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Setting the Sun on the British Empire: British Economic Interests and the Decolonization of Hong Kong

Abby Whitlock

Ruled under the Union Jack from 1841 to 1997, the British acquired Hong Kong during the second wave of European colonialism focused on Asia. Along with countries such as Germany, France, Portugal, and the Netherlands, Britain looked for new areas to provide support for mercantile capitalism and manufacturing developments. Under Britain's 154 years of rule, the stable nature of British government systems and thorough economic investments caused Hong Kong to become a wealthy international trade center in the twentieth century. Despite these economic investments and interests, the nature of the New Territories Lease under which Britain acquired the totality of Hong Kong, which was to expire in 1997, opened the question of who was to control Hong Kong. The effect of the Cold War on Britain's empire greatly influenced Britain's approach to the question of the colony's future sovereignty. With rapid decolonization and the rise of communism in East Asia threatening Britain's leading world role by the mid-twentieth century, officials recognized the role Hong Kong played in Britain's economic policy, including with the potential of the developing East Asian market. With this realization, Britain aimed to protect these interests by preserving elements of Hong Kong's capitalist economic system during the decolonization negotiations and resulting legislation in the 1980s. Although their approach to Hong Kong's decolonization aimed to safeguard British interests and provide for a better relationship with China, the official handover to the People's Republic of China signaled the end of the British Empire.

British Economic Interests and the Acquisition of Hong Kong

The tension leading up to the Opium Wars spurred British economic interests in the Hong Kong region. Ultimately, the First Opium War began a chain reaction of European imperialist domination over Qing China during the latter half of the nineteenth century.¹ By the mid-nineteenth century, British officials recognized the market potential trade which China held, but China's heavy restrictions on trade with "barbarian" European countries were a blow to the British economy. British importation of Chinese tea, porcelain, spices, and silk under these heavy restrictions drained the Treasury of gold and silver specie.² In order to preserve economic investments in the area, the British sought to gain freer access to the Chinese market. At this time, Hong Kong was a base for British traders, merchants, and, perhaps most importantly, opium dealers. The opium trade expanded rapidly in the 1820s and 1830s after the British gained Bengal in 1757. In order to balance Chinese imports, British merchants sold opium in Chinese regions such as Hong Kong.³ However, the opium trade was met with backlash from Chinese officials, as the use of silver to pay for the drug and the population's increasing opium addiction undermined the Chinese economy and national morale.⁴ In an attempt to combat the opium trade, the Chinese increased measures against it, and Qing forces began confiscating and destroying thousands of chests of British opium. Queen Victoria responded by sending the first expeditionary force to Hong Kong, starting the First Opium War in 1839.

British forces defeated the Qing forces and occupied Hong Kong Island in 1841. The Treaty of Nanking, signed in 1842 and ratified in 1843, put an end to "consequent hostilities" between the two countries. In the treaty, the Qing Emperor ceded Hong Kong Island "in perpetuity" to Great Britain, allowing it to be governed by British laws and regulations to govern it as a Crown Colony.⁵ Article III of the treaty catered to British economic interests in Hong Kong, stating that "it being obviously necessary and desirable that British subjects should have some port whereat they may careen and refit their ships when required and keep stores for that purpose."⁶ The British aims during the war were closely linked to their economic interests and prospects in the region, including "the opening of four or five Chinese ports to a freer British trade."⁷

Access to these ports in and around Hong Kong would give British merchants not only a common place to dock, but also access to established markets on the Chinese mainland. Through the cession of territory in the treaty, British officials wanted to make Hong Kong an area for cultural exchange and free trade between the Chinese and British and with other European countries. In 1843, Governor John Francis Davis described the prospects of Hong Kong stating that

*There is a real British colony (no Portuguese counterfeit) planted on the very threshold of China. There they may see commerce flourishing in the absence of restrictions, property and person secure under the protection of equal laws, and, in a word, all the best fruits of science and civilization transplanted direct from the European headquarters. The good or evil may do there will, by the law of inevitable necessity, react upon ourselves.*⁸

