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"Hong Kong and the Mainland: New Stage, New Roles"

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Thank you, Vice Chancellor Lau, for that kind introduction. I'm honored to be here today among colleagues and friends, and particularly, students. We are pleased with our collaboration with Chinese University, and with the Hong Kong-America Center located on your campus. Educational programs such as the Fulbright program are an important part of our work, and we value our cooperation with you. As my country's great statesman Benjamin Franklin once said, "The only thing more expensive than education is ignorance."

Last month, I attended the speech in this same lecture hall by Ministry of Foreign Affairs Commissioner Yang Wenchang. I found his remarks on "The Peaceful Development of China" stimulating. It is a topic of great, I would say historic, interest to my country and many others. The level of engagement by the United States with China is evident by the planned or actual visits of U.S. leaders to China in a space of only two months: Pacific Commander Admiral Fallon, Treasury Secretary Snow, Defense Secretary Rumsfeld, Trade Representative Portman, Attorney General Gonzalez, Secretary Rice and President Bush. In addition, Deputy Secretary of State Robert Zoellick will host a delegation of senior Chinese officials in early December for the second round of their senior dialogue aimed at increasing understanding and policy coordination on global strategic issues. This extraordinary level of contact underscores the prominence accorded to the U.S.-China relationship by both sides. As He Yafei, Director-General of the Ministry of Foreign Affairs Department of North American Affairs, noted Monday night in his remarks at the University of Hong Kong, this dialogue shows that the U.S.-China relationship is "mature." Closer and more frequent engagement, and frank discussion, are important to avoiding misunderstandings.

My speeches in Hong Kong have caused some comment. I think it is important that the U.S. shares its views on Hong Kong's development. We have an interest in Hong Kong's success. Our view that democracy is the best foundation for stability is certainly well

known, and it is not unique to Hong Kong. U.S. government officials are echoing this view not only in Asia and the Middle East, but around the world. It is the very essence of what America stands for.

It is the nature of my profession that we try to explain the reasoning behind policy to others who often have different views. We try to overcome misperceptions, and open up new ways of looking at issues. Tonight, I would like to dispel some common misperceptions about U.S. intentions in China, including here in Hong Kong. I'd also like to review how we see Hong Kong and the mainland evolving. Hopefully you will then understand what I mean by the title of my speech -- what is the new stage and what are the new roles.

Let me first address two of the more common and persistent misperceptions about U.S. policy in Asia. The first is that the U.S. wants to contain China. That is a Cold War way of thinking. We did indeed work to contain the Soviet Union in the second half of the 20th century, and ultimately its own internal contradictions undermined it. Any student of modern history – and there are probably many in the audience – should know that in fact my country has spent the better part of 30 years helping bring China into the world community. Richard Nixon wrote in the American journal *Foreign Affairs* as early as 1967, "We simply cannot afford to leave China outside the family of nations." In a major statement of the Bush Administration's policy toward China in September, Deputy Secretary Zoellick made clear that the U.S. welcomes a confident, peaceful and prosperous China. With China's strategic decision in the late 1970s to open up and reform, our 30 years of engagement have, in part, helped China to succeed, including by welcoming it into the community of nations and seeking to work cooperatively on issues of mutual interest.

And here we are at the new stage, in the 21st century. China is beginning to take on a new international role. The important question that many in my country and around the world are asking is, "how will China use its growing power and influence?" There are mixed signals, leading other countries – including my own – to "hedge their relations" with China, in Mr. Zoellick's words. He used a new phrase – making China a "responsible stakeholder" – to describe the goal of U.S. policy towards China. This is in large part to challenge this increasingly powerful, more influential nation to share the burdens of ensuring a smoothly functioning international system. That system is not static. We all want change. But how that change is realized, and how we work together to ensure those changes are for the common good, are what will define the first quarter of this new century.

