

1984

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Recommended Citation

Chien, Frederic F. (1984) "The Role of the Coordination Council for North American Affairs in the Context of the United States-Republic of China Relationship," *NYLS Journal of International and Comparative Law*: Vol. 6 : No. 1 , Article 5.
Available at: https://digitalcommons.nyls.edu/journal_of_international_and_comparative_law/vol6/iss1/5

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RECENT DEVELOPMENT

THE ROLE OF THE COORDINATION COUNCIL FOR NORTH AMERICAN AFFAIRS IN THE CONTEXT OF THE UNITED STATES—REPUBLIC OF CHINA RELATIONSHIP*

*DR. FREDERICK F. CHIEN***

Professor McDougal, Dean Simon, Mr. Calderone, distinguished guests, members of the International Law Society of New York Law School:

It is my great honor and privilege to be here this evening with all of you. The fact that the International Law Society arranged to have Professor McDougal introduce me gives me a sense of nostalgia, because I have not had the privilege of seeing him for almost twenty-four years. I am so pleased that he is in such great shape; this being the case, for me merely to see him here is more than worth the trouble of taking this trip. Professor McDougal, I am very grateful to you for what you have said about my country and myself.

This evening the International Law Society has asked me to speak on the role of the Coordination Council for North American Affairs in the context of the United States—Republic of China (U.S.-ROC) relationship.

As the majority of the audience may have been aware, on the evening of December 15, 1978, President Jimmy Carter suddenly announced that the United States had decided to establish diplomatic relations with the so-called People's Republic of China, and that, consequently, his government had decided to terminate diplomatic ties with the Government of the Republic of China. In his statement, however, President Carter went on to say that, in spite of the severance of diplomatic ties, there shall continue to be friendly and extensive com-

* The following text is an edited version of a speech delivered by Dr. Fredrick F. Chien to the members of the International Law Society at New York Law School on November 1, 1984. This Recent Development includes Dr. Chien's address as well as questions and answers.

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mercial, cultural and other relations between the two countries, and that not only should these relations as then existing remain intact, but they should also be expanded.

That announcement, of course, caused us a great shock. We had been for a long, long time—and still are—a close friend and ally of the United States. If you would allow me to use a metaphor, I would say that we always look upon the United States as our elder brother in whom we can confide our difficulties in times of adversity; to whom we can turn if we have problems and upon whom we can lean for assistance in time of need. All of a sudden this important friend and ally turned his back on us. You can well imagine what a tremendous and severe blow it was to us.

Immediately thereafter, on December 28, 1978, to be exact, President Chiang Ching-kuo named five principles as the cornerstone upon which the future relationship between our two countries should be built: continuity, reality, security, legality, and governmentality. These five principles constituted the crystalized substance of the instructions I received from my government when I started to negotiate with my counterpart, the former Deputy Secretary of State of the United States, the Honorable Warren Christopher, and with his distinguished colleagues. Only then did I come to realize that the United States Government was not quite prepared for the events that were to follow the derecognition. My counterpart told me at first that the United States would draw up omnibus legislation to take care of the future relationship between our two countries.

One of the questions I asked him was: "Does this mean that we will have some sort of guarantee with respect to our government's property in the United States, both real and personal?" The reply from the other side of the negotiating table was, "No, we are not so sure." All they told me at that juncture was that we should establish an instrumentality in the United States to deal, on an unofficial basis, with a similar instrumentality to be established by the United States. I asked: "How are the two instrumentalities going to work? Are the personnel working for these instrumentalities going to be afforded any privileges or immunities?" Their reply was, "No, there will be none."

When I referred to President Carter's statement that the United States was still interested in the continuing security and well-being of the people on Taiwan, and asked how this could realistically be achieved, they said that they had not the faintest idea.

In the face of this, I finally reached the conclusion that the United States was indeed not prepared for the break. Fortunately, as soon as the United States Government presented its proposed omnibus legislation to Congress, members of both the Senate and the House of Repre-

sentatives worked very hard on it. If I may again use a metaphor, they put teeth into the legislation by giving legal substance to many aspects that were left vague or inconclusive by the derecognition.

When Congress finally passed the proposed legislation, on March 26, 1979, it was given the title the "Taiwan Relations Act."¹

The Taiwan Relations Act was signed into law by President Carter on April 10, 1979. Under the terms of this legislation—to which, as I mentioned earlier, Congress had made significant modifications and improvements—the five principles enunciated by President Chiang Ching-kuo at the time of the derecognition were more or less dealt with.