Britain's desire to open the Chinese mainland markets led to the Second Opium War in 1856. After the Chinese detained ships protected under the British flag, British and French forces attacked Chinese forces. The British sought to legalize the opium trade, open more ports to European, specifically British, trade, and to establish diplomatic representation in Beijing to aid in discussions of trade and economic policy.⁹ After the European forces sacked Beijing in 1860, both sides agreed to the Convention of Peking, which ceded the Kowloon Peninsula and Stonecutters Island "in perpetuity" to Great Britain.¹⁰ Although a relatively small piece of land, the Kowloon Peninsula proved to be strategically important, as it was situated at the entrance to Hong Kong harbor. With the Convention opening more ports to British trade, the acquisition of the Kowloon Peninsula gave the British control of activities in Hong Kong Island's harbor.¹¹

Britain acquired its third and final parcel of land in the Hong Kong region in 1898. Despite obtaining the Kowloon Peninsula's strategic location in 1860, the British were concerned with defense of their Hong Kong ports and looked to secure the area surrounding Hong Kong Island and Kowloon. The opportunity came after China was defeated in the First Sino-Japanese War in 1895, in which

Britain demanded to lease the territory to Kowloon's north and other neighboring islands.¹² Under the Second Convention of Peking, Britain gained the aforementioned "New Territories" in a ninety-nine year, rent-free lease valid until 30 June 1997.¹³ Other European nations demanded territory from coastal China after their defeat, but Great Britain gained the biggest and most strategically important parcels of land through the convention. With future economic developments and expansions in the region, the New Territories provided most of the needed resources, including water, power supplies, and space for manufacturing.¹⁴ Ultimately, the New Territories became the spark making Britain's economic goals prosper.

British Economic Developments and the Role of the Cold War in the Approach to the Hong Kong Question

Today, Hong Kong is one of the four Tiger economies along with Taiwan, South Korea, and Singapore due to rapid economic growth and an increasing standard of living.¹⁵ Hong Kong is considered to be one of the world's most advanced financial, trading, and transportation centers and is considered to be the bridge between both China and the West and Asia and the rest of the world.¹⁶ Since the 1980s, Hong Kong has ranked in top positions on the World Competitiveness Report and in the Index of Economic Freedom. Economists highlight its defining features as a free market economy with private ownership, non-interventionism in economic affairs on the part of the government, wealth used to develop a sound welfare and social service system, expenditure reduction to below twenty percent of the Gross Domestic Product (GDP), a fully-backed currency system pegged to the United States dollar, and extensive foreign exchange reserves.¹⁷ According to former Hong Kong Financial Secretary Donald Tsang, Britain's economic policies revolved primarily around seven different rules, including

the "living-within-our-means" rule; maintaining adequate fiscal reserves; a low, simple, and predictable tax system; a rigorous user-pays system for fees and charges to underpin the low tax regime; combating tax avoidance and tax evasion; providing

tax concessions where most needed; and avoiding fueling inflation.¹⁸

Although these factors define Hong Kong's presence on the world stage today as a strong capitalist economy, Hong Kong's rapid economic growth has roots in the years after the Second World War. The Second World War was a major blow to British control of Hong Kong, as Japan occupied the colony from December 1941 to September 1945. Despite tensions over the question of Hong Kong, China and Britain were allies during World War II. However, in 1942, Britain rejected Nationalist leader Chiang Kai-shek's request for the return of Hong Kong. Britain said that any negotiations over Hong Kong would only come as a part of a general settlement with its other Asian colonies. China's demand for Hong Kong was supported by American President Franklin Roosevelt, who stated that under the Atlantic Charter of 1943, all peoples living under colonial rule were to have their "sovereign rights and self-government restored."¹⁹ Britain refused once more, but promised they would reconsider the question once the war was over. However, Hong Kong was not included in China's territories gained as a victor in the war, instead getting Taiwan, which had been under Japanese rule since 1895.²⁰ With the rise of the Chinese Communist Party (CCP) in 1949, the debate over the Hong Kong question increased as ideological differences between interested parties increasingly diverged.