The second common misperception relates to the first. It is that my country wishes to use Hong Kong to destabilize China, and that our support for democratic reform is intended to disrupt China's development. On the contrary, we believe that greater democracy, now in Hong Kong and over time in China, will support China's peaceful development as a true international player. There is no one way to build democracy, and it will be more difficult on the mainland than in Hong Kong. President Bush in his Second Inaugural address spoke of democracy reflecting the values and cultures of diverse societies. He

said, "our goal...is to help others find their own voice, attain their own freedom, and make their own way." We advocate for democracy around the world because it is an essential basis for genuine stability over time. People tend to support what they help create, where they have a voice. Building democracy will contribute to Hong Kong's enduring stability and prosperity, and that is important not only to the United States, but more importantly to China, and the region. While the pace and scope of Hong Kong's democratic development are for Hong Kong's people and government to decide, we stand ready to support them and have stated our view -- that Hong Kong is ready for democracy. I again quote from Ben Franklin, who said, "You may delay, but time will not."

So, at this new stage of history, China is a player at the international table, with a new role to play in the international system. What might be the new roles for Hong Kong? That is an existential question for many of you in this room, as you look to your own futures and the future of Hong Kong and the rest of China.

Hong Kong, by virtue of geography, ingenuity, and entrepreneurial spirit, has become the gateway to China. This international city is a global center for finance and commerce, and has recovered after years of difficulty. The tourism industry has rebounded, and the Asian travel magazine *TTG Asia* recently named Hong Kong "destination of the year." The Fraser Institute of Canada and the American Cato Institute jointly named Hong Kong the "world's freest economy" for the tenth year in a row, complementing the Heritage Foundation's granting of a similar honour for the eleventh year in a row. According to the Fraser/Cato report, Hong Kong ranked first in "freedom to trade internationally" and "regulation of credit, labour and business," and second in "size of government." A July MasterCard International poll ranked Hong Kong second in the region in consumer confidence, with the highest confidence ratings for Hong Kong since 1999. A CPA Australia poll found that 69% of business professionals polled were optimistic about Hong Kong's economic outlook, a substantial increase over the 41% who said the same last year. This was the highest rating in six years.

But at the same time Hong Kong faces a number of risks. A September report by the Political and Economic Risk Consultancy (PERC) noted that Hong Kong's leading risk factor was mainland China. Minor mistakes or disruptions on the mainland can have a huge negative impact on Hong Kong, as we saw during the SARS outbreak. China's failure to manage its environmental problems affects Hong Kong every day and as could be possible with an avian flu outbreak that is not quickly and transparently reported. The PERC report noted that as long as China prospered and remained stable, Hong Kong could do the same. But if China suffered economically or experienced social or political turmoil, Hong Kong would be dangerously exposed.

Hong Kong cannot be complacent. In the past year, Hong Kong has seen a change of government and renewed political and economic optimism. With the advent of the third generation of the Closer Economic Partnership Arrangement (CEPA), it's tempting to think Hong Kong will continue to grow tomorrow as it is doing today. But history does not move in straight lines, and Hong Kong's context is already beginning to change.

Perhaps the most important change is China's own development. As China opens directly to international markets, Hong Kong's role as gateway or window will face stiffer competition. While I believe Hong Kong is irreplaceable as a financial and service center for the foreseeable future, it will have to adapt. The globalized world is offering opportunities on a grander scale, but also greater challenges, such as competition from countries like India as well as other Chinese cities.

And Hong Kong cannot rest on its laurels. In the recent World Economic Forum Global Competitiveness Report, Hong Kong fell seven places to 28th, ranking much lower than the other Asian tigers. According to the report, Hong Kong's judicial independence was perceived to have weakened, as had the protection of property rights. The report cited other factors for its ranking "well below its previously excellent performance," including perceived government favoritism in policy-making and perceived corruption. The world on which Hong Kong depends is watching closely and, rightly or wrongly, is signaling some concern. It is therefore important that Hong Kong continue to send strong signals of its own on the rule of law, press freedom, and pursuing the mandate for democracy -- all the factors that contribute to a stable and prosperous society.

I think Hong Kong's prospects are actually quite bright. The key will lie with forging a new role for the territory to build on its success as the gateway to China and develop into a regional hub for many of its strengths: finance, infrastructure, rule of law, education, and science. Hong Kong can become a leader in other fields as well, broadening its focus from China to all of Asia.