Section 4(c) of the Taiwan Relations Act provides:

For all purposes, including actions in any court in the United States, the Congress approves the continuation in force of all treaties and other international agreements, including multilateral conventions, entered into by the United States and the governing authorities on Taiwan recognized by the United States as the Republic of China prior to January 1, 1979, and in force between them on December 31, 1978, unless and until terminated in accordance with law.

This is to say, in simple terms, that all treaties and agreements, whether multilateral or bilateral, to which the United States and the Republic of China are signatories, shall remain applicable to and binding upon the two sides, which is in conformity with the principle of continuity.

Section 4(a) of the Taiwan Relations Act provides in essence that, insofar as the laws of the United States are concerned, Taiwan should be considered an international entity. There is nothing in the Act preventing the laws of the United States that are applicable to other sovereign states from being applied to Taiwan. There should be no denial under the Act of Taiwan's eligibility to be considered a sovereign state. This reaffirms the international personality and status of my country, and is fully in accord with the principle of reality enunciated by President Chiang.

With regard to the principle of security, section 2(b) (4) of the Act outlines the United States policy which considers "any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, a threat to the peace and security of the Western Pacific area and of grave concern to United States." Because of the legal force of the Act, both the United States Congress and the Admin-

1. Taiwan Relations Act, 22 U.S.C. 3301 (1982).

istration are obligated to observe and abide by this mandate. A provision of similar import is found in section 3(c). Furthermore, section 3(a) contains an explicit provision for the continuous sale to the Republic of China of defensive military items by the United States.

As to the fourth principle, the principle of legality, I think the Taiwan Relations Act, by its very existence, puts the future relationship between our two countries on a solid legal basis. As a matter of fact, this was the first time in the history of this great nation, the United States of America, that a special law was enacted to provide for its relationship with a foreign nation. Thus, a good, viable legal framework was established to channel the future relations between our two countries.

The single most difficult problem that both sides had to grapple with was the principle of governmentality or officiality. This problem was finally resolved at the end of February 1979, when the United States declared that, as far as it was concerned, the relationship between the two countries is unofficial, and that the Republic of China should not challenge it. On the part of the Republic of China, it was maintained that the relationship between the two countries has the intrinsic quality of officiality, and that the United States should not counter this position. By so doing, both sides somehow managed to have their bone of contention on the issue of officiality or governmentality laid to rest.

On January 16, 1979, an instrumentality was set up by the United States under the name of the American Institute on Taiwan (AIT). On that day, the Institute was duly registered with the District of Columbia as a non-profit organization in contact with the State Department, with the handling of the United States relationship vis-à-vis the Republic of China as its primary responsibility. On February 15, the Government Information Office of the Republic of China announced the establishment of the Coordination Council for North American Affairs (CCNAA) as the organ to handle Sino-American relations beginning March 1 and thenceforth. The CCNAA was formally organized on February 23, 1979 under an edict of the Executive Yuan of the Republic of China, otherwise known as the Cabinet of my government.

Thereafter, we started to organize our offices in the United States. There is a provision in the Taiwan Relations Act to the effect that all consulates general and consulates that the Republic of China had previously maintained in the United States shall be allowed to reopen. Although, at the time of the derecognition, we had in all fourteen consulates general and consulates in this country, only eight were reactivated when the U.S.-ROC relationship was readjusted. These are the CCNAA offices in New York City, Chicago, Atlanta, Houston, Seattle,

San Francisco, Los Angeles, and Honolulu. A ninth office was reestablished in Boston about two years ago.²

The main office of the CCNAA, which I have the distinct honor and privilege of heading, is presently located in Bethesda, Maryland. This office has within its organizational structure ten divisions and two field offices. The ten divisions are: the Secretariat, which handles matters of a political and governmental nature; the Service Division, which handles visa and passport applications as well as matters relating to travel; the Administrative Division, which handles all kinds of house-keeping work; the Public Affairs Division, which handles congressional liaison work; the Telecommunications Division, which looks after cable traffic between CCNAA's home office in Taiwan and my office; the Cultural Division, which is equivalent to the Cultural Attaché's office of an embassy; the Information and Communication Division, which handles press and public relations; the Science Division, which promotes and handles science and technological cooperation between our two countries; the Economic Division, which is responsible for the broadening of U.S.-ROC trade and other economic ties; and, lastly, the Service Coordination Division, which takes care of military and defense matters. In addition, we have an Investment and Trade Office, which provides free services to American investors and traders, and which, though physically located in New York City, is nevertheless part and parcel of the CCNAA, Office in U.S.A. Finally, there is the Procurement and Service Mission, which handles not only military procurement but also other kinds of government purchasing. This completes a capsule description of the organization of the CCNAA.

