Routledge Handbook of Contemporary Hong Kong

Edited by Tai-lok Lui, Stephen W.K. Chiu and Ray Yep

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When Britain and China negotiated the future of Hong Kong in the early 1980s, their primary concern was about maintaining the status quo. The rise of China in the last thirty years, however, has reshaped the Beijing–Hong Kong dynamic as new tensions and divisions have emerged. Thus, post-1997 Hong Kong is a case about a global city's democratic transition within an authoritarian state.

The *Routledge Handbook of Contemporary Hong Kong* introduces readers to these key social, economic and political developments. Bringing together the work of leading researchers in the field, it focuses on the process of transition from a British colony to a Special Administrative Region under China's sovereign rule. Organized thematically, the sections covered include:

- 'One Country, Two Systems' in practice
- Governance in post-colonial Hong Kong
- Social mobilization
- The changing social fabric of Hong Kong society
- Socio-economic development and regional integration
- The future of Hong Kong.

This book provides a thorough introduction to Hong Kong today. As such, it will be invaluable to students and scholars of Hong Kong's politics, culture and society. It will also be of interest to those studying Chinese political development and the impact of China's rise more generally.

Tai-lok Lui is Chair Professor of Hong Kong Studies and Vice President of Research and Development at The Education University of Hong Kong. He is the co-author of *Hong Kong: Becoming a Chinese Global City* (2009).

Stephen W.K. Chiu is Chair Professor of Sociology and the Co-Director of The Academy of Hong Kong Studies at The Education University of Hong Kong. His recent publications include *Repositioning the Hong Kong Government: Social Foundations and Political Challenges* (2012).

Ray Yep is Professor of Politics and Associate Head of Department of Public Policy, City University of Hong Kong. His recent publications include *Negotiating Autonomy in Greater China* (2013).

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Contents

Figures and tables

Figures

Tables

Notes on contributors

Editors

Stephen W.K. Chiu is currently the Chair Professor of Sociology and the Co-Director of The Academy of Hong Kong Studies at The Education University of Hong Kong. A prolific researcher, experienced academic administrator and an enthusiastic teacher, he has produced voluminous publications containing co-authored books, book chapters, monographs and refereed journal articles. His research areas include the sociological studies of Hong Kong and East Asian development, social inequality, youth, social movement and the film industry.

Tai-lok Lui is Chair Professor of Hong Kong Studies and Vice President (R&D) at The Education University of Hong Kong. He is also the Director of the Academy of Hong Kong Studies. His publications include *Hong Kong 20 Years after the Handover* and *Hong Kong: Becoming a Chinese Global City*. His academic writings appear in *Inter-Asia Cultural Studies*, *International Journal of Urban and Regional Research*, *Journal of Contemporary China*, *Sociological Review* and *Urban Studies*.

Ray Yep is Professor of Politics and Associate Head of Department of Public Policy, City University of Hong Kong. He specializes in the area of colonial history of Hong Kong and political economy of China's reforms. His latest books include *Negotiating Autonomy in Greater China* (Copenhagen: Nordic Institute of Asian Studies Press, 2013).

Contributors

Carew C.S. Chan received her MPhil from the Department of Sociology at the Chinese University of Hong Kong. Her master thesis explores the effects of social network on new generation Chinese migrant workers' psychological well-being. Carew's research interests include migration, social network, employment satisfaction and social psychology. She is currently Deputy Convenor, Youth I.D.E.A.S. Think Tank, Hong Kong Federation of Youth Group.

Joseph M. Chan is Emeritus Professor at the School of Journalism and Communication, Chinese University of Hong Kong. He has published extensively on political communication, journalism studies and international communication. Among his works, he is co-author of *Media, Social Mobilization, and Mass Protests in Post-colonial Hong Kong*. He was elected a Fellow of the International Communication Association in 2014.

Albert H.Y. Chen is the Cheng Chan Lan Yue Professor in Constitutional Law, Department of Law, University of Hong Kong. He is the author of *An Introduction to the Legal System of the People's*

Republic of China (4th ed. 2011), *The Rule of Law, Enlightenment and the Spirit of Modern Law* (1998; in Chinese), *The World of Jurisprudence* (2003; in Chinese); *The World of Constitutional Law* (2014; in Chinese); and *Hong Kong's Explorations in the Rule of Law Under One Country Two Systems* (2nd ed. 2014; in Chinese). He is also the editor or co-editor of *Administrative Law and Governance in Asia* (2009); *Legal Reforms in China and Vietnam* (Routledge, 2010); and *Constitutionalism in Asia in the Early Twenty-First Century* (2014).

Xiangming Chen is Director of the Center for Urban and Global Studies and Raether Distinguished Professor of Global Urban Studies and Sociology at Trinity College in Connecticut and Guest Professor in the School of Social Development and Public Policy at Fudan University in Shanghai. His (co)authored and co-edited books include: *As Borders Bend: Transnational Spaces on the Pacific Rim* (Rowman & Littlefield, 2005), *Shanghai Rising: State Power and Local Transformations in a Global Megacity* (University of Minnesota Press, 2009; Chinese edition, 2009), and *Global Cities, Local Streets: Everyday Diversity from New York to Shanghai* (Routledge, 2016; Chinese edition 2016; Korean edition 2017).

Edmund W. Cheng is Assistant Professor of Politics and Deputy Director of Centre for Comparative Governance and Policy Research at Hong Kong Baptist University. His research interests include contentious politics, neo-institutionalism, political trust, public sphere and urban governance. His recent publications include *An Epoch of Social Movements* (Chinese University Press, 2018), *The Umbrella Movement: Civil Resistance and Contentious Space in Hong Kong* (Amsterdam University Press, 2018) and articles in *China Quarterly, Comparative Politics, Political Studies*, *Social Movements Studies* and *Modern Asian Studies*.

Chor-yung Cheung teaches politics in the Department of Public Policy at the City University of Hong Kong. He is the author of *The Quest for Civil Order* (Imprint Academic: 2007) and *The Poetic Character of Human Activity* (Lexington Books: 2012, co-authored with Wendell John Coats, Jr.). His 2017 publications include: "Treat Man as Man and the Use of Knowledge in Society: The Liberalism of Xia Daoping", *Journal of Hubei University of Economics* (in Chinese) and "'One country, two systems' after the Umbrella Movement: problems and prospects", *Asian Education and Development Studies*.

Stephen W.K. Chiu is currently the Chair Professor of Sociology and the Co-Director of The Academy of Hong Kong Studies at The Education University of Hong Kong. A prolific researcher, experienced academic administrator and an enthusiastic teacher, he has produced voluminous publications containing co-authored books, book chapters, monographs and refereed journal articles. His research areas include the sociological studies of Hong Kong and East Asian development, social inequality, youth, social movement and the film industry.

Brian C.H. Fong is Associate Director of the Academy of Hong Kong Studies at the Education University of Hong Kong. His research interests include centre-periphery relations, territorial autonomy, democratization, legislative studies and budgetary politics. He has published extensively in international peer-reviewed journals such as *China Quarterly*, *Modern China*, *Asian Survey*, *Democratization* and *International Review of Administrative Sciences*.

Eric Fong is a professor and chairman of the Department of Sociology at CUHK and the inaugural Director of the Centre on Migration and Mobility. He is also Changjiang Chair Professor at Xi'an Jiaotong University. Fong formerly served as President of the Canadian Population Society,

President of the North America Chinese Sociologist Association and Chair of the International Migration Section of the American Sociological Association. He publishes widely on racial/ethnic residential patterns and immigration. His latest book with Brent Berry, entitled *Immigration and the City*, was published by Polity Press in 2017.

Danny Gittings is an Associate Professor specializing in Hong Kong constitutional law at the College of Humanities and Law in the School of Professional and Continuing Education of the University of Hong Kong. His publications include *Introduction to the Hong Kong Basic Law*, a widely used textbook on Hong Kong constitutional law. A former editor with the *South China Morning Post* and *Wall Street Journal*, he now co-hosts *Radio Television Hong Kong*'s main English-language talk show, where he interviews a wide range of prominent personalities from Hong Kong's political and legal communities.

Ho-fung Hung is the Henry M. and Elizabeth P. Wiesenfeld Professor in Political Economy at the Sociology Department and the Nitze School of Advanced International Studies, Johns Hopkins University. He is the author of award-winning books *The China Boom: Why China Will Not Rule the World* and *Protest with Chinese Characteristics: Demonstrations, Riots, and Petitions in the Mid-Qing Dynasty*, both with Columbia University Press. His research publications also appear in *American Sociological* Review, *American Journal of* Sociology, *Development and Change*, *Review of International Political Economy*, among others, and have been translated into seven different languages.

Chung Yan Ip obtained her undergraduate and M.Phil. degrees in sociology from the Chinese University of Hong Kong and Ph.D. degree in sociology from Oxford University. She is Research Fellow of the Academy of Hong Kong Studies at the Education University of Hong Kong. Her research interests include social mobility, labour market and employment, human rights, equality and non-discrimination.

Iam-chong Ip is Assistant Professor of Cultural Studies at Lingnan University. His research interests include Hong Kong's political culture, social activism and intellectual movements in contemporary China. His academic writings appear in *Inter-Asia Cultural Studies*, *Critical Sociology*, *China Perspectives* and *Cultural Dynamics*.

Agnes Shuk-mei Ku is Associate Professor of Social Science at the Hong Kong University of Science and Technology. She serves as co-Chair of Research Committee 16 (Social Theory) of the International Sociological Association, and is affiliated as Faculty Associate with the Center for Cultural Sociology at Yale University. Her research interests are cultural sociology, civil society, the public sphere, urban space and Hong Kong culture and politics. Recent publications include *Civil Sphere in East Asia* (with J. Alexander, D. Palmer and S. Park), *Hong Kong Mobile: Making a Global Population* (with H. Siu), and *Remaking Citizenship in Hong Kong: Community, Nation, and the Global City* (with N. Pun).

Kay C.Y. Lam obtained her Ph.D from the University of Hong Kong and she is currently a researcher in the Hong Kong Policy Research Institute. Her research interests include Hong Kong-China relations, political institutions, intra-party democracy and cultural politics.

Francis L.F. Lee is Director and Professor, School of Journalism and Communication, Chinese University of Hong Kong. He works in journalism studies, political communication, public

opinion and media and social movements. He is the lead or sole author of *Media and Protest Logics in the Digital Era: The Umbrella Movement in Hong Kong* (Oxford University Press, 2018), *Talk Radio, the Mainstream Press and Public Opinion in Hong Kong* (Hong Kong University Press, 2014), and *Media, Social Mobilization, and Mass Protests in Post-colonial Hong Kong* (Routledge, 2011). He is currently chief editor of the *Chinese Journal of Communication* and associate editor of *Mass Communication & Society*.

Jenny X. Li is a doctoral candidate in the Department of Sociology at the Chinese University of Hong Kong. Her main research interests include international migration, internal migration and family studies. Her PhD work focuses on the integration experiences of internal migrants in China and Indonesia.

Hon-Kwong Lui is the Associate Vice-President (Academic Affairs) and Professor of the Department of Marketing and International Business at Lingnan University. His research interests include labour economics, applied marketing research and Hong Kong economy. He is the author of six books and has published articles in *Management Science*, *Urban Studies*, *Human Relations*, and *Journal of International Marketing*, among others.

Tai-lok Lui is Chair Professor of Hong Kong Studies and Vice President (R&D) at The Education University of Hong Kong. He is also the Director of the Academy of Hong Kong Studies. His publications include *Hong Kong 20 Years after the Handover* and *Hong Kong: Becoming a Chinese Global City*. His academic writings appear in *Inter-Asia Cultural Studies*, *International Journal of Urban and Regional Research*, *Journal of Contemporary China*, *Sociological Review* and *Urban Studies*.

Ngok Ma is currently Associate Professor at the Department of Government and Public Administration, Chinese University of Hong Kong. He has researched and written extensively on Hong Kong politics throughout the years. His research areas include party politics and elections in Hong Kong, social movements and state-society relations in Hong Kong, comparative politics and democratization. He has published five books, more than 20 journal articles and 20 book chapters on Hong Kong politics. He is the author of *Political Development in Hong Kong: State, Political Society and Civil Society*.

David R. Meyer is Senior Lecturer in Management at Olin Business School, Washington University in St. Louis, teaching international business, with a focus on Asia. Previously, he was Professor of Sociology & Urban Studies at Brown University. Publications include five books and over sixty articles and book chapters. His book, *Hong Kong as a Global Metropolis* (Cambridge University Press, 2000), interpreted that city as the pivot of Asian business networks. Recent publications deal with banking networks of Asian financial centres, private wealth management in Asia, Hong Kong and Singapore as network hubs of global capital, Shenzhen in China's financial centre networks, Bank of China International in Hong Kong and Hong Kong and Singapore exchanges confront high frequency trading.

Mee Kam Ng is the Director of the Urban Studies Programme, Associate Director of the Institute of Future Cities and the Hong Kong Institute of Asian Pacific Studies at the Chinese University of Hong Kong. She is a Fellow of the Academy of Social Sciences in UK, a member of the RTPI, a fellow of the HKIP and an academic adviser of the HKIUD. She has published widely on planning, governance and sustainability issues in Pacific Asia. Her publications have earned six local

and one international planning awards. She has been consultant to the United Nations and the European Union.

Tak-Wing Ngo is Professor of Political Science at the University of Macau. His research focuses on government–business relations, regulatory governance and the political economy of development in East Asia.

Paul O'Connor: Originally from the UK, Paul O'Connor received his PhD in Sociology from the University of Queensland. He is Research Assistant Professor in Sociology and Social Policy at Hong Kong's Lingnan University. He is the author of the 2012 book *Islam in Hong Kong: Muslims and Everyday Life in China's World City*, and various articles on ethnic and religious minorities in Hong Kong. He is primarily a qualitative researcher interested in ethnicity, social theory and the sport and subculture of skateboarding. Paul's research engages in theories of hybridity, rhythm-analysis and subcultural capital.

Victor K.W. Shin is Assistant Professor of Sociology at the University of Hong Kong. His research focuses on economic sociology, organizations and institutions, sociology of media and culture, development and globalization. He published on market change in cultural industries.

Alvin Y. So received his PhD in Sociology from UCLA. At present, he is a Chair Professor of the Division of Social Science at Hong Kong University of Science and Technology. His research interests include development, class conflict and social movement in Greater China. His is the author of *Hong Kong's Embattled Democracy* (Johns Hopkins University Press, 1999); *Class and Class Conflict in Post-Socialist China* (World Scientific, 2013); and *The Global Rise of China* (with Yin-Wah Chu, Polity Press, 2016).

Yun-Wing Sung (Ph.D. in Economics, University of Minnesota) is currently Associate Director of the Shanghai – Hong Kong Development Institute, Associate Director of the Economic Research Centre, and Adjunct Professor of the Economics Department at the Chinese University of Hong Kong. He is Corresponding Editor of *Asian Pacific Economic Literature*, members of Editorial Boards of *China Review: An Interdisciplinary Journal on Greater China*, *Asian-Pacific Journal of Business*, *The Global Studies Journal* and the *China Economic Journal*. His research interest covers international trade and economic development in China, Hong Kong and Taiwan. He has authored nine books, edited seven books and published numerous articles in the area.

Wai Keung Tam is an Assistant Professor in the Department of Political Science at Lingnan University, Hong Kong. He is the author of *Legal Mobilization under Authoritarianism: The Case of Post-Colonial Hong Kong* (New York: Cambridge University Press, 2013). His book received Honorable Mention from the Committee for the Distinguished Book Award for 2014 of the Sociology of Law Section of the American Sociological Association.

Gary Tang is a postdoctoral fellow in Centre for Youth Studies in the Chinese University of Hong Kong. His research interests include social media, political communication, public opinion and social movement. Some of his publications can be found in *Social Science Computer Review* and *Chinese Journal of Communication*.

Stan Hok-Wui Wong is an assistant professor at the Hong Kong Polytechnic University. His research interests include electoral politics, political selection and public opinions, with a focus on

East Asia. He is the author of the book *Electoral Politics in Post-1997 Hong Kong: Protest, Patronage, and the Media.* He has published in journals such as the *British Journal of Political Science*, *Electoral Politics*, *Journal of Contemporary China* and *Journal of East Asian Studies*.

Ray Yep is Professor of Politics and Associate Head of Department of Public Policy, City University of Hong Kong. He specializes in the area of colonial history of Hong Kong and political economy of China's reforms. His latest books include *Negotiating Autonomy in Greater China* (Copenhagen: Nordic Institute of Asian Studies, Press 2013).

Godfrey Yeung is the associate professor of economic geography at the Department of Geography, National University of Singapore. His research interest focuses on effects of foreign direct investment and international trade on knowledge transfer and regional development in China. In addition to *Foreign Investment and Socio-economic Development in China* (Palgrave, 2001), his articles are published in a number of international journals, e.g., *Economic Geography, Journal of Economic Geography, Regional Studies*, *Transactions of the Institute of British Geographers*, *Applied Geography*, *Cambridge Journal of Economics*, *Journal of World Business*, *Journal of Contemporary China*, etc.

Acknowledgements

Introduction
The long transition

Tai-lok Lui, Stephen W.K. Chiu, and Ray Yep

The death of Hong Kong?

It is embarrassing to have made the wrong guess in the first place. It is doubly embarrassing to cast wrong predictions twice. In June 1995, *Fortune* magazine carried a cover story entitled "The Death of Hong Kong". As clearly stated in the first paragraph of the featured article, carrying the same title of the cover story, Hong Kong's future was best described in two simple words: "It's over". As an international financial centre and commercial city, Hong Kong was sinking, and sooner or later it would become "a global backwater". With its subsequent reversion to China, Hong Kong would inevitably be overwhelmed by an authoritarian regime that showed little respect for the rule of law and be swallowed by a socialist economy that rewarded *guanxi* (i.e., social connections) and corruption. Professor Milton Friedman, a Nobel Laureate in the discipline of economics, was quoted in the report as saying that Hong Kong's economy would be unsustainable. China would not tolerate the circulation of two currencies, namely the Hong Kong dollar and the Renminbi, within the same country and would, in a matter of time, impose capital controls. Within a short period of time, two years to be precise, economic confidence would collapse. And so, it was postulated, the world would soon be mourning the death of a once vibrant economy in Asia.

But Hong Kong survived. It survived the Asian financial crisis in 1998 and the concomitant attack on its currency by speculators. It survived the SARS epidemic, a respiratory disease that paralyzed its economy, in 2003. Twelve years after the publication of the above cover story on "The Death of Hong Kong", the Asian edition of *Time* magazine, a sister publication of *Fortune*, returned to the former British colony and ran a special report carrying the title of "Sunshine with Clouds, 1997–2007". This time Hong Kong, when it was approaching the tenth anniversary of its return to China, was described as "more alive than ever".

While it would not be totally appropriate to see, in the manner depicted in *China Daily* on 13 June 2007, this special report as an open admission of making the wrong forecast about the Special Administrative Region (SAR) some twelve years ago, because the sunshine did come with clouds, it was easily recognizable that the narrative had changed. It was not exactly a change from pessimism to optimism, and yet it did show the adoption of a new perspective for understanding Hong Kong. With China's economy growing stronger and stronger, the prospect of Hong Kong,

which after all was globally connected and had been active in the Mainland since the beginning of economic reform in 1978, becoming 'a global backwater' did not sound convincing. Hong Kong was well positioned to take advantage of China's growth and development. There were worries, but sunshine would soon arrive. This cover story was more to make up for the earlier wrong prediction than to re-assess Hong Kong's future. Yet, by contextualizing Hong Kong in a broader milieu wherein China was emerging as a new global economic growth engine, words of confidence and optimism were injected into the discussion.

Indeed, this change in perspective and narrative paved its way for putting Hong Kong back onto the spotlight again. Hong Kong quickly appeared on the cover of *Time* magazine (28 January 2008) for a different reason. The headline was "Ny-lon-kong", a short form for New York City, London, and Hong Kong. These three cities, among them shared the history of being port cities and having long historical connection with commerce and finance in the world, were major centres that came to create a network of financial activity that kept the global economy moving. They were the focal points of the contemporary world economy. And Hong Kong was expected to play an important role in it because it was "perfectly positioned to become China's Wall Street". After 1997, Hong Kong had become a part of China and yet, because of 'One Country, Two Systems', it retained its advantages of being an open, market-responsive, capitalist economy well supported by rigorous legal institutions and world-standard business services. It had good access to the emerging market in China and, at the same time, remained different from the Mainland. With rapid economic growth in China and the wealth that had been created in the process of rapid economic development, Hong Kong would benefit from its established connections with this newly developed economic powerhouse. Hong Kong's future looks bright – at least, a lot brighter than, as we have seen from the above, what were depicted in 1995 and 2007.

But soon after this optimistic note on Hong Kong's new position in the regional and world economies was published, the SAR quickly found itself surrounded by new challenges, for instance the drastic increase in babies given birth by Mainland parents and the resultant social tensions, brought about its closer connection with the Chinese economy. Indeed, there is no easy answer to the question whether Hong Kong will take off again and come to form a strategic part of 'Ny-lon-kong'. The saga of post-1997 Hong Kong continues. And there is no conclusive statement on what its future will look like. We shall come back to those challenges Hong Kong is encountering in a later section of this chapter. Suffice it to say that there have been many twists and turns in Hong Kong's course of development before and after its return to China.

It is not our intention to evaluate the accuracy of journalistic predictions about Hong Kong's future. Very often, these predictions swing from the one side to the other, without realizing that what once were seen as factors conducive to optimism would become issues giving rise to tensions and conflicts at a later stage of development when the broader environment changes. Nor have these discussions really looked into how institutional changes will be shaped in a changing context. But such a failure to understand and analyze the challenges encountered by contemporary Hong Kong is telling. This shows that even those so-called 'Hong Kong watchers' and informed analysts would have looked at the wrong hints of change, failed to identify the undercurrents, and/or made the unfitting diagnosis. Social, political, economic, and cultural development in contemporary Hong Kong, particularly after its return to China in July 1997, is complex and requires rigorous analysis.

Few observers, if any at all, have really been able to foresee all the emerging challenges encountered by this former British colony and one of the SARs under the People's Republic of China prior to its change of political status. As the drama of post-1997 Hong Kong unfolds, and which is still unfolding, most of the challenges that different contributors to this handbook will discuss are unexpected. One notable example is that the much anticipated clashes between two entirely

different economic systems, with capitalism on Hong Kong's side and socialism on China's, have been obliterated by the latter's extensive marketization process. This is not to say that economic contradictions between the two places do not exist; it is just that the widespread fear of a lack of respect and protection of private property and ownership, which was most prevailing in the 1980s when the question of Hong Kong's political future was first brought up, has become very remote. Many of those potentially problematic issues that were widely discussed prior to Hong Kong's return to China have become less pertinent as a result of drastic changes within China and the changing dynamics of interaction between Beijing and the SAR. This is not to suggest that Hong Kong's political, economic, and social transition is a smooth process. As we shall see from the discussions under different themes in this volume, problems are plenty, but they are not quite those that have been conjectured. In order to grapple with the complexities of social, political, economic, and cultural issues in contemporary Hong Kong, one needs to take a fresh and systematic look at the present state of development of the SAR. This *Routledge Handbook of Contemporary Hong Kong* offers a comprehensive review of social, political, economic, and cultural issues in contemporary Hong Kong. It serves as a handbook that would assist the readers in probing institutional changes since 1997 and understanding the underlying social dynamics in the process of transition. The style of writing and inquiry by our contributors is engaging and critical. As such, the present volume will be found most relevant by a variety of readers, among them academic researchers and those active in policy circles.

From living on 'borrowed time' to making an appointment with China

Hong Kong was colonized by the British in three phases: Hong Kong Island was occupied by the British in 1841, and the acquisition was later formalized in the Treaty of Nanking after the Opium War; the Kowloon Peninsula was acquired in 1860; and the lease of the New Territories for a period of 99 years was completed in 1898. The lease would expire in 1997, and because of this, the question of the political future of Hong Kong arose in the early 1980s.

For an extended period of time after 1949, Hong Kong was described as a 'borrowed place' living on 'borrowed time': "It is the only human habitation in the world that knows when it will die – 1997, when the lease on the ceded New Territories expires. . . . But no one broods over this deadline – which can be advanced whenever Peking has a change of policy and a change of mind" (Hughes, 1976: 13–14). Hughes, writing in the mid-1970s, continued: "1997 is still two enigmatic decades distant. Borrowed time is as good as any" (Hughes, 1976: 14). He further remarked that

> It is virtually impossible to persuade Hong Kong's Government or Establishment to discuss the future. Hong Kong is the city of the present – the City of the Five-Year-Return-of-Capital. Some hint that Five-Year-Return is being 'escalated' to Three-Year-Return. And why not? When you can't look ahead, why try?
>
> *(Hughes, 1976: 129)*

But how long would this state of affairs last? However, there was a limit to the pretention that such a delicate status quo, as long as all the stakeholders were relatively happy with what they were having, would last forever. The clock did tick. And it was a matter of time that the expiry of the lease according to the Convention of 1898 would become a real issue.

There are different theories about who first brought up the topic of Hong Kong's status beyond 1997. But it is commonly accepted that one of the key factors in pushing the discussion

was the business sector's concern about mortgage arrangements as a loan of 15 years to be issued in 1982 would be due by 1997 (Chung, 2001: 28–29). It was suggested that the wider business community, and probably bankers in particular, was eager to secure an answer by 1982 the latest. When Murray MacLehose, the Governor of Hong Kong then, visited Beijing and met the very top Chinese leader Deng Xiaoping in March 1979, the above concern was raised. Deng advised that Hong Kong's businesspeople "can rest their hearts at ease". However, it was also suggested that Deng turned down MacLehose's proposal of using the phrase "as long as British administration continues" to replace the exact date of the expiry of the lease of the New Territories for handling legal documents and/or business transaction that are hoped to be valid and effective beyond 1997 (FCO 40/1047: Visit to China and the Leases). The conversations between the governor and the Beijing leader alerted China that Hong Kong's future would be a potential agenda item in future diplomatic exchanges with Britain. Beijing leaders had not made up their minds in 1979; the question of the future of Taiwan was probably of a higher priority in the agenda of national unification. But the question of Hong Kong had been raised, and this triggered internal discussion and preparations gradually leading to a decision on their approach to Hong Kong's political future in late 1981 (Huang, 1997: 2–15). Hong Kong was expected to be returned to China by 1997.

When the question of its political future was brought up in the early 1980s, Hong Kong society was in a mood of growing confidence and optimism. It was at a high point of its rapid socio-economic development in the decades after Second World War. This small colony, with a total area of about 1,100 square kilometres, joined Singapore, South Korea, and Taiwan to form the so-called 'Four Little Dragons' of East Asia. They were the world's powerhouses of industrial exports in the 1970s and 1980s. Their economic growth and development were phenomenal, and they were seen as notable examples of economic success as well as political stability among developing countries around the world. More specifically to the case of Hong Kong, the early 1980s witnessed the settling down of the earlier generations of refugees and migrants, who left Mainland China during the civil war period in 1945–1949, after the establishment of the Communist regime in 1949, or in the 1960s when many tried to escape from various political campaigns. These refugees and migrants once saw themselves only as sojourners and Hong Kong merely as a "lifeboat in the sea of political turmoil" (and thus they would only stay in the British colony temporarily) (see Mathews et al., 2008). But eventually they chose to stay, to build their families, and to find Hong Kong their home. Rapid economic growth and development created economic opportunities for their children. And the British colonial administration, though by no means unproblematic, provided them with social and political stability. More crucially, Hong Kong provided them with the option of staying away from authoritarian politics, which were very often expressed in the form of political campaign and purge, in Mao's China. So, when it was announced that Hong Kong would be returned to China and further negotiations between Britain and China were primarily about how such an arrangement would be worked out, there was panic and a collapse of confidence in Hong Kong society.

Life seemed to have come to a full circle. One of the attractions of living in colonial Hong Kong was to be standing aside of political dramas. Many risked their lives by illegally leaving China, and the purpose of coming to Hong Kong was to pursue a politically uneventful life. But just when they began to settle down, they were once again exposed to political uncertainty. The idea that Hong Kong was "the goose that gives the golden eggs" (and thus China would not kill it as it would like to see a continuous supply of those precious eggs) created false expectations among many people in Hong Kong then. For them, Hong Kong's status quo was believed to be untouchable. China, Britain, and Hong Kong would not like to see any change to the (precarious, though) equilibrium. Yet, when Margaret Thatcher, the Prime Minister of the United Kingdom

then, fell from the staircase of the People's Hall after meeting Deng Xiaoping in Beijing in 1982, symbolizing an unhappy ending in the initial exchanges between Britain and China over Hong Kong's political future, the people of Hong Kong were alerted to the fact that perhaps they would need to take another look at the political reality.

