Hong Kong, Special Administrative Region SAR. 1st and 2nd annual reports

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An effective enforcement of the 'one country two systems' concept enshrined in the Joint Declaration and Basic Law is fundamental to Hong Kong's lasting stability and prosperity. This in turn will benefit the European Union, which, like other world partners, has for many years enjoyed a dynamic trade and investment relationship driven in part by Hong Kong's independent free market economy. It will also benefit mainland China, for whom a robust, globally integrated Hong Kong is a powerful buttress to its own economic reforms. The EU therefore sees the upholding of the Hong Kong Special Administrative Region's autonomy, within the 'one country two systems' concept, as a cental plank of its policy towards the territory and a major component of its relationship with China as a whole. The EU set about upgrading its links with the SAR in April 1998 by adopting a Communication from the European Commission entitled 'The European Union and Hong Kong: Beyond 1997'. The aim was to set Europe's ties with the territory on a deeper, more permanent footing, while supporting its autonomy, helping to strengthen its role in Asia and the world, and monitoring respect for the rights guaranteed to its citizens under the Joint Declaration and the Basic Law of the Hong Kong Special Administrative Region. For the EU, these rights are not just valid in themselves. They are inseparable from the autonomous system upon which Hong Kong's lasting success depends. In the context of the Communication, the Commission undertook to produce an annual report on relations between the EU and Hong Kong. This is the first such report. The Commission notes that the European Parliament has produced its own report on Hong Kong, and duly transmits this document to the Parliament and the Council of Ministers for information. The main conclusions of the Commission's report are as follows: - the 'one country two systems' approach is a key element in Hong Kong's stability, freedom and prosperity following a resumption of Chinese sovereignty over the territory. After one year, it is already proving to be a workable formula that deserves the full support of the European Union and other partners. The handover itself has gone smoothly, and the authorities of both Hong Kong and Beijing have followed it up with a determination to make the division of responsibilities between them function effectively and clearly. - during the early months of the SAR, every new law, case or government act has been closely scrutinised by civil rights activists, opposition politicians, the media and the public at large for its potential threat to Hong Kong's autonomy, and on isolated occasions they have prompted questions about the SAR authorities' commitment to upholding that autonomy. Such intense scrutiny is in itself a healthy sign that Hong Kong's people and institutions feel willing and able to provide a necessary check on the authorities that run their lives. In its own scrutiny of development in the SAR since the handover, the European Commission does not detect an overall policy shift towards greater restrictiveness. The Commission will continue to monitor events in the Hong Kong SAR in the belief that a strict application of the one-country-two-systems formula holds the key to its lasting economic prosperity and the wellbeing of its citizens. - the May elections, although limited in their degree ofsuffrage, were a positive step on the road to universal democracy as stipulated by the Basic Law. The result reflects a growing appetite for the democratic process, not least at a time when financial troubles have removed the certainty of economic wellbeing for many Hong Kong citizens. - the financial crisis has deprived the SAR, at a delicate stage in its development, of the high growth and business confidence that have characterised Hong Kong's economy in the past. Its strict adherence to transparency, prudent budgetary control and a stable currency are therefore all the more admirable in the face of such adversity. This will ultimately encourage the return of business confidence one the financial crisis subsides. - the Commission is in little doubt that such confidence will soon return, provided the SAR Government sticks closely to the principles of sound regulation and open trade, as well as the unimpeded functioning of markets with intervention strictly limited to internationally accepted standards and practices. The Commission also welcomes the chance to exchange views with Hong Kong regarding the improvement of the international financial architecture. Hong Kong remains one of the most open economies in the world. Its well tested economic principles, together with close adherence to the political

and social freedoms enshrined in the Basic Law, will be the territory's best guarantor of future stability. The EU has an important role to play in that process through continual support for the SAR anchored in an ever deeper and more permanent relationship.