An obvious opportunity is in scientific research and expertise. With the world focused on the growing danger of an influenza pandemic emerging from the avian flu virus H5N1, Hong Kong is already serving the region with its world-class laboratory, renowned for its expertise in detecting and researching the virus. Hong Kong's deadly experience with the virus in 1997, as well as the 2003 outbreak of SARS, has left it better prepared than its neighbors to combat a human outbreak. Hong Kong can offer technical assistance throughout Asia, providing training, sending expert teams, assisting with epidemiological analysis in its excellent laboratories and conducting technical exchanges.

The haze we see over Hong Kong reminds us that Hong Kong must lead on environmental protection. While Hong Kong has made progress, air pollution here is part of a broader problem that extends beyond the Special Administrative Region's boundaries. Some of you have heard me describe a new business model developed specifically for Hong Kong and the Pearl River Delta called "P2-E2," which allows Hong Kong-owned factories in the Delta region to adopt new technologies with no up front capital costs. The 77,000 Hong Kong-owned factories, as well as their generators, produce significant amounts of the pollutants that are contaminating Hong Kong and the Delta. These new P2E2 technologies will improve industrial productivity, reduce operating costs and reduce air, water and ground pollution.

Hong Kong is also a champion -- and symbol -- of the multilateral trading system. The territory has its own membership in the World Trade Organization (WTO), separate from

that of mainland China, given its distinct customs regime and embrace of the free market system. It has the distinction, as I mentioned, of being named "the world's freest economy" in two separate surveys. All this makes Hong Kong an obvious choice to host this December's sixth ministerial meeting of the WTO. Given the on-going difficulties with negotiations, the meeting will be challenging, but Hong Kong is a natural focus for the world's attention on free trade.

Hong Kong can also play a more regional role in education. With its planned move to a four-year system, universities will broaden the educational experience of their students. Already Hong Kong's world-class universities, including Chinese University, boast many students from mainland China. Why not from around the region? Universities have an important role in building trust and understanding between countries and peoples. Exposure to different ideas and viewpoints will better prepare students to operate in our increasingly globalized world. The Hong Kong government's policy of promoting international education will benefit all students.

Similarly, I would urge all of you to think of your future in the broadest terms. Hong Kong sits at the edge of one of the most dynamic economic areas in the world – the Pearl River Delta. As you receive your degrees and enter the work force, it would seem only natural that your horizons should become global. In a sense, whether you are from Hong Kong or the mainland, you can become one of Hong Kong's most valuable exports with the skills and habits you've acquired in this dynamic world-class city.

I should comment here on the educational exchanges that my country enjoys with Hong Kong. With the support of the Research Grants Committee, the American Fulbright program sends four Hong Kong senior academic researchers to the U.S. each year. The newly launched Fulbright Junior Scholar awards, established in honor of former American Chamber of Commerce President Frank Martin, will send two Hong Kong graduate students to the U.S. next year. In addition, eight U.S. scholars will teach and conduct research in Hong Kong this year, including two at Chinese University: Dennis McCann, from Agnes Scott College, who is working on business ethics with the Hong Kong-America Center here; and James Williams, a political scientist from North Carolina State University, who will arrive in January to work in your Department of Government and Public Administration.

In taking on a broader role in the region and the world, Hong Kong can help China build the institutions it needs for its peaceful development in the 21st century. Ultimately, of course, the future of Hong Kong and mainland China is in the hands of the students in this audience and your counterparts in the mainland. It's limited only by your imagination. The American industrialist Henry Ford once said, "I'm looking for a lot of men who have an infinite capacity to not know what can't be done." Hong Kong can imagine a future for itself that matches the challenges and opportunities that exist. It is in a unique position to benefit from China's success, and to help create that success. Hong Kong's future is important to the U.S. exactly because we want China to develop as a confident, peaceful and prosperous country. It can leverage its advantages – its rule of

law, professional public administration, free flow of information, human freedom, market principles -- and serve as a model for the region.

This future is going to be in the hands of the students in this audience and your generation here and on the mainland. My country will work with both Hong Kong and the mainland to help make China the "responsible stakeholder" we hope it will become.

Thank you for letting me share these thoughts with you tonight.