The governments of Britain and China officially stated that they had come to an agreement that both sides would "enter into talks through diplomatic channels with the common aim of maintaining the stability and prosperity of Hong Kong" (quoted from Cheng, 1984: 1). With this note, Hong Kong people were reassured that their future would be taken care of via diplomatic talks between the two countries. It would not be one-sidedly decided by either one of the parties (and thus the chance of a brutal intervention by China was minimized). And, if the negotiations were conducted smoothly, Hong Kong's status quo would be kept intact at least up to 30 June 1997. The agreement that Britain and China would settle Hong Kong's future via diplomatic channels did not eliminate the fear of a communist takeover (and, therefore, many people emigrated in the following years). Nor did it promise a satisfactory arrangement that would meet the expectations of all the people in Hong Kong. But it did suggest that there would not be an imminent collapse of Hong Kong society. "Horse racing and ballroom dancing [both, according to the moral values of a socialist society, were symbols of decadence of Hong Kong's capitalist lifestyle] will continue", probably even after 1997. A new time frame was introduced: Hong Kong would no longer be living on 'borrowed time'; it would be returned to socialist China. The date of 1 July 1997 was not hypothetical, it was real. Yet, life carried on, at least until the expiry of the lease of the New Territories.

'One Country, Two Systems': a political compromise

The new political reality was that the question of Hong Kong's political future would not be taken as if it did not exist at all. The signing of the Joint Declaration by the Chinese and the British Government confirmed that the British colonial rule of Hong Kong would come to an end. It also became clear that the hope of China taking back the legal sovereignty over Hong Kong only, leaving the de facto governance to the British, was unacceptable to the former. The option of Hong Kong becoming independent had not been tabled. Indeed, this was pre-empted by China in 1972 when Huang Hua, then the representative at the United Nations, persuaded the General Assembly to take both Hong Kong and Macau off the list of colonies that were expected to move towards self-determination (Ghai, 2013: 317). It was suggested that "The settlement of the questions of Hong Kong and Macau is entirely within China's sovereign right". So, the settlement of Hong Kong's political future would be on a course which was very different from most of the other former colonies. It would be a process of "decolonization without independence" (Lau, 1987). And China and Britain were the main parties in the negotiation process. Hong Kong as such would not be represented at the diplomatic talks, and it would not join the discussion as an independent and separate party, not to say to cast its vote on matters bearing important consequences to the post-1997 arrangements.

According to the Joint Declaration (1984), Hong Kong would return to China in 1997 as a Special Administrative Region (SAR). Furthermore, "The Hong Kong SAR will enjoy a high degree of autonomy, except in foreign and defence affairs", and "[t]he current social and economic systems in Hong Kong will remain unchanged, and so will the life-style". Though the meaning of "a high level of autonomy" had not been clearly spelled out (Gittings, 2013: 55), these promises constituted the key ingredients of what was known as the 'One Country, Two Systems' framework. As noted earlier, Hong Kong's political status would be changed in 1997. In this regard, the political status quo of Hong Kong would be upset. But this issue, inevitably creating

a lot of anxiety among the people of Hong Kong, would be addressed by preserving the socio-economic status quo of the British colony. Hong Kong would be a capitalist SAR under the sovereignty of socialist China. How such a settlement would be put into practice has been probably the most challenging question encountered by Hong Kong since 1997. What our contributors try to do exactly is look at this question from different perspectives and in relation to different aspects of social, economic, and political life in contemporary Hong Kong. Before introducing their contributions to this volume, we would like to make a further note on the key features, and perhaps the inherent contradictions, of the institutional design of "One Country, Two Systems".

The institutional design of 'One Country, Two Systems' was the outcome of a political compromise. Among China, Britain, and Hong Kong, each had its own agenda and priorities. When China indicated its intention of resuming the sovereignty over Hong Kong, it was done at a time when the colony itself was experiencing rapid economic growth and the Conservative Party in Britain had just won its election and returned to power. For China, the resumption of Hong Kong was, at least partially, a matter of national pride and dignity. In order to pacify the local population in Hong Kong and to respond to skepticism of the international community, Beijing leaders were willing to accommodate a capitalist SAR within the broader socialist framework at the national level. This compromise was also driven by some pragmatic calculations: a prosperous Hong Kong would be most functional to China's Four Modernizations project, to the continuation of its economic reform, and to acquiring the technical and managerial know-how of the outside world via the colony. This was largely consistent with their approach to Hong Kong, which emphasized "long-term consideration and the value of fully utilizing such a situation", since 1949 (Huang, 1997: 3). The maintenance of economic prosperity and political stability in Hong Kong was not merely a concern of the local population, it was also China's key strategic consideration. Hong Kong was expected to continue to be functional and valuable to China after its return to China. To keep Hong Kong's capitalist socio-economic system intact, so that the Mainland would benefit from its economic contributions and the future SAR would not become a financial burden (because of its return to a socialist system and thus its economic dynamism would be significantly weakened), was both a compromise to its people as well as a part of China's pragmatic economic strategy.

On the side of Britain, the prospect of handing over its colony to a socialist regime was controversial and a matter of skepticism in the international community in the 1980s. How to work out a resolution that could accommodate China's interests and make a guarantee to the colony that its existing way of living, people's personal liberty, and the freedom of a market economy would not be compromised was a challenge. An agreement reached in front of an international audience on the basis of guarantees made by China that Hong Kong would continue to operate as a different socio-economic system looked respectable.

On Hong Kong's side, few people would like to see a change in the status quo in the early 1980s: the economy was growing, corruption was brought under control, the colonial government was becoming more responsive, the government's provisions of social services were improving, and most importantly the colony was largely unaffected by those political campaigns across the border. The central ideas of 'One Country, Two Systems' in maintaining Hong Kong's economic prosperity and social stability largely summed up the locals' main concern. Most of the people in Hong Kong, for some their fear was based upon their families' experience before and after 1949, simply did not trust China. The prospect of the colony becoming an SAR under the control of socialist China was gloomy. The promise of maintaining free market capitalism and some of the key features of the colonial system (e.g., the rule of law) was an attempt to convince the people that, despite a change in the political status, Hong Kong society would remain largely the same. Apparently, many were unconvinced; they emigrated or rushed to apply for a foreign

passport (Skeldon, 1994). Many more probably did not really have other options than staying behind. That Britain and China were able to reach an agreement on Hong Kong's political future, and some forms of guarantee of maintaining the existing socio-economic system had been put down in black and white were, at least, attempts to address Hong Kong people's concerns.

At the macro level, it was a political compromise among China, Britain, and Hong Kong. At the micro level, it was also a political compromise among different social classes within Hong Kong. China's strategy focused on building a united front with the capitalist class, the social class that was expected to assume a leadership role in running a capitalist SAR (Xu, 1993: 121). This was partly out of fear of a capital flight. If the major business groups decided to leave and relocate their business elsewhere, it would be a serious blow to China, as it was badly short of capital to deal with its own economic problems in the increasingly unsustainable socialist economy, and not to mention the need of maintaining the colony's prosperity. This was also consistent with the notion of developing 'One Country, Two Systems' because the idea itself was intended to be a plan to accommodate Hong Kong's capitalist economic system within China's socialism. This project could not be accomplished without the support of the capitalists. So, paradoxically, socialist China desperately needed to secure the support of Hong Kong's capitalist class in the reversion process. The nationalist capitalist class (i.e., the Chinese capitalists) was, in particular, expected to play a key role in the united front strategy for the success of 'One Country, Two Systems' (Xu, 1993: 128). This was done by a cooptation strategy, not only reassuring the capitalist class the protection of their property rights and the facilitation of their investment in the Mainland but also providing them with a lot opportunities to influence the drafting of the Basic Law as well as in the future political system (Fong, 2015: 103–117; Goodstadt, 2000). On the side of the capitalists, "the shared fear of losing the political influence also prompted the business sector in Hong Kong to think they could rely on Beijing to fend off the political challenges of democrats and to safeguard their political and economic interests after 1997" (Fong, 2015: 115). With the conclusion of this new political pact, there witnessed the "replacement of the former "British-centred state-business alliance by a new 'China-centred state-business alliance'" (Fong, 2015: 112). In essence, despite the vague promise of universal suffrage for the election of Chief Executive and the full Legislative Council, the colonial system of 'functional constituency' – an electoral arrangement premised on limited franchise for business interests and professionals – had been fully incorporated into the post-1997 political order. Half of the seats of the Legislative Council after the Handover are still occupied by members elected by this method, and all 1,200 members of the Election Committee that enjoy the exclusive power for choosing the Chief Executive remain decided on this logic of functional constituency. A quarter of the seats in the Committee are reserved for business groups. To a large extent, post-1997 Hong Kong is 'business as usual' as the business sector continues to be powerful and influential. If there has been any change in the state-business nexus, it is a shift towards more and more China-centred.

Of course, different social classes had very different reactions to the arrangement of returning Hong Kong to China. The middle class (the professionals, managers, and administrators) was particularly restless. Many of these middle-class professionals, managers, and administrators were children of the earlier generation of refugees, and they were winners in the competition for upward social mobility under colonial rule. Many of them excelled in an education system which was based upon fierce competition in public examinations. Others found themselves benefitting from developing their career in a rapidly growing economy. They were elites groomed by the existing institutional system. A change in the status quo would necessarily mean a major setback to them, and they were most anxious about an uncertain future.

While some middle-class professionals did form political groups and actively took part in various newly established channels of political participation, the most commonly adopted coping

strategy by the middle class was one of exit, i.e., emigration (Lui, 1999a). Indeed, the number of emigrants from Hong Kong rose from around 18,000–22,000 persons per year in the early 1980s to around 60,000 persons in 1990–1994 (Skeldon, 1995: 57). It was mainly about securing what they described as 'political insurance' by acquiring a foreign passport (Salaff and Wong, 1994: 220). With an option of exit that they could fall back onto, they had the means to dissociate the personal from the social: no matter what happened to Hong Kong society at the macro level (from drastic economic downturn to violent political suppression after a change in the colony's political status), they could choose to exit. In practice, this 'exit' strategy was essentially only partial or quasi exit (e.g., many sent their family members abroad for processing foreign citizenship, and they stayed in Hong Kong to benefit from the prosperous economy, and a significant proportion of these emigrants went back to the colony as returnees once they obtained the new passports). With this personal strategy available to them, many middle-class professionals, managers, and administrators worked out their way to cope with an uncertain political future.

For the rest of the population, their choices were actually rather limited. If they were also capable of choosing the option of exit, probably many of them would also like to acquire such a kind of "political insurance". They stayed, but this decision was not necessarily out of their own choice. Yet, having said that, it is important to note that, despite variations in actual life experience, few of them would see themselves as victims of colonial oppression and/or injustice. Given the rapid pace of economic growth and development in the post-war decades, and thus new openings in the upper part of the social ladder had been created, many families were able to see improvements in the standard of their living and to find opportunities for inter-generational social mobility. They were largely complacent, and their preference was to keep things as they were.

It was out of a balance of such diverse interests that the notion of 'One Country, Two Systems' was taken as a resolution that could, at least, partially satisfy most of the concerned parties. For China, Hong Kong's return to its motherland in 1997 would not only be a sign of upholding national unity and territorial integrity, but also be a strategic move to showcase to Taiwan the viability of a peaceful settlement. However, with Hong Kong being granted "a high level of autonomy", Beijing's actual power over the SAR would be compromised, at least in quite a number of social domains. For example, in Article 5 of the Basic Law, "The socialist system and policies should not be practiced in the Hong Kong Special Administrative Region, and the previous capitalist system and way of life shall remain unchanged for 50 years". And in Article 8,

> The laws previously in force in Hong Kong, that is, the common law, rules of equity, ordinances, subordinate legislation and customary law shall be maintained, except for any that contravene this Law, and subject to any amendment by the legislature of the Hong Kong Special Administrative Region.

In the 1980s, such compromises were significant because they did impose certain restrictions on the exercise of power by the socialist state. Differently put, Beijing would not be able to exert its authoritarian state power in Hong Kong in the manner it normally did in the Mainland. Meanwhile, for Britain, the deal allowed it to terminate its colonial rule over Hong Kong in a dignified manner. At least, there would be sufficient measures (e.g., the drafting of a mini-constitution, the Basic Law) to ensure that socialist China could not brutally impose its political will on Hong Kong. Hong Kong would continue to be a free capitalist economy with the rule of law and protection of personal freedom being upheld. And for Hong Kong, the threat of an immediate or premature takeover was ruled out, and the socio-economic status quo would be kept in 1997 and thereafter for at least another fifty years. Of course, as evident in the waves of emigration by Hong

Kong people in the 1980s and early 1990s, many remained skeptical of China's promise of 'Hong Kong people rule Hong Kong'. Nor were many people fully convinced that 'One Country, Two Systems' would really allow Hong Kong society to operate in the manner it used to be. Yet, people's doubts and reservations notwithstanding, the future of Hong Kong was largely settled by designing a system that, at least in intention, guaranteed the maintenance of the status quo.

From doomsday to a 'false dawn'

It must be recognized that back in the 1980s skeptics of 'One Country, Two Systems' were plenty. Their sense of skepticism was further reinforced by the Tiananmen Incident (the crackdown of the student movement in Beijing) in 1989. China's authoritarian politics had not been softened after starting the process of economic liberalization. A peaceful co-existence of capitalism and socialism sounded unrealistic. The number of Hong Kong emigrants increased drastically in the early 1990s and that Britain's offer of full British passports in limited number was much sought after by the middle class best illustrated the loss of confidence in Hong Kong after the suppression of Beijing students' protests. Contradictions between the market-driven capitalist way of life in Hong Kong and China's socialist authoritarianism were rather obvious. While Hong Kong was open, liberal (though by no means democratic), and under the rule of law, China could not allow freedom of speech and assembly. Clashes between the two systems were inevitable.

This view of an inevitable clash between two very different economic systems was widely shared in the 1980s. The peaceful co-existence of capitalism and socialism was simply inconceivable. And Hong Kong would not be an exception. China's eagerness of reforming its economy would not make any difference to this prediction – it was a matter of time that those underlying contradictions between the systems would surface. In a sense, the doomsday perspective found in *Fortune* published in 1995, as we discussed at the beginning of this chapter, was basically an elaboration of this understanding.

However, it is important to note that, quite ironically, this 'capitalism versus socialism' framework does allow for the possibility of reconciliation. This happened when the latter adopted marketization. It was assumed that the introduction of a market system to a socialist country would liberalize its economy, soften its authoritarian rule, and open new spaces in its society (either through the building of its civil society or as a result of the rise of a middle class). Economic reform in socialist China had its twists and turns. The suppression of the student movement in 1989 once seemed to have proven that the room for reform under socialist authoritarianism was limited. There was a limit to its political liberalization, and it was difficult to envisage further marketization within the existing state-led framework. Yet, the aftermath of the 1989 crackdown was not restraint on marketization but rather a deepening of economic reform. Contrary to many observers' prediction, China in the 1990s witnessed a sea change in its economic and social structure. First, it became the 'factory of the world', producing manufacturing products for the world market with the support of an abundant supply of land and cheap labour. Then, with galloping economic growth and rising affluence in the major cities, China emerged as a new market for consumer products and as a destination of foreign investments. Increasingly, fewer and fewer people pay attention to whether China is still a socialist country or otherwise. Socialism continues to be an important terminology in China's official discourse, but its significance is no more than merely rhetorical and symbolic. China may not have become capitalist in the sense that the socialist state has withdrawn from the management of major socio-economic activities, nevertheless the extent of marketization was no doubt quite sweeping. Indeed, one of the major challenges that China is facing today is how to curb the almost uncontrollable market dynamics in its people's everyday life. Nowadays, money takes command. With the arrival of such a highly

marketized economic life and the growing economic power of the country, China's socialism is no longer perceived as a source of threat (at least, not the same kind of threat as perceived in the 1980s). Rather, the rise of China as an economic power in the international arena is now widely seen as a window of opportunity.

Such a change in perspective is best illustrated by the journalistic accounts we summarized in the opening section of this chapter. From "The Death of Hong Kong" (1995) to "Sunshine with Clouds, 1997–2007" (2007), the portrait of Hong Kong's prospect after 1997 swung from complete pessimism to the promise of a new dawn. In between, the change in mood was facilitated by the perception that economic reform, marketization, and a growing economy are effective driving forces for reforming socialism in China. It is important to reckon that this perspective was quite widely accepted by the people in Hong Kong. Indeed, the change in perspective in journalistic accounts of Hong Kong corresponded to the swing in popular sentiment from panic and fear in 1989 to calmness and, to some extent, a sense of being assured in the mid-1990s. In the eyes of many, marketization, a process through which the scope of influence of the state would be reduced and both the economy and society would be opened to competition, would tame socialism in China. Not only did they rather simplistically assume that marketization would gradually liberalize other aspects of social and political life as well, they also believed that when capitalism and socialism met in the SAR after 1997, Hong Kong would have an upper hand as both Hong Kong society and its people were most familiar with the logics and codes of practice of a capitalist market economy.

The hidden assumption was that once China got on board to economic reform, marketization, and further liberalization, it would be difficult for it to turn back. More interestingly, many saw the deepening of market reform and the gradual proliferation of private enterprises (including steps towards the recognition of private property) in China's economy as signs of reassurance – the once perceived imminent threat of the imposition of a socialist system onto Hong Kong, and thus the ownership of private property would not be fully respected, was significantly lessened. The spread of private ownership, consumerism, and a new money-oriented cultural outlook in the Mainland was seen as indicators of some kind of socio-economic and cultural convergence, with socialist China becoming more and more friendly with the capitalist world. Such changes, or such changes in perception, constituted the material basis of a reassessment of the impacts of 1997. Meanwhile, many people in Hong Kong frequently visited to Shenzhen and other parts of the Pearl River Delta (PRD), for business and/or for leisure, and brought back with them new angles to make sense of socio-economic and cultural changes across the borders. Of course, not all of them would be convinced that China had been transformed, and thus differences between the SAR and the Mainland were essentially a matter of degree rather than in terms of basic characteristics of two contrasting social systems. Freedom of expression, or the lack of it in the counterpart, remained an obvious example illustrating how Hong Kong differed from the Mainland. However, increasingly people would reckon that in China the standard of living had been improving and people were given the opportunity to pursue their own lifestyle. China was in progress and seemed to be on the right track; further improvements were expected and all these signs of change facilitated the crystallization of a sense of optimism as Hong Kong was approaching 1997.

To minimize change in the face of a change in political status

The sense of optimism we mentioned above is relative – compared with the collapse of confidence because of a stalemate in the Sino-British negotiations in September 1983 (when the value of Hong Kong dollar tumbled and it was thus pegged with US dollar) and the fear arising from

the Tiananmen Incident in 1989, the popular mood in Hong Kong at the time immediately before the handover was more on the side of calmness and indifference. One of us described ordinary people's mood at the street level before and following 1 July 1997:

> there were few signs of fervent patriotism in the streets of Hong Kong in the very last days of British colonial rule or in the beginning of the SAR regime. In fact, people were surprisingly calm, showing little emotion about this eye-catching world media event. The holiday from 28 June to 2 July was more like a long weekend than a festive time in celebration of the final termination of colonial rule and renewed national pride. . . . Heavy rains (which started on 30 June and lasted some days into July), interrupted many parades and gatherings in many public places and provided a good excuse not to join in the celebrations. The general attitude towards the handover was more of indifference than jubilation.
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> In January 1998, when the Hong Kong Transition Project asked its survey respondents about their attitudes towards the celebration of National Day, 71% replied that they were indifferent and 11% saw it as just another holiday. Only 14% of the respondents said that they felt either proud or excited.
>
> *(Lui, 1999b: 91–92)*

Anxieties continued to surface, and uneasiness was a part of the mass psychology (Lui, 1999b). But the fear of a stormy takeover and drastic measures to deny the pre-existing ways of life seemed to have disappeared. This partly had to do with the newly found optimism brought about by China's own progress in economic reform and market liberalization. That China seemed to have learned to tolerate and accommodate the market economy was perceived as a good reason for Hong Kong to stay positive about its prospect of being a different system within the same country. What was once seen as self-contradictory, the notion of 'One Country, Two Systems' then looked viable and promising.

The keywords of the 'One Country, Two Systems' design were 'keeping the status quo'. The idea itself, as noted earlier, was an outcome of a political compromise made during the Sino-British negotiations, and the common ground shared by various stakeholders was that most, if not all, people in Hong Kong would like to see the preservation of the status quo – meaning minimal changes in its existing institutional arrangements. Given that there would be a change in the political sovereignty, Hong Kong would no longer be a British colony after 1st July 1997. Decolonization was inevitable. But any change other than this political fact should be minimized. It was upon the basis of such a tacit understanding that China's representatives described the return of Hong Kong as not much more than a change of flag at 00:00 on 1st July 1997. Other than that, it would be business as usual. How this was possible rested upon the enactment of the Basic Law. This mini-constitution for the SAR gave Hong Kong the legal framework for pre-serving the pre-existing institutional structure and thus would ensure that its capitalist economic system and the accompanied ways of living would remain intact.

Our argument is that 'One Country, Two Systems' is inherently contradictory. Its emphasis on minimizing changes in post-1997 Hong Kong sows the seeds of problems emerging after the handover. Theoretically, the political design of 'One Country, Two Systems' and the related constitutional document, the Basic Law, were developed to deal with political anxiety in the period of political transition and to work out an institutional structure for post-1997 Hong Kong SAR. It was expected to look into the future. Yet, again paradoxically, the main theme of the political compromise then was a minimization of economic, social, and political changes. Instead of looking ahead and anticipating emergent problems in the course of political transition,

the prevailing view placed much emphasis on preservation – preserving what were already there in Hong Kong's economic, social, and political system and ensuring that they would continue to function in the way they did in the colonial days. What were seen as the crucial ingredients of Hong Kong's success in achieving economic prosperity and political stability were written into the Basic Law. In a broad stroke, the Hong Kong SAR was prescribed to remain a capitalist market economy with a partially democratized administrative state. As long as Hong Kong stayed capitalist and not to be interfered by China's socialist practice, its market economy would work well. Meanwhile, the so-called executive-led administrative system, largely modelled upon the previous colonial bureaucratic administration, was expected to continue to function smoothly, with the Chief Executive leading the civil service in running the government.

What were found conducive to Hong Kong's success in attaining economic prosperity and political stability in the period of 1945–1990 were literally concretized as words to be written into the text of the Basic Law. To give some examples, this included finer details concerning the management of public finance and a definition of the role of the state: in Article 107, it was stated that the Hong Kong SAR

> shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product.

A free market capitalist economy (with limited state intervention) was upheld in order to curb potential threats from its socialist neighbour; the political system was only partially democratized so that politics would be downplayed (with the HKSAR Government's bureaucratic administration managing daily public affairs and responding to community needs); and the judicial system was basically kept unchanged and this, together with the guarantees of civil liberty and personal freedom, formed a shield to protect Hong Kong from interference by the socialist authoritarian state. In a way, the Basic Law summarized what most people had long believed to be the key institutional structures of Hong Kong society. These ingredients, as seen in the 1980s, were 'deep-frozen' in the Basic Law and then they were to be 'defrosted' in 1997. By doing so, Hong Kong would be able to cope with an uncertain future (Lui, 2015).

With such an emphasis on preservation, little effort had been made on projecting the progress of socio-economic reforms in China and anticipating issues and problems that might arise when the pace of its reform and socio-economic changes galloped. In fact, social development in socialist China was largely conceived as static. It was believed that, at best, given the constraints of a socialist authoritarian regime, social and economic reforms there would only progress slowly. So, few policy-makers would bother to find out whether a socio-economic and political system designed in the 1980s would assist Hong Kong in coping with a China that, by then in 1997, would have experienced economic reform for almost twenty years. Even up to 1997, there was limited awareness that further socio-economic changes in the Mainland might pose serious challenges to the assumptions embedded in the design of 'One Country, Two Systems'. For instance, it was assumed interactions between China and Hong Kong would mainly be a kind of one-way traffic, with the latter capitalizing on the opportunities to be opened during economic reform in the Mainland and Hong Kong's people enjoying the benefits created by the discrepancy in the living standard between the two places. Indeed, the PRD, being one of the regions within China that was most adventurous in the implementation of reform measures, was quick to attract investments from Hong Kong. This was most evident in the massive relocation of Hong Kong's manufacturing sector from the mid-1980s onwards (Chiu et al., 1997). By 2006, some 9.6 million Mainland workers were employed by Hong Kong employers for manufacturing production

(Federation of Hong Kong Industry, 2010: 33) in south China. Such a strategy of relocation allowed many Hong Kong manufacturers to increase their scale of production by making the best use of the availability of cheap labour across the border and to enhance their quantitative production capacity. Meanwhile, some Hong Kong families also found their hometowns and other nearby cities attractive locations for home purchase. Many saw this as a possible option of post-retirement arrangement. And for others in Hong Kong, Shenzhen and nearby townships became popular destinations of weekend leisure break. But after the industrial take-off in the PRD and then later when many parts of China had experience rapid economic growth, it became evident that Hong Kong would benefit from an inflow of people and money from the Mainland.

Mr. Tung Chee-hwa, the Chief Executive then, saw the opportunity opened by a rapidly growing Chinese economy. He stated in his 2001 Policy Address that "Hong Kong's unique position, with the Mainland as our hinterland and extensive links to all corners of the globe, is a major and enviable advantage" (Hong Kong SAR Government, 2001: 5). He further described the economic cooperation between Hong Kong and the PRD region as "a 'win-win' situation" and suggested the need of a new perspective of Hong Kong's position: "as a window on the world for the Mainland, a major city in China and Asia's world city excelling in high value-added services" (Hong Kong SAR Government, 2001: 6). In this new narrative of the Hong Kong-China economic nexus, the emphasis was placed on the growing importance of China's economy to the SAR. It was a change from making use of Hong Kong's global connections to provide services to China to a new strategy of relying upon "the backing from the Mainland and openness to the world" (背靠內地，面向全球, *beikao neidi minxiang quanqiu*) for building existing and new strengths of Hong Kong's economy. The uniqueness of Hong Kong's position was summarized as: "Compared with other places, Hong Kong is indeed fortunate. At a time, when foreign investors are vying to enter the China market, we are already well positioned to seize the opportunities they seek" (Hong Kong SAR Government, 2001: 5).

Beijing was rather cautious on taking drastic measure to fully open two-way traffic between Hong Kong and the Mainland in terms of the flows of people and money. Uncontrollable outflow of money was always an issue of concern. But in view of Hong Kong's depressing economy as a result of the SARS outbreak and the need to respond to growing political discontent in Hong Kong in the mass rally held on 1 July 2003 (Ma, 2015: 44–45), the green light was turned on, and the Closer Economic Partnership Arrangement (CEPA) was launched. Its immediate economic impact was not obvious, but it did mark a significant change in Hong Kong's positioning vis-à-vis China. Whereas in the past Hong Kong was always seen as a platform through which China could reach out to the world, with the SAR assuming an active role in leading the latter onto the stage of the world economy, increasingly it was realized that it was a globalizing China that shaped the course of Hong Kong's future development. Accordingly, Hong Kong readjusted its positioning, perspective, and outlook.

The talks about letting the flows of money, people, and activities go into Hong Kong SAR were characterized by abstraction and dis-embeddedness. Money and people getting in and out of Hong Kong were barely abstract statistical figures on the accounts of GDP, retail sales, and tourism. Little attention was given to the question about how these activities were going to make their impacts on the local community. But gradually, by 2009–2010, the impacts of Mainland mothers giving birth in Hong Kong, rapid growth of Mainland tourists, and shortage of milk powder due to food security issues across the border were strongly felt by the locals. By then, regional integration was no longer seen as a neutral term to describe intensified flows of activity as well as more frequent interactions between Hong Kong and the Mainland. Increasingly, it was seen as a problem, one that fuelled rising hostility towards Beijing government (Kwong and Yu, 2013). Indeed, regional integration was one of the many critical issues that had not been anticipated in

the original design of 'One Country, Two Systems'. More importantly, it became one of the major sources of tension and conflict that emerged in Hong Kong after 1997.

Central government versus Hong Kong SAR

The original idea behind 'One Country, Two Systems' was to allow Hong Kong's capitalism to co-exist with China's socialism. Potential tensions and conflicts were expected to arise out of the differences between two different modes of production, namely capitalism and socialism. In the early 1980s, many people simply did not have any confidence in China's promise of not interfering Hong Kong; capitalism and socialism represented two entirely different social and economic systems, with the latter highly critical of the former. Marketization and economic reform in the Mainland gradually blurred the difference between the two systems. It was because of such changes that many people began to believe that tensions and conflicts between the two systems would subside.

