

to working with the senior community in my District and my colleagues in Congress on this important issue.

**GIFTED AND TALENTED STUDENTS EDUCATION ACT OF 1999**

**HON. ELTON GALLEGLY**

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

*Tuesday, February 9, 1999*

Mr. GALLEGLY. Mr. Speaker, all Children deserve to be educated to their fullest potential. It is for this reason I am reintroducing my measure today from last Congress, the Gifted and Talented Students Education Act, along with my colleagues, Representatives BALDACCINI, BARRETT (NE), ETHERIDGE, DAVIS (FL), ACKERMAN, SHOWS, and MORELLA.

Currently, the educational needs of our most talented students are not being met. Secretary of Education Richard Riley has even referred to this situation as a "quiet crisis." As a result, these students are not reaching their full potential and not performing at world-class levels. This was clearly demonstrated by the disappointing results of Third International Math and Science Study (TIMSS) where our brightest students scored poorly and were not able to compete with their international counterparts. Our nation must foster excellence in these students who will become leaders in areas such as business, the arts, the sciences, and the legal and medical professions.

The Gifted and Talented Students Education Act would provide incentives, through block grants, to states to identify gifted and talented students from all economic, ethnic and racial backgrounds—including students of limited English proficiency and students with disabilities—and to provide the necessary programs and services to ensure these students receive the challenging education they need. Funding would be based on each state's student population, with each state receiving a minimum of \$1 million per year.

I know you are as committed as I am to ensuring our nation's youth have all the tools they need for their future. I encourage all of my colleagues to join me in pursuing this legislation which will ensure our nation's gifted and talented students reach their fullest potential and to ensure we have a new generation of Americans ready to meet the demands of the 21st Century.

**HONG KONG TRANSITION—REPORT OF THE SPEAKER'S TASK FORCE**

**HON. DOUG BEREUTER**

OF NEBRASKA

IN THE HOUSE OF REPRESENTATIVES

*Tuesday, February 9, 1999*

Mr. BEREUTER. Mr. Speaker, this Member rises today to submit the Fifth Quarterly Report of the Speaker's Task Force on the Hong Kong Transition. It has been more than eighteen months since Hong Kong reverted to Chinese sovereignty on July 1, 1997. Prior to that historic event, and at the request of former Speaker Newt Gingrich, this Member formed the House Task Force on Hong Kong's Transition. In addition to myself as Chairman, the

Task Force was bipartisally balanced in its membership during the 105th Congress, including Representative HOWARD BERMAN (D-CA), Representative SHERROD BROWN (D-OH), Representative ENI FALEOMAVAEGA (D-AS), Representative ALCEE HASTINGS (D-FL), Representative Jay Kim (R-CA), Representative DONALD MANZULLO (R-IL), and Representative MATT SALMON (R-AZ).

The Task Force now has completed its Fifth Quarterly Report which assesses how the revision has affected Hong Kong. The Fifth Report, which I submit today, covers the period of July through September 1998, during which there was no actual visit to Hong Kong by the Task Force. In the next several weeks the Sixth Quarterly Report will be completed and presented to Speaker DENNIS HASTERT and the House.

Mr. Speaker, this Member submits the Task Force Fifth Quarterly Report and asks that it be printed in full in the CONGRESSIONAL RECORD.

**THE SPEAKER'S TASK FORCE ON THE HONG KONG TRANSITION, FIFTH REPORT, FEBRUARY 2, 1999**

(Presented by the Honorable Doug Bereuter, Chairman)

*The following is the fifth quarterly report of the Task Force on the Hong Kong Transition. It follows the first report dated October 1, 1997, the second report dated February 25, 1998, the third report dated May 22, 1998, and the fourth report dated July 23, 1998. This report focuses on events and development relevant to United States interests in Hong Kong between July 1, 1998, and September 30, 1998—the fifth quarter following Hong Kong's reversion to China.*

The fifth quarter following Hong Kong's reversion to Chinese sovereignty on July 1, 1997, has been dominated by increasing concern about Hong Kong's economic situation. The good news is that Hong Kong has continued to enjoy substantial political economic autonomy following its reversion to Chinese sovereignty. Hong Kong continues to voice its own views in international economic fora, including the World Trade Organization (WTO) and APEC. On the bad news side, however, Hong Kong's economy has been dragged down by external factors and its strong currency. The driving forces of the slowdown are largely beyond the Hong Kong government's control and are not related to Hong Kong's reversion to Chinese sovereignty.