Now I shall come to the nucleus of my address, namely, the role of the CCNAA in the U.S.-ROC relationship. First of all, I would like to say a few words about trade. At the time of the derecognition in 1978, the two-way trade between our two countries amounted to about \$8 billion per annum. At that time, the Republic of China was already the eighth largest trading partner of the United States. We were behind only Canada, Japan, West Germany, Mexico, England, Saudi Arabia and France. Last year the trade volume between the United States and my country doubled, reaching \$16 billion. Some of my American friends, amazed at the rapid trade expansion, joked with me, saying that it took derecognition to double our trade volume. But, seriously, the critical fact is that, in spite of the absence of diplomatic ties, we still can thrive by way of economic cooperation. Last year we jumped to the enviable place of your sixth largest trading partner, surpassing both Saudi Arabia and France in five years. This year our two-way

2. In January 1985, the tenth CCNAA office made its reappearance in Kansas City.

trade is expected to reach \$21 billion. This will place us ahead of the United Kingdom as your fifth largest trading partner.

One important thing worthy of note here is that, concomitant with the tremendous growth in trade, we are faced with a very serious problem—that of trade imbalance. This year we anticipate an \$11 billion trade surplus. Over the years both our countries have been doing a host of things in trying to narrow the trade gap. The United States maintains trade offices in many parts of the world, all of which are wholly financed by the United States Government. There is one exception, however; the United States trade office in Taipei is partly financed by my government. We encouraged you to set up that office as a means of promoting American exports to our country. We provided the office premises and the showroom free of charge to the United States Trade Center. This is one example in point. Another relevant example is that we have provided assistance to American businessmen in facilitating the holding of an American trade fair several times a year in Taiwan in order to expose local businessmen and people to American products.

Most important of all, since 1977 we have sent nine³ special procurement missions to this country to buy American products. Over a period of seven years, we have bought more than \$7.2 billion worth of American merchandise. Some people may say: "Well, you have to buy such merchandise from the United States anyway." That is not true because we could have bought from other countries. For instance, we could have easily bought grain from Argentina, Canada, Brazil, Thailand or South Africa. The very fact that we have made the lion's share of our purchases in the United States is a clear indication of my government's sincere attempt to do away with the trade imbalance.

Following the footsteps of my government, the Government of the Republic of Korea has, for the first time, in March and April of this year, sent special procurement missions to the United States. I hope this will set a pattern for other countries having a huge trade surplus with the United States to follow if they should deem it desirable or necessary to take some initiatives to balance the trade deficit. All this is very good, of course, yet it will not—and cannot—provide the final solution. The final solution, in my opinion, lies in the liberalization of trade restrictions.

I am probably the first to admit that my country still has some uncalled-for trade barriers. Since my arrival in Washington, D.C., about twenty-one months ago, I have made several recommendations

3. The tenth special procurement mission was sent to the United States in April 1985. Other missions of a similar nature will visit the United States in the future.

to my government to gradually ease those trade barriers, with their total elimination as the ultimate objective. I now take great pleasure in reporting to you that I have already seen clear indications of a trend in that direction. This year, on August 6, Ambassador William Brock, the United States Special Trade Representative, announced the lowering by the Republic of China of the tariff on a number of items that the United States exports to my country. He welcomed that move, expressing the hope that my government will do still more in the way of tariff reduction. While we are favorably disposed to this, the difficulty is that we cannot act beyond legal limits. According to our law, my government only has the authority to reduce the tariff by 50% in any given year, so if some of the items were previously taxed at 75%, the tariff can only be reduced to 37.5% in the first year. It will take a second year to reduce the tariff to 18.75%; a third to about 9%; and a fourth to 5%. It takes time, but I hope American manufacturers and traders will bear with us. The good news is that lowering the tariff will definitely be the trend in my country.