Increasingly, tensions and conflicts between the Mainland and Hong Kong had shifted from socialism versus capitalism to those of the central government versus the SAR. This is again a development that has not been fully anticipated in the 1980s. Of course, this is not to suggest that people did not see Beijing as a potential threat then. People were very skeptical of China being an authoritarian socialist regime, and this was one of the major reasons why the maintenance of the rule of law was strongly underlined in preparing Hong Kong for the transition. However, that said, most of the skeptics at that time tended to believe that the threat from China was likely to emerge in the economic domain – the communist takeover of Shanghai was still very much a part of the popular memory among those who migrated to Hong Kong before or after 1949. The fear was about the confiscation of personal property and the punishment of those who were classified as 'class enemies'. In the political domain, the threat to personal freedom (from freedom of speech and assembly to that of leaving the country) was surely one of the foci of concern. But for most people in the 1980s, it was more about personal liberty than the institutional building for democracy. Democracy, or more precisely the pace of democratization, became an issue of broader concern mainly after 1989 when most of the people in Hong Kong closely followed the Tiananmen Incident in Beijing. But even then, there was hardly a consensus on the extent as well as the pace of democratization. As long as the power of the socialist Central Government would stay within the prescribed limits, then it seemed people would still find it acceptable.

In this regard, the conscious efforts to contain the power of the Central Government in the drafting of the Basic Law were telling. For instance, the Hong Kong SAR "shall have independent finances". It "shall use its financial revenues exclusively for its own purposes, and they shall not be handed over to the Central People's Government". Also, "[t]he Central People's Government shall not levy taxes in the Hong Kong SAR" (Article 106). The hidden agenda of the above stipulations was to prevent the Central Government from taking money out of Hong Kong. Furthermore, in Article 105, it is stated that

> the Hong Kong SAR shall . . . protect the right of individuals and legal persons to the acquisition, use, disposal and inheritance of property and their right to compensation for lawful deprivation of their property. Such compensation shall correspond to the real value of the property concerned at the time and shall be freely convertible and paid without undue delay.

The message was rather obviously a fear of the socialist government's confiscation of personal property. All the above stipulations pointed to a certain perception of China in the 1980s. The main concerns about the scope of the central government's interference were primarily about the

imposition of socialist practice onto Hong Kong society – from the infringement of individuals' property rights to the appropriation of the accumulated assets of the future SAR government through taxation and/or other arrangements. Very little attention had been given to the question about the relationship between the central government and a local government in connection to the flows of capital and people across the border and in terms of administrative arrangements in the case of regional and national integration.

Indeed, it is interesting to observe that how little, if any at all, attention has been given to the questions of regional and national integration. The hidden assumption was that Hong Kong, despite returning to China in 1997, would continue to be relatively secluded from the Mainland. The flows of capital and people, as noted earlier, were likely to be one-way traffic, with those from Hong Kong capitalizing on the Mainland's economy being gradually open to foreign investment. Otherwise, the SAR would operate more or less as a separate socio-economic system. As spelled out in Article 8, "The laws previously in force in Hong Kong, that is, the common law, rules of equity, ordinances, subordinate legislation and customary law shall be maintained". Furthermore,

> No department of the Central People's Government and no province, autonomous region, or municipality directly under the Central Government may interfere in the affairs which the Hong Kong Special administrative Region administers on its own in accordance with this Law.
>
> *(Article 22)*

The threat from Beijing was conceived as interference by a 'visible hand' from the outside. There was little awareness that after Hong Kong's return to China, the latter would be equipped with other institutional means to shape the SAR's development.

But gradually it was recognized, as found in the 2001 Chief Executive's Policy Address that we have already discussed above, that Hong Kong should tap onto the Mainland's growing economic strengths and resources. This was followed by the discussion of Hong Kong's role in China's 11th Five Year Plan in 2006. Such a discussion was new to Hong Kong. As an open economy that was proud of the government's approach of positive non-intervention to the management of the economy, Hong Kong was most unfamiliar, and quite often very hostile, to the idea of state planning. Yet, in the face of rapid economic growth in the Mainland and the prospect of further economic integration, the Five Year Plan became a topic receiving a lot of public attention. The discussion triggered a fear of Hong Kong being marginalized in the nation's emergence as an economic power (Leung, 2013: 198). A new discourse on socio-economic integration and a series of proposals of infrastructural project received a lot of attention. Regional integration was perceived as an opening of new business opportunities for Hong Kong.

Ironically, the promotion of integration backfired. As succinctly put by Kwong and Yu (2013: 135),

> The rising hostility is accompanied by growing resistance to socioeconomic integration between China and Hong Kong which the government has been actively promoting. This growing resistance to integration is remarkable given that the government had once successfully stirred up public concern through stressing Hong Kong's risk of being marginalized by China's rising economy, which would undermine the city's competitiveness.

Instead of drawing Hong Kong and China into closer contact and more mutual understanding, anti-Mainland sentiment began to appear in 2009/10. Hostility was growing and conflicts becoming more frequent. Regional integration gave Hong Kong a wake-up call about a new

order that was in the process of formation in everyday life after the return to China. This is not the type of question that the original political compromise and the design of 'One Country, Two Systems' have prepared to deal with. Hong Kong and its people are facing a situation that they are least equipped to encounter.

Indeed, before fully realizing most of the potential benefits that Hong Kong could obtain from its fast growing neighbour, the SAR is finding itself totally overwhelmed by the drastic changes driven by China. Hong Kong is struggling with its readjustment in positioning. Economic integration with China may well be a double-edged sword, while it offers plenty of opportunities, it also reshapes the outlook of Hong Kong. Growing dependency on China has turned Hong Kong into a different city. Quite true, it is still global, but increasingly, it is global in the sense that it is serving a globalizing China. Its role is becoming less and less of bringing China to the outside world but more and more of being a hub for outside business to go into China. Its function and role of being an outward-looking intermediary is undergoing a process of erosion. Meanwhile, growing integration with the Mainland also poses new challenges. The mid-year of 2015 marked a major adjustment in the Chinese economy. RMB depreciated and China's stock market experienced a drastic drop. The assumption of an ever-growing Chinese economy sounds unrealistic. And there is Hong Kong finding itself fully exposed to risks that inevitably would have rippling effects on its economy and society. Whereas in the earlier period most observers and analysts have been drumming up optimism, nowadays advices from the market are primarily about avoiding over-exposure.

The politics of political transition

Hong Kong's political transition, right from the very beginning, was not expected to be a smooth ride (including the pre-1997 period, when China opened confronted the British and emphasized the need of ensuring institutional convergence by circumscribing the extent and pace of democratization to be carried out by the colonial government prior to the handover). As remarked earlier, the settlement of its return to China was a compromise. Each of the concerned parties wanted to get more out of it, but somehow none of them would be fully satisfied. A deal was made, and yet many issues were left aside to be dealt with later. For instance, regarding the changes in the political structure, it is stipulated in Article 45 that

> The method for selecting the Chief executive shall be specified in the light of the actual situation in the Hong Kong Special Administrative Region and in accordance with the principle of gradual and orderly progress. The ultimate aim is the selection of the Chief Executive by universal suffrage upon nomination by a broadly representative nominating committee in accordance with democratic procedures.

Similar wording ultimately about the formation of a democratically elected legislature is spelled out in Article 68. These two articles in the Basic Law are probably the most crucial and contentious items that have been affecting Hong Kong's political development since 1997. The extent and the pace of democratization have come to constitute the major cleavage between Beijing and the broadly defined political opposition in Hong Kong.

The failure to build effective governance in the basis of a partially democratized polity in post-1997 Hong Kong is also a problem that fell outside of most stakeholders' expectations. For a long time, the administrative state under the colonial rule had been highly regarded for its efficiency, effectiveness, and responsiveness. Together with a reasonably broad-based network of political consultation, the administrative state has been able to bring Hong Kong economic prosperity and social stability. The formula of success seems to rest on an emphasis on administration and

not politics (or, to quote the much cited article by King [1981], the administrative absorption of politics). The future political blueprint that was developed in the 1980s had a big part of it based upon such experiences. But once Hong Kong changed its political status in 1997, this partially democratized polity with an administrative state, which had been running the colony smoothly for an extended period of time, began to fall apart. Decolonization seemed to have reshaped the pre-existing state-society relationship and some long buried issues, for example political legitimacy, emerged as sources of political tension and conflict. The Chief Executive was fully exposed to crossfire from different stakes of interest and/or political motivations. That the Chief Executive did not really have the endorsement from the general public via a democratized institutional channel undermined his political authority. From the first administration since the establishment of the SAR to the current government, governance in Hong Kong has been in a state of extended crisis. Worse still, with Beijing showing great hesitation in relinquishing her control over the selection process and, at the same time, the constitutional guarantee for the democratic camp's veto power given their success in commanding one third of the seats in the Legislative Council, no consensus has been reached on how to democratize the Chief Executive Election process since 1997. For Beijing, her promise for the right for Hong Kong people to express their preference on one-man, one-vote basis will only be honoured if her privilege to screen out unwelcome candidate is guaranteed. However, for the supporters of the democratic camp, free election should also entail unrestricted right to nominate candidate and stand for election. The chasm in perception and value seems insurmountable and the escalating ferocity of the tension eventually exploded in the late summer of 2014. The Umbrella Movement simply exemplifies the local community's frustration with the sluggish progress in democratization since 1997.

What was once depicted as a 'business city' or a city of pragmatism is now becoming a place getting known for its political activism. It would be an overstatement to suggest that Hong Kong has now become a 'political city' – the majority is still quite happy to stay quiet and only attends to what is closer to their everyday life. Yet, having said that, we have seen many of those social issues arising from the changing social, economic, and political environment being taken to the street by ordinary people since 1997. The 2003 mass rally on 1st July, with half a million people marching on the street to protest against the government on the anniversary of the establishment of the SAR, shocked Beijing. It was triggered by controversies over the Article 23 of the Basic Law (on national security, touching broadly on issues ranging from act of treason and subversion against the Central Government to prohibition of connection with foreign political organizations) and could be seen as a crystallization of growing discontent, from all walks of life in Hong Kong, of the new administration. The political outcome was that Mr. Tung Chee-hwa, the Chief Executive of the SAR Government then, prematurely stepped down from his position.

Then eleven years later, there was the Umbrella Movement. The main streets in Hong Kong's central business district were blocked by street barricades, and the city was almost brought to a standstill for 79 days. The focus of this mass protest was on political reform. Once again, the question concerning how far Hong Kong would be allowed to move towards full democracy had come to the forefront of public discussion. Like the mass rally in 2003, this was a collective action that surprised most of the people in Hong Kong. The mass rally in 2003 was characterized by the very limited role played the political parties and was regarded as a spontaneous outburst of widespread social and political discontent. Few observers would have made the right forecast of the scale of action. Nor would they have anticipated the shock it had created on the SAR Government (and Beijing as well). It was broadly seen as a symbol of people's peaceful collective action with significant and immediate impacts on the political scene.

The Umbrella Movement was different. Frustrations emerging from the growing differences between Beijing and Hong Kong over the process of democratization had been gathering and

becoming a source to energize political mobilization. So, when the discussion of further progress in political reform reached the public domain for open debate, activists of different political persuasions were ready for confrontation. As usual, the views of the so-called establishment and the political opposition (the broadly defined pan-democrats) continued to differ, and this, the absence of a consensus as well as the need to take care of interests from different social sectors, was one of the excuses for Beijing and the SAR Government used to create, yet again, new hurdles for the realization of a simple and straight-forward democratization schedule. What was new was that, even within the opposition, arguments and open confrontations emerged. But increasingly, activists, though they had very different views on what constituted better strategic moves, were drawn to a political positioning of standing firm on the demand of democracy. The idea of 'Occupy Central' (i.e., a mass demonstration and extended protest in the central business district) and the strategy of staging civil disobedience became the main items for discussion on the political opposition's agenda. Were they merely gestures to force the opponents to reach a compromise? Or rather a genuine attempt to stage a showdown with Beijing? The outcome was that the political mobilization process evolved and young activists, secondary school students, who had just successfully blocked a national curriculum in local schools in 2012, and students from local colleges and universities had largely taken over the leadership of the campaign. Actions in the street were expected; what was a surprise was the scale and length of this massive political mobilization.

In the political arena, one must admit that the social and political scene in Hong Kong is vastly different from earlier forecasts. Hong Kong survives, but in a different way. Politically it is still stable, and yet its social and political life is no longer quite the same as what it was before the handover. The assumption in the original 'One Country, Two Systems' design was that politics would be kept to a minimum in the SAR. But apparently, this assumption is becoming unrealistic. Not that political fervour is now overwhelming, it is just that there is no way Hong Kong politics will return to its form during the colonial days. Partial democratization is like bringing up the question of the Chief Executive's legitimacy, and his/her administration, without finding an acceptable way of ensuring that the political mandate will be secured. The current governance crisis, which indeed has already lasted an extended period of time, will continue unless the questions of democratization and political legitimacy are properly addressed. Political authority has repeatedly been challenged, and political mobilization is likely to erupt again when a contentious issue is brought to the public domain. In post-1997 Hong Kong, politics matters.

A high degree of autonomy: but how autonomous?

In June 2014, when debates about Hong Kong's political reform were heating up and the social movement of 'Occupy Central' was gathering its momentum, the State Council of the People's Republic of China (2014) issued a policy paper entitled *The Practice of the "One Country, Two Systems" Policy in the Hong Kong Special Administrative Region*. It was emphasized that

> Under this system, the central government exercises overall jurisdiction over the HKSAR, including the powers directly exercised by the central government, and the powers delegated to the HKSAR by the central government to enable it to exercise a high degree of autonomy in accordance with the law.

(2014: 9)

In other words, Beijing would like to draw the Hong Kong people's attention to the point that "The central authorities perform overall jurisdiction and constitutional duties as prescribed in the Constitution of the People's Republic of China and in the Basic Law of HKSAR, and exercise

effective administration over the HKSAR" (2014: 10). In the Chinese text of this State Council document, the key phrase of the above sentence was "*quanmian guanzhiquan*" (全面管治權). Its meaning was not exactly 'overall jurisdiction' as in the English text but rather that of an encompassing power of domination. "The Basic Law of the HKSAR is a basic law formulated in accordance with the Constitution of the People's Republic of China" (2014: 7). And "The system of the special administrative region . . . is a special administrative system developed by the state for certain regions" (2014: 9). The high degree of autonomy enjoyed by the SAR is under the supervision of the Central Government. For Beijing, such a high degree of autonomy was prescribed by the Constitution of the People's Republic of China, and the central leadership (including the National People's Congress and its Standing Committee, the president of the state, the Central People's Government, and the Central Military Commission) "directly exercises jurisdiction over the HKSAR" (2014: 9). Beijing made it plain that it was ready to assert its power over Hong Kong as it saw appropriate.

It would be overly simplistic to assume that Beijing took a drastic turn in the way it managed Hong Kong as an SAR in 2014. If there is a turning point in Beijing-Hongkong relationship (and there is strong reason to believe so), it happened in 2003. The mass rally on the 6th anniversary of Hong Kong's return to China, which brought about the signing of the CEPA and the premature departure of Mr. Tung Chee-hwa from his Chief Executive office in 2004, was a critical juncture. The former marked a change in the strategic move towards the economic incorporation of the SAR into the rapidly growing Mainland economy; the latter saw the beginning of closer monitor and management of domestic political and social affairs of Hong Kong by Beijing. The main theme of Beijing's political move was about asserting its position, role, and power as the central government. Instead of leaving most of the activities under the SAR's administration (other than foreign affairs and defence) to the HKSAR Government, Beijing made it clear that it was ready to take up the role of the central government.

The State Council's paper was not just a reaction to the political mobilization triggered by 'Occupy Central'. It was a statement from Beijing on its interpretation on how it would carry out its '*quanmian guanzhiquan*' over the HKSAR. With this note, Beijing summarizes its new approach managing SAR affairs. On the side of Hong Kong, this poses a new challenge: how is it going to practise the high degree of autonomy that was once promised? What kind of autonomy is it going to look for? How will Hong Kong find its space of autonomy in the face of a Beijing that is increasingly conscious of its power of domination? This question about the autonomy of the SAR will be the major fault line upon which Hong Kong and Beijing are expected to work out a new relationship in the coming years. This is not only a challenge to Hong Kong. It will also be a challenge to Beijing.

The organization of chapters

This Handbook is divided into six sections: 'One Country, Two Systems' in practice, governing post-colonial Hong Kong, social mobilization, the changing social fabric, socio–economic development and regional integration, and future development. Our discussion starts with an examination of the performance of 'One Country, Two Systems' since 1997. Chen (Chapter 1) directly addresses the question of autonomy and evaluates its practice in Hong Kong. The scope of autonomy stipulated in the Basic Law is wide and encompassing. But the People's Republic of China is a unitary state, and thus the constitutional guarantee of the HKSAR's autonomy is less than in a federalist system. Equally important is the condition that the extent of democratization in Hong Kong is restricted. Both of these conditions pose challenges to Hong Kong in terms of an assessment of its autonomy. And the paradox is that, as pointed out by Chen, the high

degree of autonomy given to the HKSAR makes Beijing unsure of having effective control over its administration, and thus it is very difficult to persuade the latter to loosen its grip on Hong Kong's pace and extent of further democratization. Meanwhile, the guarantee of the rule of law and respect for the pre-existing legal system rest upon an independent judiciary that stays away from any direct control from China. Gittings (Chapter 2) critically examines how the SAR's judiciary operates under the new institutional setting after 1997. Hong Kong has its own Court of Final Appeal, and the decisions made there lack the right of appeal to any national court. Such an autonomy given to the courts in the SAR is qualified by the power of the National People's Congress Standing Committee to interpret the Basic Law. This is a source of tension, not just over court decisions but in the wider community as well. And many new challenges are posed to Hong Kong when the SAR is learning to live with China. But Hong Kong's courts continue to play an important role in defending the common-law system and the guarantee of the rule of law is safeguarded.

One of the key considerations in the formulation of 'One Country, Two Systems' is to ensure Hong Kong's economic prosperity after its return to China. In this regard, the performance of Hong Kong's economy after 1997 is an important topic for a review of the SAR's socio-economic development. Sung (Chapter 3) looks at the development of the Hong Kong economy in the light of economic integration. With the deepening of economic reform in Mainland China, the major concern for post-1997 Hong Kong is no longer that of socialist interference of its capitalist economy. Rather, it is about how the SAR is developing a new economic nexus with a rapidly growing Chinese economy. Sung examines the costs and benefits of the process of economic integration and suggests it is a major challenge to the SAR Government to effectively manage the flows of people and capital in the course of growing integration.

The second theme of our discussion is about how to govern the SAR after decolonization. As noted earlier, one of the inadequacies of the design of 'One Country, Two Systems' is that the impact of decolonization have been hugely under-estimated. It was once believed that the SAR would simply need to inherit the political structure as well as the organization of political life in the colonial era – a bureaucratic administrative state together with a partially democratized system seems to be the best arrangement to ensure political stability. Administration would come before politics, and the political transition in 1997 would be no more than a change in the national flag. It was assumed that post-1997 politics would largely be business as usual – the interests of the business sector would be taken care of, and the rest of the population was unlikely to pose any serious challenge to the new government. With hindsight, we understand that such an understanding of political change after the handover has been seriously mistaken for not adequately anticipating the consequences of a change in state-society relations. Four chapters under this theme probe the contradictions and conflicts emerging in the course of political transition. Cheung (Chapter 4) examines the stalemate in the legislature in terms of the structural and institutional fractures in the SAR's political system. The current political impasse is not a result of a shortage of competent political leaders but that of problems embedded in the political design and its operation.

Fong (Chapter 5) looks at advisory politics before and after 1997. It was once suggested that political consultation was a pillar supporting effective governance under the colonial system. But after 1997, the mediating function of business-professional elites has been significantly weakened by the emergence of electoral politics and political activism in civil society. The weakening of advisory politics is indicative of broader changes in the SAR's political environment. Such an analysis is echoed by Lam's analysis of the development of civic engagement by the SAR Government (Chapter 6). Her analysis again points to problems inherent in Hong Kong's partial democratization. Political legitimacy, more precisely the lack of it, is and will continue to be the major

problem hindering the government's effort in rallying public support to its governance. On the side of the government, Cheung (Chapter 4), drawing upon Scott's analysis (2000) describes the institutional structure as disarticulation. On the side of the key agents of political participation in the established channel, Ma (Chapter 7) looks at party politics and its development. He points out that political parties are still largely underdeveloped and the political stage is characterized by fragmentation. Such underdevelopment in political party in Hong Kong is also, at least partly, an outcome of the partially democratized political system.

To follow the above discussion of the changing state-society relations and political development in Hong Kong, the third theme is an attempt to look into the emergent social and political environment of new forms of social mobilization. Indeed, the bottom-up response to the disarticulated political institution and fragmented party politics is unforeseen political activism. And one of the distinctive features of such political activism, which is evident in the large-scale protests, since 1997 is what Lee and Chan (Chapter 8) describe as citizen self-mobilization. Established political party and political group only play a very marginal role in the formation of large-scale protests since the handover. The notion of self-mobilization is further enshrined and idealized as a special feature of political life in post-1997 Hong Kong. Lee and Chan suggest that these actions of citizen self-mobilization have their potentials as well as weaknesses. They show a distrust of political party and party politics. Sometimes this notion of distrust is also extended to political organizations in general and thus is not conducive to the consolidation of political solidarity.

Political development in post-1997 Hong Kong is not only characterized by a disarticulation of political institution and an erosion of the government's political authority (see Cheung in Chapter 4), it also featured a proliferation of new agents of social and political mobilization and the emergence of new forms of political action. Lee (Chapter 9) looks at the changing environment and media articulating discontent and a popular voice. He starts with a discussion of opinion media, more specifically talk radio, and then moves on to examines the emergence of online alternative media. Both have played a significant role in shaping the changing public domain in Hong Kong. They change the way opinions are articulated and, more importantly, how public debate is shaped. Lee uses the term 'counter public sphere' to describe the formation of an oppositional consciousness that poses serious challenge to the dominant power. Tang (Chapter 10) focuses on social media and social mobilization. While it would be too early to write off the role of more conventional mass media, increasingly social media are the key agents mobilizing people to engage in political action. Social media mobilization has close affinity with radical action. Yet, discussions via social media seem more likely to create internal schism, being particularly prone to cultivating distrust of political organizations among participants and those who are active in expressing their views in such social media platforms.

Equally interesting and noteworthy is the emergence of actions taken by individuals and/or groups by invoking their legal rights and using "litigation to defend or develop these rights against the government" (Tam in Chapter 11). Tam's analysis gives us a systematic account of the outcomes of such legal mobilizations against the government before the Court of Final Appeal. It alerts us that this is a new form of political action used by citizens and civic groups to challenge the government's decision (also see Tam, 2013). Legal mobilization is largely an outcome of the changing political and legal opportunity structure. At the same time, it is supported by an autonomous and efficient legal complex. Echoing the discussion under Theme 1 by Chen (Chapter 1) and Gittings (Chapter 2), this chapter draws our attention to the institutional peculiarities of Hong Kong under 'One Country, Two Systems'. The establishment of the Court of Final Appeal in Hong Kong, the pre-existing vibrant legal complex (including an independent judiciary, government-funded legal aid, and an autonomous legal profession), and a robust civil

society create a situation wherein legal mobilization has become an important form of political action that circumscribes the power of the SAR Government.

Cheng (Chapter 12) and Yep (Chapter 13) connect changing forms of social mobilization to the broader institutional environment. Cheng examines the new wave of activism in the light of the concepts of event, repertoire, and frame. He connects seven critical events in 2006–2014 with the Umbrella Movement in 2014 that brought bottom-up activism to the forefront. New repertoires of collective action and the novel framing of demands and claims have reshaped the contours of Hong Kong politics. Yep compares the two major confrontations in Hong Kong's history, namely the 1967 Riots and the Umbrella Movement in 2014, and looks at the similarities and differences in state responses, an important question that has often been unduly neglected in the literature on social movement. He sees the government of Hong Kong as a local state: whereas a process of informal devolution allowed the colonial governors to retain room to manoeuvre in governing Hong Kong, Beijing is less likely to stay out of the local political scene in the SAR after 1997. His analysis re-connects state-society interactions and dynamics in the shaping of the course of action in these two major political confrontations.

The fourth theme of our discussion covers the changing social fabric of contemporary Hong Kong. Lui (Chapter 14) offers a survey of growing income disparity in Hong Kong. The Gini Coefficient based on monthly household income increased from 0.537 in 2011 to 0.539 in 2016. For a long time, Hong Kong has always performed badly among its peers (say, compared with the other members of the Four Little Dragons in the 1980s and 1990s) in terms of income distribution. With the arrival of an ageing population, the Gini Coefficient is unlikely to see much, if any at all, improvement in the coming years. We must admit that income disparity as such has long been regarded as a social issue of secondary importance. It is not an issue that would fuel social mobilization. Nor has it been taken up by any political party as an issue of paramount importance in their party programme or election statement. The question of income inequality will receive more attention only when it is articulated to other matters of social concern.

One of these social concerns is the presence of ethnic minorities in elementary (i.e., unskilled) occupations. This issue also manifests itself in the institutionalization of language barriers for working-class ethnic minority students to compete in the mainstream education system. Yet, very often the rights of the ethnic minorities are simply out of the radar of local political organizations and thus are barely tangentially connected to the debates in the public arena. O'Connor (Chapter 15) offers a historical and broader review of ethnic minorities and ethnicity in Hong Kong. He argues that "despite the longstanding presence and contribution of various ethnic groups in the makeup of Hong Kong, their inclusion and recognition in society remains marginal". Fong, Li, and Chan (Chapter 16) look at Mainland Chinese migrants in Hong Kong. They give a historical account of different phases of immigration from Mainland China to Hong Kong. They also investigate how the changing composition of the immigrants and variations in their connections with the local community affect their social integration. Mainland Chinese migrants constitute a diversified population; while many of those who came for family reunions are relatively weak in terms of credentials, there are also entrepreneurs and professionals that are attracted to the SAR via various government initiatives. Quite often, it is the former group of migrants from the Mainland that has drawn the media's attention, and these poorly educated and lowly paid Chinese migrants are seen as people dependent on social welfare. Such stereotypes tend to linger despite the fact that many of these migrants have worked hard to raise their families.

Rising social inequalities and growing discontent among young people are often seen as two interrelated social phenomena. While young people's grievances are not simply confined to issues of economic concern, it is important to take note of how changes in the broader environment have reshaped their life chances. Ip (Chapter 17) offers an overview of the situation of the young

people in the changing opportunity structure. A drastic increase in the number of sub-degree holders since 2000, a slow growth of middle-class occupational positions, and the widening of earning differences between business and other sectors have adversely affected the young generation by changing the conventional patterns of occupation and earnings attainment. The expectation of a stable career and the attainment of a steadily improving income have gradually become beyond the reach of many young people.

This brings us to the question of the changing situation of the middle class. Ip and Lui (Chapter 18) look at the professional, administrative, and managerial salaried employees in Hong Kong and see how this middle class has emerged during the rapid economic development in the postwar decades. They also see how this middle class has experienced the Asian Financial Crisis and the broader changes in the employment environment brought about by economic restructuring. The middle class is resilient in post-1997 Hong Kong, but increasingly, anxiety and a growing sense of uneasiness are found among the professionals, administrators, and managers.

When Beijing approached the question of Hong Kong's political future and the design of 'One Country, Two Systems' in the 1980s, one of its considerations was how to ensure the maintenance of the SAR's future economic prosperity. Its strategy was to allow existing business elites to continue to play a leading role in shaping Hong Kong's socio-economic development. Ngo (Chapter 19) examines the genealogy of the close relationship between business and politics in Hong Kong from a historical perspective, tracing its origin in the early colonial days to the current situation after the handover. Particularly, he discusses the development of business conglomeration in the 1980s and 1990s. While conglomeration increases the scale and capital concentration of big businesses, the strengthening of family business groups has also brought about a fragmentation of the business community as these family groups are eager to compete with each other and to further consolidate their business kingdoms. In the course of growing economic flows between Hong Kong and the Mainland, there emerges what Ngo calls hybrid business. This refers the integration the operation of Hong Kong business into the Mainland as well as the growth of cross-shareholding that gradually blurs the boundaries between private enterprises and state-owned enterprises. More significant is the growing importance of Mainland capital in the Hong Kong economy. The business practices of such hybrid business are driven not only by market signals but also according to political missions. Ngo's analysis draws our attention to the changing political economy in Hong Kong. He also alerts us to the changing relationship of business and politics. Conventional channels of participation in the Executive and Legislative Councils have been found to be too restrictive as business elites have moved into new playing fields (e.g., mass media) and tried to convert their economic power into political influence.