British Cold War Interests in Hong Kong

For the British, their approach to Hong Kong was influenced by three primary factors: the rise of Chinese communism and nationalism, the expansion of economic developments in Hong Kong, and the decolonization of British holdings. With a rapidly decreasing colonial presence and the rising threat of communism and nationalism, Britain attempted to resuscitate its diminishing power on the world stage and in East Asia by developing a sound capitalist economic system in Hong Kong. As of 1949, the Colonial Office stated that the amount of British capital invested in Hong Kong was around £156 million, emphasizing the potential Hong

Kong held for further expansion and how it benefited Britain's empire as a whole.²¹

The rise of Chinese communism and nationalism was a central threat in the minds of British officials after World War II. In 1946, the British Foreign and Colonial Offices created a joint memorandum about the future of Hong Kong and outlined the different perspectives regarding how to approach the question of Hong Kong's sovereignty. In the opening paragraph, the memorandum recognizes the initial importance of the New Territories Lease as a means of solidifying "proper defence and protection of the colony," but emphasizes that after the war, preserving the lease would be beneficial in creating stronger "economic intercommunication" in the colony.²² The question of whether or not Britain should take the initiative in negotiations about Hong Kong was greatly influenced by the increase of Chinese nationalism associated with the rise of the CCP. For the British, the rise of nationalism in China meant the increased danger that Hong Kong would fall victim to Chinese propaganda. Internationally, the British feared the Chinese government would consequently request the full return of the colony to Chinese sovereignty, leaving the British with decreased influence and control of the region. With their long-term goal of "freedom of commercial opportunity in China and the Far East", the rise of the CCP could limit Britain's expansion from Hong Kong to other markets in East Asia.²³ After the Second World War, the economy of Hong Kong relied on entrepôt trade and the distribution of products, as the British had not yet invested in the manufacturing and service sectors that would define Hong Kong's economy in from the 1960s onward.²⁴ Although well underway in the shift to a manufacturing economy, China's nationalist claims to Hong Kong could damage the use of the colony as a base for British trade and expansion. Prior to the rapid decolonization of British holdings in the region, Hong Kong was Britain's main territory facilitating trade with its other Asian colonies, such as Malaysia.²⁵

Rapid decolonization after the Second World War greatly influenced Britain's approach to the Hong Kong question during the Cold War. Prior to the Second World War, Britain had conquered territories in most parts of the world, including Borneo, Burma, India, Ceylon, and Malaya in Asia.²⁶ These Asian colonies were

essential to Britain, as they not only provided resources for the mother country, but they also provided Britain with access to the various Asian markets. In Asian colonies such as Hong Kong and Singapore, the colonies had the bonus of providing Britain with naval bases for the Royal Navy, Britain's other prime method of maintaining world power. Both World Wars left Britain extremely weak and unable to invest as many resources into its imperial holdings. Combined with the colonies' contributions of troops and resources to the British war effort, Britain's overseas colonies experienced several nationalist and independence movements that resulted in decolonization in many parts of the empire, particularly Africa and Asia. As its number of colonies decreased, Britain's grip on world power waned. With the Cold War, a new world order emerged, with the United States and the Soviet Union taking the helm of the bi-polar conflict. Since it started its colonization process, Britain had always considered its colonies to be significant to its presence on the world stage, with economic and political control over various colonies providing Britain with the wealth and resources it needed to be a leading player in world politics. However, losing colonies such as India immediately after World War Two meant that Britain lacked the needed resources to maintain its status as a major player. It could fall to become a second-rate player behind the United States and the Soviet Union.²⁷ With Hong Kong as one of its last major holdings in East Asia, Britain feared that losing Hong Kong would set a precedent for future claims to independence by its remaining colonial holdings.²⁸

The fears outlined in the 1946 Joint Memorandum set the stage for Britain's approach to Hong Kong from the 1950s to the early 1980s. Recognizing the weakness of Hong Kong's entrepôt trade-focused economy, Britain sought to expand its industrial capacity in the early 1950s. Britain's expansion plan included the introduction of industrial plants combined with increased export of these manufactured goods. Under this plan, Hong Kong would no longer rely simply on distributing imports and exports coming through Hong Kong's ports, but would also create a new opportunity for increased investment. With an increased industrial capacity, Britain had more control over the amount of capital invested in the process and also controlled the amount of revenue earned from the various manufacturing plants. This control over the manufacturing

process and the types of goods allowed Britain to tailor its production to suit the most valuable goods circulating in the world market. They could also identify the types of goods missing from the market, produce them in a streamlined, cost-efficient manner, and introduce them to the market to make more revenue by filling a void. This flexible approach to manufacturing allowed Hong Kong to expand beyond the immediate East Asian market and its connection with Britain, with Hong Kong establishing trade ties with the United States, one of the biggest economies in the world during the 1960s and to the present day.²⁹ By 1966, a year where the GDP per capita was \$4,776 million and exports were around \$5,729 million, textiles accounted for fifty-two percent of domestically produced products.³⁰

