

Hong Kong

The British intrusion into China

Commerce between British India and China

The story of Hong Kong in modern times begins with the British intrusion into China. As regards the exploitation of the commercial or colonial opportunities in Qing China, the British were relative latecomers by comparison with the Portuguese, the Spanish and the Dutch. Of the three only the Portuguese had succeeded, since the late sixteenth century, in setting up an enclave for trade and settlement in Macau that was tolerated by the Chinese authority. The British merchant shipping looking for trade at the Chinese coasts first appeared towards the end of the seventeenth century, when the Kang Xi emperor was still on the throne. At first there was only a trickle of commercial exchanges between the two countries. The control of India gave the British great advantages over their European rivals in developing trade with China – incomparably more than the Portuguese enclave at Macau. It provided British merchants opportunities to develop a lucrative local carrying trade along the coast of the Indian subcontinent. The geographical proximity of India and south China, and the ease of communication between the two areas by sea, enabled this trade to be extended to China with ease. Moreover, the possession of India greatly facilitated the logistics of British military intervention in China. It is worth remembering that in this age of imperialism, Britain was ever ready to use force to protect its commercial interests, if these were threatened by a local regime. In fact, British overseas traders were accustomed to look

to their home government for military and other forms of support for their foreign commercial ventures.

After having taken possession of India, the British mercantile community tried to develop the triangular trade between Britain, India and China. During most of the Qing dynasty, maritime trade between China and countries overseas was confined to the single port of Canton (now Guangzhou) in the southernmost province of Guangdong. At this port there was a special Maritime Customs office to levy duties on imports and exports. Also located at this port was a group of merchants who were licensed to conduct foreign trade as a monopoly. They belonged to an association known to the British merchants as the Cohong (*Gonghang*). These Chinese Cohong merchants worked closely with the East India Company, their British counterpart. They acted as an intermediary between the foreign merchants and the Chinese authorities, who found it convenient to rely on the Cohong merchants to collect the taxes, and to 'control' the foreign merchants. Finding this regime too restrictive, the British East India Company sent an embassy, led by Lord George Macartney, to Beijing in 1793, for the purpose of asking the Qing court to open more ports for trade, to have a fixed and reduced tariff, to allow a British representative to be stationed at Beijing, and to cede a small offshore island and some land near Canton to Britain to maintain as a base.

This embassy brought out the fundamental differences in outlook between Great Britain and Qing China on international relations and trade. An audience was arranged for Lord Macartney with the aging Qian Long emperor. A difficult situation arose immediately because of the Qing court's perilous ignorance of the developments that had transformed Europe into powerful modern nation-states, which were in the process of reshaping the world through imperialism. Its officials were not able to see the 'writing on the wall' regarding the fate of the East Asian civilizations centred on China, running on the 'tribute' relationship developed by China in its commercial and

diplomatic relationships with the smaller, and less powerful neighbouring countries, or local maritime environs. Their limited knowledge of the world beyond East Asia led them to treat the British embassy as a tribute-bearing mission, whose representative would be required to perform the kneeling and kowtowing in the presence of the Qing emperor, as a ritual acknowledging China's suzerainty. The gifts and samples of goods the British brought were received as 'tributes'. Lord Macartney, representing a modern sovereign state, could not possibly have any dealings with Qing China except on the basis of one sovereign power with another. The Qing officials were not aware that Great Britain, as the most powerful nation in Europe, was already in possession of a colonial empire that spanned continents. In this global context, the Qing presumptions seemed preposterous. Because of these differences, and Britain's unacceptable request to the Qing to cede a couple of small parcels of territory to it, the embassy was a non-starter, and the British requests were refused. Another British embassy in 1816 under Lord Amherst was equally unsuccessful. The Qing court's out-dated idea of international relations, its low esteem for trade, and China's self-sufficiency in cottons and woollens, which were the main British goods then imported into China, together put a temporary brake on the British drive to open more of the Chinese market for overseas trade. Britain did not resort to the use of force after these rebuffs.

In the 1840s, China's corner of East Asia, the Ottoman Empire and parts of Africa (before the 'Scramble for Africa', pushed to the fore in the late 1880s by the latest and the most desperate seekers of colonies – Germany, Belgium, and Italy) were all that remained free from European colonization in the world. Whether or not Qing China was going to be similarly submerged depended on whether it had the military strength to defend itself against the British or other European nations' military onslaught that often accompanied their commercial drive, a process

that was about to unfold. It also depended to some extent on the competition amongst the colonial powers themselves.

The Opium Trade and the British Opening of China

During the eighteenth century, while the Chinese market for British export was limited, there was considerable demand for Chinese tea, silks and cotton goods in Britain and Europe. As a result, the balance of trade was very much in China's favour, with a net flow of silver currency in tens of millions of dollars into China. Eventually, as we shall see, this situation was changed by the growth in the import of Indian opium into China by the East India Company. This joint-stock company, founded in 1600 as a monopoly on Indian trade, went on to govern India as a British colony a couple of centuries later. The British found that the opium grown in India, being light and compact, could be easily shipped to China, where a high profit could be made. The market for opium in China was not large to begin with. During most of the eighteenth century, a few hundred cases - 65 kilograms per case - per year had been imported into China, where the importers could net 400 - 1,000 dollars per case. Because of the high rate of profit, the government of British India taxed the trade in excess of 300% above cost.

Starting in 1729, the Qing court issued an edict banning the smoking and trading of opium. It considered this highly addictive drug as a poison and a social evil that seriously harmed the users and damaged the society's moral fabric. The prohibition in China had no effect on the activity of the East India Company. Working closely with its Chinese counterpart, the Cohong merchants, it was smuggling into China increasing amounts of the opium it cultivated in India. Besides the East India Company, other British and foreign merchants also participated in this illegal trade. By 1819 more than 4000 cases were shipped into China. (Gernet, p. 535.) Competition from British 'free traders', who were putting pressure on the British government to abolish the monopoly of the East

Indian Company, prompted this company to speed up the opium trade while the going was good. More opium was grown in India, and its shipment to China was stepped up from 1819 onwards as the table below illustrates.

Table x Import of opium into China during the nineteenth century

Years	Number of cases
1729	200
1790	400+
1817-1819	4,228 (average)
Acceleration of opium imports	
1821	5,959
1826-1829	12,851 (average)
1829	16,257
1830	19,956
c.1836	30,000 (roughly)
1838	40,000 (at least)
c.1850	68,000
1873	96,000
1893	Imports began to decline because of price rise
1917	Imports ended; opium produced in China was sufficient for the market

(Gernet, p. 535.)

The escalating opium trade, with its enormous profit, was a financial bonanza to the East India Company. For example, in the years before 1818, its revenue of below the one million GBP mark was more than tripled by 1822. (Ferguson, from the chart on East India's Company's revenue on opium and interest payments in p. 168.) From the 1820s, its receipts from opium alone were growing to equal the interest payment on its debt in Britain. After the 1840s its income from opium kept on rising, so as to dwarf the interest it had to pay on its debt. (See chart in Ferguson.) This business was effectively a means for the transfer of wealth from China to Britain. British India also benefited from the increased tax collected from this rapidly growing trade. For example, between 1829 and 1830, the British-Indian government was estimated to have collected over one million GBP of taxes on the opium exports, an amount equivalent to 10% of its total annual revenue.

The escalating opium imports eroded China's favourable balance of trade so much so that by 1825, the value of China's imports exceeded its exports. This situation was occurring in spite of increasing amounts of tea, silks and cotton cloth that had been exported to Britain and Europe. The result was an accelerated net outflow of silver currency. Between 1800 and 1820, China netted ten million *liang* of silver in its maritime trade, while between 1831 and 1833, ten million *liang* of silver was shipped out of China. The imbalance was largely due to opium imports. To illustrate this, from July 1837 to June 1838, the British exported 5,600,000 GBP worth of goods to China, of which 3,560,000 GBP (60%) was opium. During the same period, the British imported 3,100,000 GBP worth of goods from China. The balance of trade was a deficit of 2,50,000 GBP on the Chinese account. But for the opium imports, China would have been in surplus. From 1820 to 1840, 100,000,000 dollars of silver left China. This figure was equivalent to 1/5 of the total

silver currency in circulation during that period. The net outflow of silver currency caused the depreciation of the copper cash, which was the currency used in the daily business transactions of the people. But silver was the currency of taxation. Towards the end of the eighteenth century, one *liang* of silver could exchange for approximately 1000 copper cash. In 1838, it took 1600 copper coins to exchange for one *liang* of silver – a 60% increase in the tax rate!