Wong (Chapter 20) offers his engaging discussion on business and politics by focusing on the real estate elite and real estate hegemony. Indeed, real estate capital has long been seen by many observers as the most important agent in shaping social and political life in Hong Kong, and the real estate elite is a ruling class that can impose their will on major policy decisions. Wong takes issue with these arguments and suggests that the real estate elite is likely to form a coalition of support for the HKSAR Government. But it would be an overstatement to suggest that the government has been captured by real estate capital. Also, there are many cases illustrating the existence of internal conflicts within this elite group. Furthermore, with the arrival of real estate developers from the Mainland, who have been aggressively acquiring land in prime locations, the membership to the real estate elite club is becoming less exclusive and more fluid.

Under Theme 5, we examine socio-economic development and regional integration. We start with a review of the development of manufacturing and the film industry, both of which have been major components of Hong Kong's industry. Chiu and Shin (Chapter 21) re-examine the so-called golden age of Hong Kong's film industry from an institutional and organizational

perspective and suggest that it was driven by the distributor-led system. The industry's decline began in the mid-1990s in the context of a restructuring of the local cinema sector. In response, filmmakers explored the opening of the Mainland market by engaging in co-production. Yet, as put by Chiu and Shin, this is "not a panacea for the Hong Kong film industry".

Yeung (Chapter 22) also takes a critical look at Hong Kong's manufacturing in the wider context of economic restructuring, not simply within Hong Kong but also in the broader environment of the (PRD). The main direction of development of Hong Kong's manufacturing since the mid-1980s has been characterized by relocation and the continuation of labour-intensive production after moving production bases to the PRD. With rising production costs in the PRD and growing competition from locally funded enterprises and subsidiaries from transnational corporations, small and medium-sized manufacturers from Hong Kong are losing their competitive edge. But Yeung reminds us that the declining significance of Hong Kong capital in south China is not the same as the weakening of the PRD's prospects of becoming a leading economic region within China. Indeed, Shenzhen has emerged as the centre of China's knowledge-intensive, higher value-added industries. The new challenge posed to Hong Kong is to what extent it can capitalize on the economic restructuring: as warned by Yeung, given its limited investment in basic research and technology, would this be a missed opportunity for the SAR?

Meyer (Chapter 23) looks at Hong Kong's rise to the status of a global city from a long-term perspective. He gathers, from interviews with financiers as well as from business statistics and world rankings, that Hong Kong has continued to thrive as a global business and financial centre after 1997. It continues to serve as "China's window to global capital". In this regard, China's sovereign control over the SAR would not undermine Hong Kong's position as a global city. Rather, Hong Kong seems to be an important constituent of China's global strategy in its rise in the world economy.

Hung (Chapter 24) looks at Hong Kong's economic role and function to China from a different perspective. He argues that Hong Kong was critical to China's economic purpose in Mao's era as well as during the economic reform in the 1980s–1990s. And the SAR continues to serve its function even after China has taken a more active role in the world economy. He argues that China has not really opened up its financial market to the extent as many observers have suggested. In this connection, Hong Kong is still playing its role as China's off-shore economy and, as such, its contribution to the Mainland will remain crucial.

Under the sixth theme of this volume, five chapters look into different aspects of Hong Kong's future development. One of the important emerging issues arising from the discussion of political development in contemporary Hong Kong touches on the question of identity. Ku (Chapter 25) reminds us that identity is "relational, fluid, multiple and changing". By looking back at the social and historical processes that lead to the formation of local identity in Hong Kong, she underlines the fact that there are multiple discourses on local identity. Instead of seeing local identity as a single-branded, fixed construct, its character will continue to be multiple and contested. Ip (Chapter 26) examines the new political orientations that have emerged since 2011, particularly right-wing nativism. Instead of just seeing the formation of such a political orientation in terms of a reaction to various 'China factors' (e.g., the rapid increase of Mainland tourists), Ip argues that it has more to do with a sense of crisis, skepticism in liberal institutions, and the political pluralism in Hong Kong since the late colonial period. Ip suggests that "What is undergoing is a process of gradually building up a political subject by learning to orientate themselves in a fragmented world and de-institutionalized environment without clear reference points". How this new form of politics will impact Hong Kong's future political development is still open-ended and far from conclusive. But it is quite clear that the established order and practice in the political domain are found inadequate to respond to such new political articulation and action. The structuring and

restructuring of Hong Kong's civil society will be one of the key determinants of what lies ahead (see also discussion under Theme 3).

Ng (Chapter 27) poses another critical question for our consideration of Hong Kong's future development, namely sustainable development. Drawing upon the ideas developed in *The City We Need*, Ng identifies three key aspects for a sustainable urban paradigm. She examines the major 'roadblocks' created by Hong Kong's vested interests in property development and a governance structure that leaves power concentrated in the bureaucracy. She then continues to see how a road-map can be developed for making Hong Kong a humane and ecologically friendly city. In order to do this, Hong Kong must also reflect upon its own governance and orientation. A people-centred approach to the deliberation of the urban future will be a crucial part of the required changes.

So (Chapter 28) reflects upon Hong Kong's integration with Mainland China from a macro historical perspective. From integration prior to Hong Kong's return to China to growing interaction after 1997, So shows how the process has taken different forms in different stages of development. Indeed, the question of integration is never straight-forward and is far more complex than what was once envisaged in earlier development of a changing Hong Kong-China economic nexus. The agenda has changed and will continue to evolve. Chen (Chapter 29) looks further at Hong Kong's changing position in the context of growing competition from other major cities in the Mainland. He compares Hong Kong, Shanghai, and Shenzhen and enriches his comparative analysis through triangulating the three cities. This novel attempt provides us with new insights on how to assess the changing competitiveness of each of these three cities vis-à-vis the other and the possible conditions for cooperation. The question to be asked is no longer merely about the erosion of Hong Kong's competiveness against the background of the rise of Shanghai and Shenzhen. Rather, it should also cover how Hong Kong is going to reposition itself in the broader regional and national context. Indeed, the characteristics of competition (and potential cooperation) in Hong Kong versus Shenzhen, Shenzhen versus Shanghai, and Shanghai versus Hong Kong are different for each pair of comparison. Increasingly, it is important to recognize that each of these cities is not an isolated entity; instead, its course of development will impact its neighbouring region as well as the other two competing cities. A new repositioning requires Hong Kong to look for strategic partners in the Mainland. Such strategic partnership is not just another piece of mutual understanding agreement but rather a new set of practices that would touch on the division of labour between partners and the implementation of various measures (from infrastructure projects to actual partnership initiatives) that would bring about deliverables. There have been a lot of talks on Mainland-Hong Kong cooperation, but few of them have made any major breakthroughs.

Turning to a new page

We have repeatedly emphasized that the central idea embedded in the design of 'One Country, Two Systems' is continuity. The Basic Law is supposed to be the legal document to ensure that the status quo will remain unchanged for, at least, fifty years. As the processes of reversion unfolded in the past twenty years, it has been found that there are many issues and problems at both the structural and institutional levels that fall outside of people's anticipation and imagination. An overarching framework that was built upon a belief of preserving the status quo and minimizing changes is becoming problematic. But any major change to 'One Country, Two Systems' is unlikely. On China's side, while it has already started to change its approach to and actual management of Hong Kong affairs since 2003, it is difficult for Beijing to admit that the implementation of this grand plan is less than satisfactory. For Hong Kong, expressions of dissatisfaction

with the actual operation of 'One Country, Two Systems' are many, particularly in the area concerning the progress of democratization. However, it is difficult to convince these critics that Hong Kong would fare better by dropping 'One Country, Two Systems' altogether. It is evident that the current balance of power between China and Hong Kong in terms of economic power since 2000 is not in favour of the latter. Those were the days when Hong Kong was 'the goose with the golden eggs' and China had to worry of scaring the capitalists into withdrawing their investments and leaving the colony. Hong Kong's bargaining power has been weakened in the face of China rising in the world economy. It does not seem to be the case that Hong Kong would secure a better deal if the question of 'One Country, Two Systems' were once again put onto the agenda for discussion.

The chapters in this volume offer reviews of social, political, and economic changes in various domains of life in Hong Kong before and after 1997. Many contributors also point out the direction of future development. One of the main questions to be addressed in the coming years inevitably touches on the extent and pace of democratization. This can be described as an incomplete page in the Basic Law. It is stipulated in sections of Article 45 and Article 68 that ultimately all members of the legislature and the Chief Executive (though in this case, upon "nomination by a broadly representative nominating committee in accordance with democratic procedures") will be elected by universal suffrage. How Hong Kong is to be further democratized has been the major line of political contention both within Hong Kong and between Hong Kong and China. And it will continue to be so in the coming years.

If democratization is, in the eyes of many people in Hong Kong, an incomplete chapter of post-1997 development, then for Beijing enacting laws in relation to Article 23 (on national security) is one of the so-called constitutional duties that the SAR should carry out. As noted in our earlier discussion, the design of 'One Country, Two Systems' and the Basic Law are outcomes of political compromise. Inevitably there are areas in the implementation of 'One Country, Two Systems' that cannot fully satisfy one of the concerned parties. Both Hong Kong and China would like to see some, but not all, of the institutional arrangements be closer to what they once envisaged. On the side of Hong Kong (at least for the so-called pan-Democrats and their supporters), the wish list contains on democratization; meanwhile, on the side of Beijing, the emphasis is on strengthening of the idea of the nation (the expression of having 'One Country before Two Systems') in the SAR. Conflicts between Hong Kong and China over issues concerning control and autonomy (the question of democratization is also an example) are simply inevitable. The question is not about what the conflicts are but rather how they are to be dealt with.

Clashes between Hong Kong and China are, as noted earlier, not what was expected in the 1980s and 1990s – about capitalism versus socialism. Instead, the central cleavage is about the Central Government and Hong Kong as a local society. How autonomous this SAR with a high degree of autonomy can be is the central question informing the future Hong Kong-Beijing relationship. Tensions and conflicts are less about differences arising from two different economic systems but more of how Beijing wants to control and manage Hong Kong (and how Hong Kong wants to maintain distance from being completely subordinated to the Central Government's control). Such conflicts would arise out of bigger institutional issues like democratization. Conflict can also take place over matters concerning regional integration (from inbound tourism from the Mainland to cross-border economic cooperation). The rise of so-called nativism (see Ip in Chapter 17) and various separatist voices are, in a sense, by no means accidental. Tensions between Beijing and Hong Kong in terms of Central Government-SAR relations are growing. How these tensions would be managed is a major issue in the coming years. How such tensions and conflicts are to be conceptualized would be of interests to political scientists and legal studies researchers. The scope and extent of self-government (Ghai and Woodman, 2013) to be given

to Hong Kong by Beijing are fault lines upon which political contention will be carried out. Between now and 2047 (by then, and most likely well before that date, the promise of maintaining the status quo will be reopened for negotiation), this will be the key issue informing Hong Kong politics.

How China will impact Hong Kong is a question raised by many contributors. And this question is not confined to potential impacts in the area of political development. Changes in the patterns of interaction between Hong Kong and China are most evident in the flows of economic activity (see Sung in Chapter 3). We have discussed why Hong Kong is ill prepared for regional integration and the impact of the growing two-way flows of people and money between the Mainland and the SAR (see So in Chapter 28). More importantly, such changes also pose new challenges to Hong Kong. Ngo (Chapter 19) draws our attention to the arrival of new capital to Hong Kong. This new capital is not just another source of foreign investment. He calls these ventures hybrid businesses – many of these Mainlanders do not run their businesses simply according to the logic of capital (i.e., the pursuit of profit) but rather tend to have other concerns in their mind (sometimes it is about a political mission, and other times they are more eager to move their capital out of China than to think of the rate of return to their investment in Hong Kong). Furthermore, given the scale of the Chinese economy, increasingly Chinese business and capital, as evident in their significant position in Hong Kong's stock market, are able to drive economic development through economic actions in Hong Kong's market. The acquisition of land by Mainland investors is considered alarming when they literally out-bid local property developers. The influx of inbound tourists in the past decade has been simply overwhelming – together with the drastic increase in the number of Mainland tourists, the number of shops selling cosmetics and related products, just to quote one example, have grown 1,500% in 2003–2012 (Legislative Council Secretariat, 2014). The impact of China via the market and their broader socio-economic (and even cultural and political) consequences are totally unanticipated. The original framework of 'One Country, Two Systems' did not prepare the SAR to deal with this new environment.

Equally pertinent is how the rise of China impacts Hong Kong's repositioning in economic development. The deepening of economic reform in the Mainland does not guarantee the further growth of Hong Kong's industries (see Chiu and Shin in Chapter 21 on the film industry and Yeung in Chapter 22 on manufacturing). The utilization of the so-called 'China opportunity' requires continuous efforts from Hong Kong to develop new initiatives and to seize new opportunities. How will Hong Kong compete with Shanghai and Shenzhen (Chen in Chapter 29) or find a new strategic role in the newly formulated Bay Area initiative is still an open-ended question. But all these changes will reshape the agenda of the discussion. The changing agenda began with discussion on Hong Kong's marginalization in the context of China's rise to economic power. This was further elaborated in Hong Kong's attempt to find its place in China's Five Year Plan. The Mainland is now becoming the centre that dictates the economic development of a once highly globalized Hong Kong. Indeed, China's influence goes well beyond Hong Kong, and it is playing an active role in shaping the development of many economies in the region. But as suggested by Hung (Chapter 24), China's opening to the global economy, and global finance in particular, is far from complete. Its partial opening ensures that Hong Kong, at least in the short and medium run, will continue to have a special role to play as an off-shore economy. But how Hong Kong will develop a new role for itself in the context of a changing regional and global economy is a question that deserves our attention.

Since 1997, Hong Kong has been learning to live with China. And it is still learning. It serves as an interesting case for understanding institutional change. We have discussed how macro structural changes (e.g., marketization in China and the growing strength of the Chinese

economy) pose challenges to the framework of 'One Country, Two Systems'. It is also interesting to observe how decolonization has triggered a chain of effects on Hong Kong's political structure and institutions and has triggered contentious action. And the intensification of regional integration will inevitably bring about new economic, social, political as well as cultural issues to Hong Kong. Looking at 'One Country, Two Systems' from the perspective of institutional change not only alerts us to changes that are unanticipated (and therefore institutional rebuilding would be required to deal with emergent situations) but also reminds us how institutions can and cannot stay put. In this regard, Hong Kong's vibrant civil society (see our discussion under Theme 3) continues to function in a way that makes it difficult for Beijing to exert total control. It does constitute a force of social solidarity that poses immediate challenge to China's authoritarian rule. Yet, it is resilient. On this note, Hong Kong stays put.

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Theme 1
'One Country, Two Systems' in practice

1

The autonomy of Hong Kong under "One Country, Two Systems"

Albert H.Y. Chen

The concept of autonomy[1]

It has been said that "'Autonomy' is not a term of art in international or constitutional law" (Hannum, 1996: 4; Suksi, 2011: 101). The word "autonomy" can be used in a broad sense, which includes (a) territorial autonomy, often on an asymmetrical basis (in the sense that not all territories or regions of the state enjoy the same degree of territorial autonomy), within a unitary state (Dinstein, 1981; Weller and Nobbs, 2010; Suksi, 2011; Ghai and Woodman, 2013), as well as (b) the autonomy enjoyed by constituent units of a federal state (Wheare, 1963). In the discussion below, the word "autonomy" will be used in its broad sense, unless otherwise indicated expressly or by the context. "Autonomy" in the narrow sense refers to territorial autonomy within a unitary state in situation (a) above.[2]

The concept of autonomy refers to a particular form of distribution of governmental power within a sovereign state. It may be explained as follows. Suppose there is a sovereign state X, and a part of the territory of X is Y. The people of Y can be said to exercise a power of autonomy within the state X if they – usually through their representatives – are empowered to govern themselves in respect of certain affairs. (Examples of "affairs" in this context are housing, education, transport, social welfare, environmental hygiene, medical services, taxation, etc.) The more extensive the kinds of affairs over which they are self-governing, the higher is the degree of autonomy. The idea of autonomy, however, presupposes that there are at least some governmental affairs over which the people of Y have no ultimate control. For if the people of Y, through their representatives, have complete control over every aspect of their existence and operation as a community, then they are not merely autonomous but constitute an independent sovereign state.

In the above example, there are at least two levels of government in state X. The first is the national or central government of state X, representing, exercising power on behalf of, and having authority over all the citizens of X. Second, there is a local government, or autonomous government, of area Y, representing, exercising power on behalf of, and having authority over the people of Y. Of course, insofar as the people of Y are also citizens of X, they can also participate in the formation and operation of the national government. But the fact would probably remain that the local government of Y will be able to represent their interests more directly and effectively than the national government, at least where the "autonomous affairs" (i.e. affairs specified as

the local autonomous government's responsibilities) are involved. For otherwise, the people of Y will not derive any substantial benefit from the arrangement of autonomy.

The above analysis illustrates another possible way of defining the concept of autonomy: the people of Y are said to be exercising autonomy within state X (Y being part of X) if there exists a division of governmental powers between the local or regional government of Y and the central or national government of X. This division is based on classification of governmental affairs into different types and the allocation of power over certain types of affairs (e.g. housing, education, etc. as mentioned above) to one government and of power over other types of affairs to the other government. Under this arrangement, the local government will exercise various powers, such as policy-making powers, legislative powers, and judicial powers, over certain designated types of affairs, and the national government will exercise governmental powers over other affairs. The more extensive the powers of the local government, the higher is the degree of autonomy, and vice versa.

If the concept of autonomy is understood as explained above, then it follows that autonomy is in fact a fairly widespread phenomenon in the nations of the contemporary world. Every regional or provincial government, every city council or local authority, exercises some powers of autonomy. The difference among them lies mainly in the degree of autonomy. If a particular local authority has autonomous power only over relatively trivial affairs in a small area, then according to the ordinary usage of language, it can hardly deserve the title "autonomous government", although in theory the general concept of autonomy may still be applicable and relevant to it.

The scope of autonomy which is desirable or appropriate in any particular context usually depends on a complex of political, economic, social, cultural, and even racial, linguistic, and religious factors. Where the population in a particular area of a nation-state is sharply distinguishable from those in other areas by reason of some of these factors, they might demand a high degree of autonomy for the purpose of protecting certain basic interests or values against encroachment by the nation-state. Even where no such considerations are involved, some lower degrees of autonomy may be advantageous in the operation of certain levels of local government to stimulate local initiative, interest, and participation and thus to promote efficiency and democracy.

Although the policy to be adopted in any historical situation[3] regarding whether and what degree of autonomy for an area within a state should exist is almost always determined by extra-legal considerations, technical constitutional devices do need to be examined in the process of the creative design of autonomous arrangements in any given set of circumstances. In particular, the following issues are likely to command the attention of constitutional and legal experts advising politicians on the construction of models of autonomy:

(1) *Method by which the local government is to be formed*. Advocates of local autonomy would seek to ensure that the government of the autonomous region will truly represent and govern in the interests of the people of that region.

(2) *Division of powers in the legislative, executive, and judicial spheres between the central government and the local government*. The challenge here is to draw a line between the domain of the local government and that of the central government, a line which is rational and reasonable in theory and practicable in reality.

(3) *Mechanisms for rectification of errors and resolution of disputes*. What institutional devices are to be established to ensure, on the one hand, that the local government will not exceed the scope of its autonomy and, on the other hand, that the central government will not infringe upon the scope of such autonomy? Where such errors have indeed occurred, how are they to be rectified? Where conflicts of opinion regarding these matters arise between the two sides, how are they to be resolved?

We consider below the salient features of federal and non-federal models of autonomy respectively. A federal state (Wheare, 1963) is formed by the union of more than one member state or province, each of which usually enjoys the same degree of autonomy (in what can be called a "symmetrical" manner) vis-à-vis the federal state. There is a division of power between the federal government and the state (or provincial) governments. Thus the former will have exclusive jurisdiction over certain affairs; each of the state governments has exclusive jurisdiction over other affairs within its territory; and over some affairs, the federal and state governments have "concurrent powers". Concurrent powers exist where, for example, both the federal legislature and a state legislature may be able to make law on a particular matter, but if there is a conflict between a relevant federal law and a state law, the former will prevail.

The division of power between the federal government and the state governments in a federal state is almost invariably set out in a written constitution which forms the constitutional and legal foundation of the federal state. In some federal states, the state governments possess "residuary powers" (or "residual powers") (Suksi, 2011: 126–127, 131, 139), which means that any power which has not been expressly assigned to the federal government by the constitution remains vested in the state government. This principle may be regarded as a reflection of the fact that each member state of the federal state had originally been a full sovereign state, or at least a separately governed entity, before the federation was formed. However, the reservation of residuary powers by the states is by no means a necessary feature of a federal state. It is perfectly possible and proper for the federal constitution to allocate such residuary powers to the federal government.

A fundamental legal characteristic of the federal state is that the federal constitution, in which the division of powers is set out, is binding not only on the state governments but also on the federal government. The supremacy of this constitutional division of powers over the federal government means that the latter may not unilaterally upset the original division of powers by expanding its actions and activities beyond their constitutional limit, thus infringing the autonomy of the member states. This original division of powers may only be altered by amendment of the constitution, which usually requires the overwhelming support not only of the federal legislature but also of the legislatures of most of the states, or even of the people of the states themselves voting in a referendum.

Since the federal constitution limits the power of both the federal government and state governments, it is necessary to provide in its design a mechanism for interpreting and enforcing these constitutional limits on power and for imposing legal sanctions where such limits have been exceeded. In many federal states, this mechanism takes the form of either a constitutional court or a supreme court at the apex of a system of ordinary courts. The court may, for example, declare as invalid federal laws touching upon a matter within the exclusive jurisdiction of a state and thus trespassing upon the state's autonomy, or conversely, a state law which deals with a matter within the exclusive jurisdiction of the federal government. Thus conflicts or disputes between the federal and state governments arising from the constitutional division of power are resolved in this judicial forum.

The autonomy of a member state of a federal state is, however, not the sole model of autonomy. Even in a unitary state, it is possible to have within it one or more autonomous areas or regions each practising territorial autonomy (i.e. autonomy within the territory of the region). And it is possible for such an autonomous region to exercise a degree of autonomy higher than that of a member state of a federation. As explained above, the degree of autonomy depends primarily on the range of subject matters the governing power over which is assigned to the local autonomous government, and not on whether the arrangement is federal or not. What, then, are the differences between autonomy in a federation and that in a unitary state?

First, a federation usually consists of constituent units or member states that have equal status within the federal state and equal powers of autonomy distributed among them in a symmetrical manner. Furthermore, the member states are usually equally represented in the upper house of a bicameral legislature of the federal state (Suksi, 2011: 126, 130–131, 139), such as the Senate of the US Congress. By contrast, arrangements of territorial autonomy within a unitary state are usually asymmetrical arrangements under which one or some – but not all – regions of the state are granted high degrees of autonomy.

Secondly, the power of a local government in an autonomous region forming part of a unitary state is often, though not invariably, derived not from the constitution of the unitary state but from a law enacted by the legislature of the state. While a constitution is supreme over and binding on the national legislature, a law enacted by it is not. Thus whereas in a federal state the autonomy of each member state is constitutionally guaranteed by the provisions regarding division of power in the federal constitution, the territorial autonomy of an autonomous region within a unitary state is not necessarily directly protected by the constitution. Where territorial autonomy is derived from ordinary national legislation, it may, at least in constitutional theory, be withdrawn by legislative amendment without the need for constitutional amendment. Thus from the point of view of the constitutional theorist, the autonomy of a local government in a unitary state may (unless it is constitutionally entrenched) be less securely guaranteed or entrenched than the autonomy of a member state in a federation.

Thirdly, whereas in a federal state the federal government and state governments are usually considered "independent" and "coordinate" (Suksi, 2011: 86, 117, 126–127), with each government having exclusive jurisdiction over certain subject matters that is constitutionally protected, in a unitary state the relationship between the national government and the regional government to which autonomous powers have been devolved may be described as that between a "superior" and an "inferior" or "subordinate" organ of government (Suksi, 2011: 114–117, 121). The powers (of autonomy within the region) enjoyed by the "inferior" organ of government have been granted and transferred to it by the "superior" organ (i.e. the national legislature), which may at least in theory resume or override such powers.

The difference between federalism and territorial autonomy within a unitary state may also be presented by analyzing the delegation of governmental power from historical and logical points of view. In the process of the formation of a federal state, sovereign powers which were originally vested in the states are usually relinquished subject to the condition of having a fundamental constitutional guarantee of the division of power securing certain powers for the member states. On the other hand, the autonomy enjoyed by the people of an autonomous region of a unitary state does not logically exist prior to, but is usually the direct result of, a voluntary delegation or devolution of power by the national authority. In this situation, the grant of autonomy or the transfer of autonomous governmental powers to the region may be regarded as a concession made by the fully sovereign nation-state. This may be contrasted with the federal situation, where the autonomy of the member state is often a reserved right of a community which once possessed sovereignty but voluntarily decided to transfer it to a new federal state subject to the reservation of rights and division of powers set out in the new federal constitution.

Examples of federal states in the contemporary world include the USA, Canada, Australia, India, and Germany. It is noteworthy that, in these countries, the ultimate forum for settling disputes regarding the interpretation and enforcement of the constitutional division of power between national and state authorities is the federal supreme court (or the Federal Constitutional Court in the case of Germany). Examples of autonomy within a unitary state include the case of Greenland under the sovereignty of Denmark, devolution to Scotland in the case of the United

Kingdom, and the case of Hong Kong and Macau under the constitutional framework of "One Country, Two Systems", to which we now turn.

Hong Kong's autonomy under "One Country, Two Systems"

The People's Republic of China (PRC) has always insisted that it is a unitary state and cannot accept a federal structure (Wang, 2000: 57–62, 67). The concept of a special administrative region (SAR) within the PRC with a high degree of autonomy, and the related concept of "One Country, Two Systems", represent a substantial modification of the original model of a highly centralized unitary state, although they do not go so far as to move China into federalism.

The Chinese government's concept of "One Country, Two Systems" (OCTS) was originally developed as a new cornerstone of its policy towards Taiwan, although the full elaboration of the concept took place during the Sino-British negotiations in 1982–84 on the status of the British colony of Hong Kong after 1997. The origins of the concept can be traced back to the late 1970s, when a fundamental shift in the PRC's Taiwan policy occurred (Ma, 1993). The original position before the policy change was that the objective of the "liberation of Taiwan" should be pursued. "Liberation" refers, of course, to liberation from the evils of capitalism and imperialism and the revolutionary introduction of communism.

The new Taiwan policy was revealed in several official statements published since 1979, the most important of which was the nine-point proposal of Ye Jianying, then Chairman of the PRC National People Congress Standing Committee, published in September 1981. The proposal envisaged the peaceful re-unification of China, with Taiwan being given the status of a special administrative region of the PRC. As such it would retain its existing social and economic systems after unification. It would enjoy a high degree of autonomy; it could enter into external economic and cultural relations with other countries and even maintain its own armed forces. Shortly afterwards, in January 1982, elder statesman Deng Xiaoping coined the expression "One Country, Two Systems" and said that this was the essence of Ye Jianying's statement: there was to be one China, but two systems may co-exist within it – the socialist system on the mainland, and the capitalist system in Taiwan. In December 1982, a new Constitution of the PRC was enacted. It contains a new article which contemplates the establishment of special administrative regions of the PRC which may practise social systems different from those in other parts of China.[4] In a speech delivered in July 1983, Deng elaborated the idea further, pointing out that the mainland government would not send any civilian or military officials to Taiwan after re-unification under the OCTS scheme, the government and armed forces in Taiwan would be entirely managed by local people, and at the same time Taiwan representatives would be able to serve in leading positions in the central government of the PRC.

Although the Taipei government showed no interest in the OCTS model of re-unification, the PRC was soon to be given the opportunity to show to the world that the concept of OCTS was sound in theory and workable in practice. In September 1982, British Prime Minister Margaret Thatcher visited Beijing, seeking a solution to the question of Hong Kong's constitutional status after 1997. High-level negotiations between the two governments started after her visit. Two years of hard bargaining and strenuous work finally produced the Sino-British Joint Declaration on the Question of Hong Kong in September 1984 in which the OCTS concept was enshrined and applied to post-1997 Hong Kong. The OCTS concept has also been applied subsequently to the recovery of Macau, a Portuguese colony adjacent to Hong Kong. The wording of the Sino-Portuguese Joint Declaration in 1987 is largely similar to the Sino-British Joint Declaration of 1984 (Cardinal, 2013).