Other than my government's efforts to lift the trade barriers, I think that the United States will also have to do its part. In the first place, the United States needs to do more to promote trade. Secondly, American manufacturers need to make greater endeavors in the area of quality control. Thirdly, American manufacturers have to offer more after-sale service. Only when you have exerted your best efforts in these three areas can you hope to compete effectively with your counterparts in Europe and Japan. I look forward to the future with great anticipation that the trade relationship between our two countries will be ever increasing and mutually profitable.

Next, I will address very briefly the matter of our cultural relationship. This, together with trade, is one of the two things of priority specifically mentioned by President Carter when he announced the de-recognition. I believe many of you might have recently read in the newspapers that the Republic of China today is sending the largest foreign student contingent to the United States. Of all foreign students in the United States today, over 20,000 are from my country, pursuing studies and research at various colleges and universities. Iran used to lead other countries in terms of students in the United States with 25,000, but recently their number has diminished and we have become the number one. We are grateful that American educational institutions and their faculties and student bodies have been so hospitable and helpful to our students. Similarly, we look forward to more American students going to Taiwan to study and to more American faculty members going there to spend their sabbatical leaves at our colleges and universities.

A few words about tourism. This year it is expected that about a quarter of a million tourists from Taiwan will be coming to the United States. At the same time, close to 200,000 American tourists will be visiting my country. So, in terms of tourism, I believe our two sides are doing quite well. Of the total number of my country's tourists going abroad, 50% have the United States as their final destination. Of the total number of our foreign visitors, about 20% are from the United States. This, I would like to say, is a very, very nice batting average.

Next, I would like to touch briefly upon science and technological cooperation. We pay special attention these days to science and technology because our economic development, which has made great strides over the last three and one-half decades, shows signs of slowing down. We have now reached a point where we must strive to elevate the standard of our products. We therefore need new technical know-how. We must expand into the area of high-tech. In this connection, I would say that the cooperation between our two countries has hitherto been very successful and rewarding. I was told by a member of the United States National Science Council that of all the cooperation programs they have around the world, we rank among the top seven in terms of size and expenditures. Recently, I was privileged to have concluded with the AIT, the CCNAA's counterpart, a joint project in the field of public health and another in the field of seismology. Maybe a special mention should be made here of the matter of nuclear cooperation.

There was a time when our two countries had bilateral diplomatic ties, and the United States entertained great doubts about the direction in which our nuclear research was heading. But President Chiang has stated repeatedly in public that the Republic of China will not be a party to nuclear proliferation. While, admittedly, we do have the capability of going nuclear, we are not going to make a nuclear bomb. In the last few years, nuclear cooperation between our two countries has reached a level which must be considered as both constructive and productive. Just barely a month ago, I was privileged to have concluded an agreement under which the United States Department of Energy will over the next thirty years supply us with all the enriched uranium required by the three nuclear power plants now in operation in the Republic of China. The total cost of this is well over \$2 billion.

I leave the security area as the last part of my presentation because of its sensitivity. As you are probably aware, this is the area most frequently challenged by our adversary [the People's Republic of China]. All I can say is that the United States has more or less lived up to the letter of section 3(a) of the Taiwan Relations Act, which provides for the sale of defensive weapons to the Republic of China. Need-

less to say, we would like you to sell us more; moreover, we would like you to sell us better weapons and equipment. But your actions are dictated by your judgment—you are selling us only that which you deem desirable or necessary. In spite of some disagreement, we must say that, by and large, we are doing all right in this area. Last year United States arms sales to us totalled \$800 million. This year the total is approximately \$700 million.

What shall we do in the future? Since I took over this office, I have given considerable thought to what our two sides can do together. In my opinion, there are many things our two sides can accomplish. First of all, the Republic of China is in a very important strategic location in that we provide a vital link between industrially more advanced Northeast Asia and natural resource-rich Southeast Asia. Secondly, our strategic position at the hub of the West Pacific area as well as our strategic location mid-way between the Soviet naval base of Vladivostok and the Soviet's newly acquired Cam Ranh Bay on the Vietnamese Coast combine to make us an extremely important strategic friend of the United States. I know how sensitive this subject is to our adversaries and yours, and because of this the United States is, perhaps, unwilling to discuss it publicly. But as a friend of the United States, I am always of the opinion that both our sides must act like friends and help each other. My message to my American friends is that if at any time in the future the United States should need any assistance from us, feel free to ask and we will not fail to comply.