**ECONOMIC DEVELOPMENTS**

Hong Kong continued to suffer the negative effects of the Asian Financial Crisis, posting its third consecutive quarter of negative growth, as its first recession in thirteen years showed no sign of coming to a quick end. An early turnaround continues to appear unlikely. Hong Kong's GDP is now projected to shrink by four percent in 1998. (Official figures for the second quarter of 1998 show a GDP drop of 5.2 percent, following the first quarter's decline of 2.8 percent.) This would be the first annual economic contraction on record. Some Hong Kong companies have cut wages by 10 percent. Compared to the same period in 1997, total retail sales from January 1998 to July 1998 decreased by 15 percent in value, reflecting shrinking local consumer demand, reduced tourism, and the fall in asset markets. Hong Kong's stock market has dropped by roughly 50 percent since its peak in August 1997, property prices have fallen by as much as 60 percent, and unemployment has soared to a fifteen year high of five percent.

The budget deficit for fiscal 1998-99 may substantially exceed the current estimate of HK \$20 billion (US \$2.56 billion), which the

government announced in June. (The original government forecast for the fiscal year projected 3.5 percent growth and a budget surplus of about HK \$10 billion.) The budget deficit can be expected to retard growth in government expenditures over the next few years. Although the government had been promising a revised medium-range economic forecast since mid-August, it failed to produce one by the end of the quarter, indicating to some an unwillingness on the part of the government to face up to the full consequences of the recession on public spending. The government continues to insist that the currency peg to the U.S. dollar is here to stay, despite serious attacks by speculators. Defending the peg has required the government to keep interest rates high, further depressing economic growth, and was a major motivation for the government's decision to intervene in the stock market in August (see below).

The stock market's Hang Seng Index at one point fell to 6660, 44 percent below its highwater mark for 1998 on March 25. The market remained concerned about Japan's economy, China's commitment to maintaining the value of the *renminbi*, and regional economic woes. On August 14, the government intervened massively in the stock market, spending an estimated US \$15 billion (representing over 15 percent of Hong Kong's US \$96 billion reserves) to buy stocks, futures, and currency in an effort to keep share prices at levels that would punish speculators betting on a decline. The government later imposed more stringent trading regulations to make illegal trading and speculation more difficult. Even with the government's massive intervention, the market ended September at 7,883 points, down 48 percent since September 1997. Trading volume also plummeted, with the average daily turnover for the first nine months of 1998 standing at just 40 percent of the corresponding figure for 1997. In terms of value, average daily turnover fell 56 percent.

In defending their decision to intervene, senior Hong Kong officials cited fears that unnamed "foreign traders" were improperly manipulating Hong Kong's markets. They maintained it was not their intention to interfere with market forces, only to improve Hong Kong's ability to manage its monetary affairs. The government said the measures were necessary to counter harmful speculative activities and to stabilize interest rates. Some observers have expressed concern that the intervention could mark the beginning of a turn away from the global market. While this seems unlikely given Hong Kong's overwhelming dependence on foreign trade, the August market intervention does pose some worrisome questions. The Hong Kong government's unprecedented ownership of significant amounts of equity, both in Hong Kong-based companies and in PRC-related "Red Chips," has the potential to begin to affect official decision making in ways contrary to Hong Kong's traditions of free markets and transparency.