In the 1970s and the early 1980s, Britain shifted to incorporate the financial sector into Hong Kong's economy. This included the establishment of large insurance companies and twenty-four-hour banks focused on supporting international trade and foreign investment. With foreign trade supported by Hong Kong's ports, foreign banks also expanded their overseas operations to include branches in the colony.³¹ This combination of the financial sector and the manufacturing plants caused economic growth to increase rapidly, with the GDP continuing to rise, exports increasing in value, and the unemployment rate to decrease. Economists call Britain's approach to capitalist economic expansion in this time "consensus capitalism," which viewed maximizing economic opportunity as a defense of "political liberty" and encouraging an "equality of opportunity" for all.³² Financial Secretary Sir Hamish Macleod justified Britain's "consensus capitalist" investments by saying

[there is] a consensus about the need to encourage free enterprise and competition, while promoting equity and assistance for those who need it. Enterprise, because that is what gives dynamism to our economy. Equity, because the community rightly expects a fair deal for everyone, and in particular that raw competition be tempered by help for those less able to compete.³³

For Britain, these economic developments were an attempt to safeguard British economic interests and their waning influence in the East Asian region. Facing rapid decolonization and the threat of Chinese nationalism, economic expansion was the most reasonable and cost-efficient way to maintain control over Hong Kong. Despite these economic developments reflecting Britain's strong influence in the colony, Britain had another hurdle to face by the 1980s: the 1997 expiration of the New Territories Lease. Keeping in mind the impact of these economic developments and their connection to future market interests, Britain turned its attention to leveraging these factors into negotiation talks over the sovereignty of Hong Kong.

The Long 1980s: Sino-British Negotiations and Basic Law

With the 1997 expiration date of the New Territories Lease approaching, negotiations about the future of Hong Kong's sovereignty began to take shape. Proper negotiations about Hong Kong did not occur before the 1980s, despite Mao Zedong's repeal of the Nationalist government's approach, instead focusing on discussing the question when conditions were "ripe."³⁴ It was not until Deng Xiaoping became Chairman after Mao's death in 1976 that China's government shifted policies to favor negotiations about Hong Kong. As a part of its modernization policy, the government approved a three-point policy toward the Hong Kong question in 1981 that focused on acquiring sovereignty over Hong Kong in a way that would allow the region to service China's economic and political strategies.³⁵ With this in mind, Deng implemented the concept of "one country, two systems". Initially meant to apply to Taiwan and Macao, the concept revolved around "one China", but with distinct Chinese regions with their own economic and administrative systems, while the rest of the PRC used communism with Chinese characteristics.³⁶ In a 1984 *Beijing Review*, officials wrote that

[A]utonomy will be achieved under the unified state sovereignty of the People's Republic of China. The concept of 'one country, two systems' should never be understood as 'two sovereigns in one country' or

‘two mutually exclusive political entities in one country,’ as some people have claimed. Our aim is to consolidate the unification of the nation, not its permanent separation.³⁷

For the Chinese government, this unification could be achieved by creating special administrative regions, which would, ideally, coincide with the autonomy wishes of both the government and the nation in which negotiations over territory were being held. Incorporating this idea into legislation, Article 31 of the PRC’s Constitution stated that “the state may establish special administrative regions when necessary. The systems to be instituted in special administrative regions shall be prescribed by law enacted by the National People’s Congress in the light of the specific conditions”.³⁸

With China more open to approaching the Hong Kong question, the stage was set for the initial negotiations about sovereignty after 1997. Prime Minister Margaret Thatcher’s September 1982 visit to Beijing was seen as a step toward amiable negotiations, as it was the first visit by an incumbent prime minister to the PRC. However, Thatcher, in the wake of British victory in the Falklands, insisted that despite Chinese perspective of the Convention of Peking and Treaty of Nanking as “unequal”, the treaties were “valid in international law”.³⁹ After hearing that the British wanted to retain sovereignty over Hong Kong, China took a hard stance and insisted that their sovereignty over the colony was not negotiable. The deadlock in negotiations sparked a currency crisis, as the Hong Kong dollar (approximately \$1 USD to \$7.8 HKD) dropped twenty percent in just over a week. After pegging the HKD to the United States Dollar to avoid a further crisis, British officials realized that in order to progress negotiations, they had to change their goal for Hong Kong’s future.⁴⁰