The flood of opium into China, as well as the increasing net export of silver from China from the 1820s, was causing alarm in the court of the Dao Guang emperor (r.1820-50) and many high provincial officials. Looking back over the years, edict after edict had been issued prohibiting its trade and use by his predecessors without any effect on curbing, let alone stopping, these illegal activities. On the contrary, the import of opium through smuggling, and the illicit networks in connection with this trade, grew enormously, and with it the bribery and corruption of officials at various levels of the government. Opium smoking spread from the south coast to over ten provinces inland including Beijing. Shortly before the Opium War, over two million people had succumbed to it. Opium smokers came from all walks of life: gentry, officials, shopkeepers, Daoist priests, day labourers, and soldiers in particular. It was beginning to be seen as an unprecedented disaster for the country, where so many people fell for this slow acting poison that sapped their will, and ruined their health and family life, before killing them. Faced with this critical situation, the Dao Guang emperor asked the court officials and the governors of the provinces what actions to take.

One option was to continue the prohibition and find ways of making it effective. One high official, who had no illusion as regards the difficult of enforcing such a policy, wrote a memorial to the emperor proposing the opposite - that is, relaxing the ban. Morality aside, as a practical solution

to a complex problem his suggestion of lifting the ban had the merit of allowing the government to tax it. On the matter of stopping the outflow of silver, he suggested bartering between the imports and exports without resorting to the use of silver money. He was also in favour of relaxing the ban on the cultivation of opium poppies in China, so that eventually the locally produced drug would replace the foreign import. While he did not think people should be penalized for opium smoking, he was against letting government employees indulge in this 'evil habit.' Although the Governor General of the province in which Canton was located approved of this way of dealing with the problem, many of the high officials the emperor consulted denounced this 'preposterous' approach. Most of them were for tightening the enforcement of the ban and increasing the penalty, not only against the dealers in opium but the also the smokers. A few were even in favour of the death penalty against the smokers, who could or would not shake the habit after a period of grace. Among the most forceful spokesmen for the most stringent and active enforcement of the ban was Lin Zexu (1785-1850), the Governor General of Hunan and Hupei provinces, an official known for his integrity and uprightness. Lin had achieved some success in opium prohibition in the area under his jurisdiction. He did so by seizing all equipment used for opium smoking and severely punishing those who sold opium, offered facilities, or made equipment for the smokers. In 1838, he addressed cogent pleas to the Dao Guang emperor, urging the latter to use strong and extraordinary measures to stem the flow of this poison, otherwise, in the not too distant future, would there be neither silver left to pay for the troops, nor soldiers well enough to fight the country's enemies.

Towards the end of 1838, The Dao Guang emperor, persuaded by those who agitated for effective implementation of the ban, despatched Lin Zexu to Canton as the Imperial Commissioner for the purpose of putting an end to the importation of opium. Shortly afterwards, he drew up a set of new

regulations on opium prohibition with severe penalties against offenders. These he sent to the provincial governors, enjoining them to follow the directives strictly, with the aim of rooting out the evil entirely. When Lin reached Canton in March 1839, he lost no time in arresting Chinese opium dealers and the officials who took bribes. After he had destroyed the network of the Chinese dealers in opium, he had to contend with the foreign importers in order to stem the flow of opium from its source. He ordered the foreign merchants to hand over their stock of opium by a fixed date. Under his new regime, the foreign vessels had to give a guarantee never to import opium into China again. He even addressed a couple of letters to Queen Victoria appealing for her help. His demands being ignored, he resorted to coercion by cordoning off the “Thirteen Factories” outside the City Wall of Canton where the small foreign (mainly British) community of 350 men resided. However, he allowed them their daily necessities, but not the services of their Chinese employees. The British representative, Captain Charles Elliot, was among the residents. He asked the merchants to hand in their stock, with the assurance that he had taken responsibility on behalf of the British government for the surrendered stock. After over 20,000 cases of opium were handed over to the Chinese authority, the foreigners were allowed to go free. Then Lin destroyed the opium by burning it for days, like a spectacle in public view. The Dao Guang emperor was delighted with the action Lin had taken and soon afterwards appointed him the Governor General of the “Two Guangs” to take care of the aftermath. A couple of months later, Captain Elliot and the British merchants retreated to Hong Kong – a relatively uninhabited island south of Canton - from where they continued to trade freely.

In Britain, even before Lin’s drastic action to enforce the opium ban, the British mercantile community, bristling from Qing China’s restriction on foreign commerce as their trade with China grew, were clamouring for ‘free trade.’ The interest of the ‘free traders’ also clashed with that of

the East India Company, whose monopoly was terminated in 1814. Where China was concerned, the political campaign for 'free trade' gathered momentum when the British manufacturers, caught up in the Industrial Revolution and the search for new markets, were also putting pressure on the British government for the 'opening of the Chinese market' for overseas commerce – by force if necessary. Since the British diplomatic efforts failed to move the Qing to accept trade on the British terms, the use of force to achieve this goal was being considered as a practical option.

Lin Zexu's forceful seizure and burning of opium in 1839 was an act born of desperation rather than a calculated move to precipitate a war with Britain. In fact, soon after he had done so, he declared to the British that the port of Canton was open to trade as usual, but not to trading in opium. He did not know that what he had done played into the hands of the British mercantile and manufacturing communities, who were already pressing for Britain to take a strong stance against China, and who were eager to see China's gates blown open by force. His action provided the British with a *casus belli*. Early in 1840, Palmerston, the British Foreign Secretary, was preparing for war and instructing Captain Elliot, who had become the British plenipotentiary, regarding the conduct of the war and Britain's demands. With the support of the British Parliament, a British expeditionary force was sent in April 1840 to take military action against China.

The Opium War

Lin must have been aware that his action might lead to war. At the beginning of 1840 he started to strengthen Canton's defence. He drilled troops, drafted physically fit locals and trained them in maritime warfare, purchased Western boats and cannons, and placed more wooden fences with iron chains around Hu Men, also known as the Bogue, at the entrance to Canton, where additional cannons were positioned. He also tried to understand the British and the world outside China more,

by organizing teams of translators to translate foreign newspapers and books. Thus prepared, he waited for the British to attack.

When the British fleet did arrive in the vicinity of Canton in the summer of 1840, and saw the tight defensive arrangements there, they avoided an engagement and sailed north instead. After overcoming the defences of a coastal city along the way, the fleet began to threaten Beijing from a river nearby. The court grew alarmed, and Lin came under attack by a party of appeasers. A Manchu grandee, Chi Shan, replaced Lin and coaxed the British back to Canton to conduct peace talks, with the assurance that Lin would be punished, and that the British demands were all negotiable. The patriot Lin was made the scapegoat, although the Dao Guang emperor had agreed with what he did and had encouraged him to be tough. Found guilty of mishandling the opium prohibition, the aged Lin was sent into exile far away in Xinjiang.

At Canton, Chi Shan demolished Lin's defences and dispersed the soldiers and sailors in order to please the British. Intimidated by talk of the British restarting the war, Chi Shan agreed (verbally) to the British demand of 600,000 dollars (Mexican silver) for compensation, to the reopening of Canton, to diplomatic equality, and to the cession of Hong Kong - a virtually uninhabited island with excellent harbours and a smallish mountain sheltering it against typhoon. But Chi Shen had agreed to more than he could deliver, because the terms exceeded the limits of what the Dao Guang emperor could agree to, for appeasing the British. Under British pressure, and without modern communication devices such as telephone or telegraphy, there had been no time for him to consult the court, located about 1500 miles away. After the British occupied Hong Kong in January 1841, the party for resistance got the upper hand. Chi Shan was removed from office and, and the court decided for the first time to fight the British by despatching generals with troops to Canton.