The OCTS model may be usefully compared with the federal model of autonomy described above. After the re-unification of Hong Kong and Macau with China, the structure of the PRC consists of a national or central government and, at the level directly below it, 27 provincial governments (including the governments of 5 autonomous regions but excluding Taiwan), 4 governments of municipalities directly under the central government, and 2 governments of SARs (Hong Kong and Macau). It is not a federal system; there is nothing in the national constitution which provides for a formal division of power between the national government and the provincial, municipal, and SAR governments. There is no constitutional (as distinguished from legal) limitation on the capacity of the national government to exercise power with regard to any matter within any province, city, or SAR of the PRC.

From the legal perspective, the basis of the autonomy of the Hong Kong SAR under OCTS is the Basic Law of the Hong Kong SAR, which is a law enacted in 1990 by the national legislature, the National People's Congress (NPC), in pursuance of article 31 of the PRC Constitution and the Sino–British Joint Declaration (Lo, 2011). The Basic Law

(a)   provides for the modes of formation and operation of the government of the SAR,
(b)   identifies the sources of law in the SAR,
(c)   guarantees the human rights of its residents,
(d)   stipulates the social and economic systems and policies to be practised in the SAR, and, most important of all, and
(e)   defines its relationship with the central government and the scope of its autonomous powers.

Generally speaking, the Basic Law establishes in the Hong Kong SAR political, legal, social, and economic systems that are very different from those in force in mainland China. Hence the expression "One Country, Two Systems". The strengths and limitations of the autonomy of the Hong Kong SAR under OCTS may be considered as follows.

The greatest strength of the OCTS model as enshrined in the Basic Law of Hong Kong is the very wide scope of autonomy it confers on the SAR in terms of the subject matters over which the executive, legislative, and judicial branches of the SAR government have jurisdiction. The scope of autonomy enjoyed by the Hong Kong SAR is much larger than that enjoyed by member states of federal states (Hannum, 1996: 137–149; Ghai, 2013b: 335–336). Basically, all governmental affairs in the SAR other than defence, foreign affairs, and constitutional change in the electoral system are within the jurisdiction of the SAR government. Aspects of this high degree of autonomy include, but are not limited to, the following:

(1)   More than 99% of the laws enacted by the national legislature (the NPC and its Standing Committee) are not applicable to the SAR, in which the pre-existing common law system is preserved. The only national laws that apply to Hong Kong are listed in Annex III to the Basic Law, and there are 13 such laws at the moment, such as the Nationality Law, National Flag Law, Law on the Territorial Sea, Law on the Garrisoning of the Hong Kong SAR, Regulations on Diplomatic Privileges and Immunities, etc.[5]
(2)   Cases litigated before the Hong Kong courts are dealt with entirely within the Hong Kong court system, with the Hong Kong Court of Final Appeal (CFA) being the highest appellate court. No appeal lies from a Hong Kong court to any court or institution in mainland China. The Basic Law requires the CFA to refer relevant provisions of the Basic Law to the NPC Standing Committee (NPCSC) for interpretation in certain circumstances.[6] However, interpretations made by the NPCSC cannot have the effect of overturning a court judgment

previously rendered, in the sense that litigants in the case that the court has already decided would not be affected by a subsequent NPCSC interpretation.[7]

(3) Hong Kong residents do not have to pay any tax to the central government, and the tax which they pay to the SAR government will be used for the SAR exclusively – no part of it has to be handed over to the central government.

(4) The SAR can continue to have and issue its own currency, the Hong Kong dollar.

(5) The SAR can control and regulate entry and exit of persons into and out of the SAR.

(6) The SAR is a customs territory separate from other parts of China.

(7) The SAR, using the name of "Hong Kong, China", enters into economic and cultural relations with other countries and participates in some international organizations (such as the WTO) whose membership is not restricted to sovereign states (Mushkat, 1997, 2006). The Basic Law authorises the SAR government to handle certain "external affairs" even though, generally speaking, "foreign affairs" are within the power of the Central Government.[8]

The degree of autonomy which the HKSAR has enjoyed since 1997 is certainly not less than what it had under British colonial rule. Indeed, whereas Hong Kong's autonomy in the colonial era was largely a product of unwritten practices and constitutional conventions, the SAR's autonomy in many domains is now expressly guaranteed by the Basic Law (Chen, 1989: 112–115). This, then, is the strength of the OCTS model of autonomy.

On the other hand, there are at least two principal limitations or weaknesses of the OCTS model in Hong Kong. One is that the constitutional and legal guarantees for autonomy are less secure than in federalism. The other relates to the limited extent of democratization in the SAR.

As discussed above, in federalism, the division of power between the federal and state governments is written into the constitution which cannot be easily amended, and when jurisdictional disputes arise, the federal supreme court, or constitutional court is the final arbiter. In the OCTS model, the division of power between the central government and the SAR government is provided for in a Basic Law enacted by the NPC. In the extreme and highly unlikely scenario of the NPC acting unilaterally in changing the Basic Law to curtail substantially the SAR's autonomy, there is no legal or judicial remedy (Chen, 1999). Moreover, there is no independent judicial forum for the determination of jurisdictional disputes between the central government and the HKSAR. Under articles 17 and 158 of the Basic Law, it is not a court but the NPCSC, acting in consultation with the Basic Law Committee,[9] which has the power to determine whether an SAR law is ultra vires, and to issue an interpretation of the Basic Law.

What is the difference between having a federal supreme court or constitutional court and having the NPCSC to resolve jurisdictional disputes arising from the practice of autonomy within a sovereign state? The question is ultimately a question of trust. If Hong Kong people have as much confidence in the NPCSC as Americans have in the US Supreme Court, then the weakness in the OCTS system discussed here would disappear. But the sad reality is that the NPCSC is not able to command sufficient respect from the Hong Kong community as an impartial arbiter of constitutional disputes (Ghai, 2007a).

There are however two ways in which the practical implications of this weakness in the system can be and have been minimized. One relates to the broad scope of autonomy of the Hong Kong SAR which we have identified as the strength of the system. In federal systems like those in the USA, Canada, and Australia, the constitution stipulates a complicated formula for dividing up power between the federal and state governments. Both levels of government exercise power over a wide range of governmental affairs, and many grey areas exist. The complexity of the formula gives rise to demarcation problems and frequent jurisdictional disputes. By contrast, the formula for division of power in the OCTS model is relatively simple. The SAR has jurisdiction over

almost all matters other than defence, foreign affairs and changes in the Basic Law. The scope of autonomy of the SAR is so large that few demarcation problems or jurisdictional disputes of the kind that are frequent in federal systems have occurred in Hong Kong since the OCTS framework was put into practice in 1997.

Furthermore, although in theory the powers which the central government has under articles 17, 18, 158, and 159 of the Basic Law are quite substantial and may be exercised in such a way as to threaten the SAR's autonomy, a practice or unwritten norm seems to have been developed whereby the central government exercises self-restraint so as to minimize its interventions and to maximize the SAR's autonomy (Chan, 2010: 140). For example, under article 17, the NPCSC has the power to nullify SAR laws that exceed the scope of the SAR's autonomy. However, since the Hong Kong SAR was established in 1997 and up to the time of writing (2017), the central government has never exercised this power to nullify an SAR law. Under article 18, national laws may be applied to the SAR, but after 1 July 1997, only three national laws have been applied in this way.[10] And the NPC's power to amend the Basic Law has never been exercised.[11]

Under article 158 of the Basic Law, the NPCSC may issue an interpretation of the Basic Law. In the last two decades, a total of five interpretations have been issued, evidencing a considerable degree of self-restraint on the part of the Central Government (Mason, 2011). The first interpretation was that in 1999, which was issued on articles 22 and 24 of the Basic Law relating to the right of abode in the SAR of children born in the mainland of Hong Kong permanent residents. This interpretation was issued because the SAR government submitted to the central government a request for interpretation after the Court of Final Appeal (CFA) rendered its decisions in early 1999 in the cases of *Ng Ka Ling*[12] and *Chan Kam Nga*.[13] The Government estimated that the CFA's interpretation of the relevant Basic Law provisions would result in 1.67 million mainland residents being entitled to migrate to Hong Kong in the next ten years. Responding to the Chief Executive's request for interpretation, the NPCSC issued its interpretation in June 1999, overruling the CFA's interpretation. Under article 158 of the Basic Law, the NPCSC's interpretation did not have the effect of reversing the CFA's judgments and orders concerning the litigants in the *Ng* and *Chan* cases; it only meant that Hong Kong courts in future cases must follow the NPCSC's interpretation instead of the CFA's interpretation of the relevant Basic Law provisions. In *Lau Kong Yung*,[14] the CFA considered the effect of the NPCSC interpretation and recognized its binding force.

After 1999, the NPCSC has exercised the power of Basic Law interpretation on four other occasions. In 2004, acting on its own initiative (instead of at the request of the Chief Executive of the HKSAR), the NPCSC issued an interpretation of the Basic Law provisions relating to electoral reform (Chen, 2004). In 2005, upon the request of the Acting Chief Executive of the HKSAR, the NPCSC issued an interpretation to clarify the term of office of a Chief Executive who succeeds one who resigns before completing his term of office (Chen, 2005a). In 2011, the CFA in the *Congo* case[15] used for the first time the reference procedure in article 158(3) of the Basic Law to refer certain Basic Law provisions relating to foreign affairs and "acts of state" to the NPCSC for interpretation (Chen, 2011). This *Congo* case concerned whether the applicable law of foreign sovereign immunity in the HKSAR was the same as that in the mainland. In November 2016, the NPCSC, acting on its own initiative, issued an interpretation of article 104 of the Basic Law, which relates to the oath-taking requirements applicable to officials, judges, and members of the Legislative and Executive Councils. This interpretation was particularly controversial, as it was issued three days after Hong Kong's High Court heard a case on oath-taking and before the court delivered judgment in that case. In this case,[16] the government argued that two pro-"Hong Kong independence" Legislative Councillors had been disqualified by reason of their failure to

comply with the oath-taking requirements stipulated in article 104 of the Basic Law and other Hong Kong legislation.

We now turn to the second limitation of or weakness in the OCTS model as practised in Hong Kong. This relates to the principle that in assessing any arrangement for autonomy, the scope of autonomy is only one major factor, and another equally important factor relates to whether the autonomous regional government can really represent and govern in the interests of the people of the autonomous unit (Chen, 1994). This in turn depends on the nature of the domestic political system of the autonomous unit, and, in particular, whether it is sufficiently democratic.

Here it must be pointed out that the domestic political system of the HKSAR falls short of international or Western standards of liberal democracy (Ghai, 2013). The first Chief Executive (CE) of the SAR was elected by a 400-member Selection Committee which was elected, on the basis of business, occupational and community groupings in various social sectors, by the SAR Preparatory Committee appointed by Beijing. The second-term CE and his successor were elected by an 800-member Election Committee itself elected by groups from business, professional and other social sectors. In 2012 and 2017, the fourth-term CE and fifth-term CE were respectively elected by an Election Committee of 1200 members constituted by the same social sectors. After each election, the elected candidate is not yet CE until and unless the Central Government exercises the power to appoint him or her as the CE.[17]

As regards the legislature, in each of the first four terms of office of the Legislative Council (LegCo) of the HKSAR (other than the "Provisional Legislative Council" of 1997–98), not more than half of the members were directly elected by universal suffrage, the others being elected mainly or wholly by "functional constituencies" based on business, professional and other social groupings.[18] As from 2012, the number of members of LegCo was increased from 60 to 70, half of whom are elected by universal suffrage, and half by functional constituencies, including five District Councillors elected by "quasi" universal suffrage in the "super District Councils" functional constituency (Chen, 2010; Ma, 2013).

The Basic Law has made provisions for the possibility of further democratization of the SAR. As regards LegCo, article 68 stipulates that the "ultimate aim" is the election of all legislators by universal suffrage. As regards the CE, article 45 also stipulates that the "ultimate aim" is the selection of the CE by universal suffrage "upon nomination by a broadly representative nominating committee". The installation of a nominating committee effectively introduces a "screening" stage in the process of producing candidates for the CE election, which can be used to screen out persons not acceptable to Beijing. This, together with the reservation to the central government of the power to appoint the CE, was apparently intended to ensure that the HKSAR will not be governed by anyone who is not trustworthy and acceptable from the central government's point of view. The rejection in 2015 by more than one-third of Legislative Councillors (from the camp of "pan-democrats") of such "screening" mechanism led to the failure of the SAR Government's attempt to introduce universal suffrage for the election of the CE in 2017 (which, because it involves an amendment of Annex I to the Basic Law, can only be introduced with the support of a two-thirds majority in LegCo) (Chen, 2016).

Paradoxically, there might be a connection between the limited democracy within the SAR's political system and the huge scope of its autonomy.[19] Precisely because the SAR's degree of autonomy is so high, the central government apparently cannot afford to let the SAR be governed by someone who may be ideologically opposed to or otherwise unable or unwilling to adopt a cooperative attitude towards the central government. This, then, is another difference between the OCTS model and federal systems or other arrangements for territorial autonomy in liberal democratic states.

Some distinctive features of the practice of autonomy in the Hong Kong SAR

In a federal system like the USA, each member state of the federation practises autonomy in the sense that people in the state freely elect their own governor and members of their legislature. The limits of the state's autonomous powers are defined by the Constitution, but within these limits the people of the state may practise full democracy in determining who will be their governor and legislators.[20] Similarly, the non-federal arrangement of devolution of power to Scotland (as provided for in the Scotland Act 1998) in the United Kingdom enables the people of Scotland to practise full democratic self-government in freely electing the Scottish Parliament, which in turn nominates the First Minister of Scotland. However, this is apparently not how autonomy is understood in contemporary Chinese political culture.

In the PRC context, autonomy does not imply full political self-determination within the constitutional and legal limits of autonomy. Beijing's understanding of Hong Kong's autonomy under OCTS seems to be that of Hong Kong people ruling Hong Kong (instead of mainland officials doing so), but the Hong Kong people who hold key governmental posts in Hong Kong must be people whom Beijing considers acceptable and trustworthy for this purpose.[21] Hence Beijing has under the Basic Law reserved the power to appoint the CE (after an election held in Hong Kong) and other principal officials of the SAR. But this limitation on autonomy is not unique to the HKSAR under OCTS. In some autonomous arrangements elsewhere, the national central government participates (e.g. by giving its approval or consent) in the selection of the chief executive or top officials of the autonomous region.[22] Indeed, it is not unusual for territorial autonomy in other states to involve "cooperation, coordination, and consultation between the central authorities and the autonomous entity" (Lapidoth, 1997: 34).

Hong Kong's political forces have been divided between pro-China forces (also known as "pro-Establishment" forces or "patriots") and pro-democracy forces (the "pan-democrats") (Ma, 2015; Jang, 2016). The pro-China camp supports the policies of the PRC government towards Hong Kong, including its cautious and gradualist approach to Hong Kong's democratization. The camp also supports, or at least does not question, one-party rule in mainland China, and generally refrains from criticizing its human rights record. On the other hand, the pan-democrats advocate Western-style liberal democracy for Hong Kong, and are critical of authoritarian one-party rule in China and its human rights record.

The cleavage in Hong Kong politics between the "pro-China" and "pro-democracy" camps can be traced back to the 1980s, when the question of Hong Kong's future first arose (Lau and Kuan, 2000; Ma, 2007: 136–140). The division has been intensified by the different positions they adopted towards various major political events, such as the Beijing student movement in 1989, Governor Patten's political reform in the 1990s, the establishment of the Provisional Legislative Council in 1997 (Chen, 1997), the "right of abode" saga leading to the first-ever interpretation of the Basic Law by the NPCSC in 1999, the article 23 saga in 2003 leading to the abortion of the National Security Bill (Fu et al., 2005), the 2004 Interpretation by the NPCSC on political reform in Hong Kong, the 2005 Interpretation by the NPCSC on the term of office of the CE, the defeat of CE Donald Tsang's political reform proposal in December 2005 (Chen, 2005b), the 2007 NPCSC Decision on political development in Hong Kong (Chen, 2008), the 2014 NPCSC Decision on the mode of nomination and election of the CE by universal suffrage, and the 2016 NPCSC Interpretation on oath-taking.

In each of these events, Hong Kong's pro-democracy politicians (or "pan-democrats") opposed the Chinese Government's position. The pro-democracy camp has been labelled "the opposition camp" by pro-China commentators in Hong Kong.[23] They are considered to have

consistently opposed the policies of the Chinese Government towards Hong Kong (particularly with regard to the pace and mode of Hong Kong's democratization), and been unduly critical towards and unreasonably uncooperative with the Tung Chee Hwa administration, the Donald Tsang administration, and the C.Y. Leung administration. Some of them are considered hostile towards the Chinese Communist Party-led political system in China. Some of them are leaders of the Hong Kong Alliance in Support of Patriotic Democratic Movements of China, which was founded in 1989 and has continued to operate in Hong Kong after 1997, organizing annual vigils and protests demanding the rehabilitation of the Beijing student movement of 1989 and the end of one-party rule in China. Some of them attended the ceremony in Norway for the award to Liu Xiaobo – a leading dissident in China – of the Nobel Peace Prize in 2010, a ceremony which China urged all Governments friendly to it to boycott. Some of them are suspected of having close relationships with foreign governments or foreign NGOs with "anti-China" political interests. Some of them have been denied the issue of a *huixiang zheng* (回鄉証), a passport-like document which Hong Kong permanent residents who are Chinese nationals need to produce in order to enter mainland China, although a policy change to liberalize the grant of the "huixiang zheng" to pan-democrats was announced in November 2016 by Zhang Dejiang, Chairman of the NPCSC (*South China Morning Post*, 2016a).[24]

Since the pro-democracy camp came into existence in the 1980s, it has consistently enjoyed significant support from civil society and the electorate in Hong Kong. It is noteworthy that for a quarter of a century since direct election by universal suffrage to a portion of LegCo seats was introduced in Hong Kong in 1991, the pro-democracy politicians consistently succeeded in capturing approximately 55% to 60% of the popular votes for that portion of LegCo seats elected by universal suffrage (Ma, 2007: 154, 223; Ma, 2015: 58, 62). It is believed that Beijing has been concerned that if entirely free and unrestricted elections by universal suffrage were introduced in Hong Kong, and the CE and all LegCo seats were elected by universal suffrage, the office of the CE and the majority of LegCo seats would be captured by members of the pro-democratic camp.

There seems to be a fundamental difference in the understanding of "autonomy" and of the relationship between "autonomy" and "democracy" on the part of the Chinese Government on the one hand and the pro-democracy political parties, politicians and civil society in Hong Kong on the other hand. The pro-democracy camp's understanding of the autonomy of Hong Kong may be termed a Western liberal democratic understanding of autonomy. It is believed that as in the case of, say, the people in a state of the United States who can freely elect their state legislature and state governor (or the case of Scotland), the people of Hong Kong should be able to freely elect by universal suffrage their CE and all members of their legislature. There is no legitimate reason why Beijing should oppose full democratization in Hong Kong. And the appointment of the CE by the Central Government after his or her being elected by the people of Hong Kong should be no more than a formality.

Beijing's understanding of autonomy is however not the same. It has always been stressed that the power of appointment of the CE, who is accountable both to the Central Government and the HKSAR,[25] is a substantive power and not merely formal or ceremonial (Wang Shuwen, 2000: 364–365; Yep, 2010: 98). Since the 1990s, it has been stressed that Hong Kong's system of government is an "executive-led" system and must not be allowed to become a "legislative-led" one (Wang Shuwen, 2000: 346–349; Li, 2012). The emphasis on executive-led government may be understood in the light of the fact that it is the executive (including the CE and the principal officials) and not LegCo that is appointed by Beijing and enjoys the confidence and trust of Beijing, and derives powers and authority from it. As is evident in Deng Xiaoping's speeches on "One Country, Two Systems" in Hong Kong (which were re-published[26] in 2004 during the campaign (Ming Pao Editorial Department, 2004) to stress the idea of "patriots ruling

Hong Kong") and the White Paper of June 2014 (Information Office of the State Council, 2014), China's understanding of Hong Kong's autonomy is that of "Hong Kong people ruling Hong Kong", the majority of those Hong Kong people exercising the power to rule Hong Kong being patriots – people whom the Chinese Government and the Chinese Communist Party consider to be patriots and thus their political allies for the purpose of ruling Hong Kong. This kind of thinking may be understood in the context of the Chinese Communist Party's long tradition of "united front work" (Van Slyke, 1967), in which friendly political relations are cultivated between the Communist Party and non-communists whom the Party considers to be trustworthy and reliable for the purpose of forming a political alliance to achieve a common goal. Such united front work has been actively undertaken in Hong Kong by the Chinese authorities both before and after the 1997 handover (Loh, 2010).

It is noteworthy that Deng Xiaoping said in the context of "patriots ruling Hong Kong" that "direct elections" may not necessarily produce the right people for this purpose (Deng, 2004: 75–76). Thus democracy in the sense of direct elections by universal suffrage is not an ultimate value or goal in itself. The goal is to choose the right people to rule Hong Kong, and the right means is the best means for the purpose of realizing this goal. And the process of democratization in Hong Kong is subject to the overriding principle of "patriots ruling Hong Kong". Thus the Chinese Government's perspective on autonomy, democracy and democratization in Hong Kong may be understood as follows. Hong Kong already enjoys full autonomy in the sense of "Hong Kong people ruling Hong Kong" (i.e. not Communist cadres ruling Hong Kong), and the Central Government not interfering with the administration, policy-making and law-making of Hong Kong. As regards democracy, Hong Kong already enjoys a significant degree of democracy (including the rule of law, civil liberties, judicial independence, multiparty competition for and direct elections to the legislature, functional constituency elections, etc.). As regards Hong Kong's further democratization, this must be subject to the condition that the Chief Executive must be a "patriot", and probably also the condition that the majority of the members of the Legislative Council should be patriots as well.

Since the establishment of the Hong Kong SAR, the effectiveness of the "executive-led" government in Hong Kong has depended on a loose coalition of pro-China political parties and independent legislators, which occupied the majority of seats in LegCo (Lui, 2012). But there has never been any ruling party in the Hong Kong SAR. No single political party has ever occupied the majority of, or any number close to half of, the seats in LegCo. The CE is elected independently of LegCo by an Election Committee (consisting of representatives from business, professional and other social sectors), which has never been dominated by political parties, but the majority of which are generally considered "pro-China" rather than supportive of the pan-democrats. Members of the pro-China camp in LegCo are generally supportive of the CE and his administration, although such support cannot be guaranteed in every instance of policy, bill or item of financial expenditure, because these elected legislators have to be answerable to their own constituencies. One of the distinctive features of the autonomy of the HKSAR under "One Country, Two Systems" relates to the role – informal rather constitutional – of the Central Government in Beijing in promoting, coordinating among and supporting this pro-China camp of politicians in Hong Kong.

The organ of the Central Government that performs this function in the HKSAR is the Liaison Office of the Central People's Government in Hong Kong (Yep, 2010: 100). Various scholars and commentators (Sing, 2009: 107–111; Lo, 2008: 10–11, 18–19; Cheung, 2012: 329; Ma, 2015: 52; Fong, 2017: 9) have pointed out that this office has over the years played a significant role in coordinating among politicians of the pro-China camp in running for elections to the District Councils, Legislative Council, and the Election Committee (for the CE), helping to mobilize support for them during elections among pro-China social organizations in Hong Kong, and,

after they have been successfully elected into office, lobbying them occasionally for support for the Hong Kong government on crucial issues of policy.[27] In the case of the Election Committee, it is believed that Beijing actually engaged in lobbying members of the committee for support for C.Y. Leung and Carrie Lam respectively during the CE elections in 2012 (Yep, 2013a: 4; Ma, 2015: 52–53) and 2016 (Lam, 2017; Pinkstone, 2017; Choy, 2017).

As the tasks of governance became more difficult for the executive branch of the SAR government over the years, with the declining legitimacy of the SAR government and the increasingly vocal opposition in LegCo and in civil society, the Central Government through the Liaison Office has stepped up its efforts to consolidate the pro-China camp of politicians in Hong Kong and to persuade them to give necessary support for the CE and his administration. The SAR Government has thus become increasingly dependent on the support of the Central Government (Ghai, 2007b: 25). A kind of "patron–client politics" (Lo, 2008: 3; Cheung, 2012: 329) has evolved in Hong Kong, in which Beijing is a powerful patron that can effectively reward its clients by offering them benefits or advantages in return for their support for Beijing's policies towards Hong Kong, including support for the Hong Kong Government. The CE and his government is also a patron in patron-client politics. Examples of benefits that can be offered by Beijing and the SAR government include appointment as members of the Chinese People's Political Consultative Conference (CPPCC) (Cheung, 2012: 334–336), membership of the NPC (Fu and Choy, 2007), appointment to various positions in the Hong Kong government, including the Executive Council, advisory committees and statutory bodies, being conferred honours and awards, or other positions of honour, etc. The increasing degree of integration between the economies of Hong Kong and the mainland (partly as a result of arrangements such as the Closer Economic Partnership Arrangement (CEPA) introduced since 2003 and gradually expanded subsequently), and the increasing dependence of the Hong Kong economy on the mainland, has also facilitated Beijing's "united front" work of co-option of Hong Kong's business elites (Yep, 2010: 101–103; Cheung, 2012: 329, 336–337, 339; Yuen, 2014).[28]

Hence a distinctive feature of Hong Kong's autonomy is that although legally the Hong Kong government system is separate and distinct from the Central Government, in the sense that the CE is elected by a locally constituted Election Committee (followed by appointment by Beijing), and LegCo is locally elected, the Central Government through its Liaison Office in Hong Kong participates in Hong Kong politics and seeks to ensure that (a) the CE elected by the Election Committee is someone whom Beijing considers to be suitable and appointable as CE and (b) the majority of LegCo members and of members of the Election Committee (for the CE) are from the pro-China camp rather than the pan-democrats' camp (or the "opposition"). Furthermore, the Central Government renders support for the CE and his administration by mobilizing pro-China politicians in Hong Kong to support the SAR government. Ironically, the Central Government is politically compelled to play this role because of the inherent weakness of the "executive-led" government in the SAR – there is no ruling party, the CE lacks popular mandate and legitimacy, and there is no guaranteed, secure, or stable support in the fragmented legislature for the executive government. In these circumstances, the Central Government through the Liaison Office plays a crucial role of coordination among the pro-China camp of politicians in Hong Kong, securing where necessary the support that the SAR government needs for effective governance of the territory.

Concluding reflections

The "One Country, Two Systems" (OCTS) model as practised in the HKSAR should be understood not only in the light of the internationally accepted concept of territorial autonomy within unitary states, but also as an outgrowth of the political and legal culture of the PRC. It

may be considered deficient if we evaluate it by notions of autonomy in Western liberal democratic states. But the implementation of OCTS in the HKSAR since 1997 already represents a significant breakthrough for the Communist Party-led Chinese political and legal system. Even though it falls short of the democratic ideal, it has delivered to the people of Hong Kong the civil liberties, economic freedoms, open society, pluralistic culture, and free lifestyle that they cherish.

The political system of the HKSAR is vested with powers which it can exercise in an autonomous manner over a wide range of governmental affairs, including not only domestic affairs but also some foreign affairs that are labelled "external affairs" in the Basic Law. This political system may be said to be a "hybrid" system – neither authoritarian nor fully democratic – that practises constitutionalism but only partial democracy.[29] The hallmark of constitutional government is the existence of checks and balance within the political system. Such checks and balance can be found in the HKSAR, because of the existence of the Rule of Law, civil liberties, a free press, a vibrant civil society, as well as multiple political parties with opposing ideologies competing vigorously in elections to the legislature and District Councils (Wong, 2015).