There is another area where I think we can cooperate still further. As mentioned earlier, the Taiwan Relations Act provides that all treaties and agreements concluded prior to the date of the derecognition shall remain applicable to and binding upon our two sides. More importantly, since the derecognition our two countries have continued to conclude new agreements through the CCNAA and the AIT. In this regard, the possibility of the conclusion of two badly needed agreements is worth exploring: one, an extradition agreement and the other, an agreement to eliminate double taxation. These two agreements, if concluded, would do a great deal to help alleviate some of the problems that our two sides are encountering in our growing economic ties.

Regarding extradition, the United States Government maintains that this will have to be enforceable in all the States of the Union, so an executive agreement would not meet the requirement; it has to be a treaty. But it is now impossible for our two countries to conclude treaties since we no longer maintain diplomatic relations. It is my way of thinking that an extradition agreement could be adroitly tied in with the Taiwan Relations Act, which for the United States is the supreme law of the land, thus making the agreement applicable to and enforceable.

ble throughout the United States. Why is an extradition agreement so important? Because it will serve the interests of both sides. For historical reasons, we happen to have a very severe punishment for narcotic trafficking. Many innocent young Americans visiting Taiwan have inadvertently committed such offenses. Under the present circumstances, we have to punish them according to our law; there does not seem to be any other way out even though we know well that this is not the most desirable thing to do. An extradition agreement would help eliminate this unnecessary hardship for American offenders. On the other hand, as our economy develops, we have these days a large number of "economic criminals." Many of these criminals have found their way into the United States as a haven to escape prosecution by our law enforcement agencies. This makes the United States less popular among those of our people who have been victimized by these criminals. So, the early conclusion of an extradition agreement would seem to serve the interests of our two sides.

In the area of double taxation, I was given to understand that this has become a serious problem for many American corporations and firms that are investing in my country; their income from Taiwanese sources is taxable not only in my country but also in the United States. We are, thus, badly in need of a taxation agreement to eliminate double taxation so as to improve the lot of these investors. I look forward to working closely with the AIT in the months ahead in a joint endeavor to solve these problems in particular and to further improve U.S.-ROC relations in general.

Thank you all very much for your patience.

A question-and-answer period followed the speech.

Q: With the increasingly youthful leadership of the Republic of China, what do you see in the future as the precondition for improving the relationship with mainland China? And what is the role that the United States might play in that changed relationship?

A: I think that, with respect to the question of the relationship with mainland China, the younger people in the Republic of China are in no way different from their older folks. That is to say, what bothers them is the same communist system that has bothered their elders. It is not, as it has often been mistakenly stated, a power struggle. Many people tend to have this misconception, saying that the whole thing has been a power struggle between the older folks on one side and the younger on the other, and that as the older people leave the scene, the younger ones will take over and behave differently. I can tell you unequivocally that this is not going to be the case. I believe many of the people who occupy influential positions in Taipei today, and who have grown up and lived there in the past thirty-five years, have witnessed with their

own eyes during that period the emergence and interactions of a free, democratic society with a free enterprise system, which contrasts sharply with the communist system and controlled economy in mainland China. These are the fundamental differences between the two Chinas and the areas of their basic disagreement. Therefore, I do not think that the induction of younger people into our leadership will bring about any basic changes on our side or make our leadership less averse and more amenable to the Communists in mainland China. I shall say to you emphatically, at the risk of repetition, that this is not going to be the case.

With regard to the role the United States might play in the above context, I think it is clear from a reading of the Taiwan Relations Act and the many statements made by leaders of both political parties of this great nation that the United States wishes to see nothing short of a peaceful solution to the conflict between the two sides. Thus, any solution to the so-called "Taiwan question" by other than peaceful means is not going to be accepted or acquiesced to by the United States. This, I am happy to report, seems to have been the firm position taken by both the previous and the present administrations.

Q: In recent months we have seen a diversification to some degree of the pricing structure on mainland China. Despite the rhetoric, there has been some dismantling of the communal system and the importation of some sort of private enterprise system. What is the view of the Republic of China as to the future of the economic policies on the mainland? Is there any possibility that the dismantling of this centralized economic system, perhaps, could lead to some sort of political liberalization which, in turn, perhaps, could lead to some future agreement between the two countries?