While the Qing court regarded the British demands as excessive, the British government rejected Captain Elliot's demands as insufficient. He was recalled and replaced by a new British plenipotentiary, Sir Henry Pottinger. The British government was determined to protect and promote the already considerable commercial interest Britain had developed in China, by forcing the Qing court to yield to its terms through demonstration of its military superiority in decisive ways. With the benefit of the Industrial Revolution and the accumulated experience of centuries of naval warfare in Europe, the British warships of the nineteenth century, iron-clad, steam-driven and armed with the most powerful cannon and shells, were the most advanced and formidable in the world. 'Britannia rules the waves' was no empty claim. For several months in 1841, the small mobile force of British gunboats, initially less than fifty vessels, and several thousand troops (before reinforcement from India), sailed north along the coast of the provinces of Fujian and Zhejiang, destroying batteries and taking cities without too much difficulty. The Qing defenders were intimidated by the (*Chuan jian pao li*) solid boats and piercing cannon shots of the seemingly invincible invading force. They were at a loss when confronted by the modern naval force of an alien invasion. By comparison, the Qing's own ships and weapons were hopelessly antiquated. Its navy was virtually non-existent. Like its civil administration, the Qing military was in an advanced stage of decay. The commanding officers were often corrupt and irresponsible, while the poorly paid and badly trained soldiers were better at victimizing their own defenceless people than fighting an enemy. There were individual exceptions, particularly among middle-ranking officers, who defended their cities hopelessly and sacrificially against the superior firepower of the British. However, the royal relative whom the Dao Guang emperor sent from Beijing to engage the British was not one for risking his life and limb. On the way south, he was more interested in amusing himself than studying his unfamiliar enemy, and making proper strategic combat plans. During

the spring of 1842, he became battle shy after his ill-prepared troops suffered a resounding defeat, when they endeavoured to recover three cities lost simultaneously in Zhejiang. This turn of events softened the Dao Guang emperor's resolve, and he sent emissaries south to negotiate with the invaders. The British, however, did not think that the Qing emperor had been sufficiently intimidated to accept all their terms for peace, and took their fleet into the Yangtze river valley. After capturing Shanghai and Zhenjiang, the British fleet paused in front of the city of Nanjing. At this spot, on a British gunboat, the Qing government yielded to all the terms dictated by the British and signed, in August 29, 1842, the first of the 'unequal treaties': the Treaty of Nanjing (Nanking). (The English-language historical document of that period used "Nanking", which was the Wade-Giles system of transliterating the name of that city into English, while "Nanjing" is the pinyin system of transliteration currently used in China.)

The Unequal Treaty System

The Treaty of Nanjing

According to the terms of the **Treaty of Nanjing**, China was to

1. Open five coastal ports, those of Shanghai, Ningbo, Xiamen, Fuzhou, and Guangzhou (Canton) for trade;
2. Cede Hong Kong to Britain;
3. Pay Britain a compensation of 2,100,000 dollars (silver) of which 600,000 were for destroyed opium, 300,000 for compensating the merchants, and 1,200,000 for military expenses. There was an additional payment of 600,000 dollars as ransom for the city of Canton.

Although this treaty agreed to China retaining the right to levy import and export duties, the rates for these had to be approved by the British representative. It meant that China lost its important right to fix its own rate of tariffs on foreign trade. During the two years that followed, a supplementary Treaty of the Bogue, signed in 1843, fixed the import/export tariff rates at a uniform 5%. It also included a clause on extraterritoriality, meaning that British subjects in China were exempt from Chinese legal jurisdiction. It also allowed British fleets to be stationed at the opened ports. The most-favoured-nation clause enabled the British to enjoy any concession wrung from the Qing by any other country. The British were allowed to lease land in the treaty ports for businesses and residences. The *zujie*, meaning leased territory or concession, was governed by the representatives of the British, and developed into small self-contained foreign-run enclaves within China. These foreign concessions were unlike the enclaves of Arab merchants at Canton during the Tang, or Turkish traders from Kokand in Xinjiang in the 1830s, or the Portuguese settlement at Macao, where the Chinese authorities found it convenient to let the foreigner communities govern themselves in accordance with their own customs and usage, but where the Chinese authority retained sovereignty over these areas. China had effectively lost its sovereignty as regards the foreign concessions at the treaty ports covered by 'extraterritoriality'. There was no word of opium in this treaty, the trade for which simply continued and grew like it had done before Lin tried to stamp it out.

Other Western imperialistic nations were not slow to follow the British example. In 1844, under the threat of force, the Qing concluded the Treaty of Wanghia with the United States, and a separate treaty was also concluded with the French, who were more interested in supporting the Catholic missionary movement in China than in trade. With the most-favoured-nation clause, each of these nations enjoyed the same rights and privileges in China as Britain, except for the indemnities and

the ceding of territory. The French forced the Qing to remove the ban on Catholicism that began in 1724 under the Yongzheng emperor, after he discovered that the foreign Pope also had jurisdiction over his Chinese Christian subjects and the Jesuits in his service. Under the treaty regime, the French won the right for Catholic missionaries to build churches and proselytize their religion from the treaty ports. Protestant missions, particularly the British, pressed their national representatives to gain similar rights as the Catholics. They also asked to be allowed to build schools and hospitals in China.

Once the Qing court had been shown to buckle under the threat or the use of force by the foreign powers - Britain, France, the United States of America, and Russia – there was a tendency for them to encroach more and more on China through an increasing number of new treaties, and to exact ever greater concessions from China. In 1856, when the Qing was preoccupied with great internal rebellions, Britain, allied with France and encouraged by America and Russia, took the opportunity to wage the Second Opium War. It was also called the Arrow War on account of the fact that the Chinese authority boarded a smugglers' boat of that name, to catch Chinese pirates on what they thought was a Chinese-owned vessel. The British, however, claimed that it was a British boat with a British flag on it. The alleged insult to the British flag was used as a pretext for invading China. The French pretext for war was that a French Catholic priest was killed in Guangxi. In 1857, the British laid siege to and then occupied Canton. In 1857, an Anglo-French fleet sped north to capture Dagu near Tianjin in order to threaten Beijing.

The Treaty of Tianjin (Tientsin) and the Convention of Beijing (Peking)

By the summer of 1858, the Qing court yielded to the foreign pressure and signed the Treaty of Tianjin. This treaty obliged the Qing to open many more treaty ports. In addition to the original five, the coastal ones were to be extended further to the north and across to Taiwan, while many

inland cities along the Yangtze river also became treaty ports with foreign concessions and consular jurisdiction. Foreign merchant fleets were permitted to travel freely along the Yangtze river. The foreigners were allowed to travel freely into the interior to trade and to preach. Opium, its trade and smuggling having spread further in China, was legalized. An indemnity of 4,000,000 *liang* of silver was to be paid to the British and 2,000,000 *liang* was to be paid to the French. While confirming that the import and export tariffs were to remain at 5%, a transit tax of 2.5% was fixed on foreign goods travelling into the interior from the treaty ports. America and Russia were also able to acquire the additional rights conferred to the British and the French. This treaty also obliged the unwilling Qing court to allow foreign diplomats to open legations in Beijing.

Shortly afterwards, it became clear that the European powers were still not satisfied. They sought to expand the war by insisting on taking their fleet up to Beijing to exchange the signed treaty at the court. The Qing did not refuse the requested exchange, but asked the Anglo-French party to land at Beitang and to proceed to Beijing from there by land. Instead of doing as requested, in 1859, the Anglo-French forces fired at the battery at Dagu, the strategic fort that defended the mouth of the Baihe, a river near Tianjin on the route to Beijing. Whereupon the defending Qing forces returned the fire, causing several hundred casualties and sinking a number of ships from the attackers' side.

This provoked a punitive Anglo-French expedition. At the start of 1860, 20,000 Anglo-French troops landed at Beitang, after receiving intelligence from the Russians that the place was undefended. The invading force overpowered China's defensive positions along their way to Tianjin. After Tianjin fell, Beijing was in peril. The Xianfeng emperor (r. 1850-61) fled with the court to Rehe, where he died in 1861. From Beijing, the Russian representative hastened to meet the leaders of the invasion to offer them a map of Beijing, and advised them on the weakest point

to assault and take over the city. Having control of Beijing, the Anglo-French forces thoroughly looted the 150-year-old Yuan Ming Yuan, the imperial summer palace built in a unique Sino-European style with the help of the Jesuits. After burning for three days, the once magnificent palace was reduced to a pile of rubble, as it remains to this day. With the invaders threatening artillery bombardment of the Imperial Palace at Beijing, the Qing court once more succumbed to the might of modern weaponry.

