appeared to have slipped. In January 2004, a spokesperson for the Home Affairs Bureau said that a consultation paper would be issued in the next

few months, and that drafting instructions had already been conveyed to the Department of Justice. In March the Home Affairs Bureau said that the drafting of the public consultation document had taken slightly longer than expected due to a number of technical, legal and policy issues, and would not say when the draft law would be put to the Executive Council. On 12 May Deputy Secretary for Home Affairs Stephen Fisher said that the consultation paper on anti-racism legislation was ready, but would be delayed until September to avoid politicising the issue in the run-up to the Legislative Council elections. We shall follow the progress of this bill closely.

71. In our last report, we covered the appeal in September 2003 by Falun Gong members who had been convicted in August 2002 of public order offences. By the end of the reporting period, the appeal verdict had still not issued. We understand that ten months is an unusually long time to wait for an appeal verdict in Hong Kong.

COUNTER-TERRORISM

72. Legislative Council Bills Committee meetings to consider the United Nations (Anti-Terrorism Measures) Amendment Bill began in October 2003. Meetings continued over the period of this report with the second reading of the Amendment Bill taking place on 30 June. We have followed the debate closely given the importance which we attach to the passage of legislation which will bring Hong Kong into line with United Nations Security Council Resolution 1373 and the Financial Action Task Force Recommendations.
73. Hong Kong enacted the Merchant Shipping (Security of Ships and Port Facilities) Ordinance on 25 June 2004. The Merchant Shipping (Security of Ships and Port Facilities) Rules came into force on the same date thereby allowing Hong Kong to comply and implement the maritime security provisions under the International Convention for the Safety of Life at Sea which enters into force internationally on 1 July 2004.

ECONOMY

74. The economy continued to enjoy a broad-based recovery in the first half of 2004, with the property market surging in the first quarter before reverting to a more sustainable growth trajectory. GDP for the first quarter grew by 6.8% - the strongest year on year growth in three years; visible exports were up 14.8%; and exports of services also grew by 13.7%. (All figures year on year in real terms). Unemployment also continued its gradual decline, standing at 7% for the three months to May 2004 as compared with 7.3% at the end of 2003. On 20 May Hong Kong Monetary Authority Chief Executive Joseph Yam confirmed that deflation had come to an end in the third quarter of 2003. However following its dramatic recovery last year, Hong Kong's stock market has experienced considerable volatility in the first half of 2004 as concerns over over-investment in mainland China and an imminent increase in US interest rates have continued to affect market sentiment.

75. Hong Kong's Financial Secretary delivered his maiden budget on 10 March 2004, forecasting GDP growth of 6% in 2004; revising up his medium term growth forecast to 3.8%; and confirming that a goods and services tax remained under consideration. He also announced a lower than expected budget deficit of HK\$49 billion for 2003-4, and confirmed that targets for balancing the budget and bringing total public expenditure back down to 20% of GDP by 2008/9 remained in place. (The deficit for 2003-4 was subsequently revised down to HK\$40.1 billion or 3.3% of GDP.) Plans to launch the Hong Kong SAR Government's first ever securitised and sovereign bonds were also announced in the budget. The securitised bonds were launched in April and the sovereign bonds are expected to be offered to retail and institutional investors in July 2004. The Government has announced plans to recapitalise the Airport Authority in preparation for a public listing. It has also invited the two railway companies to enter into discussions on a possible merger and the two companies are due to report back to the Government by the end of August 2004.

Economic Cooperation with the Mainland

76. 29 June 2004 marked the first anniversary of the Closer Economic Partnership Arrangement (CEPA) between Hong Kong and the mainland. Under CEPA, 374 categories of "Made in Hong Kong" products are exempt from mainland import tariffs. The Trade and Industry Department has also processed 200 applications for the next phase of tariff eliminations in 2005, covering over 700 mainland tariff codes. In addition to trade in goods, CEPA removes or reduces geographical, financial and ownership restrictions on Hong Kong based companies operating in 18 different service sectors and provides for the relaxation of restrictions on mainland Chinese travelling to Hong Kong on an individual basis.
77. According to the Trade and Industry Department, 1,118 certificates of origin had been issued under CEPA between December last year and 29 June, involving a total value of HK\$450 million. Between January and April 2004, the value of goods exported under CEPA represented 3.4% of total domestic exports and 0.132% of total goods (including re-exports) exported from Hong Kong to the mainland. The Trade & Industry Department also approved 345 applications for Hong Kong service suppliers certificates between October 2003 and 29 June 2004. As of 31 May, 37% of all certificates of origin issued under CEPA were for textiles and clothing and 25% for pharmaceuticals.
78. Under the terms of CEPA, all Guangdong residents have been allowed to visit Hong Kong individually from 1 May. (The original timetable was 1 July 2004.) This provision will be extended to residents of nine cities in Zhejiang, Jiangsu and Fujian from 1 July 2004. (Residents of Shanghai and Beijing are already covered by the scheme.) Since July 2003, more than 2 million mainlanders have travelled to Hong Kong on an individual basis. Average per capita spend is estimated at over HK\$6,000.