A: Over the last two or three years, the Communists have tried to liberalize to some degree their agricultural policy by allowing the private ownership of plots by farmers. It is only natural that where a privately owned plot is cultivated, productivity rises; it inevitably produces more than a communal or public lot. During the recent meeting of the Third Plenary Session of the Central Committee, the Communists decided to expand the policy of private ownership to the urban area. As we all know, there exists a great difference between a rural economy and an urban economy. A rural economy is rather simple; if one is given a plot and labors on it, farm products are produced and he stands to gain. But in an urban community, where the relationships and interactions between people are interwoven and are much more complicated than in rural areas, things are not so simple. This is evidenced by the fact that as soon as the meeting of the Third Plenary Session of the Central Committee issued a statement permitting partial liberalization of the

marketing system, the immediate response from the people was a rush to purchase commodities, and everybody tried to stockpile everything he could lay his hands on. This has already created an inflationary trend.

I was certainly very disappointed that this recent liberalization policy was predicated on nothing new; according to what the Third Plenary Session of the Central Committee has stated, they will still strictly adhere to communism and socialism. As I see it, the problem of their economic stagnation and underdevelopment has had nothing to do with the people, because the people on the Chinese mainland are the same as the people on Taiwan, in Hong Kong, in Singapore; and even the same as the Chinese-Americans in this country. If you cut them into pieces and do some anatomical study, they are, biologically and organically, the same. What, then, accounts for the difference among them? Why are the Chinese people outside of mainland China so productive and those inside mainland China so unproductive? It is the system that makes the difference.

In a market economy, to give an example, if I work harder than, say, Dean Simon, I will make more money than he does. But, such is not the case in a controlled economy, like mainland China, where all people make practically the same amount of money. In a market economy a relatively small number of people are employed by the government, and the great majority of them work for the private sector. In the case of the United States, the paradigm of a market economy, one of the system's distinct characteristics is collective bargaining which, of course, has not pleased everyone. But collective bargaining at least has the merit of having put labor and management on a par and brought some improvement in the livelihood of workers.

The mechanism in a controlled economy is markedly different. Since all people are employed by the State, if an attempt is made to increase their pay, that will trigger an increase in the State budget. Just imagine the size of mainland China's population—one billion people! Suppose that 50% of the population are employed, this means that five hundred million people would be on the government's payroll. If each received a one dollar increase in his monthly pay, there would be an increase of \$6 billion per year in the budget. This is a matter of impossibility. This is why I have said time and again that it is a matter of the system. Unless and until they denounce the collective system, the communist system, and remodel their economy on the free enterprise system, giving people the freedom to become owners and managers of businesses and factories and to hire their own employees and workers without the dictate and interference of the State, I do not think any kind of price readjustment initiated by the regime, however

it is labelled, would solve their problem. I would respectfully refer you to an editorial of the October 27, 1984 issue of the *Baltimore Sun* in which the writer expressed the same view that the problem of the Chinese mainland is not going to be solved by a statement of policy. The writer pointed out, in an analytical and perceptive fashion, that education holds the key to mainland China's future. Thus, you can see that the leadership there will indeed have a whole lot to learn.

At this point, all I would like to say is that if the leadership on mainland China is indeed insightful, if they are genuinely serious about liberalization, if they are really concerned with the livelihood of the people and desirous of improving it, then the most urgent and important thing they should do is to change their system—to denounce communism.

Q: Recently the People's Republic of China and the United Kingdom reached an agreement concerning the future of Hong Kong, and in the agreement there are many provisions for the five million inhabitants of Hong Kong. What is your government's point of view on this matter?

A: Your question brings to my mind the Treaty of Nanking, signed in 1842. That is, of course, not the treaty you referred to, but it is not without relevance because Hong Kong was ceded to Britain under that historic document. Subsequent thereto, two more treaties were signed between China and Britain: one was the Treaty of Tientsin of 1860, under which the Kowloon Peninsula was further ceded to Britain; and the other was the Treaty of 1898, which leased to Britain the New Territories, constituting 90% of the total Hong Kong land area.

Now, the recent development all started with the "fifteen-year period"—in the business world it generally takes fifteen years for an investor to recover his entire invested capital, so fifteen years is an important cycle for the businessman. Since the original lease was from 1898 to 1997, if you go backward fifteen years from the year of termination, the year 1982 was a critical year, for it was the start of the last "fifteen-year period." This explains why Prime Minister Margaret Thatcher visited mainland China in 1982 to negotiate a possible solution to the Hong Kong issue. While in mainland China, she was, however, faced with a very strong stance taken by the Communists. This has brought home to the British authorities the realization that they could no longer treat the Hong Kong problem with the same jingoistic attitude they treated the Falkland Islands, and that they would have to cave in so as to placate the other side; hence, the agreement referred to in your question.