In the autumn of 1860, Prince Gong, a member of the imperial family left in charge at Beijing, formally exchanged the Treaty of Tianjin with the British and French representatives. At the same time, he also signed the Convention of Beijing (Peking) with these two imperialist powers, as well as Russia and America. The Convention of Peking forced China to cede to Britain the southern part of the Kowloon peninsula and add it to Hong Kong, which by this time had already developed into a major entrepôt. Tianjin was opened to foreign trade. The indemnity in the Treaty of Tianjin was increased to 8,000,000 *liang* of silver to be paid to each of the British and the French. There were also additional charges of hundreds of thousands of *liang* of silver as compensation for the British and the French armed personnel. The French demanded the opening of the interior for the French Catholic missions to buy land and build churches, under French jurisdiction, of course. Hoping to dump cheap machine-produced textiles on China, the British demanded the import of textiles to China free of duty. (Gernet, p. 577 and 580.) All these demands were incorporated into this treaty.

Subsequently, in 1898, the British forced the Qing to lease an area known as the New Territories, the northern part of the Kowloon peninsula, for 99 years.

Sun Yat-sen and Hong Kong

Sun Yat-sen (1866-1925) was the most prominent revolutionary seeking to overthrow the Qing. He became the provisional first president of the Republic of China, and the first leader of the Kuomintang. He is remembered and revered both in the PRC (mainland China) and the ROC (Taiwan). Sun was born into a poor tenant farmer's family in a village in Guangdong, not far from Macau. When he was twelve, he went to Honolulu, Hawaii, to join his older brother who had emigrated there. After returning home in 1883, at age seventeen, he went to Hong Kong to continue his medical studies, until he qualified as an M.D. in 1892.

As a student in Hong Kong, he was encouraged by the workers' anti-French patriotic movement during the Sino-French War that started in 1884, as he saw it as a sign that the Chinese people had awakened to the danger their nation faced, and had exhibited solidarity in action. However, he was incensed at the Qing suing for peace when the Chinese were winning major battles on land. Consequently, he began to entertain the idea of overthrowing the Qing. From 1892, after he started to practice medicine, first in Macau and later in Guangzhou, he was still engrossed in searching for ways to save China. He began to contact members of secret societies hoping to start a China Revival Society (Xing Zong hui) with them, with the aim of 'restoring China' to the Chinese by 'expelling the Tartars' (meaning the Manchus). He was also deeply interested in developing China economically. In 1894, he wrote a long letter to Li Hongzhang, who was then the Governor General of Zhili, offering a comprehensive plan to develop China's education, agriculture, industry and mining, commerce and transportation, through adopting Western science and technology and management institutions. He was disappointed at Li's lack of response to his plan for making

China wealthy and strong. Then came the Sino-Japanese War, and Sun felt a mixture of anger and despair at the Qing's feeble and hesitant response to the war with Japan. He abandoned any hope of reform from the Qing, which was selling out to the imperial powers and preventing China's revival. From that point onwards, he became a dedicated revolutionary, making bringing down the Qing his top priority.

In 1895, Sun established the China Revival Society with its headquarters in Hong Kong and a branch in Guangzhou, and recruited a number of leaders of secret societies as well as patriotic students and intellectuals to join. The core members of this society together with Sun raised funds in Hong Kong, purchase arms and ammunition, and recruited and trained an army to stage an uprising at a certain date. But the plan was leaked by informers and by the government of Hong Kong to the Qing authorities, which sent soldiers to shut down the revolutionary organization and arrest the people involved. Sun escaped to Japan, but the Qing branded him as a 'most wanted criminal' with a large bounty attached to his arrest. In 1896, when he was visiting London, he was kidnapped by the Chinese embassy, which tried to ship him back to China in secret. He was freed, thanks to the rescue efforts of Sir James Cantlie, who was a former teacher at Sun's medical school in Hong Kong. The failed uprising, and subsequent kidnapping spread Sun's fame as a revolutionary far and wide in China, and among overseas Chinese. Before he returned to Japan, he remained in England for six months studying intensely the institutions of Britain and other Western countries at the British Museum. What he learned during this period helped him to develop the Three Principles of the People, which became the guiding ideology of the revolution he led.

From Japan, Sun continued to direct revolutionary activities in China through his leadership of the Han Revival Society (Xing Han Hui), which was formed in 1899 through the merging of the China Revival Society with two secret societies, the Triad and the Elder and Brothers. After the failed

1898 reform, he tried to make common cause with Kang Youwei and Liang Qichao, who formed an Emperor Protection Society in Japan, and continued to preach the merit of gradual political changes under the leadership of a constitutional monarchy under the Qing. Since Sun strove for revolutionary overthrow of the Qing, and the establishment of China as a democratic republic like the strong nations of the West, the differences between him and the reformers were too great for them to cooperate. Instead, the two sides competed with each other for adherents in a propaganda war using the public media.

In 1900, during perilous time of the Boxer crisis and the imperialist nations' joint invasion of China, Sun desperately planned an uprising in Guangdong. A perpetual opportunist, he offered to cooperate with Li Hongzhang, the Governor General of the two southern provinces, Guangdong and Guangxi, in the hope that Li would declare the two provinces independent, because of his defiance of the court's declaration of war against the foreign invaders. At the same time, Sun also appealed to the Governor of Hong Kong, H. A. Blake, to support the independence of the two Guangs. He hoped optimistically that Li's move would lead to an avalanche of other provinces doing the same, and then all the provinces that broke away from the Qing would join together to form a new Chinese republic. As a back up to this scheme, he ordered his supporters in Hong Kong to purchase arms and provisions for an uprising in Guangdong. At this time, some people in Japan were willing to help Sun, including some government officials. However, a change of government leadership in Japan led the Japanese to prohibit the export of arms and the participation of the Japanese military in China's revolutionary activities. In view of the British government's lack of support for the idea of independence for the 'Two Guangs', and Li Hongzhang's cooperation with the Qing court to work out the terms of peace with the imperial powers, Sun decided to focus entirely on the plan for an uprising in Huizhou early in October 1900.

As the time approached, the rebels at Huizhou, with a few hundred secret society members at the core, rose to gather an army of around 20,000. They occupied a number of towns and villages for 10 days. As the Qing sent a larger force to surround the rebels, who were short of supplies of food and arms, Sun ordered them to disperse. A follower of Sun's attempt to bomb Li's successor failed, with the fellow's arrest and execution. This was Sun's second attempt at an uprising, and its failure aided the cause of the reformers of the Emperor Protection Society to win more followers at the expense of the revolutionaries. Sun fought back. He went to Hawaii to reform the China Revival Society there, and changed its name to the Chinese Revolutionary Army in order to make a clearer distinction between the two. He also attacked the proposal for a constitutional monarchy in the press, and toured many cities in America to publicize the need for a democratic republic for China.

The Japanese Occupation of Hong Kong, 1941-45

The Sino-Japanese war broke out in 1937, but these countries were not involved in the Second World War (which began in 1938) until 1941. On the morning of Sunday December 7 1941, the Japanese carried out a surprise bombing attack on the American naval base at Pearl Harbour in Hawaii, carried out by aircraft operating from carriers. It was a crippling blow to America's Pacific Fleet, though three U.S. aircraft carriers that were at sea escaped. Japan declared war on America, and in turn America declared war on Japan. On the same morning, the Japanese army attacked Hong Kong, which fell on December 25. Japan planned to extend its 'Greater East Asia Co-Prosperity Sphere', which was envisaged for China and Manchuria in 1938, to include almost all of continental land and islands in Southeast Asia, Australia, New Zealand, many Pacific islands,

and possibly India. The Japanese advance was extremely rapid, and by the end of December 1941 not only Hong Kong but also Guam and the Wake Islands had also fallen, to be followed by Manila and Singapore in January 1942, and by Burma, Malaya, the Philippines, the Dutch East Indies and the Aleutian Islands in the first half on 1942. Hong Kong was returned to British control on 30 August 1945, at the end of World War II.

Hong Kong and the Modernization of China Under Deng Xiaoping

Both Deng Xiaoping and Hua Guofeng recognized the benefit of their own state visits to foreign countries – Deng to France in 1975 and Hua to Yugoslavia and Romania in 1978 – in helping them to see the advances in modern or industrializing countries, and to form ideas of how China might itself develop. They conceived the idea of sending out groups of senior colleagues to see some other countries for themselves, and come back with suggestions for China's modernization. One group, consisting of officials from the State Planning Commission and the Ministry of Trade, was dispatched to Hong Kong in April 1978. Their brief was to investigate what role this by now prosperous and modern British colony, on China's doorstep, could play in helping China to modernize.