There is some positive economic news. Inflation is low and falling, with the year-on-year rate of increase in the composite consumer price index standing at 2.7 percent in August, down appreciably from 3.2 percent in July. The August figure was also the lowest monthly figure recorded since Hong Kong began tracking the year-on-year inflation rate in 1981. For the first time in a year, the unemployment rate did not increase in September, holding at the same five percent it reached in August. The tourism market recovered slightly in September, with tourist arrivals and hotel occupancy rates showing small increases over August figures. Hong Kong also still possesses substantial foreign currency reserves, even after the costly market intervention in August. The slump has

exposed inherent flaws in Hong Kong's economic fabric, however, particularly its heavy dependence on entrepot trade and the relative lack of growth in sectors with high value-added, such as the high-tech industry. With hope of a swift recovery fading, further pay cuts and layoffs appear certain. Land sales remain suspended until next March—a step intended to reduce downward pressure on the real estate market. Hong Kong's recovery would appear to hinge on a combination of external and internal factors, including improved international financial conditions, a steadyng of interest rates, restored stability in the property market and a return of public confidence.

#### POLITICAL DEVELOPMENTS—ECONOMIC PROBLEMS AFFECT GOVERNMENT'S POPULARITY

One casualty of Hong Kong's continued economic malaise has been Chief Executive Tung Chee-hwa's popularity with significant portions of the public. As Beijing's choice to preside over the Hong Kong government, Tung lacks the popular mandate that can help government leaders push through unpopular measures in difficult economic times. As Hong Kong's economic problems have deepened, Tung has been criticized for timidity and failure to enunciate major initiatives to address the crisis.

The newly elected Legislative Council (LegCo) took its seat on July 2, replacing the provisional legislature that had been appointed upon reversion. Under the executive-led system of governance prescribed by the Basic Law, however, the new LegCo has relatively narrow powers and does not form a government. Rather, like past legislatures, the new LegCo is essentially a monitoring body that can block or amend government legislation and can call on the administration to defend government policy. Legislators have the power to introduce private member bills, but not ones that involve public expenditure, the political structure, or government operations. Troubled relations between the Government and the LegCo is widely seen as a serious problem.

Pro-democracy candidates elected in the May LegCo elections have been pushing for a faster transition to full democracy. On July 15, Democratic Party (DP) legislator Andrew Cheng Kar-foo introduced a motion for the LegCo to endorse direct elections of all members in the year 2000 and direct elections for the office of chief executive in the year 2002. (Note: Although the Basic Law does not guarantee a date when the entire LegCo or the Chief Executive will be directly elected, it sets forth an "ultimate aim" of electing a legislature and a Chief Executive after a transition period of about ten years.) Tung opposed this proposal, however, arguing that the addressing the economic crisis requires stability, and until now has declined to advance the timetable for subjecting the Chief Executive post and the full legislature to direct election. The measure was defeated in both divisions of the LegCo, by a vote of 15-14 among geographical constituency and election committee representatives, and by a 20-5 margin among functional constituency representatives. Voting was split along strict party lines, with members of the DP, the Frontier Party, and the Citizens Party supporting it and legislators from the Democratic Alliance for the Betterment of Hong Kong (DAB), the Hong Kong Progressive Alliance (HKPA) and the Liberal Party opposed.

A government-led effort to reassess the current local government structure is now underway. Scrapping the elected Urban and Regional Councils—the option the government is believed to favor—comes in for strong opposition from many LegCo members. While these councils have been criti-

cized for their incompetence in handling public hygiene and other matters under their purview, abolishing them outright could send a disturbing message about the government's attitude toward democracy and also deprive Hong Kong of a vital training ground for future LegCo members. The ultimate impact of scrapping the councils will depend on the degree to which responsibility and funding for managing issues now handled by those bodies devolve to the elected district boards.

#### RULE OF LAW—FREEDOM OF EXPRESSION

As we have noted in earlier reports, international confidence in Hong Kong is based on the commitment of Hong Kong's authorities to the rule of law inherited from the British. An integral part of this is the "check" on abuse of authority provided by the free expression of opinion. During this quarter, we find again that the people of Hong Kong largely continue to express themselves without restraint. The Hong Kong government has not denied any application for a demonstration permit since reversion. Beijing authorities continue to bend over backward to avoid the appearance of interference in Hong Kong affairs.

