


# Procedure file

Basic information		
COS - Procedure on a strategy paper (historic)	1997/2070(COS)	Procedure completed
The European Union and Hong Kong: beyond 1997		
Subject 6.40.08 Relations with Asian countries		
Geographical area Hong Kong		

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	<b>AFET</b> Foreign Affairs, Security and Defense Policy		24/06/1997
		PPE <a href="#">CUSHNAHAN John Walls</a>	
	Committee for opinion	Rapporteur for opinion	Appointed
Council of the European Union	<b>RELA</b> External Economic Relations		17/06/1997
		PSE <a href="#">HINDLEY Michael J.</a>	
	Council configuration	Meeting	Date
	<a href="#">General Affairs</a>	<a href="#">2003</a>	29/04/1997

Key events			
23/04/1997	Non-legislative basic document published	COM(1997)0171	Summary
29/04/1997	Debate in Council	<a href="#">2003</a>	
16/05/1997	Committee referral announced in Parliament		
03/09/1998	Vote in committee		Summary
03/09/1998	Committee report tabled for plenary	<a href="#">A4-0312/1998</a>	
07/10/1998	Debate in Parliament		
08/10/1998	Decision by Parliament	T4-0580/1998	Summary
08/10/1998	End of procedure in Parliament		
26/10/1998	Final act published in Official Journal		

Technical information	
Procedure reference	1997/2070(COS)

Procedure type	COS - Procedure on a strategy paper (historic)
Procedure subtype	Commission strategy paper
Legal basis	Rules of Procedure EP 142
Stage reached in procedure	Procedure completed
Committee dossier	AFET/4/08837

## Documentation gateway

Non-legislative basic document		COM(1997)0171	23/04/1997	EC	Summary
Committee report tabled for plenary, single reading		<a href="#">A4-0312/1998</a> <a href="#">OJ C 313 12.10.1998, p. 0009</a>	03/09/1998	EP	
Text adopted by Parliament, single reading		T4-0580/1998 <a href="#">OJ C 328 26.10.1998, p. 0139-0186</a>	08/10/1998	EP	Summary
Non-legislative basic document		COM(1998)0796	08/01/1999	EC	
Supplementary non-legislative basic document		COM(2000)0294	18/05/2000	EC	
Supplementary non-legislative basic document		COM(2001)0431	25/07/2001	EC	Summary
Non-legislative basic document		<a href="#">COM(2002)0450</a>	05/08/2002	EC	Summary
Follow-up document		<a href="#">COM(2003)0544</a>	15/09/2003	EC	Summary
Follow-up document		<a href="#">COM(2004)0414</a>	28/06/2004	EC	Summary
Follow-up document		<a href="#">COM(2005)0308</a>	08/07/2005	EC	Summary

## The European Union and Hong Kong: beyond 1997

OBJECTIVE: The aim of the communication is: - to draw attention to the consequences of the transfer of sovereignty over Hong Kong to China from 1 July 1997 for the EU and its numerous interests in the territory: - to sketch the likely evolution of EU-Hong Kong relations over the next few years. SUBSTANCE: The new status of Hong Kong is based on the principle of 'one country, two systems': the territory will be administered on the basis of a political, legal and economic system different from that of the rest of China. Hong Kong will become, from 1 July 1997, a 'special administrative region' (SAR) of China, with a high degree of autonomy in the economic and commercial sphere, but also in the legislative and judicial areas. The importance and extent of the EU's interests in Hong Kong are such that it will remain, especially in economic terms, a key partner in Asia, and will have a central place in EU-China relations. On the international plane, Hong Kong will continue to have a separate voice (in particular, within the WTO) and will have the right to sign international agreements in its fields of competence (essentially trade). With a view to ensuring respect for freedoms, the Chinese 'Basic Law' creating the SAR states that the rights and freedoms of the people of Hong Kong will be guaranteed. In this new context, the EU has a role to play in monitoring the smooth operation of the transition process from 1997 on: it intends to keep a watch on developments in Hong Kong through an appropriate and effective presence. 1997, far from signalling the downgrading of links with Hong Kong, should, rather, mark another step forward in the progressive enhancement of the ties between the EU and Hong Kong. The Commission proposes a number of strategic actions, based on the following considerations: - the EU should deal directly with the Hong Kong SAR as an international partner, and should maintain close and regular contacts (in particular, by stepping up the work of its Hong Kong office); - from the viewpoint of trade policy, the EU should continue to treat Hong Kong as a separate entity and as a major partner in the WTO: as an autonomous customs territory, Hong Kong will continue to have its own regime as regards rules of origin, the SGP, anti-dumping measures and textile quotas; - the EU should exercise close monitoring of the situation in Hong Kong and of respect for the rights granted to the citizens of Hong Kong under the SAR, working together with the international community and bringing EU instruments into play if necessary: the EU should analyse the situation at regular intervals and make active use of the existing institutions (common positions, joint actions, political dialogue, cooperation). The Commission intends to publish a report in 1998 on the evolution of relations with Hong Kong. - the EU should acknowledge that there is a possible case for granting visa-free access to persons living in Hong Kong, applying specific criteria (an admission facility should be defined, to be common to the Member States and reflect the interests of both Hong Kong and the Union); - the EU should explore ways to put trade, investment and cooperation relations between itself and the SAR on a more permanent footing, especially via the conclusion of formal agreements in areas such as financial cooperation, media, the environment, the development of SMUs and technological research; - the EU should develop active cooperation with Hong Kong as an Asian hub: in particular, the territory should be viewed as having, in the context of the fast-developing Asian continent, a leading role as special partner vis-à-vis the other countries of the region. ?