They hit upon the idea of setting up in an area in Bao'an County in the Guangdong province near the border of Hong Kong, for processing materials brought from abroad to be manufactured by Chinese workers, and then exported without tariffs or other restrictions. A few months later, the State Council accepted the proposal, and set up the Shenzhen Special Economic Zone (SEZ).

For years, Hong Kong had had a problem in preventing the Chinese in Guangdong from trying to evade border patrols and fencing, so as to enter its territory illegally. Deng saw that such a zone would create more employment, and staunch the flood of unemployed young people trying to swim across to Hong Kong, some at the cost of their lives. In 1980, Deng established three more SEZs, one near Macao, and two others in the Fujian province across from the prosperous island of Taiwan. In addition to export processing, Deng intended to use these enclaves to attract foreign investments and joint-ventures with tax exemptions and other privileges.

Another important result of this study tour was the creation of the Hong Kong and Macao Affairs Office by the State Council. In December 1978, a vice minister of foreign trade, Li Qiang, visited Murray Macle hose, the Governor of Hong Kong, and invited him to visit Beijing. The increase contacts and exchanges turned Hong Kong into a major channel of capital and knowledge from the outside world to China.

Though not an overnight success, it did not take more than two or three years for the trickle of foreign investments into the Shenzhen SEZ, particularly from Hong Kong, to become a stream and then a flood. This round of opening up was happening at just the right time. Hong Kong manufacturers of labour-intensive products were losing their international competitiveness because shortage of labour had driven up their costs. The large pool of low-cost labour available across the border in Guangdong, and the inducements to expand into Shenzhen, saved the Hong Kong exporters of toys, textiles and electronics. From the early 1980s, factories went up in southern Guangdong and Shenzhen at an amazing pace. This development also provided seemingly limitless opportunities for Hong Kong construction companies, which had acquired advanced building techniques on erecting skyscrapers during the construction boom of the 1960s and 1970s in Hong Kong.

Modern factories hardly existed in Guangdong in 1978. By the late 1980s, the entire stretch of the 104-mile route from Hong Kong to Guangdong was lined with factories on both sides. The special provisions and incentives, in addition to its proximity to Hong Kong, transformed Guangdong into an export powerhouse. Within three decades after this province and Fujian were given the special status, rural southern Guangdong had become urbanized, with skyscrapers, large industrial sites, luxury hotels, and superhighways, together with traffic jams. Chinese exports had grown 100 times during this period: from US\$10 billion per year in 1978 to over US\$ 1 trillion, with one third of it coming from Guangdong. Zhenzhen had been a small town of some 20,000 in 1979. Twenty years later, this city grew into a metropolis of nearly 10 million people. Its population continued to expand and spill into the surrounding countryside during the first decade of the twenty-first century. Guangdong and the SEZs served as incubators for developing people, who would become adept at functioning in the setting of a modern market economy as China went global. Their experiences would then be passed on to the Chinese in the interior.

By the time when Deng Xiaoping retired in 1992, an estimated 100 million migrants had come into the coastal areas of Guangdong, though some did not remain there permanently. As people in China thanked Deng for the reform and opening up, the people of Guangdong thanked Ren Zhongyi, who succeeded Xi Zhongxun as its first party secretary. Ren boldly interpreted Beijing's policy, and wrung resources from the central planners in favour of Guangdong's rapid development. Guangdong would not have been able to leap-frog into modernity without Hong Kong playing a crucial part in this process. Hong Kong was the magic potion, which Deng jokingly sought from Japan, that helped Guangdong to take off.

In the 1930s, Shanghai was a far more important international industrial, commercial and financial centre relative to Hong Kong. As the Communists were about to take over China and

shortly afterwards, many capitalists and industrialists fled to Hong Kong, where they helped to build up its textile and global shipping sectors. Although for a time Hong Kong's economy suffered, after China closed its border to this British colony in 1949, by the 1960s Hong Kong grew into a formidably efficient international manufacturing, trade and financial centre. In the 1970s, Hong Kong possessed a pool of highly qualified personnel running its private enterprises in every sector of the economy, with a sophisticated understanding of modern finance, high technology, and international markets. It was a treasure trove of entrepreneurs.

Before China's reform and opening up, tiny Hong Kong was already a trading power, exporting as much as all of China in 1978. From the early 1980s, Hong Kong had become the most important gate through which investment, management skill, technology, and knowledge of the outside world entered into China. Between 1979 and 1995, almost two-thirds of the foreign direct investment (FDI) into China came from Hong Kong. Foreign business people from North America and Europe tended to use Hong Kong as an intermediary before they developed more confidence about dealing with China directly. There were about 1,000 regional headquarters of foreign companies in Hong Kong, of which 256 were from the United States, 198 from Japan, and 106 from China. Before Taiwan permitted its people to engage in direct business dealings with people in mainland in the late 1980s, Taiwanese investors also used Hong Kong as a stepping stone into China.

Hong Kong and Foreign Direct Investment (FDI) into China

The main sources of China's FDI came from three large groups. The largest by far was made up of Hong Kong, Taiwan, Macau, and certain tax havens, such as the British Virgin Islands, Bermuda, and the Cayman Islands, which were used by Hong Kong and Taiwan to channel their investments to China. From 1985-2005, 60% of the FDI to China came from this group. Among this group, Hong Kong is the largest investor by far, accounting for 42% of the cumulative total in 1985-2005, according to official figures. Hong Kong's share would rise to 47%, if half of the investment from the tax havens were credited to it. Since Hong Kong is the home of many subsidiaries of companies based elsewhere, in some cases investments from elsewhere are listed as coming from Hong Kong.

Taiwan takes second place with a 12% share, if one half of the tax haven investments were included. Since the inhabitants of both these areas mostly originated from China, the FDI from these areas were sometimes lumped together as "overseas Chinese" investments. In monetary terms, the investment from this group was initially in the low billions annually in the 1980s to 1990, before it rose rapidly to the mid-1990s. From that point to 2001, the figure stabilized at around \$25 billion annually. Then it climbed to \$35 billion annually from 2004 to 2005.

Hong Kong's proximity to China lowers its restructuring cost, as its factories can relocate only a few miles across the border to enjoy low wages and other privileges of China's SEZ. This closeness also helped Hong Kong investors to be better informed about policy changes in China than investors elsewhere. Hong Kong investors tended to move quickly to take advantage of China's policy shifts. Their behaviour explains why Hong Kong's share of incoming FDI to China was

exceptionally high following each wave of policy liberalization in China. Its share reached more than 60% first after Deng introduced the “special zones” in 1979, and later after Zhao initiated the 1987 coastal development strategy. This figure reached a startling 68% in 1992, following Deng’s famous “Southern Tour”.

The next largest incoming FDI to China originates from a group of developed countries that includes the United States, Canada, the EU, and Japan. This group accounts for 25% of the cumulative FDI in China from 1885 to 2005. This situation shows China to be an exception, because the worldwide share of the developed countries’ FDI stood at 92% in 1998-2002. Through 2002, the FDI from the United States to China only lagged behind Hong Kong and Taiwan, but since then it tended to decrease. In 2005, the amount invested by the largest participants of this group of countries was \$6.5 billion by Japan, \$5 billion by EU, and \$3 billion by the United States.

Investors from Korea and ASEAN countries, especially Singapore, form another important group of FDI providers to China. In 2004, South Korea invested \$6.5 billion before falling back to \$5 billion in 2005. The incoming FDI from Japan and South Korea could represent a new stage of industrial restructuring. Both these countries tended to direct their investments to China’s northern provinces like Shandong, Jilin, and Liaoning, helping thereby the industrial revival of China’s declining Northeast.

During the 1960s and 1970s, both Taiwan and Hong Kong found a receptive market in the developed countries, especially the United States, for their labour-intensive light industrial manufactures, starting with plastic flowers in Hong Kong, extending to a huge range of sporting goods, and spreading to the footwear and garment sectors. China was inspired by this development, which its leaders tried to emulate, when they began the reform and opening-up process in 1978.