Hong Kong's media also continue to practice their traditional vibrant style of journalism without overt interference from authorities in Hong Kong or Beijing. Nonetheless, concerns regarding self-censorship continue. Chief Executive Tung has stated publicly on a number of occasions that he believes Hong Kong people should not be freely expressing their support for independence for places like Taiwan, Tibet, and Xinjiang. The question of freedom of expression and how it applies to expressions about certain sovereignty issues in China is especially important because under the Basic Law, Hong Kong is required to enact laws on treason, secession, sedition, and subversion. Through the end of the quarter, however, the Hong Kong government had not introduced bills addressing these matters, and the Secretary for Justice stated that there was no rush to pass sedition laws. When they finally are introduced, such bills will be a crucial test of Hong Kong's adherence to freedom of expression, depending on whether they seek to criminalize mere expressions of support for independence for those areas or other expressions of opinion concerning the Chinese government.

A fair and independent judiciary is another critical element of international confidence in Hong Kong. In general, the Hong Kong judiciary continues to operate independently and without taint of political influence. During the past quarter, we noted no instances that would call into question the judiciary's independence or its vulnerability to Chinese influence.

#### TRADE ISSUES

While the Asian Financial Crisis has seriously jolted and hurt Hong Kong's economy, it has also highlighted Hong Kong's serious and unhealthy dependence on entrepot trade between China and other nations, particularly the U.S. During the quarter, entrepot trade figures turned negative for the first time since the onset of the crisis, with July 1998 re-exports decreasing by 11 percent over the same month in 1997. With exports from domestic manufacturing in Hong Kong dropping by eight percent in the same period, overall exports showed a decrease of 10 percent in July from one year ago.

As noted in our previous quarterly report, Hong Kong's reliance on entrepot trade leaves it vulnerable in the event that continued large trade deficits between the U.S. and China prove politically or economically unsustainable. If the China trade deficit issue is not addressed by increased market

access for U.S. firms to China, then Hong Kong could get hit with collateral damage from a frustrated America and U.S. Government—even if it does everything right.

While the Hong Kong Government has taken significant steps to improve its intellectual property rights regime and enhance enforcement efforts, the production and retail sale of pirated movie, audio and software compact discs continues to be the most serious bilateral trade issue between the United States and Hong Kong. Representatives of the recording, film, and software industries generally agree that Hong Kong has made some progress in curbing intellectual property rights violations at the retail level since the Customs service began a campaign of sustained raids in April. Using enforcement tools from the June 1997 Prevention of Copyright Piracy ordinance, Customs officers have been able to substantially increase seizures of pirated goods. In August and September, authorities raided several illicit factories and distribution centers, seizing more than 1.8 million pirated discs. The intensified enforcement generally pushed retail shops selling pirated goods further out of the city core and away from areas frequented by tourists. Despite these improvements, more remains to be done, and an estimated 100 to 150 shops are still selling pirated U.S. products.

On the production side, 60 factories with some 200 production lines have applied or registration under a provision of the Prevention of Copyright Piracy ordinance. On-site inspections by Customs officials determined that another 19 known factories that failed to register and close during the registration period. A twentieth was closed following a raid on September 3. Trade and Customs officials have said they will inspect the registered factories regularly, including after normal working hours. In early August, the Hong Kong Government also successfully prosecuted the first illicit factory case to go to court. Although the penalties imposed by the court were relatively minor, the failure of the defendant's "no knowledge" plea set an important precedent. While there is some evidence that illicit compact disc production has been dropping, it is still too early to judge the ultimate effectiveness of the new copyright ordinance. To date, the drop in illicit production appears attributable to copyright pirates' decision to "wait and see" how strictly the ordinance will be enforced and to stepped up anti-smuggling efforts in the People's Republic of China. All sources agree that the mainland has been the primary market for Hong Kong's producers of illicit discs.

One area in which enforcement has yet to increase is in the illegal use of business software. Responding to requests from the Business Software Alliance, Trade and Industry Bureau officials say they have asked Customs to pursue cases of corporate end-users of unlicensed software and unauthorized hard-disc loading by dealers. To date, however, Customs has failed to act.

Money laundering also remains a very serious concern in U.S. bilateral relations with Hong Kong. As noted in earlier reports, the same favorable factors that make Hong Kong one of Asia's most important financial centers also make it attractive to criminals wishing to conceal the source of their funds through money laundering. It is important that Hong Kong continue to work with the international community to improve its laws and enforcement in this vital area. Hong Kong and the United States continue to make progress toward negotiation of a bilateral investment agreement based on the model text approved by China through the Sino-British Joint Liaison Group.