Despite tense negotiations, officials on both sides realized the two countries held some common ground. Despite individual differences on both sides, the general consensus was that both China and Great Britain wanted to develop amiable relations with one another. For China, this was a recent development stemming from Deng’s modernization policies. In the early 1980s, Beijing felt as if it was time for China to emphasize a more independent yet neutral

image from its early Cold War actions of associating itself with the United States. As the threat of the Soviet Union declined, China viewed economic relations as key to their modernization plans, especially after Deng introduced a free-market economy. This economic modernization included strengthening relations with the West, particularly with Britain and the European Community. As one of the leading figures in the European market, China viewed developing relations with Britain as a step toward creating a link with the West as a whole.⁴¹

Britain's interests were extremely similar. Despite making expansive developments through Hong Kong's economic system, the British sought to have both another outlet and trading partner for their Hong Kong investments. They also sought another market to invest in themselves. Although communism was an initial concern, this shifted to focus primarily on the Soviet Union's influence after Deng implemented his modernization policies. British and Chinese interests first converged in this desire to counter Soviet influence in East Asia in order to safeguard their interests. These interests later converged again when Thatcher encouraged economic relations in East Asia and the Pacific, particularly the new industrializing countries of Taiwan, Singapore, and Taiwan, three of the future Tiger Economies. Britain recognized that Deng's modernization policies made China an important economic player in the East Asian market. Rather than compete with them for influence in the region, officials aimed to create a better Sino-British relationship not only to benefit Britain's activities in the East Asian market as a whole, but also to protect their investments in Hong Kong post-1997.⁴² Through their negotiations about Hong Kong's sovereignty, both China and Great Britain were shaping their future relationships with each other.⁴³ Recognizing this commonality in market expansions and investments, Britain softened its line on sovereignty and instead focused on Hong Kong's economic system.

In 1984's final round of negotiations, Britain focused on preserving Hong Kong's existing economic and administrative system after the transfer of sovereignty. They channeled this focus into the Sino-British Joint Declaration, which reflected the common interests of both countries in creating a sound relationship with each other. The declaration worked toward "strengthening and development of the relations between the two countries on a new

basis” through the “maintenance of the prosperity and stability of Hong Kong”.⁴⁴ The main provision of the treaty was that the PRC could not practice its socialist system in Hong Kong, thereby protecting the system of “private property, ownership of enterprises, legitimate right of inheritance and foreign investment will be protected by law”.⁴⁵ Even though many articles state that Hong Kong would continue to support foreign investments and exchanges, one article explicitly illustrates both Britain and China’s wishes coming in to the final round of negotiations. Article 9 states, “the Hong Kong Special Administrative Region may establish mutually beneficial economic relations with the United Kingdom and other countries.”⁴⁶ Although it caters to China’s modernization goal of establishing links with the West, Article 9 overwhelmingly reflects Britain’s aim to maintain ties with Hong Kong for economic relations as a means of having some form of control in the region. As Hong Kong was encouraged to create economic relations with other countries, Britain could then use their ties with the former colony to create new links with other markets in East Asia. The Joint Declaration was signed on 19 December 1984 by PRC Premier Zhao Ziyang and Prime Minister Thatcher and was effective on 1 July 1997 with the expiration of the 1898 New Territories Lease.

The Joint Declaration promised to implement these agreements into Basic Law, the constitutional document for the future HKSAR drafted between 1985 and 1990. Following Article 31 of the PRC Constitution, Basic Law established the Hong Kong Special Administrative Region (HKSAR) on the basis of the Joint Declaration.⁴⁷ Central to its foundation, a stipulation from the 1980s negotiations was that the PRC had to agree to the “One Country, Two Systems” policies they discussed as integral to their modernization policies. Chinese officials pledged in Article 5 that these economic policies would remain unchanged for fifty years until 30 June 2047:

The socialist system and policies shall not be practised in the Hong Kong Special Administrative Region, and the previous capitalist system and way of life shall remain unchanged for 50 years.⁴⁸

By preserving the capitalist status quo and affording the region a “high degree of autonomy,” Hong Kong could maintain its status as an international financial center, a free port, center of free trade, and a separate custom territory. Despite the transfer of sovereignty, Britain ultimately benefited from the Joint Declaration and its translation into Basic Law, as their economic developments and future interests were maintained. Although their presence and control ended with the effective date of the Joint Declaration, Britain’s influence found new residence through Hong Kong’s preserved capitalist system and access to economic markets in the region. Regards of having to share this region with China, Britain’s interests managed to survive decolonization, albeit in a more limited form.