In the mid-1980s, the more developed economies of Hong Kong and Taiwan found their costs went up and their well-educated engineers and technical manpower preferred better-paid professional employment rather than labour-intensive work. Hong Kong and Taiwan were obliged to restructure. Finding China opened and welcoming with a massive supply of low cost and high quality labour force, manufacturers and exporters of these goods promptly transferred their labour intensive production to the Chinese shore. China's proximity, and the shared language and culture, together with the inducements offered by China, made the cost of operating businesses in mainland China easy and cheap for the investors from Hong Kong and Taiwan. This was the beginning of what the economist Barry Naughton called the "China Circle". This phase of restructuring moved remarkably rapidly; by the 1990s, the transfer of production of garments and footwear from Hong Kong and Taiwan to China was essentially completed. Meanwhile, instead of importing garments and footwear from Hong Kong and Taiwan, the United States and other developed countries would source these items from China.

In the 1990s, the electronics industry began restructuring with successive waves of worldwide relocation involving China alone, as well as the China Circle, in geographically dispersed production networks and chains that link together design, research, production, and services in many different countries. In the personal computer (PC), laptop computer, and components industries, the major international manufacturing and exporting firms, which were mostly based in the United States and Taiwan, first shifted the production of the most labour-intensive components, such as keyboard and power supply units, to their foreign invested enterprises (FIEs) in mainland China. Then they moved to China the production of monitors and motherboards, followed by a range of expanding IT hardware. Ten years or so later, by 2003, China emerged as a major exporter of "high-technology" goods, when the FIEs, having assembled components made

in China together with those imported from other countries into the final products, exported the PCs and laptops worldwide.

Although it was remarkable for China to become so quickly such an important participant in the international “high-tech” network of manufacturing computers and IT products, on closer examination, most of the work shifted to China consisted of labour-intensive, medium skilled activity, such as the final assembly stage of production. In 2005, 88% of the “high-tech” exports produced by the Chinese for the FIEs concerned came under export processing regimes similar to that related to garments and toys. Since the Chinese activity was not really “high tech”, the value added was also not high. For this reason, the Chinese look to massive export volumes to compensate for the low earning per item of goods exported.

As the mainlanders strive to upgrade their skill, the people of Hong Kong, Taiwan and some developed countries have moved up the developmental ladder through specializing in technology-intensive products and high-value services. Hong Kong has virtually deindustrialized. Its labour force, which peaked at just under a million, had declined to 172,000 in 2005. Its unemployment remained low, as its people have succeeded in moving into higher-skilled and better-paid specialized service sectors, such as finance, transportation, accounting, marketing and telecommunication.

In Taiwan, the restructuring involved moving up the technological level within manufacturing itself, producing more sophisticated products, while shedding low-skilled jobs. Success in doing so meant improve remuneration for the working people of Taiwan. Its labour force peaked at 2.8 million in 1987, then levelled off to 2.59 million at 2003. Looking across to the Chinese side, the labour force of Guangdong and Fujian had increased from 6 million in 1985 to 11 million in 2001, according to official employment statistics.

The incoming FDI from Hong Kong and Taiwan had the impact of transferring manufacturing capacity, jobs, and export markets to China, enabling China to move quickly onto the first rung of industrialization through manufacturing low-skilled, labour-intensive light industrial products. The China Circle has created an extremely competitive, flexible, and low-cost manufacturing network in the context of the global economy. With China becoming more open and integrated into the world economy, the circle became more extended and inclusive of players from other parts of the world. The computer industry provides an example of FDI from the United States, in addition to that of Taiwan, that hastened China's entry into this sector.

The global restructuring, and the Chinese leaders' policy of opening China's door to the world and capitalizing on China's plentiful human resources, led to a concentration of the FDI in the manufacturing sector. In both 2003 and 2004, manufacturing accounted for 70% of FDI inflows into China, while service sector accounted for only 27% in 2003. By comparison, manufacturing constituted 38% of the stock of FDI in developing countries at the end of 2002, while the service sector accounted for 55%. In developed countries, manufacturing account for only 32%. The FDI inflow into the service sector in China is dominated by real estate, which accounted for 10% of total investment in 2003. In other developing countries, a large proportion of FDI inflows have gone into three service sectors: finance, transport and telecommunication, and wholesale and retail trade. With China's accession into the World Trade Organization in 2001, China has committed itself to open up these three service sectors to foreign investment, and it has been doing so progressively since 2003.

The Return of Hong Kong (and Macao) to China

Negotiations with Britain, and the Basic Law

During the Cold War years from 1949 to 1978, when the PRC was isolated from the West, Hong Kong was Beijing's most important window to the world. China used Hong Kong for earning foreign currency, for technology imports, and for information of the world. Probably because of Hong Kong's usefulness, and the fact that the lease of the New Territories, the largest part of the British colony in area, had a terminal date, Mao was willing to leave the issue of Hong Kong's return to China to his successors.

While Jiang Zemin made little progress on the matter of unifying Taiwan with China, his regime enjoyed the kudos of the return of Hong Kong and Macao to China in 1997 and 1999 respectively. China did not consider the regaining of sovereignty over Macao, a smaller and economically less dynamic city than Hong Kong, as a major issue, largely because Portugal had twice offered to return this gamblers' haven, once in 1967 and then in 1974, to China. Since Portugal's lease of Macao was going to expire officially in 1999, China and Portugal had drawn up a prior agreement for the orderly return of Macao to China on the date of the termination of its lease. China kept this agreement a secret, in order not to alarm the capitalistic Hong Kong residents who thrived under the British colonial rule, and who dreaded the prospect of Hong Kong coming under the control of a regime that had confiscated private property, persecuted capitalists and sponsored the destructive Cultural Revolution.

After Deng Xiaoping initiated China's reform in 1979, the PRC leaders began to understand that Hong Kong could play an important role in the PRC's economic modernization. As we have seen, Hong Kong did not disappoint them, and maintaining Hong Kong's prosperity and stability was very much in accord with China's interest. Deng and his colleagues recognized that the people of Hong Kong, who had prospered in a capitalist economy with the rule of law and clean government provided by the British, had legitimate doubts and fears about the colony's returning to China. However, because socialist China was then in the throes of opening up to the world, and of liberalizing its economy to let market forces to play an increasingly important part, the people of Hong Kong had less reasons to worry. Deng lost no time in reassuring the Hong Kong business community that China would allow the existing governmental and business systems in Hong Kong to continue, and would protect the interests of the investors.

Having working out the details of China's policy on Hong Kong's recovery with Deng and his colleagues, Premier Zhao Ziyang informed the British Foreign Minister, Humphrey Atkins, that China was ready to negotiate. In September of 1982, Prime Minister Margaret Thatcher, flushed with confidence after Britain's earlier victory in the Falklands War against Argentina, came to Beijing to try and persuade Deng Xiaoping to agree to her agenda – namely, the continuation of British rule over Hong Kong. Zhao met her first, to impress upon her that China was not going to bargain away Hong Kong's sovereignty.

On the morning of September 24 1982, Thatcher the “Iron Lady” and Deng the “Steel Factory”, confronted one another with their different agendas for the future of Hong Kong. Citing that Britain had governed Hong Kong well for nearly 150 years, Thatcher put up a strong case for Hong Kong to remain a British colony, because the prosperity and stability of the place depended on it. She also argued for the validity of the treaties that ceded to Britain the island of Hong Kong and

the Kowloon peninsula north of it, and the 99-year lease for the New Territories further north. As a patriotic Chinese in the twentieth century, the starting point of the negotiations for Deng had to be the abrogation of the nineteenth century humiliating treaties imposed on China by force, and the recovery of territories lost through such treaties. Brushing aside Thatcher's proposals, Deng declared that China would resume sovereignty of Hong Kong in 1997, the terminal year of the lease of the New Territories. Since Britain would continue to govern Hong Kong before 1997, Deng would like the two countries to work together to avoid major disruptions, and to ensure a smooth transfer of power. Deng assured Thatcher that it was China's intention to preserve Hong Kong's prosperity, through the retention of Hong Kong's current system of government, most of its laws, and its business practices after 1997. He also said that China would have consultation with the business community of Hong Kong to preserve the interests of its investors, including British investors.