Another event with implications for trade was the opening of Hong Kong's new airport

at Chek Lap Kok in early July. Unfortunately, the government found its self subjected to widespread criticism over the chaotic way in which he opening was handled. Cargo operations, in particular, were seriously disrupted. The problem was so severe that it could shave up to a full point off of GDP in 1998. Chief Executive Tung appointed a commission of inquiry to look into what went wrong. The commission is expected to finish its work in early 1999. The LegCo also has launched its own inquiry into the matter.

#### SECURITY AND RELATED ISSUES

Regarding the three primary security related issues with Hong Kong—ship visits, People's Liberation Army (PLA) activities, and export controls—the U.S. Navy continues to enjoy an excellent relationship with Hong Kong in terms of ships visit. The relationship with Hong Kong Port authorities since the reversion has been outstanding.

The second security concern is related to the influence of the PLA and the Chinese defense industries in Hong Kong business and the possible surreptitious acquisition by the PLA of militarily sensitive technologies. The PLA garrison includes an estimated 4,700 personnel physically stationed in Hong Kong, and has a total strength of 8,000 (The remainder are based at a headquarters element on PRC territory.) The PLA has continued to keep a low profile during the quarter, raising no concerns about activities with respect to the Hong Kong population. We continue to have no evidence of direct involvement by the estimated 200 PLA-related companies in Hong Kong in acquisition of sensitive technology. Should PLA entities operating in Hong Kong be found to be engaged in arms trading or acquisition of Western technology, however, Hong Kong's relations with the U.S. would be put at risk. Such activity, or the lack thereof, will be an important determinant of congressional attitudes in the future.

Export controls are a third area of security-related concern. Once again, we are pleased to note no new incidents of export control violations to report this quarter. Hong Kong continues to exercise autonomy as a separate customs territory within China and to demonstrate vigorous enforcement of its strict export control regime. United States officials continue to conduct prelicense and post-shipment inspections. In a sign of their continued close cooperation, in July U.S. and Hong Kong customs officials held the second in a series of consultations on licensing, enforcement, and the exchange of information.

#### MACAO

The Portuguese colony of Macao will revert to Chinese rule on December 20, 1999, after 442 years. Like Hong Kong, this territory of 414,000 people, 95 percent of whom are ethnic Chinese, will become a Special Administrative Region with a "one country, two systems" formula for the next 50 years. As we noted in our previous quarterly report, however, a number of transition issues for Macao are very different from those faced by Hong Kong. Unlike Hong Kong, for instance, the legislature elected under colonial rule will remain in place.

While U.S. interests in Macao are not nearly as large as those in Hong Kong, they nonetheless require our continued attention. These continue to be credible reports of transshipment of textiles through Macao. Primary among our economic concerns, however, is Macao's role as a manufacturing center for pirated goods, particularly pirated compact discs. To date, Macao has yet to develop adequate legislation and enforcement mechanisms and has not dedicated sufficient manpower to tackle this problem. Macao

also lacks legislation on money laundering. It is in U.S. interests to press Macao's authorities to move forward expeditiously to correct these shortcomings.

In September, China announced that it would station troops in Macao following its reversion. Macao's Portuguese administrators still have not made adequate arrangements to replace themselves with local Macanese officials and remain well behind where the British were 15 months before the reversion of Hong Kong. They have also been deficient in maintaining law and order. Incidents of gangland killings and attacks on public officials remain all too frequent, negatively affecting Macao's tourism. China and Portugal have at times engaged in mutual recrimination about responsibility for the upsurge in criminal activity. It will be difficult for the territory to complete a smooth transition unless it brings this situation under control.