OCTS was a pragmatic compromise enacted in the early 1980s by the Chinese Communist Party led by Deng Xiaoping, insofar as it allows a capitalist system with significant elements of Western-style liberal democracy to exist in Hong Kong as an SAR of the PRC. The project of OCTS has faced major challenges since it was fully put into practice in 1997. It has been rightly pointed out (So, 2011) that a dynamic "crisis-transformation perspective" should be adopted so as to understand the evolution of Chinese policies towards the HKSAR as various events – such as the march of half a million demonstrators on 1 July 2003 or the Occupy Central Movement of 2014 – unfolded in a manner not previously envisaged. The 2012 Legislative Council election witnessed a rise in anti-Chinese sentiments (Ma, 2015), and since then, there has been a "localist" turn in Hong Kong politics (Cheng, 2014), with the emergence of radical "localists" who are dissatisfied with the traditional thinking and strategy of the mainstream pan-democrats. The "localists" advocate self-determination or even independence for Hong Kong. Some of them were barred from participating in the Legislative Council election of September 2016[30] – a controversial move which revealed the limits of Beijing's toleration of autonomy in the HKSAR. Despite this move, a total of six "localists" were elected into the Legislative Council in this election, collectively capturing 19% of the popular votes (Choy and Chan, 2016; *Ming Pao*, 2016a, 2016b).[31]

From the perspective of a sovereign state concerned with its territorial integrity and the loyalty of its citizens, the practice of territorial autonomy of people within a region of the state can be a double-edged sword. On the one hand, it can strike a good balance between the recognition of regional diversity and the promotion of national unity, and be mutually beneficial for the people of the autonomous region and the people of the state as a whole. On the other hand, the institutions of autonomy might foster or strengthen the sense of collective identity of the people in the autonomous region,[32] which may stand in tension with the original concept of the sovereign state with a fixed, sacred, and inalienable territory, a single citizenship and a single allegiance of all to one nation (Henders, 2010: 14, 19–22). From the perspective of the government of the sovereign state, the worst case scenario is where the people of the autonomous region become dissatisfied with autonomy and begin to clamour for independence.

In the case of the HKSAR, the practice of autonomy under OCTS has been premised on a spirit of mutual accommodation and respect, in which Beijing tolerates a capitalist and semi-democratic enclave within the PRC, and the people of Hong Kong accept the exercise of sovereignty by the PRC over Hong Kong and do not challenge the existing political system in mainland China. The continued success of Hong Kong's practice of autonomy under OCTS would depend on continual self-restraint on the part of both Beijing and the people of Hong

Kong in adhering to such mutual accommodation and respect, and on the trend of rising "local-ism" or "peripheral nationalism" (Fong, 2017) in Hong Kong being contained and reversed.

Notes

1 This chapter draws on the author's previous works: "The theory, constitution and practice of autonomy: The case of Hong Kong", in Jorge Oliveira and Paulo Cardinal (eds), *One Country, Two Systems, Three Legal Orders – Perspectives of Evolution* (Berlin: Springer, 2009) pp. 751–767; "Development of Representative Government", in Johannes Chan and C.L. Lim (eds), *Law of the Hong Kong Constitution*, 2nd ed. (Hong Kong: Sweet & Maxwell, 2015), chap. 8.

2 In addition to "territorial autonomy", there also exists the concept of "cultural autonomy" (Eide, 1998). "Autonomy usually takes territorial forms, but some sort of autonomy can also be exercised through cultural councils or other limited forms of self-government, such as the regimes of personal laws" (Ghai, 2013a: 6).

3 For historical perspectives on autonomy, see Henders (2010: 6–11) and Ghai (2013a: 7).

4 Article 31 of the 1982 Constitution provides: "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 specific conditions".

5 See article 18 of the Basic Law. Annex III has been amended 4 times after the Basic Law was enacted in 1990. On 1 July 1997, the NPC Standing Committee added to it five new laws enacted between 1990 and 1997: the Law on the Garrisoning of the HKSAR, the National Flag Law, the National Emblem Law, and two other laws on the territorial sea and consular privileges. After 1 July 1997, three laws have been added: the Law on the Exclusive Economic Zone and the Continental Shelf was added to Annex III in December 1998; the Law on Judicial Immunity from Compulsory Measures Concerning the Property of Foreign Central Banks was added in October 2005; the National Anthem Law was added in Nov 2017.

6 The circumstances are specified in article 158(3) of the Basic Law.

7 See article 158(3) of the Basic Law.

8 See article 13 of the Basic Law.

9 The Basic Law Committee was formed in pursuance of a decision of the NPC made on 4 April 1990, the same day as the date of the enactment of the Basic Law. According to the Decision, the Basic Law Committee shall consist of 12 members, including 6 mainland members and 6 Hong Kong members, each appointed for a five-year term. The Hong Kong members are to be appointed by the NPC Standing Committee on the basis of joint nominations made by the Chief Executive of the HKSAR, the Chief Justice of the Court of Final Appeal of the HKSAR and the President of the Legislative Council of the HKSAR. For a commentary on the role of the Basic Law Committee, see Ip (2015).

10 See note 5 above.

11 The amendment of the Basic Law is governed by article 159 of the Basic Law. The amendment of Annex I and Annex II of the Basic Law is separately provided for in these Annexes, and involves, among other steps, an act of the Legislative Council of the HKSAR. The Annexes were amended once in 2010.

12 (1999) 2 HKCFAR 4.

13 (1999) 2 HKCFAR 82. See generally Chan et al. (2000).

14 (1999) 2 HKCFAR 300.

15 (2011) 14 HKCFAR 95, 395.

16 *Chief Executive of the HKSAR v President of the Legislative Council and Leung Chung Hang Sixtus*, HCAL 185/2016 (Court of First Instance, 15 Nov 2016); CACV 224/2016 (Court of Appeal, 30 Nov 2016); FAMV 7/2017 (Court of Final Appeal, 25 Aug 2017). The two Legislative Councillors were disqualified. Subsequently, four other Legislative Councillors were also disqualified for failure to comply with the oath-taking requirement: *Chief Executive v President of the Legislative Council and Nathan Law Kwun Chung*, HCAL 223/2016 (Court of First Instance, 14 July 2017).

17 See article 45 of the Basic Law.

18 See Annex II to the Basic Law and the Legislative Council Ordinance.

19 Hannum (1996: 149) comments that "the extensive grants of autonomous powers to the Hong Kong SAR make a certain degree of informal or indirect control by the central government almost inevitable".

20 As pointed out by Hannum and Lillich (1981: 219):

> In the context of federal States, both local responsibility for and local selection of the chief executive official are common. . . . in none of the federal examples examined was there direct national influence over the selection of the local governor or other chief executive official.

21 Thus Wang Guangya, Director of the Hong Kong and Macau Affairs Office of the State Council, pointed out a few months before the CE election in March 2017 that the CE should meet four criteria: loving the nation and loving Hong Kong; being trusted by the central government; being capable of governing Hong Kong; and enjoying the support of Hong Kong people: see *South China Morning Post* (2016b, 2017a).

22 Lapidoth (1997: 35) points out that in arrangements for autonomy,

> coordination is often needed between the center and the autonomous authorities regarding the appointment of one or more high-ranking officials (for example, the representative of the central government in the autonomous region or the head of the local administration). In most cases, the official is appointed either jointly, or by the local authorities with the consent of the center, or vice versa.

According to Hannum and Lillich (1981: 221),

> In non-federal States [where arrangements for autonomy exist], it is difficult to perceive a consistent pattern in selection of the chief executive or his or her responsibilities. . . . There are several examples in which the chief executive of the autonomous territory or region is appointed by political authorities outside the territory, either by the central government or an international organisation. In some instances, this outside appointment requires either formal or *de facto* local consent.

23 The term "opposition camp" or "opposition faction" (反對派) was first used by CE Donald Tsang to refer to the pro-democracy camp when the latter vetoed Tsang's political reform proposal in December 2005. The term was popularized among pro-China commentators after the publication of a lengthy article in the pro-China newspaper Wen Wei Po (2005).

24 In April 2017, the radical pan-democrat legislator Leung Kwok-hung, nicknamed "Long Hair", together with 5 other pan-democrat legislators, were granted the home-return permits to visit mainland China as members of a Legislative Council delegation: "Hong Kong lawmaker 'Long Hair' Leung Kwok-hung enters mainland China for first time in 10 years" (*South China Morning Post*, 2017b).

25 This is provided for in article 43 of the Basic Law.

26 Deng Xiaoping (2004), which is the English translation of 《鄧小平論「一國兩制」》 published by the same publisher. See particularly the speeches at pp. 13, 23 and 67 of this English book.

27 On 10 March 2014, Shiu Sin-por, Head of the Central Policy Unit of the HKSAR Government, disclosed to the media that the Liaison Office has since the 1997 handover occasionally performed the function of lobbying LegCo members for support for the HKSAR Government's policies. In response, Chief Executive C.Y. Leung said that as regards matters within the high degree of autonomy of the HKSAR, it is the HKSAR Government's responsibility to lobby LegCo members for support for the Government's position. See Hong Kong newspapers of 11–12 March 2014, e.g. *Ming Pao* (2014a, 2014b).

28 On the other hand, it has been argued that Hong Kong's economic contribution to China is so significant that the Chinese Government has a strong incentive to maintain the HKSAR's autonomy as a "partially independent political entity", including its civil liberties, rule of law, judicial autonomy and free press, which are seen as prerequisites for Hong Kong's economic success: see Rezvani (2012).

29 Political scientist Sonny Lo (2015: 33) argues that the HKSAR "is already a democracy with home-grown characteristics, such as the rule of law, judicial independence, a strong civil society and above all horizontal accountability". Political sociologist Lau Siu-kai (2007) suggests that the "new political order" of the HKSAR is still under construction.

30 See Hong Kong newspapers of 3 August 2016, e.g. *South China Morning Post* (on-line edition) (2016a, 2016b); and the case of *Chan Ho Tin v Lo Ying-ki Alan*, HCAL 162/2016 (Court of First Instance, 13 Feb 2018).

31 Some of the localists were subsequently disqualified by the court on the ground of their failure to comply with the oath-taking requirement in the Basic Law and other legislation (see note 16 above).

32 For the legal and institutional basis of the identity of "Hongkongers", see Ng (2015).

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2

The Basic Law in the courts

Learning to live with China and a changing Hong Kong

Danny Gittings

Safeguarding the rule of law

It would be difficult to exaggerate the high respect which the still very English-orientated legal system that the Hong Kong Special Administrative Region (SAR) inherited from its colonial past has traditionally been accorded within Hong Kong. Across the political spectrum there is almost universal agreement that the rule of law constitutes one of the "core values" which distinguishes Hong Kong from the rest of China under the "One Country, Two Systems" formula (Li, 2013: 795).

That emphasis on the rule of law as one of Hong Kong's core values is reflected in the special treatment of the judicial system under the Hong Kong Basic Law, the constitutional document which enshrines Beijing's promises about the maintenance of Hong Kong's separate system for at least 50 years beyond 1 July 1997. While the Chinese Central Government appoints the head of the executive branch who is required to implement its directives (Articles 45[1] and 48[8]) and China's national legislature can, under certain circumstances, reverse laws enacted by the local legislature (Article 17[3]), Chinese courts have no power over a judiciary which – in contrast to the executive and legislature – is expressly described as "independent" (Articles 2, 19 and 85).

Numerous provisions provide for the continuation of a common-law legal system fundamentally different from the hybrid socialist-civil law system practised in most parts of China (see, for example, Articles 8, 82 and 85). Most aspects of the pre-1 July 1997 colonial court structure are expressly preserved, together with the principles used to decide cases (Articles 81[2] and 87[1]). The international orientation of Hong Kong's judiciary is reinforced by provisions expressly empowering the courts to make reference to judgments from elsewhere in the common-law world and even invite judges from those jurisdictions – in practice mainly from England, Australia and New Zealand so far – to sit on Hong Kong's highest court, the Court of Final Appeal (Articles 82 and 84).[1]

The Hong Kong Basic Law grants extraordinarily wide powers to Hong Kong's judiciary, particularly the vesting in Hong Kong's Court of Final Appeal of the power to finally decide all local court cases with no right of appeal to any national court (Article 82), an arrangement rarely found in autonomous areas elsewhere in the world (Herzer, 2002: 17). That important power is slightly qualified by the distinction which the Hong Kong Basic Law draws between the power of final adjudication and the power to issue final interpretations of the provisions in this constitutional document. This latter power is instead placed in the hands of a committee of China's

national legislature known as the National People's Congress (NPC) Standing Committee, which has occasionally exercised it in a manner that has affected court judgments in a handful of cases (Articles 158[1] and [3]).[2] However the Hong Kong courts are also granted the important power to interpret the Hong Kong Basic Law, in most cases on their own (Article 158[2]), a power sharply at odds with the constitutional position in most other parts of China.[3] In practice it is these far more numerous judicial interpretations which, although always subject to the possibility of being negated by a contrary interpretation from the NPC Standing Committee, have played by far the major role in shaping how the Hong Kong Basic Law has been applied so far.

The insulation of Hong Kong's judiciary from any direct control by China's national authorities is, with the important exception of the power to interpret the Hong Kong Basic Law, so strong that China's official role in the appointment and removal of Hong Kong judges is confined to formal notification of any changes in the ranks of the most senior judicial personnel (Article 90[2]), another arrangement at odds with the usual practice in most autonomous areas elsewhere in the world (Hannum and Lillich, 1980: 869). Even the Chief Executive, who is the Beijing-appointed head of the executive branch in Hong Kong, in practice plays a much more limited role in the choice of judicial personnel than the leader of the executive branch in other jurisdictions such as the United States.[4]

Given how much Hong Kong's internationally oriented court system differs from its counterparts in other parts of China, it is scarcely surprising that tensions have sometimes arisen with Beijing over the local judiciary's approach to applying the Hong Kong Basic Law. After all, it would be inconceivable for the courts in mainland China, which are officially subordinate to the national and local legislatures and, in practice, subject to tight Communist Party control, to entertain challenges to major governmental policies – and even the constitutionality of other laws – in the way that is now common in Hong Kong. Given that Chinese courts generally refuse to hear constitutional cases, some ill-fated exceptions aside,[5] it seems unlikely that the predominantly mainland Chinese drafters of the Hong Kong Basic Law originally envisaged that the powers they agreed to grant the Hong Kong courts would be used in this way (Lo, 2014: 185–186). That is especially so since, at the time when the constitutional document was drafted in the late 1980s, the city's then colonial courts rarely heard this type of case, largely due to the absence of any constitutional safeguards for human rights throughout more than 140 of Hong Kong's 150-year history as a British colony (Gittings, 2016: 263).[6]

Yet the story of the judicial construction of the Hong Kong Basic Law since it came into force upon the territory's reversion to Chinese sovereignty on 1 July 1997 is one of Hong Kong's courts generally succeeding in pushing their powers rather further than many had expected while, after one initial exception, exercising caution in the handful of politically sensitive cases where an adverse ruling might run the risk of provoking a particularly explosive reaction from Beijing. That strategy which, after that initial hiccup, has been aptly described as one of being "neither too proud nor too humble" (Chen, 2006: 680), has proved remarkably successful at avoiding further confrontations with Chinese central authorities. At the same time, the courts have built up a solid body of jurisprudence that, while always subject to the possibility of a contrary interpretation from the NPC Standing Committee, adopts a distinctly common-law approach towards interpreting the Hong Kong Basic Law and, particularly, the wide array of freedoms which this constitutional document protects.

Bold start

The one initial exception, which remains the most significant episode in the courts' implementation of the Hong Kong Basic Law so far, unsurprisingly involved the first major case involving this constitutional document to come before the Court of Final Appeal. At that stage still a

relatively youthful court since, like the Hong Kong Basic Law, the Court of Final Appeal had only come into effect when sovereignty changed hands on 1 July 1997,[7] in the 1999 case of *Ng Ka Ling v Director of Immigration*[8] the new court seized upon this early opportunity to assert its powers over the Hong Kong Basic Law – in some respects successfully, while overreaching in other areas.

On the successful side, *Ng Ka Ling* saw the Court of Final Appeal put virtually beyond doubt the power of the Hong Kong courts to exercise a particularly powerful form of judicial review, often called constitutional review, in which the courts uphold the superiority of a constitutional document such as the Hong Kong Basic Law, by invalidating any provisions in other legislation which are shown to be inconsistent with it. That is neither a power exercised by courts elsewhere in China nor one specifically assigned to the Hong Kong courts under the Hong Kong Basic Law which, although it is not entirely clear on this point, appears to envisage that the power to decide whether or not any particular law contravenes the Hong Kong Basic Law should instead be exercised solely by the NPC Standing Committee.[9]

As has been long recognized in other jurisdictions such as the US, constitutional documents lose much of their value unless there is some independent arbiter to guard against the protections that such documents provide, particularly in guaranteeing fundamental freedoms, being eroded by other laws. Acting as an independent arbiter is not a role which the NPC Standing Committee, a political body ultimately under the control of China's ruling Communist Party (Ghai, 2000: 36) can be expected to perform. So in *Ng Ka Ling* the Court of Final Appeal took a page out of the book of the US Supreme Court, which in the landmark case of *Marbury v Madison*[10] almost two centuries earlier had asserted the power of the US courts to invalidate any provisions in US laws which are inconsistent with the US Constitution, despite the lack of provisions in that constitution explicitly granting any such power to the US courts. Adopting a similar approach, in *Ng Ka Ling* the Court of Final Appeal simply declared that the power to invalidate any provisions in other legislation which are inconsistent with the Hong Kong Basic Law must necessarily form part of the judicial power granted to the Hong Kong courts under that document,[11] despite the similar lack of any provisions in that document explicitly granting any such power to the Hong Kong courts.

While similar statements had been made by lower courts in earlier cases,[12] it was this high-profile reiteration by Hong Kong's highest court that put the point virtually beyond doubt. Despite persistent opposition from some mainland Chinese legal scholars, some of whom complain it was never the intention of the drafters of the Hong Kong Basic Law to grant this particular power to the Hong Kong courts (Lo, 2014: 185–203) at the time of writing, nearly two decades later, Chinese central authorities have never openly challenged the Court of Final Appeal's assertion of a power which the Hong Kong Basic Law does not explicitly assign to the Hong Kong courts.

This successful assertion by the courts of their power to police compliance with the Hong Kong Basic Law, at least in respect of other Hong Kong laws, provides a vital reassurance that Hong Kong's independent judiciary stands as a neutral arbiter of the constitutionality of any attempts within Hong Kong to restrict the many human rights protected under the Hong Kong Basic Law. This impressive range of freedoms, which the Court of Final Appeal has described as "lying at the heart of Hong Kong's separate system",[13] is arguably more extensive than those guaranteed under many other constitutional documents. Civil rights are well protected, including freedom of speech, press and publication; freedom of the person, protection of the person; freedom and privacy of communication; and freedom of movement, travel, emigration, conscience and religious belief (Articles 27–32). So too are political rights, such as freedom of association, assembly, procession and demonstration, the presumption of innocence, right to a fair trial, as well as the right to vote and stand for election although these last two rights, in particular, are subject

to a number of restrictions.[14] Nor are economic rights forgotten, with the right to private property ownership being singled out for special treatment by being mentioned in the introductory general principles of the Hong Kong Basic Law (Article 6), almost as if it is considered the most important right of all. The level of human rights protection is so extensive that even the right to social welfare, retirement security as well as academic research, literary and artistic creation receive specific mention in the Hong Kong Basic Law as well (Articles 34 and 36).

However the Court of Final Appeal was less successful in its bold attempt in *Ng Ka Ling* to extend the power of the judiciary to police compliance with the Hong Kong Basic Law to also include a jurisdiction for the Hong Kong courts to rule on the legality of any actions of the Chinese central authorities which breach the Hong Kong Basic Law. It was in this area that the then relatively new Court of Final Appeal perhaps overreached in this early case as it sought to assert such a jurisdiction on the somewhat tenuous basis that, in choosing to enact the Hong Kong Basic Law, China's national legislature had implicitly given the Hong Kong courts the power to enforce the supremacy of this document even against the National People's Congress and its Standing Committee.[15] That assertion brought howls of outrage from mainland authorities, who saw this as an open challenge to China's constitutional structure which places the National People's Congress, at least in theory, above all other arms of the state.[16] The resulting constitutional crisis forced the Court of Final Appeal into issuing a humiliating supplementary judgment, which did little to clarify the legal issues involved but nonetheless, by the use of some clever phrasing and conciliatory language, managed to placate mainland Chinese authorities.[17]

A further blow to the Court of Final Appeal's authority followed months later as the NPC Standing Committee exercised its interpretative powers for the first time to reverse much of the substantive effect of the court's decision in *Ng Ka Ling* and an accompanying judgment.[18] The stunned judges considered resigning in protest (Gittings, 2016: 197), but ultimately chose to stay in office and learned a quick lesson in the constitutional realities of surviving as an independent judiciary under Chinese sovereignty. Some have characterized the courts' immediate response to these events as an about-turn by the court from the "provocation" of the *Ng Ka Ling* judgment to a stance in which the court "unnecessarily prostrated itself before Beijing" (Cohen, 2000). At the very least, there was a rapid change in tone, if not also legal substance, as the Court of Final Appeal moved quickly to reassure China that it accepted the NPC Standing Committee's superior power to interpret any part of the Hong Kong Basic Law at any time in a highly defensive judgment later that same year.[19] This arguably conceded more than China had demanded and may also have gone beyond the original intention of the drafters of the Hong Kong Basic Law (Ling, 2007: 625–633, 639–644).

Learning to live with China

After having learned such a severe lesson by Beijing's furious reaction to the *Ng Ka Ling* judgment, Hong Kong's courts have been careful never again to do anything that might be interpreted as a direct challenge to Chinese state institutions. That remained true even after the tumultuous Umbrella Movement protests of 2014 which saw the occupation of some of Hong Kong's busiest streets for 79 days in protest at the stringent restrictions imposed by the NPC Standing Committee on the nomination process for any election of Hong Kong's Chief Executive through universal suffrage.[20] When the legality of these restrictions was challenged through an application to seek leave to apply for judicial review, ignoring the Court of Final Appeal's earlier statements to the contrary in *Ng Ka Ling*, a court abruptly dismissed any suggestion that it had any jurisdiction to consider whether the Standing Committee might have acted in breach of the Hong Kong Basic Law.[21]

On the rare occasions when the courts decide not to follow an edict from Chinese central authorities, they are now careful to explain their refusal to do so in much more respectful terms. Most notably in the 2001 case of *Director of Immigration v Chong Fung Yuen*,[22] the Court of Final Appeal showed how much it had learned from the constitutional crisis that followed the *Ng Ka Ling* judgment two years earlier. Evidently anxious to avoid doing anything that might provoke another confrontation with Beijing, in *Chong Fung Yuen*, the Court of Final Appeal was careful to couch in purely technical terms the reasons for its refusal to apply a part of the NPC Standing Committee interpretation which had followed the *Ng Ka Ling* case in 1999. This was on the narrow grounds that, under the Hong Kong common-law system, this earlier Standing Committee interpretation could only have binding force in relation to other parts of the Hong Kong Basic Law which were not at issue in *Chong Fung Yuen*.[23] It was this carefully calibrated judgment, combining expressions of respect for the supremacy of Chinese central authorities with an insistence upon maintaining the primacy of the common law system in Hong Kong (Chan, 2007: 417) which marked the start of the "neither too proud nor too humble" strategy that the Hong Kong courts have pursued with some success ever since.

For while the Court of Final Appeal may be accused of having "prostrated itself" (Cohen, 2000) in its defensive response in the immediate aftermath of the confrontation with China over the *Ng Ka Ling* judgment, no one would level the same accusation against most of the court's subsequent track record. Instead, having made the fundamental concession that the powers of the Hong Kong courts are ultimately subordinate to the NPC Standing Committee's superior authority to issue definitive rulings on any part of the Hong Kong Basic Law, the judiciary have managed to maintain their independence on almost every other issue since then, even where this involved issuing rulings with which Beijing – as in the *Chong Fung Yuen* case – clearly disagreed.[24]

The Court of Final Appeal has jealously guarded its role as the gatekeeper who decides whether or not any issues of interpretation are referred to the NPC Standing Committee during a court case, repeatedly displaying an "institutional reluctance" to do so even in some cases where the wording of the Hong Kong Basic Law would seem to have required this (Lo, 2007: 163).[25] Even on the so far only occasion when the court narrowly agreed to refer some issues of interpretation to the Standing Committee,[26] it tried to retain as much control over the process as possible, setting out in detail the answers the court expected to receive alongside the questions referred to the Standing Committee (Gittings, 2016: 256–257). That could still change, especially now that the Court of Final Appeal has opened the door to more frequent referrals by conceding that the provision in the Hong Kong Basic Law governing when such referrals are necessary is itself one which may sometimes have to be referred to the Standing Committee for interpretation (Lo, 2014: 406, 435).[27]

However, an unprecedented – and uninvited – interpretation by the NPC Standing Committee during the midst of a November 2016 court case, of the oath-taking requirements in Article 104 of the Hong Kong Basic Law, was a troubling sign that Beijing may be starting to become more willing to actively intervene in Hong Kong's judicial process, even without any request from the Court of Final Appeal. That interpretation, during a case brought by the Chief Executive to disqualify two victorious pro-independence election candidates over the manner in which they took their oaths of office,[28] came despite the preference of the Hong Kong SAR Government's top law official for the matter to be instead "resolved within the Hong Kong judicial system" (Secretary for Justice, 2016). This suggests that even the government may, on occasion, be powerless to prevent the Standing Committee from acting in a manner which many legal professionals saw as damaging to the rule of law (Hong Kong Bar Association, 2016b) and may be a sign that such uninvited interpretations may become more frequent in years to come.

Moderately liberal track record

As noted earlier, the courts have so far continued to prevail on the crucial issue of who is the usual arbiter of whether any provisions in other Hong Kong legislation are inconsistent with the Hong Kong Basic Law, despite the lack of any explicit provisions in that constitutional document granting this power to the Hong Kong courts and persistent criticism from some mainland Chinese scholars on this point. Although it remains relatively rare for the courts to actually exercise this power,[29] its existence in the hands of an independent judiciary remains an important component of the rule of law in Hong Kong. Taken together with the less controversial power to similarly invalidate any unconstitutional actions of the executive authorities which breach the Hong Kong Basic Law,[30] it provides an important reassurance that neither any local law nor action of the Hong Kong SAR Government will be allowed to breach the Hong Kong Basic Law and its extensive human-rights safeguards.

It has also enabled the courts to interpret many parts of the Hong Kong Basic Law in a way very different from how Beijing had initially envisaged. This includes finding that a system of separation of powers between the executive, legislature and judiciary is "woven into the fabric of the Basic Law".[31] Such a system is anathema in mainland China, where advocacy of separation of powers can constitute a criminal offence,[32] and the idea of introducing such a system in Hong Kong was specifically rejected by Chinese leaders during the drafting of the Hong Kong Basic Law (Deng, 1993: 55). Nonetheless, drawing on the extensive provisions on political structure in the Hong Kong Basic Law, which are clearly divided into separate sections on the powers of the Chief Executive and executive authorities, Legislative Council and judiciary respectively, the courts have held that these separate sections are evidence of the existence of a system of separation of powers under the Hong Kong Basic Law.[33]

This system of separation of powers is supplemented by a strong regime of checks and balances written into the Hong Kong Basic Law which allows the Legislative Council to vote on impeaching the Chief Executive, but also permits the Chief Executive to dismiss a persistently obstructionist legislature under certain circumstances (Articles 73[9] and 50[1]).[34] The executive branch is required to seek approval from the Legislative Council for its bills, budgets and most other financial proposals (Article 73[1]–[3]), although this is balanced by the *de-facto* veto power given to the Chief Executive over the beginning and end of the legislative process.[35] The courts have used their interpretation of the Hong Kong Basic Law as providing for a system of separation of powers to make clear the limits to the authority of the executive branch, holding that the Chief Executive has no power to enact primary legislation[36] or exercise sentencing powers, in the latter case invalidating a statutory provision which unsuccessfully sought to confer such powers on the Chief Executive.[37]

Similarly, in the critical area of human rights, the courts have interpreted the Hong Kong Basic Law as conferring constitutional protection on Hong Kong's most important piece of civil liberties legislation, the Hong Kong Bill of Rights Ordinance (Cap. 383), which provides more detailed guarantees of an even wider range of civil and political rights than the already extensive protections written directly into the text of the Hong Kong Basic Law. This is despite the fact that the Hong Kong Basic Law makes no mention of the Bill of Rights,[38] a law which did not exist at the time this constitutional document was promulgated in 1990.[39] It also ignores China's hostility towards the Bill of Rights, a law whose enactment Beijing strongly opposed and originally threatened to abolish after 1 July 1997.[40] However, once again, Chinese central authorities have remained largely silent in the face of the courts' interpretation of the Hong Kong Basic Law in a way they could never have originally envisaged even though, as a matter of law, all it would take would be one binding interpretation from the NPC Standing Committee to put a stop to this.[41]

The effect of interpreting the Hong Kong Basic Law as conferring this protection on the Bill of Rights has been to further extend the impact of the courts' self-proclaimed power to invalidate any other laws that are inconsistent with the Hong Kong Basic Law to also include invalidating any other laws which are inconsistent with the detailed civil liberties' provisions in the Bill of Rights. That has formed an important part of the courts' arsenal in taking a generally generous approach to upholding the wide array of freedoms protected under both the Hong Kong Basic Law and Bill of Rights, at times going further than the majority of the Hong Kong public might have wished. For example, the courts have used this power to invalidate legislative provisions criminalizing certain sexual practices engaged in by homosexuals,[42] as well as those preventing transsexuals who have undergone sex-change surgery from lawfully marrying under their new gender,[43] in both cases holding such provisions to be inconsistent with rights protected under the Hong Kong Basic Law and Bill of Rights. In the latter case, Hong Kong's Chief Justice specifically rejected the idea that the court should wait for majority public opinion to fall in line with liberalizing marriage rules for transsexuals as "inimical in principle to fundamental rights".[44]

This generally generous approach towards protecting rights is usually characterized by an emphasis on the primacy of the wording of the Hong Kong Basic Law, which the courts have mostly regarded as the single most important factor in interpreting any particular provision (Ghai, 2007: 386).[45] That helps put some distance between the courts' common-law approach towards interpreting the Hong Kong Basic Law and the more politically orientated approach of the NPC Standing Committee where other factors, such as practical consequences, can often count for far more in deciding how to interpret any particular provision. But the courts have not been entirely consistent in this respect. Under the purposive approach applied by the courts since the earliest cases on the Hong Kong Basic Law, in addition to the wording the intention behind a particular provision also needs to be taken into account, with particular attention paid to its context.[46] That approach has sometimes enabled the courts to take an even more generous approach towards interpreting some of the rights protected under the Hong Kong Basic Law than the ordinary meaning of the wording of the relevant provisions might suggest. For example, in the 2013 case of *Kong Yunming v Director of Social Welfare*, the Court of Final Appeal linked together two articles from different parts of the Hong Kong Basic Law to expand the level of protection afforded to the right to social welfare in what has been described as "an act of judicial creativity, a deliberate policy choice and a dose of judicial activism" (Chen, 2014: 14).[47] That bold decision showed how, even in 2014 under the leadership of a new Chief Justice,[48] the Court of Final Appeal was still displaying, at least in some cases, much of the same determination to take an expansive approach towards protecting civil liberties that had been evident in its earliest judgments from *Ng Ka Ling* onwards.