Deng stood firm on the steps China would take to regain sovereignty over Hong Kong. Should the British seriously resist his proposals, or try to strip Hong Kong of its assets before 1997, he warned that China "would reconsider the timing and the manner of recovery". He expressed a desire for a negotiated settlement on Hong Kong's future with the British. However, he had a deadline in mind on diplomatic negotiation. If no Anglo-Chinese agreement were made by September 1984 on the handling of the transitional period, China would unilaterally announce its own plan for Hong Kong's future.

After Prime Minister Thatcher emerged from the "abrasive" two-and-a-half-hour session with Deng, Hong Kong TV caught the famous picture of her losing her footing coming down the steps from the Great Hall of the People, and tumbling to her knees. The portentous image of the British Prime Minister in Beijing apparently kowtowing towards the mausoleum of Chairman Mao at the

centre of Tiananmen Square dominated the evening news of the British colony. Although the two sides agreed to further diplomatic negotiation, Thatcher offended the Chinese by telling the press that she would stick by the three treaties, and that she did not have confidence in concluding a new treaty with a country that wanted to break an old one with which it disagreed. (<<http://www.independent.co.uk/arts-entertainment/how-mrs-thatcher-lo...he-signed-the-agreement-handing-the-territory-to-china-1543375.htm>>) The apparent discord in the Deng-Thatcher talks led Hong Kong's Hang Seng Stock Index to fall to 772 in late October 1982 from a figure of 1300 in June. However, before Thatcher left Beijing, she made a small concession to her hosts: if satisfactory arrangements could be made regarding Hong Kong's administration, to preserve its prosperity and stability, she might make a recommendation to the British Parliament on the issue of sovereignty.

China's insistence that the negotiated settlement to be premised on the resumption of full Chinese sovereignty after 1997, and Thatcher's reluctance to accept this condition, delayed the start of the talks to July 12, 1983, around ten months after the Thatcher visit. Deng made a concession to the British by altering the order of the matters to be discussed on the agenda of the talks: the question of Hong Kong's stability and prosperity after 1997 would be addressed first; next, plans before 1997; sovereignty would come last.

As Britain and China negotiated on the future of Hong Kong, China was also making efforts to change its existing organizations in Hong Kong, and to select and train local staff to prepare them for their new role for supervising the Hong Kong government after 1997. Leading officials of the PRC were also liaising with Hong Kong business leaders to hear their comments, to calm their fears, and to win their support for the new regime for Hong Kong after 1997.

After rounds of talks the negotiations foundered on the British insistence on continuing the administration of Hong Kong, in return for agreeing to Chinese sovereignty there. Deng would consider nothing less than full sovereignty, and he knew that he had the upper hand since China controlled the British colony's food and water supply. In the unlikely event of Britain sending troops to secure Hong Kong, Deng was also prepared to meet force with force as a last resort.

As a result of the lack of progress of the talks, the Hong Kong dollar plunged to its lowest in history, panic buying cleaned out supermarket shelves, large amounts of capital flew out of the city, and well-to-do families bought residences abroad as a hedge. Finally, as China's deadline to execute its plan for the recovery of Hong Kong without British cooperation drew ever nearer, Great Britain decided to bow out of Hong Kong gracefully. Following the eighth round of talks on January 25-26, 1984, they became more fruitful, and the British officials began to let their Chinese counterparts into the picture of how they governed this complex modern city, in order to ensure that Hong Kong would retain its place among the foremost global financial centres and entrepôts after 1997. Beijing's fear that the Britain might strip the colony of its assets, or leave some "poison pills" for its Chinese successors, was allayed by the creation of a Sino-British Liaison Committee to facilitate communication between the two sides.

By September 6, 1984, after twenty-two rounds of negotiations, Great Britain and China completed the document on the Sino-British Joint Declaration on the Question of Hong Kong. Deng Xiaoping, rejoicing over the successful negotiation of a peaceful return of Hong Kong to China, invited Prime Minister Thatcher to sign the agreement, and Queen Elizabeth to visit China, with the remark: "We have concluded that we can trust the British people and the British government."

Announcing the Joint Declaration to the Hong Kong public, the British Foreign Secretary, Geoffrey Howe, assured them that Hong Kong would remain a free port and international financial centre with its existing social, economic, and administrative systems staying unchanged. The people there were relieved at the end of a period of uncertainty. Believing that the agreement provided the basis for a stable and prosperous Hong Kong, they reacted favourably to the news. The stock market in Hong Kong registered its largest one-day gain since the Thatcher visit. Media responses in both London and Hong Kong were overwhelmingly positive.

After the Joint Declaration, work began with a committee of thirty-six people from mainland China and twenty-three from Hong Kong on drafting the “Basic Law”, that would in effect be the constitution of the Hong Kong Special Administrative Region (HKSAR), as well as the defining document on the relationship between Hong Kong and Beijing after 1997. The Hong Kong committee members were chosen by the Chinese authorities concerned from prominent mainstream residents, representing different constituents and diverse views. It took several years and nine plenary sessions until February 13, 1990 for members of the drafting committee to take their final vote on all the articles of the Basic Law, which was approved by China’s National People’s Congress (NPC) and warmly received in both China and Hong Kong.

China was satisfied that the Basic Law empowered Beijing to appoint Hong Kong’s chief executive, to decide on issues that affected its foreign affairs and national defence, and to station troops there. It was also significant that the Standing Committee of the (NPC) had the final authority to interpret the Basic Law. The people of Hong Kong were assured by provisions that

allowed Hong Kong to remain a free port, with the right to maintain its own system of government for fifty years. The highly autonomous Hong Kong government, to be administered by the locals, was to have the power to make policies and final decisions on all affairs affecting this city, as long as they did not conflict with China's security and foreign relations concerns. Hong Kong was permitted to issue its own currency, levy its own taxes, and maintain its judicial system and local laws. Its citizens were to enjoy freedom of speech, press, publication, association, assembly, and the freedom to demonstrate, strike, and join and establish unions.

The Issue of Democracy in Hong Kong

Advocates of full democracy for Hong Kong were disappointed that it was not going to become a full democracy after 1997. The leaders of the PRC who opposed democracy for Hong Kong could easily justify their stance by pointing out that the British colonial government, headed by a governor appointed by London, had not ruled Hong Kong as a democracy during the 150 years before 1997. Referring to fact that Hong Kong had been operating under a different system from that of Britain and the U.S., Deng Xiaoping said that "it would not be appropriate to adopt a fully Western system with three separate branches of government" for Hong Kong at that point. Some business people in Hong Kong were known to be no more enamoured of democracy than the PRC leaders. Those who supported the Basic Law could argue that as a Special Administrative Region under the Chinese regime of "one country, two systems", Hong Kong had far more autonomy than any central government in the West had given to local areas under its control.

Chris Patten, who ruled Hong Kong from 1992 to 1997 as its last British Governor, infuriated the leaders of the PRC by belatedly introducing a democratic reform measure for universal suffrage for half of the Legislative Council in 1994, without consulting them. (<http://www.bbc.co.uk/news/special/politics97/hk/patten.shtml>) Beijing denounced him for trying to force China to do what Britain had not, during most of the colonial era. How could Hong Kong establish democratic institutions which were not permitted in China itself? Deng, who did not live to see the return of Hong Kong to China in 1997, limited his vision for Hong Kong's future as a SAR in China, and his heirs allowed this vision to be realized through the implementation of the Basic Law. On July 1, 1997, Deng's widow, Zhou Lin, and Jiang Zemin presided over the celebration of Hong Kong's return to China, with great fanfare that featured a massive fireworks display watched by two million people lining its Victoria Harbour. Claiming that individual rights were not as important as order in society, Tung Chee-hwa, the new chief executive of Hong Kong, did away with Patten's democratic reform.

Wealthy Hong Kong residents who were concerned about their future could and did vote with their feet. The Tiananmen Square massacre on June 4, 1989 led an estimated one million shocked residents of this city into the streets in protest. Subsequently, thousands of Hong Kongers rushed to purchase foreign property, to send their children to study abroad, and to acquire foreign citizenship. Great Britain became a favourite destination for them, because many were eligible for British citizenship. (British Nationality (Hong Kong) Act 1997: <http://www.legislation.gov.uk/1997/20>) However, as China's economic modernization gathers pace, and as long as Hong Kong retains its position as a hub of China's global trade (a position increasingly challenged by Shanghai), there will be no shortage of people who want to reside there, to take advantage of its employment and business opportunities.