## The European Union and Hong Kong: beyond 1997

John Cushnahan (D, EPP) will be reporting on a communication from the Commission dealing with the EU and Hong Kong beyond 1997. The

Commission paper dates from April 1997 or two months before the handover of Hong Kong from the United Kingdom to the People's Republic of China. It sets out the opinion of the Commission on what the transfer of sovereignty will mean for the EU and its interests in Hong Kong and contends that the EU's already close ties with the former British colony could be developed still further. Hong Kong is currently the EU's tenth largest trading partner. Mr Cushman notes that the Basic Law of 1990 guaranteed that after the transfer of sovereignty, the previous capitalist system and way of life would remain unchanged for 50 years. Although he is content in a number of areas with the actions of the Chinese government, he regrets that the Legislative Council which was elected in 1995 was abolished and replaced with a nominated Council. Nevertheless he is content that elections took place in May 1998 for a new Legislative Council. However he also has concerns about some measures which appear to restrict personal freedoms. Mr Cushman also supports the Commission's desire for strong ties with Hong Kong within a framework of respect for human rights and a level playing field for business. He goes on to call on all Member States to grant visa-free entry to holders of Hong Kong passports, as they are currently only allowed such access to the United Kingdom and Ireland. This, he believes, would help Hong Kong to remain a real "special administrative region". ?

## The European Union and Hong Kong: beyond 1997

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In adopting the report by Mr John CUSHNAHAN (PPE, Irl.) on relations between the European Union and Hong Kong beyond 1997, the European Parliament deplored the fact that the complex and less than fully democratic electoral system applied in the 1995 elections had been retained in 1998 with further restrictions on the franchise, so that pro-democracy parties had secured only one third of the seats on the Legislative Council, despite having won a clear majority of the popular vote. It noted with satisfaction the interest which Hong Kong voters had demonstrated in democracy (the turnout for the elections had been 53.3%, representing 1.5 million voters), and urged that close consideration be given to establishing a system to elect the Chief Executive, directly or indirectly, at the end of the first two mandates in 2007. It regretted that the 36 Hong Kong delegates to the National People's Congress had been appointed by a Selection Committee in a less than transparent fashion and that members of the Democratic Party had been totally excluded from the process. It reiterated its attachment to the maintenance of the rule of law and the independence of the judiciary in Hong Kong and called on the Government of the Hong Kong Special Administrative Region (HKSAR) to grant permanent residency and the right of abode to all current Hong Kong permanent residents who had obtained foreign passports. Member States were urged to grant visa-free entry to holders of HKSAR passports and to the 3 million Hong Kong British National (Overseas) passport holders. It was concerned that refusal by a single member of the Schengen Pact to do this would effectively deny these passport-holders visa-free access to 13 of the European Union's Member States. Recalling the importance it attached to freedom of expression, it called on the Government of Hong Kong to ensure that the Basic Law did not violate the provisions of the International Covenant on Civil and Political Rights. Taking the view that the EU should fully support the international autonomy of Hong Kong, Parliament called for cooperation to be developed on a large scale in order to strengthen the EU's relations with Hong Kong. It called on the Commission and Council to monitor closely the financial and economic autonomy of the HKSAR, and welcomed the Commission's intention to produce annual reports on political and economic developments in Hong Kong. In this context, Parliament considered that the Commission's Office in Hong Kong should be able to play a role in producing this annual report and in strengthening links between Hong Kong and the EU. The Office's resources should therefore be increased. Parliament called on European companies operating in Hong Kong and in China via Hong Kong to observe ILO core labour standards.?