Nonetheless it would probably be accurate to describe the Court of Final Appeal's overall track record on human rights as one of being only "moderately liberal" (Chen, 2006: 680). On law and order issues, the court often took a tough stance, dismissing challenges to the constitutionality of both mandatory life sentences for murderers[49] and the main law restricting public protests.[50] However even in the latter case, the court stressed that any restrictions must be kept to the minimum necessary and proportionate to their objective, a principle which has emerged as a fundamental test for judging – and often invalidating – any restrictions imposed on most of the rights under both the Hong Kong Basic Law and Bill of Rights (Gittings, 2016: 300–306).

In another important public order-related judgment, the Court of Final Appeal quashed the convictions of members of the Falun Gong, which although banned in mainland China remains legal in Hong Kong, who had been arrested while protesting outside the Central Government's Liaison Office.[51] That case, although primarily about legal issues other than the Hong Kong Basic Law, is nonetheless notable for the strong language used by the court in stressing the importance

to Hong Kong's separate system of protecting the rights of those who express views which are "disagreeable or even offensive to others or which may be critical of persons in authority"[52] – or, in other words, critical of the Chinese central authorities.

However, there have been a handful of cases in which the courts have trod more carefully over those human rights issues that might be considered particularly sensitive by the Central Government. In the 1999 case of *HKSAR v Ng Kung Siu*, the Court of Final Appeal took an unusually broad view of the extent of permissible restrictions on freedom of expression under the Hong Kong Basic Law, citing from speeches by Chinese leaders in order to uphold the constitutionality of statutory provisions criminalizing desecration of the Chinese and Hong Kong flags.[53] Yet that decision needs to be viewed at least partly in the context of its timing, coming only a matter of months after the court had been severely criticized by Beijing over the *Ng Ka Ling* judgment and at a time when the court was evidently anxious to avoid any further decisions that might lead to another confrontation with Chinese central authorities (Gittings, 2016: 296–299).

More generally, while the courts have shown a readiness to intervene over specific issues of unfairness within Hong Kong's electoral system,[54] they have been reluctant to entertain wider challenges relating to the electoral system as a whole, particularly in relation to the restricted franchise laid down in the Hong Kong Basic Law for the selection of the Chief Executive and many members of the legislature.[55] That reticence may well increase following the NPC Standing Committee's unilateral interpretation of the oath-taking requirements in Article 104 of the Hong Kong Basic Law in November 2016 to ensure the disqualification of several pro-independence advocates who had been elected to the Legislative Council. Some have even suggested that the courts may adopt a largely hands-off approach in any cases involving electoral issues that are likely to be of interest to Beijing (Young, 2016: 25–27).

Hong Kong becomes more politicized

With Beijing mostly remaining silent, even when the courts interpreted the Hong Kong Basic Law in ways it could never have originally envisaged, and the judiciary learning to live with China by exercising caution in the handful of particularly sensitive cases that threatened to test the limits of Beijing's restraint, perhaps the biggest challenge for the courts during the second decade of Hong Kong's post-1997 existence as a SAR instead came from a more unexpected quarter – the increasingly politicized nature of Hong Kong society.

Judicial decisions are not, of course, immune from criticism. In other common-law jurisdictions such as the US and UK, it is not unknown for government leaders openly to criticize court rulings with which they disagree. However, in Hong Kong, the traditional reverence for the rule of law as one of the city's core values meant that, for a long time, the sort of criticism so common in other jurisdictions was almost unheard of, even when the judiciary delivered rulings which arguably resulted in real practical problems for Hong Kong society. For instance, there was little criticism of the Court of Final Appeal for many years after its 2001 ruling upholding the residency rights of children born in Hong Kong to visiting mothers from the mainland.[56] This was despite the fact the ruling led directly to a decade-long influx of such mothers, who crowded local hospitals and left many pregnant Hong Kong women complaining about the difficulty of finding hospital beds when they needed to give birth.[57] By contrast, just over a decade later, there was clear evidence that this former reticence to criticize the judicial process was beginning to disappear as pro-democracy lawyers were pilloried by pro-government politicians for their involvement in another application for judicial review that proved unpopular with a large section of the Hong Kong public, in this case involving the residency rights of foreign domestic helpers working in Hong Kong (Lo, 2014: 159).[58]

Part of the problem is that in the face of a "dysfunctional" political system (Scott, 2000: 29), particularly one which lacks the legitimacy that usually comes from holding popular elections to choose the political leadership, there is often a tendency to turn to the courts to try and resolve political disputes where, in many other countries, people would instead tend to look "to the political process for a solution" (Mason, 2010: 22). That tendency seems to have alarmed the judiciary, which tightened the rules for bringing applications for judicial review in an effort to stop some of the more extreme cases from coming before the courts.[59] The Court of Final Appeal's first Chief Justice also repeatedly warned that the "courts could not possibly provide an answer to, let alone a panacea for, any of the various political, social and economic problems" which should instead be resolved through a better-functioning political process (Li, 2006).

In the absence of the advent of a properly functioning political process, which seems unlikely in the short-term following the 2015 rejection of any early introduction of universal suffrage for the selection of Hong Kong's Chief Executive, it seems inevitable that Hong Kong's courts will continue to be dragged into the political spotlight. Given the relatively slow pace at which judicial proceedings unfold, it also seems inevitable that the courts' involvement in such cases will sometimes exact a price, including in financial terms. This was demonstrated by the large increase in the cost of building a cross-border bridge due to the year-long delay in this construction project caused by an ultimately unsuccessful judicial review application in 2011.[60] That case tested in a very tangible way just how high a price political leaders, and the Hong Kong public as a whole, are prepared to pay to uphold the rule of law in today's more politicized environment. Judging from the furor over this case, which included attacks by then Chief Executive Donald Tsang on the alleged involvement of some pro-democracy political parties in the case, the rather disturbing answer seemed to be that, for some in Hong Kong, a vigorous system of judicial review was seen as worth rather less than the estimated $6.5 billion jump in construction costs that was attributed to the delays caused by this case (Lo, 2014: 147–151).

In this, as in so many other areas of Hong Kong life, the ramifications of the 2014 Umbrella Movement protests are likely to have a lasting impact. At one level, events during those 79-day long street occupations seemed to demonstrate the strength of the continued commitment to the rule of law in many quarters in Hong Kong. Joshua Wong, one of the main protest leaders, was released from police custody under a court-ordered writ of *habeas corpus* at the start of the occupations in a move acknowledged by even some government critics as demonstrating a continued commitment to basic principles of civil liberties (Oderburg, 2014). The Hong Kong SAR Government, for its part, made no attempt for several months afterward to re-arrest Wong or other student leaders, even as they continued to lead the street occupations. Protest leaders, for their part, went to great lengths to emphasize their respect for Hong Kong's legal system, couching their civil disobedience campaign in the context of the broader concept of rule of law advanced by those such as philosopher John Rawls (Tai, 2014: 18–19). Many pledged to bear the legal consequences of their actions and voluntarily reported to the police for arrest while, for the most part, respecting the court injunctions that effectively brought the street occupations to an end.[61]

However, events in the aftermath of the 2014 Umbrella Movement painted a different picture with trials of both participants and police officers over actions allegedly committed during the 79-day long street occupations drawing angry groups of opposing protesters outside the courtrooms involved. Lawyers involved in some of these cases found themselves subject to "groundless, malicious and unfair personal abuse" (Yeung, 2016: 7–8). Such scenes, which would have seemed inconceivable even during more politically sensitive cases such as *Ng Kung Siu* 15 years earlier, demonstrated how even relatively straight-forward criminal cases were now being caught up in the much more politicized environment which had emerged in 21st century Hong Kong. Particularly troubling were the threats and insults hurled at the judiciary by critics who accused

the courts of being too lenient on participants in the Umbrella Movement and too tough on police officers convicted of assaulting some of these participants. These included personal abuse directed at some of the judges and magistrates involved, as well as calls to "expose" their personal backgrounds (Hong Kong Bar Association, 2016a). Such accusations, which came mainly from pro-Beijing political figures in Hong Kong, were often echoed in critical commentaries published in newspapers controlled by the Chinese central authorities.

That raises the question of whether, having largely refrained from direct criticism of the judiciary, Beijing is now instead using surrogates in Hong Kong to indirectly achieve the same purpose. Yet the generally uncoordinated attacks on the courts' handling of Umbrella Movement-related cases, even when these attacks intensified following the February 2017 jailing of seven police officers convicted of assaulting a prominent pro-democracy protester, did not have either the duration or consistency that is the usual hallmark of a campaign by Chinese central authorities. Nor can the impact of sporadic attacks on the courts by pro-Beijing politicians in Hong Kong, many of which were swiftly rebutted by the Hong Kong SAR Government (Department of Justice, 2016), be compared with that of direct attacks by Chinese central authorities which, as we saw earlier, forced the Court of Final Appeal into a period of retreat after Beijing's criticism of its 1999 judgment in the *Ng Ka Ling* case.

In any event, while the abuse and threats directed against individual magistrates and judges clearly overstepped the mark, it may be that Hong Kong's courts will have to accept that more vigorous, and often critical, debate of the rights and wrongs of their judgments is now an inevitable part of life in modern-day Hong Kong. Providing such debate is conducted within reasonable limits, that should not necessarily be seen as threatening the rule of law. After all, vigorous criticism of court judgments is commonplace in other democracies, and to some extent, any move in the same direction can be seen as part of a wider trend of shaking off Hong Kong's colonial-inspired heritage of sometimes undue deference to those in positions of authority. Having already learned to live with China, it may be that the courts will simply have to learn to live with the effects of a more politicized society in Hong Kong as well.

Looking forward, the courts are sure to face further challenges in the years ahead. Cases involving the radical pro-independence groups that emerged in the aftermath of the Umbrella Movement protests, some of whom openly advocate the use of violence to achieve their goals, are likely to continue to prove particularly difficult for the judiciary. In particular, it will be difficult for the courts' to ignore Beijing's extreme sensitivity towards the independence issue, as has been already demonstrated by the NPC Standing Committee's November 2016 interpretation of the oath-taking requirements in Article 104 of the Hong Kong Basic Law to ensure the exclusion of several pro-independence politicians from the Legislative Council.

But, for all the challenges which may lie ahead, few would deny that Hong Kong's judiciary emerged from its first two decades under the Hong Kong Basic Law in far better shape than many had expected, especially given all the apocalyptic predictions about the collapse of the rule of law so commonplace before 1 July 1997 (Gittings, 2007: 1). In successfully asserting its jurisdiction to interpret so much of the Hong Kong Basic Law in ways which Beijing is unlikely to have ever envisaged, Hong Kong's courts have built up a solid body of jurisprudence in defence of Hong Kong's common-law system and, especially, the extensive guarantees of fundamental freedoms which it is difficult to foresee being seriously eroded in the short – or even medium – term.

Notes

1 Although not required in any particular, an overseas judge has been invited to sit on more than 95% of the cases heard by the Court of Final Appeal so far (Young and Da Roza, 2010: 24).

2 See, most notably, *Democratic Republic of Congo v FG Hemisphere* (2011) 14 HKCFAR 95, 232–233, where the Court of Final Appeal decided it was required to refer several issues of interpretation to the NPC Standing Committee before reaching a final judgment in that case. See also *Chief Executive of the HKSAR v President of the Legislative Council* [2017] 1 HKLRD 460, 478–480.

3 Under Article 67(4) of the 1982 Constitution, only the NPC Standing Committee has the power to issue definitive interpretations of the most important types of legislation in China, although in practice it often delegates this power to China's highest court, the Supreme People's Court.

4 This has always, so far, been confined to formally approving the choices made by an independent appointments commission (Article 88). However, although politically controversial, it might be constitutionally possible for the Chief Executive to play a greater role in the selection process (Gittings, 2016: 162).

5 The most famous exception, *Qi Yuling v Chen Xiaoqi* (Judicial Interpretation No. 25/2001), a case decided partly on a provision in the constitution, was subsequently withdrawn by the Supreme People's Court in 2008 shortly after the detention for unrelated corruption offences of the judge primarily responsible for the ruling.

6 This changed during the final years of British rule with the enactment in 1990 of comprehensive human rights legislation known as the Hong Kong Bill of Rights Ordinance (Cap. 383), which enjoys constitutional protection, and inaugurated a new era for judicial review in Hong Kong (Chen, 2000a: 418; Gittings, 2016: 172).

7 The Court of Final Appeal replaced the Judicial Committee of the Privy Council in London which had served as Hong Kong's final appellate court prior to 1 July 1997.

8 (1999) 2 HKCFAR 4.

9 Under Articles 17(3) and 160(1), although the latter provision is ambiguous about who should exercise this power *after* 1 July 1997 (Gittings, 2016: 47).

10 (1803) 5 US 137.

11 *Ng Ka Ling* at 25 citing Article 80 which grants "judicial power" to the Hong Kong courts without explaining the meaning of this term, so providing an opportunity for the courts to fill this gap with their own explanation.

12 Notably *HKSAR v Ma Wai Kwan David* [1997] HKLRD 761, a decision delivered by Hong Kong's Court of Appeal within weeks of the 1 July 1997 transfer of sovereignty and sometimes also described as Hong Kong's equivalent of *Marbury v Madison* (Chen, 2000a: 424–425).

13 *Ng Ka Ling* at 28–29.

14 Articles 26, 27 and 87(2). However only certain Chinese citizens are allowed to stand for election to most posts (Articles 44 and 67) while the Chief Executive is currently chosen by a small Election Committee rather than through a popular vote (Annex I) and not all legislators are elected through universal suffrage (Annex II).

15 *Ng Ka Ling* at 26–27.

16 Under Article 57 of the PRC Constitution, the NPC "is the highest organ of state power". In practice, like all state institutions in China, it is subject to the leadership of the Chinese Communist Party (which is mentioned in the Preamble and Article 1 of the Constitution).

17 *Ng Ka Ling v Director of Immigration* (No 2) (1999) 2 HKCFAR 141, which stated that the court could not question any act of the NPC and its Standing Committee "which is in accordance" with the Hong Kong Basic Law. However, the supplementary judgment made no further mention of the issue which had caused the controversy, namely the courts' assertion of a jurisdiction to intervene if either the NPC or its Standing Committee breached the Hong Kong Basic Law.

18 *Chan Kam Nga v Director of Immigration* (1999) 2 HKCFAR 82. The decisions in both cases would have allowed a large number of children born in China (possibly up to 1.67 million) to take up residency in Hong Kong, and the Standing Committee's subsequent interpretation was explained primarily on the practical grounds that Hong Kong could not cope with the consequences of such a mass influx.

19 *Lau Kong Yung v Director of Immigration* (1999) 2 HKCFAR 300, 323. For criticism of this judgment, see Gittings (2016: 237–240).

20 In a NPC Standing Committee decision issued on 31 August 2014 which, among other restrictions, required that all candidates in any such contest must first be endorsed by the majority of members of a Nominating Committee widely perceived to be under Beijing's control.

21 *Leung Lai Kwok Yvonne v Chief Secretary for Administration* [2015] HKEC 1034 at para. 30. See also *Chief Executive of the HKSAR v President of the Legislative Council* [2017] 1 HKLRD 460, 479–480.

22 4 HKCFAR 211.

23 *Chong Fung Yuen* at 223.

24 The NPC Standing Committee's Legislative Affairs Commission issued a statement of "concern" a day after the *Chong Fung Yuen* judgment but took no further action (Gittings, 2016: 201–202).

25 Most notably in *Ng Ka Ling* at 33, where the Court of Final Appeal refused to refer an issue of interpretation to the NPC Standing Committee on the grounds that this wasn't the "predominant" Basic Law provision at issue in that case. For criticism of the court's decision on this point, see Chen (2000b).

26 In *Democratic Republic of Congo v FG Hemisphere* (2011) 14 HKCFAR 95, although the court was sharply divided on the issue with a narrow majority of three judges favouring a referral while the other two dissented.

27 This is Article 158(3). See *Vallejos v Commissioner of Registration* (2013) 16 HKCFAR 45, 86.

28 *Chief Executive of the Hong Kong Special Administrative Region v President of the Legislative Council* (HCAL 185/2016, 15 November 2016). The NPC Standing Committee issued its interpretation on 7 November 2016, four days after the court hearing on the case, but before any judgment had been delivered.

29 The Court of Final Appeal made only nine declarations of unconstitutionality in relation to provisions in other laws found to be inconsistent with the Hong Kong Basic Law during its first decade hearing constitutional cases (Young, 2011: 87).

30 See *Ng Ka Ling* at 25. This power, unlike the power to invalidate laws, has never been the subject of dispute by mainland scholars.

31 *Lau Kwok Fai v Secretary for Justice* [2003] HKEC 711 at para. 19.

32 For example, Liu Xiaobo, who was subsequently awarded the Nobel Peace Prize, was in 2009 convicted of inciting subversion of state power after signing a reform charter that called, among other things, for the introduction of a system of separation of powers.

33 *Leung Kwok Hung v President of the Legislative Council (No 1)* (2014) 17 HKCFAR 689, 701–702, citing Sections 1–4 of Chapter IV, which is the longest chapter in the Hong Kong Basic Law and constitutes nearly 40% of its total text.

34 However, the final decision on whether to dismiss a Chief Executive, following an impeachment vote, rests with the Central Government.

35 Most bills must be approved by the Chief Executive before they can be introduced into the legislature (Article 74) and all bills must be signed by the Chief Executive before they can become law (Article 49).

36 *Leung Kwok Hung v Chief Executive of the HKSAR* [2006] HKEC 816 at para. 38.

37 *Yau Kwong Man v Secretary for Security* [2002] 3 HKC 457.

38 Article 39(1) does, however, provide constitutional protection for the International Covenant on Civil and Political Rights (ICCPR) as applied to Hong Kong. Since the Bill of Rights largely replicates the wording of this human-rights treaty, the courts have held this means that any constitutional protection conferred on the ICCPR must necessarily apply to the Bill of Rights as well. See *Ubamaka v Secretary for Security* (2012) 15 HKCFAR 743, 783.

39 The Hong Kong Basic Law was promulgated by the National People's Congress on 4 April 1990 (which means its text was essentially finalized at this time), although it did not actually come into force until the transfer of sovereignty on 1 July 1997.

40 Beijing ultimately decided to allow the bulk of the Bill of Rights to remain in force after 1 July 1997, although Chinese hostility to the law was reflected in a February 1997 decision from the NPC Standing Committee deleting three sections from the ordinance. Since these three sections largely repeated common-law principles, which the courts would normally apply in any event, the deletions amounted to little more than a "cosmetic face-saving measure" which had no practical effect (Chan and Lim, 2015: 570).

41 Such an interpretation was publicly advocated in 2001 by Shiu Sin-por who was subsequently appointed, in 2012, to head the Hong Kong SAR Government's think tank, reporting directly to the Chief Executive. However, the idea of such an interpretation has never been publicly supported by either the Central or Hong Kong SAR Governments (Gittings, 2016: 281).

42 *Leung v Secretary for Justice* [2006] 4 HKLRD 211 and *Secretary for Justice v Yau Yuk Lung* (2007) 10 HKCFAR 335.

43 *W v Registrar of Marriages* (2013) 16 HKCFAR 112.

44 *W* at 162.

45 This point was particularly emphasized by the Court of Final Appeal in *Director of Immigration v Chong Fung Yuen* (1999) 4 HKCFAR 211, 223–224.

46 *Ng Ka Ling v Director of Immigration* (1999) 2 HKCFAR 4, 28.

47 (2013) 16 HKCFAR 950, 965–967. The two provisions were Articles 36 and 145.

48 Geoffrey Ma became Chief Justice of the Court of Final Appeal in 2010, succeeding Andrew Li, who had served in that post since the court's creation in July 1997.

49 *Lau Cheong v HKSAR* (2002) 5 HKCFAR 415, 452–454.
50 *Leung Kwok Hung v HKSAR* (2005) 8 HKCFAR 229 on the legality of the Public Order Ordinance (Cap. 245). However, two words in the ordinance were (at 263–264) judged too imprecise and invalidated as a result.
51 *Yeung May Wan v HKSAR* (2005) 8 HKCFAR 137.
52 *Yeung May Wan* at 148. The case primarily concerned the lawfulness of the protesters' arrest under various Hong Kong laws.
53 (1999) 2 HKCFAR 442, 455–462.
54 For example, in *Secretary for Justice v Chan Wah* (2000) 3 HKCFAR 459 upholding a challenge over the unfairness of the arrangements for village elections in the New Territories, a case which forced the government to substantially revise these arrangements.
55 For example, in *Chan Yu Nam v Secretary for Justice* [2012] 3 HKC 38, the Court of Appeal rejected a challenge to the small franchise of predominantly corporate bodies used in many functional constituency elections to the Legislative Council. The Court of Final Appeal subsequently dismissed (in [2012] HKEC 94) an application for leave to appeal against this decision.
56 *Director of Immigration v Chong Fung Yuen* (2001) 4 HKCFAR 211, 231–233 holding that the Hong Kong Basic Law should be interpreted as conferring permanent residency rights on all Chinese children born locally, even when neither of the parents live in Hong Kong.
57 The influx began to ease from 2013 onwards after local hospitals started refusing to accept bookings from most mainland Chinese mothers with no connection to Hong Kong (Gittings, 2016: 227).
58 *Vallejos v Commissioner of Registration* (2013) 16 HKCFAR 45, where the Court of Final Appeal ultimately held (at 78–79) that such helpers were not eligible for the same residency rights under the Hong Kong Basic Law as most other long-term foreign residents in Hong Kong.
59 *Po Fun Chan v Winnie Cheung* (2007) 10 HKCFAR 676, 685–686.
60 *Chu Yee Wah v Director of Environmental Protection*, an application challenging the environmental impact of the bridge which initially succeeded in the Court of First Instance (in [2011] 3 HKC 227) but was overturned by the Court of Appeal five months later (in [2011] 5 HKLRD 469).
61 See the series of court injunctions, culminating in *Kwoon Chung Motors v Kwok Cheuk Kin* [2014] HKEC 1995, ordering the clearance of several of the areas occupied by the protesters. These then provided political cover for the Hong Kong SAR Government to order police to move in and also clear those areas not covered by the injunctions.

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Becoming part of one national economy

Maintaining two systems in the midst of the rise of China[1]

Yun-Wing Sung

Introduction

Economic integration between Hong Kong and the Chinese Mainland has proceeded extremely rapidly since China's opening since 1979 (for brevity, the Chinese Mainland is referred to as the Mainland). Initially, the economic integration between Hong Kong and the Mainland was largely spontaneous and market-driven. Hong Kong's export-oriented manufacturing industries relocated across the border in droves, taking advantage of lower wages and costs, and rapidly built a world factory in Guangdong that depended on Hong Kong for provision of producer services (financing, trading, marketing, and other professional services). Hong Kong was transformed from a low-cost production base of labour-intensive manufactures into a global services hub. Hong Kong and the Mainland became each other's foremost partner in external trade as well as external direct investment (Sung, 2005: Chapter 1).

The Mainland's integration with the world economy was initially quite shallow as it was largely limited to foreign investors using the Mainland as a base for labour-intensive, export-oriented manufacturing. China's domestic market for consumer goods was not very open. China's services sectors were heavily protected. Deng Xiaoping's 1992 southern tour in support of economic reforms was a milestone in China's opening as it re-ignited the momentum for opening and reforms which had been held back temporarily by the 1989 June 4 incident. It also deepened China's opening as China started to lower the protection for its consumer goods and also for its services sectors. Since 1992, big service firms in Hong Kong, including Hutchison Whampoa, Cheung Kong, and HSBC started to invest heavily in the Mainland's container ports, real estate, banking, and other service sectors. By the time of China's entry into the WTO (World Trade Organization) at the end of 2001, China was already one of the most open developing economies. It was ready to implement a demanding programme of comprehensive liberalization as required by WTO accession.

In economics literature, trade in goods is regarded as shallow integration as it can be conducted at arms-length and usually does not require extensive people-to-people contacts. In contrast, integration in services is regarded as deep integration as services are performed directly on people. The services trade requires consumers to go directly to the producer, as in tourism, or requires

producers to set up shop overseas through direct investment to provide services there. Either way, the services trade requires extensive people-to-people contacts.

Furthermore, all over the world, and especially in the Mainland, the modern services sector (e.g., banking, finance, telecommunications, and transport) tends to be dominated by highly regulated and monopolistic big enterprises that are often state-owned. Services liberalization is usually a slow and cumbersome process as it requires extensive changes in government regulations and policies that are resisted by powerful vested interests. Despite liberalization initiated in 1992 and further deepened since WTO accession in 2001, China's process of services liberalization is still far from complete. This is especially true in the liberalization of financial services, which entails great risks.

Hong Kong's reversion to China in 1997 facilitated deep integration in services which requires policy coordination between Hong Kong and the Mainland. Surprisingly, in the first five years of Hong Kong's reversion, not much was accomplished in services integration as the elites in Hong Kong feared the possible adverse impacts of deep integration on Hong Kong's autonomy and international image. The implementation of 24-hour operation of one passenger border checkpoint between Hong Kong and the Mainland, a very small and simple step in economic integration, was only implemented in January 2003, some five and a half years after Hong Kong's reversion (Sung, 2005: Chapter 3).

Hong Kong's deep integration with the Mainland accelerated decisively in mid-2003 as the elites in Hong Kong came to see economic integration with the Mainland as a solution to three successive crises that struck Hong Kong after reversion: The 1997 East Asian financial crisis, world recession caused by the 9.11 terrorist attack in USA in 2001, and the outbreak of SARS (Severe Acute Respiratory Syndrome) in early 2003. The Hong Kong economy went into a prolong deflation that lasted five years and a half (from October 1998 to June 2004) in which consumer prices and real estate prices fell by a total of 14 per cent and 60 per cent respectively. Though the Mainland economy was struck by the same crises, its growth was still robust. The Mainland was relatively immune from external shocks as it was much less open than Hong Kong. Moreover, the Mainland's economic fundamentals were relatively strong.