In the early decades of the twenty-first century, Hong Kong remained a prosperous cosmopolitan city where people enjoyed the rule of law and many freedoms. Addressing its people's desire for democracy, Jiang Zemin stated in his speech celebrating the establishment of the HKSAR on July 1, 1997, that the Basic Law provided for gradual progressive development of democracy, to enable the HKSAR to achieve universal suffrage of its chief executive officer and Legislative Council as an ultimate goal; but how soon this objective would be achieved remained unknown. (Jiang Zemin, *Selected Works of Jiang Zemin*, p. 655.) Since then, pro-democracy groups have been pressuring their government and Beijing to realize this goal at an early date. (Wikipedia, "Democratic Development in Hong Kong", http://en.wikipedia.org/wiki/Democratic_development_in_Hong_Kong.) At first, they chose 2007 as the target date. But 2007 passed without Hong Kong becoming a democracy. Then the target date was shifted to 2012. Their hope for universal suffrage for Hong Kong by 2012 was dashed by the Standing Committee of the National People's Congress (SCNPC), which delayed it to 2017 for the election of the chief executive and 2020 for the members of the legislature. (Ibid.) The lack of rapid or sufficient progress on this matter has led to many protest marches by Hong Kong residents over the years. Starting in 2001, large pro-democracy marches and demonstrations occurred annually on July 1, the anniversary date of the return of Hong Kong to China.

Although Hong Kong's top leader had never been directly chosen by Beijing, democracy advocates objected to the fact that only members of the election committee, normally pro-Beijing, were allowed to vote, and even then their choice was limited to a small number of local candidates who had Beijing's prior approval. (<http://www.bbc.com/new/world-asia-china-27921954>.) Mistrustful of Beijing and their pro-Beijing government to deliver the promised universal suffrage without watering it down with compromises, they kept the pressure up on these authorities by a

variety of means, especially via a public protest movement. (http://en.wikipedia.org/wiki/Democratic_development_in_Hong_Kong.)

Despite these Hong Kongers' agitation for democracy, the NCNPC did not grant them unalloyed universal suffrage. In August 2014, the NCNPC ruled that Hong Kong residents were allowed to vote for their chief executive in 2017, but their choice was to be limited to a list of two or three candidates selected by the nominating committee. (<http://www.bbc/news/world-asia-china-27921954>.) Obviously, Beijing was not ready to grant Hong Kong unfettered democracy. Believing that Beijing wanted to use the nominating committee to filter out candidates of which it disapproved, Hong Kongers who wanted direct election for candidates nominated openly by their own political parties, were angry and disappointed.

In 2014, pro-democracy groups, such as the Occupy Central led by an academic, Benny Tai, the Hong Kong Federation of Students, and Scholarism brought out a massive crowd of mostly youthful demonstrators into the busy streets of Hong Kong, occupying them and blocking traffic from summer to autumn, with demands for direct universal election for the powerful chief executive officer. Although there were clashes between the demonstrators and the police, there was no replay of the violence of June 4, 1989 in Beijing.

Not everyone in Hong Kong supported the pro-democracy protests. The Federation of Hong Kong's Industries, and other business groups, such as shop keepers and hotel owners, considering the prolonged public disturbances harmful to their interests, were opposed to the protests. A survey by Hong Kong university found more residents of the city viewed China positively than negatively. Pro-Beijing groups such as The Silent Majority for Hong Kong, and Caring Hong Kong Power, criticized the pro-democracy activists for "endangering" the city. These groups organized a

number of protests against the pro-democracy movement. Tens of thousands attended the largest event they organized on August 17, 2014.

Hong Kong's fierce and prolonged pro-democracy protest has drawn international media and governmental attention, especially in Great Britain, which signed the Sino-British Joint Declaration before handing over Hong Kong to China in 1997. Hong Kongers' agitation for democracy put the British, who desired a friendly economic and diplomatic relationship with China, on the spot. A high-profile Hong Kong activist has expressed disappointment at Britain for not asserting its "legal and moral responsibility towards Hong Kong". (http://en.wikipedia.org/wiki/reactions_to_the_2014_Hong_Kong_protest.) Does Britain still retain any obligation towards Hong Kong? China has taken the position that British responsibility for Hong Kong ended in 1997. The clashes between the Hong Kong police and pro-democracy demonstrator in September 2014, prompted the British Foreign Office to issue a statement expressing concern about the situation, and stating the British view that "Hong Kong's prosperity and security are underpinned by its fundamental rights and freedoms, including the right to demonstrate." (<http://www.bbc.com/news/uk-29411128>.) Objecting to Britain claiming Hong Kong as their concern, a Chinese Foreign Ministry official stated the Chinese position at a news conference – namely that Hong Kong is purely China's internal affair, and that China is resolutely opposed to any foreign country using any method to interfere in its internal affairs.

The leaders of the United States, Australia, Canada, Japan, and many other countries in the EU supported the Hong Kongers' right to protest, and their cause of universal suffrage, while urging restraint on all sides. Russia's state media sounded a different note, claiming that the protests were another West-sponsored "colour" revolution, similar to Euromaidan. (http://en.wilikipedia.org/wiki/Reaction_to_the_2014_Hong_Kong_protests.) A former president

of the Hong Kong Legislative Council, Rita Fan, also believed that some young protesters had foreign sponsors. Only Vietnam supported China's stance; its foreign Ministry spokesperson said the protests were "internal affairs for China".

The Chinese government has consistently denounced the Hong Kong pro-democracy protest movements. On October 2014, a Chinese Foreign Ministry Spokesperson called the activities of the Hong Kongers, who occupied the main thoroughfares, defying the law enforcement of the police and putting social order in severe jeopardy, as "entirely illegal." (<http://www.cecc.govresources-demonstrations-in-hong-kong-cecc-resources>.) No one has accused China of failing to observe Hong Kong's Basic Law, which did give the CSPNC the final say on the interpretation of its provisions. Because the Hong Kong government supported the position of the CSPNC, the protestors demanded the resignation of its chief executive, CY Leung, a demand Beijing ignored. Beijing viewed the protestors as having a "confused and lopsided understanding of the "one country, two systems" model. (<http://www.bbc.com/news/world-asia-china-27921954>.) Martin Jacques, the Author of *When China Rules the World*, wrote in *The Guardian* that the PRC had "overwhelmingly honoured its commitment to the principle of one country, two systems", He attributed the unrest on "the growing sense of dislocation among a fragment of Hong Kong's population since 1997." (Ibid.)

Taiwan paid close attention to the conflict between China and the Hong Kong pro-democracy protesters, because China had proposed to reunite with Taiwan on a "one country, two systems" model, similar to the one in Hong Kong. In the opinion of ROC President Ma Ying-jeao, the realization of universal suffrage would be a win-win situation for both Hong Kong and mainland China. (http://en.wikipedia.org/wiki/Reaction_to_the_2014_Hong_Kong_protests.) On October 10, 2014, Taiwan's National Day, President Ma urged China to introduce constitutional

democracy, stating that “as the 1.3 billion people on mainland China have become moderately wealthy, they will of course wish to enjoy greater democracy and rule of law.” He continued to say that “such a desire has never been a monopoly of the West, but is the right of all humankind”. China’s Taiwan Affairs office rejected Ma’s remarks, and asked him to refrain from commenting on issues concerning China’s political system and Hong Kong’s political reform.

The conflict between the Hong Kong residents who want full democracy for their city now, and the rulers of the PRC who refuse to give up the control they have over the Hong Kong government, is likely to continue during the foreseeable future. The conflict would be resolved if China were to undertake radical political reform towards becoming a democracy in the Western-style, because a democratic China would be unlikely not to allow Hong Kong residents to have universal suffrage for electing the chief executive of their government, and their Legislature, directly. It would also be easier for the leaders of a democratic China to woo the people of Taiwan to reunite peacefully with mainland China. But that possibility seems still to be very remote.

Since the collapse of the former Communist regimes in Europe, Western writers have been predicting China’s collapse. Some would allow that the Chinese state could survive if it gained legitimacy by becoming a democracy. But the Chinese state has remained intact, without becoming a democracy, after another quarter of a century and two generations of rulers, first Jiang Zemin (leading from 1989 to 2002), then Hu Jintao (leading from 2002-2012), and now the current generation under Xi Jinping.