## The European Union and Hong Kong: beyond 1997

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The purpose of the Commission's 2002 Annual Report is to assess developments taking place in Hong Kong's SAR as well as Hong Kong's relationship with the European Union. In particular, it analyses progress on the implementation of the "one country, two systems" principle and reviews developments on the legislative, institutional and human rights front. An assessment of economic developments and main EU-Hong Kong relations is equally covered in the Annual Report for 2002.

The Report begins with a thorough assessment of the "one system, two countries" principles and the impact this is having on democratisation, human rights and freedom of speech in Hong Kong.

On a number of occasions, the Central Chinese Government in Beijing has reiterated their adherence to the principle, stating that the policy of "one country, two systems" combined with the Basic Law of the Hong Kong SAR must be implemented in a comprehensive and accurate manner. Activities throughout 2002 appear to bear this approach out. Falun Gong, which is banned on mainland China is given leave to practice in Hong Kong and it does so in venues run by government departments such as Leisure and Cultural Services Department. Moreover, the right of assembly and demonstration was permitted on numerous occasions, albeit under a controlled manner. Of particular concern to the political establishment in Hong Kong, as well as its citizens, was the question of Article 23 of the Basic Law, which requires the HKSAR to enact laws "to prohibit any act of treason, secession, sedition and subversion against the Central People's Government". The sensitivity of this matter, which treads a fine line between freedom of speech and sedition, aroused much debate throughout 2002. The issue was open for public debate and as such generated much comment - a record 97 000 submission and 340 000 signatures. The Report's authors acknowledge that Article 23 will need to be monitored closely by the EU as it evolves into the Basic Law of Hong Kong. However, the fact that views were expressed freely is an indication of the openness and freedom of Hong Kong.

Regarding the Economy of Hong Kong, the Report notes that the year 2002 underwent a serious adjustment process following on from the Asian financial crisis. Two issues captured the public's attention, namely the fiscal deficit and unemployment, both of which peaked in 2002. On the external front Hong Kong's exports of goods and services to Mainland China continued to increase. The SAR government actively pursued the proposal of building a bridge linking Hong Kong, Macao and Zhuhai. The Western corridor linking Hong Kong and Shenzhen is due to be completed in 2005.

A number of high profile exchanges between the EU and Hong Kong SAR officials also marked the year 2002. In November 2002 an agreement between the EU and the HKSAR was signed on the readmission of persons residing without authorisation. It will enable Hong Kong and the EU to ensure, on a reciprocal basis, the rapid and effective identification and return of persons entering or remaining illegally in their respective territories. Counterfeiting and Intellectual Property Rights continue to exercise considerable concern amongst EU companies doing business in Hong Kong. Recent seizures in Hong Kong of counterfeited pharmaceutical products were again highlighted by the EU pharmaceutical sector. As far as EU interests are concerned with Hong Kong, the EU was Hong Kong's third largest supplier in 2002 after

Mainland China and Japan and was the third biggest market for Hong Kong's exports after Mainland China and the United States. Total bilateral trade decreased to EUR 29.6 billion (imports from Hong Kong: EUR 19.9 billion/ exports to Hong Kong: 19.9 billion ? in other words a EUR 10 billion Euro surplus for the EU.)

To conclude, the Report notes that, Hong Kong's economic adjustment is understandable given the recent changeover. It suggests though that the people of Hong Kong should remain confident about future economic developments and continue to take full advantage of the assets the SAR as an international financial centre and services-oriented economy has to offer them.