Although ostensibly called an agreement, it was actually concluded in the form of a joint declaration. It was a joint declaration with three attachments whereby the Communists promised that not only for the

next thirteen years, but also for fifty consecutive years after 1997, they will allow capitalism to remain in existence in Hong Kong, and, further, that they will allow the Hong Kong people a host of freedoms, including the freedom to travel, the freedom to receive an education, etc. But all of these are conditioned on one element which the agreement did not spell out and which we have no way of knowing at the present. According to the agreement, none of its provisions shall be in conflict with a basic law to be adopted by the People's Congress, setting forth the legal framework of what they call the Special Administrative Region, the name given to Hong Kong after its reversion to mainland China in 1997. The basic law will be the governing law of Hong Kong and is to be drafted and promulgated by the People's Congress. Under these circumstances, what the United Kingdom has done in terms of the agreement was tantamount to writing and handing a blank check to the Communist regime. In spite of what was written into the agreement, the other side can change its terms anytime they like because the ultimate authority rests with them.

What I have just said by no means touches upon the most critical aspect, which is the question of what does the agreement govern. It governs the future of Hong Kong. Intrinsicly, Hong Kong is but a piece of property, a piece of real property, to be precise, but its importance lies in the fact that it is inhabited by five and one-half million people. In other words, the agreement is important in that it governs and affects the life, liberty and property of five and one-half million people. If we take a further step by looking at the composition of the people, we will see that one-third of them are original settlers in Hong Kong and two-thirds of them came to Hong Kong from mainland China after 1949. Let us ask why they came to Hong Kong. The answer is not far to seek: they left the mainland because they were fed up with what the Chinese Communists had been doing there. They came to Hong Kong to seek freedom. Of all the circumstances surrounding the signing of the agreement, the saddest thing was that when the United Kingdom sold the future of the five and one-half million people in Hong Kong, not only were these people not consulted, but their manifest wishes to be free were also completely ignored.

In this connection, let me offer a word of caution to my good American friends. Insofar as the British are concerned, they have by now already taken out of Hong Kong almost all they wanted to take out. You are probably aware of the fact that the Hong Kong and Shanghai Bank, the largest British bank in Hong Kong, is diversifying its resources by setting up branches in the Middle East—with one of its branches being moved as far as Athens. Jardine Matheson, one of the largest British conglomerates hitherto headquartered in Hong

Kong, has already moved its offices somewhere in the West Indies—perhaps, if my memory serves me correctly, to Bahamas or Bermuda. In the agreement previously mentioned, the British obtained the Chinese Communists' consent to let them sell all the remaining public land they hold in Hong Kong. This boils down to one thing, namely, the British will squeeze the last penny out of Hong Kong as long as they can make it; they will have little or nothing to lose when they depart from Hong Kong in 1997. Here, one pertinent question to ask is, other than the Chinese, who has the largest investment in Hong Kong? It is your country, the United States; your country holds 50% of all the foreign investment in Hong Kong, while Japan accounts for 25%. The United Kingdom has no more than 10%. I am worried that if worst comes worst, many American businessmen in Hong Kong would be the first to suffer because of their huge investment.

It should not escape our attention that capital already started to flow out of Hong Kong two years ago, perhaps earlier than that, and the most interesting fact to note is that among the first people who have left Hong Kong are those who have been well known for their pro-Chinese Communist stance. Yet, they are moving out of Hong Kong before the Chinese Communists move in to take over power. The flight of capital from Hong Kong has been an open secret for more than two years. Recently, it is not merely capital outflow that has threatened the future of Hong Kong—worse still, nearly all major capital is gone. Added to this is the aggravating factor of a flow of managerial personnel and professionals out of Hong Kong. These people are scrambling to immigrate to Canada, the United States, Australia, Singapore, and a small number of them to Japan and my country.

So, as far as Hong Kong's future goes, I would say that, with the signing of the agreement in question, the die has been cast. I would only pray for the best for Hong Kong and its millions of helpless inhabitants. For those who have economic or other interests there, my sincere advice is that they had better prepare for the worst.

