

THE EXPERIENCE GROUP

9th February, 2004

Taskforce on Constitutional Affairs
Hong Kong Government
12/F, Central Government Offices
West Wing, Lower Albert Road
Central, Hong Kong

Attn : Mr. Donald Tsang
Chairman

Dear Mr. Tang,

Attached an opinion on building One Country out of Two Systems and the need for a 'Dynamic Integration' - I hope this is helpful to your efforts.

~~Yours sincerely,~~

(Signed)

Paul Zimmerman

Enclosure

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Building One Country out of Two Systems

A New Vision: Dynamic Integration

Deng Xiaoping's 'One Country, Two Systems' was a masterstroke. His vision answered the fears of Chinese and British officials, the international community and the people of Hong Kong. This vision became the agreement on the hand-over of Hong Kong and resulted in continued stability after the reunification. The supreme leader never intended 'One Country, Two Systems' to become a stumbling block for progress though. The struggle and confusion over autonomy is delaying the many benefits a fast integration will bring both the mainland and Hong Kong.

In business, law, governance, education, environment, sports, medicine and others, key areas can be identified which can be integrated. For each the success of integration will depend on individual dynamics. The integration of Hong Kong and the mainland is therefore a dynamic process whereby each area integrates in its own manner and along its own time line.

It is impossible for the Hong Kong and China Governments to do this alone, or dictate this from above. Government officials and politicians need to develop and promote a clear vision of 'Dynamic Integration' for the benefit of both the mainland and Hong Kong. In doing so, this new vision in turn will motivate bureaucrats, businessmen, professionals, academics, media executives and the community as a whole, to plan and implement the Dynamic Integration in their own areas of expertise.

Public Governance and Universal Suffrage

The Basic Law contains wording negotiated between China and the United Kingdom to complete the agreement on the hand-over and may not be suitably worded for the post-handover reality. Interpretations of The Basic Law need to be developed which are to the benefit of China as a whole.

In public governance specifically, the mainland and Hong Kong have different starting points. Autonomy will allow both systems of governance to develop and mature in a fashion most suited to individual constraints and opportunities. The starting point surely is that Hong Kong has been granted economic, financial and legal independence, and that China retains executive control through their 'governor', the Chief Executive. For the Chief Executive to become an elected 'mayor of the people of Hong Kong', there first has to be progress in the economic, financial and legal integration with the mainland.

Ongoing international pressure for autonomy and a single-minded call for universal suffrage in 2007 is counter-productive given the shadow of the vested Western interests in holding back China's growing influence in Asia and world affairs. A vision for a dynamic integration of the two systems, which limits the autonomy discussion to rule of law and open financial markets, will provide clarity to the international community.

Rule of Law and Financial Markets

For the development of our financial markets it is to the benefit of both the mainland and Hong Kong that our free flow of capital and rule of law is left untouched for the next fifty years. Hong Kong is Asia's leading financial centre, managing capital creation for companies and governments from Australia to Korea, from China to Indonesia. Integration of a different dynamic is underway here though with the listing of mainland companies on the Hong Kong market, renminbi trading in Hong Kong and with the mainland bringing their rules and regulations up to Hong Kong's standards.

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Economic Growth

Economic growth is recognized as crucial for the health of Hong Kong. With the global slow down and the growing direct business links between the mainland and the rest of the world, new growth in Hong Kong is entirely dependent on full access to China's consumer markets. CEPA is proving a questionable starting point for the marketing of products and services in China. Few Hong Kong companies and industries gain market access under these rules. Hong Kong should be recognized as a Special Economic Zone and be allowed the same market access as Shanghai. Mainland and Hong Kong companies competing directly with capital, management know-how, service standards and technology will bring economic growth to both the mainland and Hong Kong. This requires the matching of tax systems to avoid economic disruptions. The solution could be the implementation of a 5% sales tax in Hong Kong, the same as on the mainland, and the sharing of revenues with Beijing.

Pearl River Delta

In producer services the benefits are clear and obviously mutual and integration in this area is proving the easiest. Progress is made every day with The Pearl River Delta Foundation, the Logistics Council, new border crossings and a new bridge as examples. The challenge for Hong Kong will be to lead a push for sustainability in the growth of manufacturing capacity throughout the Pearl River Delta region, specifically in areas of public health, hygiene, safety, child labor, worker living conditions and the environment. The sooner we pay the price, the sooner we free ourselves from scourges such as SARS, air and water pollution.

Public health, education, sports, arts and tourism

In areas such as public health, education, sports, arts and tourism, there are endless opportunities and benefits from a dynamic integration. It may mean though that Hong Kong organizations give up some of their independence and that the Hong Kong taxpayer accepts that integration not only brings benefits, but also costs money. Here are just two examples.

In sports, Hong Kong is too small a base for the grooming of talent, let alone for hosting a season of 'superb games' to attract supporters, TV audience, advertisers and sponsors. By having our athletes, student sports teams, and professional soccer and basketball teams compete in national leagues and competitions across Greater China, there will be stronger competition, more TV viewers and more sponsorship funds. The price, the reduced independence of the individual sports authorities, and the loss of Hong Kong's additional vote in international sports committees, is worth paying.

In education, the Pearl River Delta is trailing the Yangxi River Delta, and the mainland is trailing the world in the number of university students. Hong Kong can scale up its capacity to educate more students from the Pearl River Delta while Government housing can be made available as student accommodation. The cost is worth the returns.

Deng Xiaoping expressed a vision, which brought two systems into one country. The time is now for Government leaders and politicians, in Hong Kong and the Mainland, to promote a new vision – Dynamic Integration – for building one country out of two systems well ahead of schedule.

February 8, 2004

Paul Zimmerman