## The European Union and Hong Kong: beyond 1997

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This report constitutes the Annual Report 2003 on Hong Kong SAR. The Commission states that the year was especially eventful for the Hong Kong SAR. Hong Kong was affected by its worse epidemic in decades, an outbreak of Severe Acute Respiratory Syndrome (SARS), which caused many economic losses and revealed some weaknesses in the health system. On the political side, after an unprecedented protest march that gathered half a million persons on July 1 and the resignation of the Chairman of the Liberal Party from the Executive Council, the Hong Kong Government withdrew its controversial 'Article 23' draft bill on national security on 5 September. The EU, which issued three statements expressing concern over the proposed legislation, and called for early progress towards universal suffrage in the latter statement welcomed the withdrawal of the bill. While the October District elections reflected public dissatisfaction with the government's handling of the national security bill and the SARS epidemic, the political debate rapidly shifted to democratisation of the Hong Kong political system, as a way to improve governance, and has since come to the forefront. In this context, the SAR Government had previously announced a timetable for the launching of a public consultation on constitutional development. The designation of a Task Force on constitutional development by the Chief Executive in January 2004 and the starting of a consultation process with the Central authorities of Beijing have however superseded these plans. At the same time, Hong Kong pursued further economic integration with Mainland China, notably through the signing of CEPA, a free-trade arrangement that will ensure access for Hong Kong products and services to the Mainland market ahead of China's WTO implementation timetable. The economy rapidly recovered from the consequences of the SARS outbreak and resumed encouraging growth in the second half of the year. EU-Hong Kong relations were marked by steady development and friendliness. Total bilateral trade slightly decreased to EUR 27.3 billion, but the EU remained Hong Kong's third largest trading partner and foreign investor. The EC-Hong Kong readmission agreement came into force in March 2004 and perspectives for further contacts in the field for migration bode well of the development of our cooperation. The European Commission welcomes the passage in 2003 of new legislation in mergers and acquisitions in the telecommunications sector, but remains concerned about the lack of general competition legislation in the SAR. Efforts in combating cross-boundary intellectual property rights violations also need to be intensified. The Commission welcomes the renewed dynamism of Hong Kong's people and its economy and is encouraged by the greater involvement of citizens in political life, something that was facilitated by the various civil movements which were active throughout 2003. The EU remains fully in support of the preservation of the specific status recognised for Hong Kong SAR under the 'One country, two systems' principle, and the respect for human rights and freedoms enjoyed by Hong Kong citizens, as enshrined in the Basic Law. It is therefore to be hoped that early progress will be made towards the Basic Law's ultimate aim of election of the Chief Executive and Legislative Council by universal suffrage, bearing in mind the aspirations of Hong Kong people for further democratisation, as shown by the events of 2003.

## The European Union and Hong Kong: beyond 1997

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In the 2004 Annual Report on the Hong Kong SAR, the Commission notes that, the 'one country/two systems' principle, in 2004, was characterised by a trend towards greater influence of the Mainland authorities in the governance of the Territory. This is highlighted, in particular, with the election of the Chief Executive. Although, an estimated 100 000 people marched peacefully at the beginning of the year expressing their will to participate more in politics and government, the National People's Congress decreed later in the year that only minor changes to the election system for the HK Chief Executive should be made, indicating that the move towards universal suffrage (an ultimate aim of the Basic Law) is being seriously undermined.

Notwithstanding these developments, orderly elections were held for the Legislative Council in September, which produced a record high turn-out, with 62% of voters supporting pro-democracy candidates. According to the Commission, the overall conduct of the elections was a testament to the political maturity of the SAR and showed that there is a sound base for further democratisation. Along a similar vein, Hong Kong civil society and the press continued to operate freely and became more critical during the year.

The report's authors indicate that accountability within the HKSAR is strong and point to the often vociferous criticism many members faced throughout the year from the press and interest groups. The resignation of the Health Minister in the wake of a damning report on the handling of the SARS crisis, is testament to the growing sense of accountability, a key element in any democracy.

As far as the economy is concerned the economies of Hong Kong and China became more symbiotic, inter-dependant and convergent throughout 2004. Economic growth in 2004 was 8.1% for the year, unemployment fell, property and share markets rose, deflation was replaced by modest price inflation and the government deficit narrowed. Trade and financial flows between Hong Kong and the European Union continued to expand and deepen. The EU was Hong Kong's third largest supplier of goods in 2004 after Mainland China and Japan and was the third largest market for HK exports after the US and Mainland China. In the financial sector and other services EU companies continue to play a leading and influential role.

A number of issues outstanding issues persist including the lack of a competition law in Hong Kong as well as the ongoing production of counterfeit goods originating in Hong Kong. For example, Hong Kong remains the third largest provenance of counterfeit goods imported into the EU. Although some IPR progress has been made over the past year, the Report concludes that, more needs to be done.

On a final point, high-level contacts between the EU and the Hong Kong authorities continued throughout 2004. In March 2004, Pascal Lamy visited Hong Kong. Also, the Commission welcomes the WTO agreement to hold the 6<sup>th</sup> Ministerial WTO Conference in Hong Kong in December 2005.