79. Following approval from the State Council, Hong Kong banks have engaged in limited forms of RMB business since 25 February 2004. Mainlanders have also been allowed to spend on credit in Hong Kong since 18 January. In April, the National Council for Social Security Fund announced State Council approval for its plan to invest approximately 4 billion RMB funds overseas, mainly in the Hong Kong market. In June, the State Administration for Foreign Exchange announced State Council approval for a plan to allow mainland insurers to invest in overseas equity markets.
80. From 1-3 June, the first Pan Pearl River Delta Regional Cooperation and Development Forum was held in Hong Kong, Macao and Guangzhou, bringing together Governors of nine provinces in Southern China and the Chief Executives of the Hong Kong and Macao Special Administrative Regions (SARs). The forum, which was opened in Hong Kong by Guangdong First Party Secretary Zhang Dejiang, will be held on an annual basis, with the aim of expanding the economic ties which already exist between Guangzhou and the two SARs into the rest of Southern China. The nine provinces and two SARs, known as the "9 plus 2", agreed to cooperate on infrastructure development; property and investment; business and trade; tourism; agriculture; labour; education and culture; information infrastructure; environmental protection; and hygiene / disease control. Guangdong Governor Huang Huahua said that he hoped the co-operation would lead to a Pan-PRD common market based on the European model. A follow-up meeting will be held in Guangzhou in July to agree specific objectives for cooperation.

EU ACTIVITY IN HONG KONG

81. On 1 March an agreement between the European Community and the Hong Kong Special Administrative Region (SAR) government on the re-admission of persons residing without authorisation entered into force. This agreement, which was signed on 27 November 2002 in Brussels, followed up the European Community's decision, in March 2001, to grant visa-free access to Hong Kong SAR passport holders. The agreement will enable Hong Kong and the European Community to ensure, on a reciprocal basis, the rapid and effective identification and return of persons illegally entering or remaining in their respective territories.
82. The European Commission published its 2003 Annual Report on Hong Kong on 30 June.

BILATERAL RELATIONS

Visits

83. Patricia Hewitt made her first visit to Hong Kong as Secretary of State for Trade and Industry on 9 January. During her visit she met principal officials in the Hong Kong Government and Dr Li Ka-shing, Chairman of Cheung Kong Holdings and Hutchinson Whampoa. Agreements were reached to pursue the

establishment of a joint Hong Kong-UK Business Partnership as well as for the closer alignment of the services provided by UK Trade & Investment and the Hong Kong Trade Development Council for small and medium enterprises (SMEs) wanting to do business in Hong Kong, and through Hong Kong in the wider Chinese mainland market.

84. Peter Hain, Leader of the House of Commons and Secretary of State for Wales, also visited Hong Kong between 5 and 7 April. He met Chief Executive CH Tung as well as the Secretary for Justice and the President of the Legislative Council. Mr Hain gave a keynote speech on the theme of "Constitutional and Democratic Reform in the UK" hosted by the Civic Exchange. Mr Hain also hosted a working breakfast for members of the Hong Kong business community with an interest in Wales.
85. Sir Michael Jay, Head of the Diplomatic Service, visited Hong Kong between 8 and 10 February. Sir Michael met Mr John Tsang Chun-wah, Secretary for Commerce Industry and Technology and gave a key-note speech on the theme of "Modern Diplomacy in a Changing World : China and other Emerging Priorities" to an audience at the University of Hong Kong.
86. Professor Pat Troop, Chief Executive of the Health Protection Agency visited Hong Kong between 6 and 8 May to sign a Memorandum of Understanding with the Hong Kong SAR Government's Centre for Health Protection.
87. Lord Warner, Parliamentary Under Secretary of State for the Department of Health, visited Hong Kong from 10 and 12 June. The objective of his visit was to develop links between the healthcare and social welfare sectors in Hong Kong and the UK, in particular long-term care for the elderly. Lord Warner was shown one of Hong Kong's major public-sector hospitals and a private-sector care facility for the elderly. He also had discussions with Dr E K Yeoh, Secretary for Health, Welfare and Food.
88. Margaret Beckett, Secretary of State for Environment, Food and Rural Affairs, visited Hong Kong between 17 and 19 June. During her visit Mrs Beckett delivered a key-note speech on the themes of climate change, renewable energy and energy efficiency at a British Consulate-General workshop hosted by the University of Hong Kong. She also met Dr Sarah Liao Sau-tung, Secretary for Environment, Transport and Works, and Mr Stephen Ip Shu-kwan, Secretary for Economic Development and Labour.
89. HMS Exeter and RFA Grey Rover paid a visit to Hong Kong from 4-8 June, the first by Royal Naval ships since 2000. The captains of both vessels called upon Mr Ambrose Lee Siu-kwong, Secretary for Security, and members of HMS Exeter undertook a range of community activities, including charity work. They also attended a service to commemorate the 60th anniversary of the D-Day landings.