#### CONCLUSION

The Hong Kong Transition Task Force has ended our previous four quarterly reports with the assessment "so far, so good." Our fundamental assessment remains the same, although we have a few new concerns, particularly with respect to the economy. While we recognize that the economic crisis now affecting Hong Kong is largely beyond its ability to control, the government's response to that crisis has the potential to alter the current situation, both for good and for ill. In particular, the Hong Kong government's decision to intervene in the stock market in August, while arguably a defensible response in the face of these external economic pressures, poses some worrisome questions about how Hong Kong's economic policy may evolve in the future. We remain encouraged by the demonstration of support for democratic institutions shown in the May election, as described in our previous quarterly report. Looking ahead, we hope to see continued progress toward universal suffrage and the expansion of the number of officials chosen by direct election. Finally, we continue to be satisfied with the restraint shown by the Chinese government in its handling of Hong Kong, at least to the extent visible to outside observers. Undoubtedly, the coming months will pose additional challenges for Hong Kong and the region. It is important that the international community and Congress continue their practice of closely monitoring developments.

#### A TRIBUTE TO KATHRYN ANN MARIE GEORGE, COURT OF COMMON PLEAS, JUVENILE COURT DIVISION

#### HON. STEPHANIE TUBBS JONES OF OHIO

##### IN THE HOUSE OF REPRESENTATIVES

*Tuesday, February 9, 1999*

Mrs. JONES of Ohio. Mr. Speaker, Kathryn Ann Marie George has spent almost 27 years as a probation officer for the Juvenile Court, most recently as a senior probation officer at the Court's Near West Field Office. She has worked with juvenile offenders and their families while they are on probation and helps the offenders comply with specific court orders in the hope that these troubled children become productive adults.

She remembers fondly the calls she has received from some families offering their thanks for her help in dealing with the child's problems. And she also numbers her co-workers among her closest friends and believes that

they, like she, are "caring, good-hearted, dedicated people".

She stresses the benefit she has had of a warm and loving family, including her parents, Sam and Ann, her brothers, Sam and Mike, and her nephews, Michael and Steven, all of whom have stood by her in both good and bad times, and she hopes that her efforts can help those assigned to her in her profession with the same support she received from her family and friends.

In her spare time, she enjoys time with her family and friends, traveling to Magic Conventions and to Las Vegas, attending craft shows, making crafts, and watching movies, especially old movies, and plays. She also volunteers at her church, has been a volunteer camp counselor during her vacations and has helped other organizations at the May Dugan Center, where her field office is located.

#### END OUR VULNERABILITY TO LONG-RANGE BALLISTIC MISSILE ATTACK

#### HON. BOB SCHAFER

OF COLORADO

##### IN THE HOUSE OF REPRESENTATIVES

*Tuesday, February 9, 1999*

Mr. SCHAFER. Mr. Speaker, long-range ballistic missiles are the only weapons against which the U.S. government has decided, as a matter of policy, not to field a defense. Few Americans are aware the U.S. military—the most powerful, most technologically-advanced, and most lethal military force ever assembled—could not stop even a single ballistic missile from impacting American soil today.

Just last year, the bipartisan Commission to Assess the Ballistic Missile Threat to the United States, led by former Secretary of Defense Donald Rumsfeld, asserted the United States may have little or no warning before the emergence of specific new ballistic missile threats to our nation. This, coupled with the fact some 20 Third World countries already have or may be developing both weapons of mass destruction, including nuclear, chemical, and biological weapons, and ballistic missile delivery systems, is cause for serious alarm.

Yet President Clinton and many in Congress have chosen to adopt a posture of purposeful vulnerability to these weapons. Mr. Speaker, the topic of America's national security is regularly and thoughtfully debated before Congress. However, whether our country chooses to field a national ballistic missile defense could very well determine the survival of the United States of America.

Therefore, Mr. Speaker, I hereby submit for the RECORD, the full text of the letter I recently sent to U.S. Defense Secretary Bill Cohen, urging him to join me and other Members of Congress in ending our vulnerability to long range ballistic missiles.

CONGRESS OF THE UNITED STATES  
HOUSE OF REPRESENTATIVES

*January 25, 1999*

Hon. BILL COHEN,  
*Secretary of Defense,*  
*The Pentagon, Washington, DC.*

DEAR SENATOR COHEN: Our lack of ballistic missile defense is a serious and growing vulnerability extending an unwelcome invitation to ballistic missile attack from rogue nations such as North Korea. We must build a defense against long range ballistic missiles.