Conclusion: Decolonization and the Future of Hong Kong

On 1 July 1997, Britain officially transferred sovereignty of Hong Kong to the People’s Republic of China. Ceremonial events ran from 30 June to 1 July and included PRC President Jiang Zemin, Prince Charles, Prime Minister Tony Blair, and Governor Chris Patten. Key images from the handover include lowering of the Union Jack to the tune of “God Save the Queen”, and the departure of the HMY *Britannia* from the former headquarters of British Forces Overseas Hong Kong. Although the nature of the handover was one of happiness and successful prospects for Hong Kong, the former colony’s future is still unsure. The Sino-British Joint Declaration is set to expire in 2047, meaning that the “one country, two systems” agreement essentially protecting Hong Kong’s capitalist system from socialism is no longer valid. With 2047 approaching, officials and economists try to predict what Hong Kong’s future may be at the hands of the PRC. Prospects for the future are divided into three major paths, none of which involve full Hong Kong independence: China extends the current autonomy as an SAR with Basic Law preserving the capitalist system; China will revoke Hong Kong’s status as an SAR and it will become a normal province with no autonomy; or China will take more middle-of-the-road approach, with some autonomy privileges preserved and some that are not.

This uncertain timeline puts the existence of British economic investments in Hong Kong in jeopardy. For Britain, these economic investments represented an attempt to preserve its place on the world stage. “The Pearl of the East’s” world presence as an international finance center and leading market economy reflected the pinnacle of capitalist achievement that Britain aimed to be known for, as it was a part of its identity as a world leader.⁴⁹ Simultaneously, these capitalist characteristics not only reflected, in Britain’s eyes, their successful influence in the region, but also provided an outlet for Britain’s interests and investments in a time when its identity was uncertain. Britain recognized that the Cold War, particularly with the rapid decolonization of their colonies in Africa and Asia and the rise of Chinese communism and nationalism, greatly threatened its grip on global power. Realizing that retaining sovereignty over the region was impossible, Britain looked to preserve its economic benefits and potential for future prospects in the region. Although the Sino-British Joint Declaration forced Britain to relinquish sovereignty over Hong Kong, the resulting Basic Law attempted to safeguard British interests and investments in the region through the preservation of the capitalist economic system that they had developed over decades.

With the arrival of the People’s Liberation Army and the lowering of the Union Jack in 1997, the handover not only ended the British presence in Hong Kong, but also brought an end to British colonialism in East Asia and to the British Empire as a whole. Although Britain still retains control over some overseas territories, losing full control of Hong Kong signaled the end of Britain’s role as a major world power. For nearly four hundred years, Britain’s political control of and economic investment in various colonies helped build their presence as a world leader. As its last major colonial holding, transferring Hong Kong to China illustrated the end of one era of the world order and the dawn of a new world order in which Britain would once again have to carve out its place.

Notes

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⁴ *Ibid.*, 25.

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¹² *Ibid.*

¹³ Wang, *Hong Kong, 1997*, 6.

¹⁴ *Ibid.*, 7.

¹⁵ Chan, "Hong Kong: Colonial Legacy, Transformation, and Challenge," 13.

¹⁶ Wang, *Hong Kong, 1997*, 1.

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²⁴ Ian Scott, *Political Change and the Crisis of Legitimacy in Hong Kong* (Honolulu: University of Hawaii Press, 1989), 66.

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²⁸ Joint Memorandum by the Foreign Office and the Colonial Office on the Future of Hong Kong [F16900/113/10].

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- ³¹ Ibid, 231.
- ³² Lau, *Hong Kong's Colonial Legacy*, 79.
- ³³ Ibid.
- ³⁴ Wang, *Hong Kong, 1997*, 24-25.
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