90. In the other direction, Mr Henry Tang Ying-yen, Hong Kong Financial Secretary, visited the UK on 14 and 15 January where he met with senior business figures. Other principal visitors from Hong Kong included a group from the Legislative Council's Panel on Economic Services (3 to 9 April) to look at airport privatisation; Dr E K Yeoh, Secretary for Health, Welfare and Food (21-25 April); Hong Kong Chief Justice Andrew Li Kwok-Nang (4-7 May), who held meetings with Lord Falconer, Secretary of State for Constitutional Affairs as well as senior Law Lords; Dr Sarah Liao Sau-tung, Secretary for the Environment, Transport and Works (14 and 15 June), who met Elliot Morley MP, Minister of State at the Department for Environment, Food and Rural Affairs; and Stephen Ip Shu-kwan, Secretary for Economic Development and Labour (21 and 22 June).

Trade and Inward Investment

91. Over the reporting period bilateral trade has continued at a high level. UK exports to Hong Kong from January to April 2004 amounted to £760.7 million, a decrease of 8.8% over the same period of 2003. UK imports from Hong Kong from January to April 2004 amounted to £1,614 million, a decrease of 1.6% over the same period of 2003. UK Trade and Investment (UKTI) have continued to work with existing Hong Kong investors and promote the UK in Hong Kong to new potential investors. Hong Kong's investment in the UK remains very important to us. Over the reporting period UKTI supported six trade missions visiting Hong Kong, and there were six British groups at international trade fairs.

Education

92. Educational links between the UK and Hong Kong remain strong. There are currently around 20,000 students from Hong Kong studying in universities, schools and colleges in the UK.
93. The British Government's Chevening Scholarship Scheme has operated in Hong Kong since 1996. This year there are around 50 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, matched by the Foreign & 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.
94. Hong Kong remains an important centre of activity for the British Council. The Council's Teaching Centre in Hong Kong provides courses to over 25,000 students a year. It is the Council's largest English-language teaching operation in the world. During 2003-4 it also administered 33,000 examinations and attracted 70,000 visitors to its website each month. The British Consulate-

General works closely with the British Council in promoting better awareness of the UK's 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.

Air Services

95. On 16 and 17 June, the UK and the Hong Kong Special Administrative Region Governments exchanged letters, bringing the air services arrangements agreed in November 2003 into provisional effect - though the bulk of the terms will not actually come into force until 1 December 2004. These new arrangements will end restrictions on passenger and cargo services between the two destinations, and will provide new rights for airlines to carry local traffic beyond London and Hong Kong. Once brought into effect, this package will provide significant benefits to passengers and shippers. In accordance with European law, the European Commission, advised by a committee of Member States, is applying these arrangements provisionally, pending their consideration.

BRITISH NATIONALS (OVERSEAS)

96. 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 remains the largest passport issuing operation outside the UK.
97. As at 30 June the number of countries granting visa free access to BN(O) passport holders was 101. We continue to work to ensure the widest possible travel convenience for BN(O) passport holders.
98. The introduction of the European Union Residence Permit which is required by all visitors to the EU wishing to stay for more than six months has been running successfully for 6 months. The British Government established a system, unique to Hong Kong, whereby BN(O)s could apply for Residence Permits (UKRPs) directly from a dedicated UKRP Section at the British Consulate General in Hong Kong – free of charge.

CONCLUSION

99. Since the handover of Hong Kong to China in 1997, our regular reports to Parliament have concluded that generally "One Country, Two Systems" was working well in practice and that the rights and freedoms promised in the Joint Declaration and the Basic Law continued to be upheld. During the past six

months we have been concerned about the intervention of the central authorities regarding the pace and scope of constitutional development. This has seemed inconsistent with the high degree of autonomy guaranteed to Hong Kong under the Joint Declaration. As recorded above, there have also been concerns in Hong Kong about some aspects of the protection of fundamental rights and freedoms. We have made our views clear on these issues and hope they will be taken into account.

100. There has been lively debate in Hong Kong on all these matters and on the question of more democracy. These are naturally matters on which strong feelings are held, on one side or another, and it is perhaps not surprising that some of the debate has sometimes been intemperate and divisive. But we hope that recent signs of improving communications among the key actors will be sustained and that a more constructive dialogue will enlarge common ground for the benefit of the whole Hong Kong community.

101. We shall continue to follow developments closely and to take appropriate action to fulfil our commitments and to promote Hong Kong's continued prosperity and stability. We believe that Hong Kong's long-term success will depend in large measure on how deeply the values of the Joint Declaration remain entrenched in the culture of the SAR Government and Hong Kong society and in the policies of the central authorities towards Hong Kong.



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