In the early years of China's opening, Hong Kong has played a pivotal role as it was the key intermediary in China's international trade and investment. China recognized the key position of Hong Kong and tailored its opening to capture business opportunities from Hong Kong – for example, China's first and most successful Special Economic Zone, Shenzhen, was aimed specifically at Hong Kong. However, with crisis and stagnation of the Hong Kong economy from 1997 to 2003, and rapid development of the Mainland, the tables were turned in the Mainland's favour. Hong Kong has to adjust its policies to capture business opportunities from the Mainland and leverage on its Mainland connections to boost its economy. Hong Kong's policies included relaxation of controls against tourists and skilled workers from the Mainland and promotion of economic integration with the PRD (Pearl River Delta), the natural hinterland of Hong Kong and the premier economic region of Guangdong.

Beijing responded favourably to Hong Kong's overtures. The Mainland-Hong Kong CEPA (Closer Economic Partnership Arrangement), which is a free trade agreement, was signed in mid-2003. This was the first free-trade agreement for either the Mainland or Hong Kong. Starting in late July 2003, the IVS (Individual Visitor Scheme) scheme was instituted under which Mainlanders were allowed to tour Hong Kong individually (as opposed to in group tours). Since then, Mainland tourists grew explosively from 6.8 million in 2002 (41 per cent total tourist arrivals) to a peak of 47.2 million (78 per cent of total tourist arrivals) in 2014. These measures, together with a weak US dollar and global economic expansion, sparked a sharp economic recovery in Hong Kong. The rapid increase of tourists from the Mainland and the strong growth of financial

services fuelled by the Mainland's financial liberalization helped to maintain robust economic growth in Hong Kong till mid-2015.

In 2015, economic growth in Hong Kong slowed down from 3.1 per cent in the first half of the year to 1.9 per cent in the second half and fell further to an anemic 0.8 per cent in the first quarter of 2016. China's stock market crashed in mid-2015, and the Renminbi was devalued in August. China's financial liberalization slowed down, and Hong Kong's financial services suffered. Moreover, the rapid increase of Mainland visitors to Hong Kong was reversed in mid-2015: the number of Mainland tourists fell respectively by 10 and 11 per cent in the second half of 2015 and the first half of 2016 (year on year growth rates). This was partly due to open hostilities in Hong Kong towards Mainland tourists as a result of severe congestion and overcrowding. Other contributory factors include the devaluation of Renminbi and the slowdown of the Mainland economy. Mainland-Hong Kong economic integration entered a difficult phase, which will be detailed later.

This chapter is organized into ten sections. The first section is the introduction. The second section describes the framework governing economic integration under 'One Country, Two Systems'. The third section analyzes the asymmetries in Mainland-Hong Kong economic integration (asymmetries in level of economic development, in economic size, and in openness). These asymmetries have important repercussions on Hong Kong that need to be managed. The fourth through seventh sections discuss respectively the evolution of integration in goods, services, factor markets (capital and labour), and financial markets. The eighth section discusses the pros and cons to Hong Kong of economic integration under 'One Country, Two Systems'. The ninth section analyzes the role of Hong Kong in China's 'Belt and Road Initiative' (BRI). The final section concludes.

Framework governing economic integration under 'One Country, Two Systems'

The framework of economic integration between Hong Kong and the Chinese Mainland was specified in meticulous detail in the Basic Law, the mini-constitution adopted in April 1990 that governed the return of Hong Kong to Chinese sovereignty in 1997. Economic integration under 'One Country, Two Systems' has the characteristics of both national integration as well as international integration. In terms of 'Two Systems', Hong Kong looks like an independent economy and Mainland-Hong Kong economic integration looks like international economic integration. Hong Kong would maintain an independent fiscal and monetary system with its own currency (Hong Kong dollar) and central bank. For trade, Hong Kong would be a separate customs territory, a separate member of the WTO (World Trade Organization), and would remain a free port. For flows of capital and labour, Hong Kong would maintain free flow of capital (with free convertibility and no exchange controls) and would maintain its own immigration controls. Hong Kong would also maintain its own shipping and aircraft registrar.

In terms of the institutional arrangements on 'Two Systems', the barriers to economic integration between Hong Kong and the Chinese Mainland are much higher than those among members of the EU (European Union) in five important ways. First, for flow of goods, members of the EU have a common external tariff, and they bargain as a single entity in world trade (the EU is an unified customs territory), whereas Hong Kong and the Mainland are separate customs territories with different external tariffs (China has tariffs while Hong Kong is a free port). Second, for flow of services, EU companies are free to establish themselves in other EU members to provide services. For Mainland and Hong Kong, services flows are not as free, despite services liberalization under the 2003 Mainland-Hong Kong CEPA. Third, there is free migration within

the EU but not between Hong Kong and the Mainland. In particular, Hong Kong has high barriers against immigration from the Mainland. Fourth, there is free flow of capital within the EU but not between the Mainland and Hong Kong. While capital movements into and out of Hong Kong are completely free, the Mainland has restrictive capital controls. Fifth, members of the EU have achieved strong coordination in many areas of economic policies, e.g., agriculture, environment, labour, and government procurement, but the policy coordination between the Mainland and Hong Kong is much less extensive. Moreover, the Euro Area within the EU has a common currency, but Hong Kong and the Mainland have different currencies. The Hong Kong dollar has been pegged to the US dollar since 1983 while the Renminbi has adopted a managed float against a basket of currencies.

Though Hong Kong is very much like an independent economy, some aspects of Mainland-Hong Kong economic integration stem from the 'One Country' principle as Hong Kong's autonomy in external economic affairs is subservient to China's foreign policy. For example, if China were to impose a trade embargo against another nation due to war or foreign policy disputes, Beijing can order Hong Kong to follow suit. Hong Kong Chinese can enter the Mainland without a visa as they are regarded as Chinese nationals. Though economic policy coordination between the Mainland and Hong Kong is difficult due to vast differences between the two systems, there is nevertheless growing economic policy coordination between the two.

Asymmetries in Mainland-Hong Kong economic integration

Mainland-Hong Kong economic integration is characterized by three significant asymmetries: differences in level of economic development, in economic size, and in degree of openness. These asymmetries have important repercussions on both partners that will be discussed below.

Asymmetry in level of economic development

The economic integration of a highly developed economy (e.g., Hong Kong) with a developing economy (e.g., Mainland) has important benefits and costs for both partners. Developing economies usually have higher growth potential than developed economies. For Hong Kong, integration with the Mainland implies that Hong Kong can share in the higher growth potential of the Mainland. The difference in the level of development implies that it is easier to form a complementary rather than a competitive relationship.

For developed economies, the biggest drawback is the pressure on income distribution. With economic integration, labour (especially unskilled labour) in developed economies has to compete with workers in developing economies. The pressure on wages comes from three channels, namely, trade, investment, and migration.

In trade, developed economies would replace domestic production of labour-intensive goods with cheaper imports from developing economies. This would depress the wage rates in developed economies but raise wage rates in developing economies, shrinking the international gap in wage rates. For the wage rate, importing (exporting) labour-intensive manufactures is like importing (exporting) labour.

Through investment, developed economies would relocate their labour-intensive production to developing economies to take advantage of lower wages there. Through migration, workers from developing economies would migrate to developed economies in search of higher wages. All the three channels of economic integration (trade, investment, and migration) would shrink the international gap in wage rates. They would improve global income distribution but worsen income distribution within developed economies.

Empirically, it has been demonstrated that economic globalization in the past two decades did improve global income distribution but worsen income distribution in developed economies (Milanovic, 2012). Improvement in global income distribution is ethically laudable, but it does not garner strong political support as the world is divided into nation states without a world government. The deterioration of income distribution within developed economies has aroused strong political backlashes against globalization in most countries of the developed world.

In the case of Mainland – Hong Kong integration, the effect on income distribution on the Mainland is insignificant as Hong Kong is small. However, the effect on income distribution in Hong Kong is very large, not only because of the huge size of the Mainland economy, but also because of geographic and cultural proximity between Mainland and Hong Kong, which lower the barriers of economic integration. For instance, in comparison with small firms in western countries, it is much easier for small firms in Hong Kong to relocate to the Mainland due to geographic and cultural proximity.

For services, it is easier to relocate backroom services (e.g., accounting, data entry, telephone operators, and answering service) than front-end services, as the latter requires direct personal contacts with customers. Workers in front-end services (e.g., barbers) are usually protected from foreign competition. However, it is easy for Hong Kong residents to travel to the Mainland for daily shopping, entertainment, or other consumption activities. As a result, Hong Kong workers in front-end services also face intensive competitive pressure from their Mainland peers.

Mainland-Hong Kong integration is expected to significantly worsen income distribution in Hong Kong. Empirically, Hong Kong's household income disparity as measured by the Gini coefficient rose from 0.45 in 1986 to 0.52 in 1996, and rose further to 0.54 in 2011 (HKSAR Government, 2012). In terms of income inequality, Hong Kong ranked among the worst in the world.

Asymmetry in economic size

Hong Kong's GDP relative to that of the Mainland has declined from 16 per cent in 1997 (the year of Hong Kong's reversion to China) to less than 3 per cent in 2015[2] due to the rapid growth of the Mainland economy. It is well known that small economies tend to benefit relatively more from economic integration than large economies because the ratio of international business to GDP tends to be high in small economies. For instance, the ratio international trade to GDP is over 350 per cent in Hong Kong while it is only around 30 to 40 per cent in China and in the USA. Though small economies can gain a lot from globalization, they are also highly vulnerable to the fluctuations in the world market. For a small economy, the preferred strategy is not to isolate itself but to strengthen its flexibility and adaptability to weather external shocks.

Integration of services requires people to people contacts. The flow of people from large economies (e.g., tourists) can easily overwhelm the capacity of small economies. Hong Kong is competitive in tourist, medical, and educational services. Mainlanders have a high demand for these quality services, but the capacity in Hong Kong is limited. This has led to severe stress and hostility between locals and Mainlanders. The small economy needs to manage carefully its integration in services with a large partner.

Asymmetry in degree of openness

In economic integration, Hong Kong tends to be more open than its partners as Hong Kong is the most open and free economy in the world.[3] Despite this asymmetry, Hong Kong has benefited a lot from its unilateral openness. Since the 1970s, many developing economies, including China, have adopted unilateral liberalization as an economic strategy.

In general, the Mainland is much less open, partly because of its heritage as a centrally planned economy and partly because of its lower level of development. However, since China's opening, the degree of asymmetry in openness between the Mainland and Hong Kong has diminished greatly since 2003. Before mid-2003, China had liberalized business that earned foreign exchange (exports of goods, incoming tourism, inward foreign investment), but had still restricted activities that used foreign exchange (imports of goods, outgoing tourism, outward foreign investment). As a result, the Mainland had a burgeoning current account surplus, and the Mainland's economic partners usually ran huge bilateral current account deficits with the Mainland. There were complaints in Hong Kong that the Mainland-Hong Kong border was a 'gortex border' as the Mainland encouraged inflows of capital and tourists from Hong Kong, but had severely restricted outflows of Mainland capital and tourists.

Since 2003, China had liberalized outgoing tourism and outward investments. Currently, the complaint in Hong Kong is that there are too many Mainland tourists, overwhelming Hong Kong's capacity. In other words, the pace of liberalization of the Mainland market has overwhelmed supply capacity in Hong Kong.

Though the Mainland has established Free Trade Zones (in Shanghai, Guangdong, Fujian, and Tianjin) since 2003 to speed up opening, the liberalization of services is still a lengthy process. Hong Kong's service sectors are still generally more open than those in the Mainland. However, there are some important exceptions. For instance, Hong Kong's container trucks and drivers are allowed to operate in the Mainland even though the Mainland's container trucks are not allowed to operate in Hong Kong. It is also easier for Hong Kong's health service providers to operate in the Mainland than vice versa.

Integration in the goods market

Since China's opening, Mainland-Hong Kong trade soared as the Mainland relied heavily on Hong Kong as a trading hub. Figure 3.1 shows Mainland trade taking the form of Hong Kong's entrepot trade and offshore trade. Entrepot trade uses the Hong Kong port and goes through Hong Kong customs, while offshore trade does not go through Hong Kong. In entrepot trade, Mainland (third-country) goods are first imported into Hong Kong and then re-exported to third countries (the Mainland). In offshore trade, Hong Kong traders directly export (import) goods from the source country to (into) the destination without going through Hong Kong.

In the early and mid-1990s, close to 40 per cent of Mainland trade went through Hong Kong in the form of entrepot trade. Entrepot trade was then much larger than offshore trade as Mainland ports were then underdeveloped. However, the liberalization and development of China's service industries and container ports led to competition with Hong Kong. Offshore trade grew faster than entrepot trade and exceeded entrepot trade by 2008 as many Hong Kong traders found it cheaper to use Mainland ports rather than the Hong Kong port (Sung, 2011). From 1991 to 2014, the average annual rate of growth of Mainland trade via Hong Kong taking the form of offshore trade was 17.5 per cent, while that in the form of entrepot trade was only 10.2 per cent. For Hong Kong, the value-added content of entrepot trade is higher than offshore trade, as the former use the services of both Hong Kong traders and the Hong Kong port, while the latter uses the services of Hong Kong traders but does not go through the Hong Kong port.

Around half of Hong Kong's mainland-related entrepot trade was outward processing trade generated by the 'world factory' in Guangdong, which was built with the help of Hong Kong investment. In outward processing, the Mainland partners of Hong Kong firms process raw materials and semi-manufactures supplied by the Hong Kong parent, and the processed output is sold via the parent to the world market. The other half of Hong Kong's Mainland-related entrepot
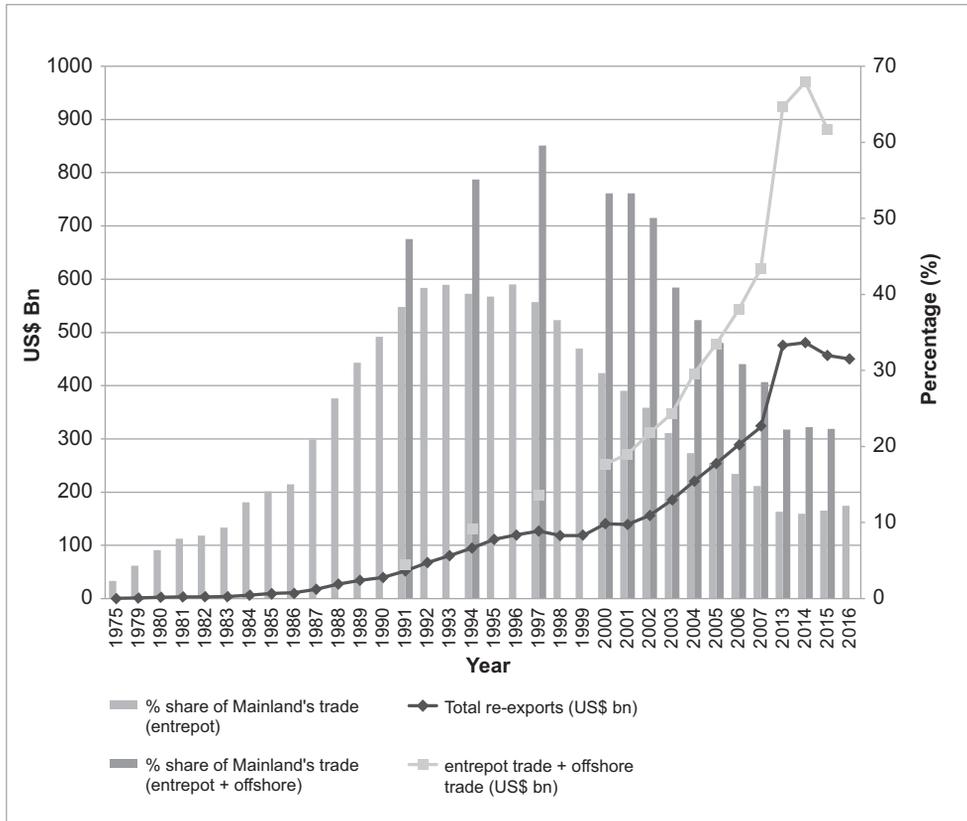
Figure 3.1   Mainland trade in the form of Hong Kong's entrepot trade and offshore trade

Sources: Mainland trade taking the form of Hong Kong's entrepot trade = Hong Kong's re-exports of Mainland origin net of the re-export margin + Hong Kong's re-exports to the Mainland; data were obtained from the Census and Statistics Department of Hong Kong.

Mainland trade taking the form of Hong Kong's offshore trade = Hong Kong's offshore trade of Mainland origin + Hong Kong's offshore trade destined to the Mainland; Data were obtained from the Census and Statistics Department of Hong Kong.

Data on China's total trade were obtained from China Customs Statistics.

trade was pure entrepot trade that was not related to outward processing. The prominence of Hong Kong as an entrepot is due to the economies of agglomeration in both transportation and trading activities. A big transportation hub is efficient due to the 'hub–and–spoke' pattern in transportation. A large trading hub is efficient due to the agglomeration of traders that lower search and information costs.

Though Mainland trade via Hong Kong has grown in absolute terms up to 2014, the Mainland's dependence on Hong Kong for trade has declined in relative terms since the mid–1990s due to the competition of Mainland ports and services. Figure 3.1 shows that Mainland trade via Hong Kong in the form of Hong Kong's entrepot trade rose from 4.3 per cent of the Mainland's total trade in 1979 to 40 per cent or more around the early and mid–1990s, but declined to 11 per cent in 2014. Adding offshore trade on entrepot trade, Hong Kong's share peaked at 60 per cent in 1997 and declined to 22.6 per cent in 2014.

As a result of escalating export costs and the slowdown of the Mainland's economy in 2015 and 2016, Mainland trade fell by 8 per cent and 7 per cent respectively. Mainland trade via Hong Kong also fell. However, the shares of Hong Kong in Mainland trade remained quite stable. Mainland trade via Hong Kong in the form of Hong Kong's entrepot trade rose marginally from 11 per cent in 2014 to 12 per cent in 2016. Adding offshore trade on entrepot trade, Hong Kong's share in Mainland trade declined marginally from 22.6 per cent in 2014 to 22.3 per cent in 2015 (2016 figures were not available at the time of publication).

The Mainland's dependence on Hong Kong for trade in the 1990s was abnormally high as the Mainland's ports and trade-related services were then underdeveloped. The Mainland has rapidly become the world's largest trader, and it is not possible for tiny Hong Kong to continue handling the bulk of Mainland trade. Though Mainland trade handled via Hong Kong has declined relative to the Mainland's total trade, it has continued to grow in absolute terms at double digit rates, exceeding US$ 900 billion by 2012. Despite intense competition from Mainland ports, Hong Kong is still an important trading hub for the Mainland.

Integration in services

With the gradual liberalization of China's services since 1992, the Mainland's services providers arose to compete with those from Hong Kong. The pattern of services trade between the Mainland with Hong Kong changed from lopsided dependence to mutual interdependence, with each side specializing in services in which it has comparative advantage.

The Mainland-Hong Kong CEPA signed in mid-2003 further opened the Mainland's services sectors to Hong Kong. In addition to importing producers' services from Hong Kong, the Mainland has also been a large importer of consumer services from Hong Kong. The main items include tourism, education, medical services, and personal banking, finance, and insurance services.

The Mainland-Hong Kong CEPA

The CEPA involves two economies that are very asymmetric in size, in openness, and in level of development. There are few gains for the Mainland in terms of market access as the Hong Kong market is small and already very open. However, the Mainland gains from an increase in Hong Kong investment as Hong Kong is the foremost investor in the Mainland. Moreover, by opening its highly protected services sector selectively to Hong Kong ahead of WTO commitments, the Mainland may help its service industries to adapt and face the rigours of world competition. Lastly, the Mainland – Hong Kong CEPA symbolizes the union of Hong Kong to its motherland. The market access given to Hong Kong has considerable attraction for Taiwan. The CEPA was instrumental in prompting Taiwan to sign the Cross-Straits Economic Cooperation Framework Agreement (ECFA) with the Mainland in mid-2010 (Sung, 2013).

The CEPA covers three broad areas, namely trade in goods, trade in services, and trade and investment facilitation. For trade in goods, the CEPA granted zero tariffs to over 1,600 product items covering the main manufacturing industries of Hong Kong. As Hong Kong is mainly a service hub rather than a manufacturing centre, the focus of CEPA has been services liberalization. In the 10-year period between 2004 and 2013, the scope of the CEPA has expanded every year with the signing of ten Supplements (Sung, 2013).

At the start of China's 12th Five Year Plan in 2011, Beijing announced a goal to achieve basic liberalization of trade in services in the Mainland for Hong Kong by the end of the Plan period in 2015. In December 2014, the Agreement between the Mainland and Hong Kong on Achieving Basic Liberalization of Trade in Services in Guangdong (the Guangdong Agreement) was signed under

the framework of CEPA, enabling early realization of basic liberalization of trade in services between Guangdong and Hong Kong. It was the first free trade agreement drawn up by the Mainland with a 'negative list' approach.[4] On the basis of the Guangdong Agreement, an Agreement signed in mid-2016 extended the implementation of the majority of Guangdong pilot liberalization measures to the whole Mainland and basically achieved liberalization of trade in services between the Mainland and Hong Kong after 13 years' continuous liberalization of trade in services through CEPA.[5]

It is difficult to estimate the benefits of CEPA for the Hong Kong economy as services liberalization is a lengthy process.[6] For Hong Kong's service providers, setting up subsidiaries in the Mainland in sectors already opened under the CEPA still requires a number of permits or licenses from various departments of provincial or local authorities. Obtaining such licenses can be difficult and time-consuming.

In the long run, with substantial service liberalization in the Mainland, the benefits for Hong Kong in service receipts can be large. The CEPA strengthens Hong Kong's role as an international financial centre, trading centre, and service hub. The Mainland's financial liberalization will turn Hong Kong into an offshore centre for *Renminbi* business, which is of crucial importance to the position of Hong Kong as an international financial centre. The CEPA also includes a clause that encourages more Mainland companies to seek listing in Hong Kong. The CEPA will strengthen the Hong Kong-PRD (Pearl River Delta) nexus, enabling the industrial powerhouse of the PRD to utilize the sophisticated supporting services of Hong Kong in logistics, distribution, financial services, and business services. In a nutshell, the CEPA will strengthen Hong Kong's position as the premier service hub of China (Sung, 2013).

Explosion of Mainland visitors and the Individual Visitors Scheme (IVS)

The flexibility of IVS led to an explosion in Mainland tourists visiting Hong Kong. The number of IVS visitors rose from less than 0.7 million in 2003 to over 31 million in 2014, accounting for 66 per cent of Mainland visitors and 51 per cent of all visitors in 2014.

The rapid growth of IVS visitors has accelerated since April 2009, when the Central Government allowed permanent residents in Shenzhen to visit Hong Kong on 1-year Multiple Entry Individual Visit Endorsements (M-Permit). M-Permit visitors grew explosively from under 1.5 million in 2009 to nearly 15 million in 2014, accounting for over 47 per cent of IVS visitors in 2014. To ease severe overcrowding and social tensions, Beijing announced that, starting April 13, 2015, Shenzhen would stop issuing M-Permits, which would be superseded by 'one trip per week' Individual Visit Endorsements (Sung *et al.*, 2015: 4). As mentioned in the introductory section, the number of Mainland tourists visiting Hong Kong fell by 3 per cent in 2015, reversing the explosive growth since 2003. The Hong Kong tourist industry went into a recession, and the animosity against Mainland visitors eased somewhat (Sung *et al.*, 2015: 6–7).

The author has estimated the economic contributions to Hong Kong of Mainland visitors and IVS visitors in detail. In 2013, all visitors, Mainland visitors, and IVS visitors generated 4.2 per cent, 2.6 per cent, and 1.6 per cent of GDP respectively and also generated 6.4 per cent, 4.5 per cent, and 2.7 per cent of total employment (Sung *et al.*, 2015: 1). While the contributions of IVS visitors to total value-added and employment were not large, the contribution of IVS visitors to the *growth* of employment was large as tourism is labour intensive. From 2004 to 2013, the increase in IVS visitors (all visitors) accounted for 18 per cent (24.3 per cent) of the increase in total employment in Hong Kong.

If negative (positive) externalities exist, the economic contributions of tourism would be smaller (bigger) than the standard measures on contributions of tourist expenditure to GDP or employment. As noted by the author (Sung *et al.*, 2015: 13), in the case of IVS visitors, negative

externalities in congestion and overcrowding are highly visible. A number of M–Permit visitors have acted as parallel traders, and their activities have generated a lot of conflicts with local residents who live near border areas. However, IVS facilitates the movement of personnel between the Mainland and Hong Kong and lowers cross-boundary transaction costs. This promotes the economic integration of Hong Kong with the Mainland and may generate significant external economies in production and consumption. On the production or supply side, improved exchanges with the Mainland may allow HK firms to hire skilled personnel from the Mainland more easily. On the consumption or demand side, the lowering of cross–border transaction costs may stimulate the Mainland's demand for Hong Kong services, including services not related to tourism, such as financial services, medical services, and educational services. IVS may also generate external economies in cross–boundary investment as Mainland investors may understand the Hong Kong investment environment better through IVS visits.

It is known that, since the institution of IVS, many Mainlanders have visited Hong Kong for medical treatment, for education, and for investment (purchasing real estate, personal insurance, and stocks and bonds). IVS has promoted exports of Hong Kong's medical, educational, and financial services to the Mainland and has also promoted Mainland investment in Hong Kong. However, externalities are very difficult to quantify, and we cannot tell whether the positive externalities are big enough to outweigh the negative ones.

Mainland-Hong Kong services trade

Figure 3.2 shows China's total services trade, Mainland-Hong Kong services trade, and also Hong Kong's share of the Mainland's services trade from 1995 to 2015. Hong Kong's share of the Mainland's services trade peaked at 63 per cent in 1996 and declined to 10 per cent in 2015.
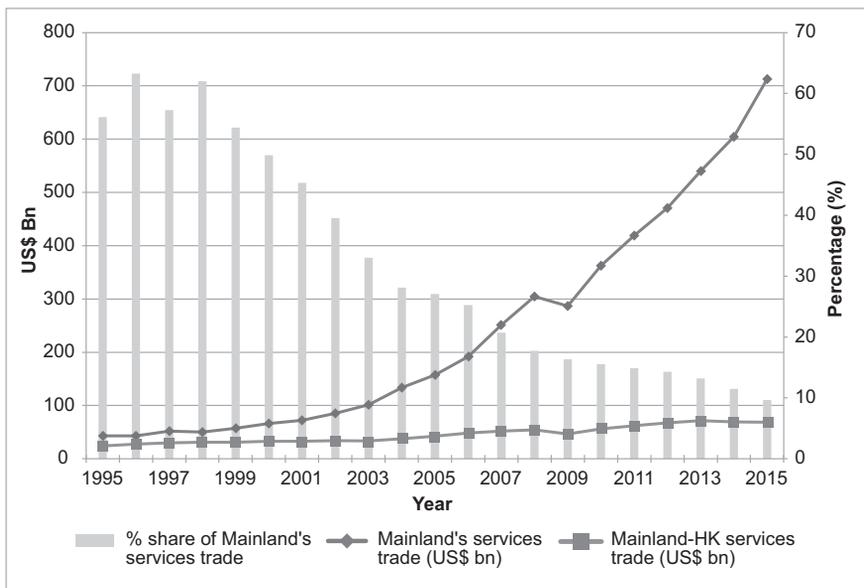
Figure 3.2   Mainland's total services trade and Mainland-Hong Kong services trade, 1995–2015

Sources: Data on Mainland's total services trade were obtained from China Statistical Yearbook, various issues. Data on Mainland-Hong Kong services trade were obtained from the Census and Statistics Department of Hong Kong.

In absolute terms, Mainland–Hong Kong services trade has nearly trebled from US$24 billion in 1995 to US$ 71 bn. in 2013. It has declined slightly to less than US$69 billion in 2015 due to the fall in expenditures of Mainland tourists visiting Hong Kong. Meanwhile, the Mainland's total services trade has risen more than 16 times from 1995 to 2015. Hong Kong's share of the Mainland services trade has declined as a result.

Integration of labour market

In the pre-Communist era, people in Guangdong were free to migrate to Hong Kong to reside and work. In the Maoist era, China has tight exit controls. However, many illegal migrants (mostly refugees) evaded border controls to come to Hong Kong. The number of the legal migrants allowed by China to settle in Hong Kong was also substantial because many people in Hong Kong people have close kinship ties with Mainlanders. China's opening in 1978 and gradual liberalization of social controls exacerbated population pressure in Hong Kong (Sung, 2005: Chapter 3).

To alleviate population pressure in Hong Kong, the Mainland agreed to a quota of 150 legal migrants per day in 1980 under the 'One-way Permit' (OWP) Scheme. Mainland residents who wish to migrate to Hong Kong for family reunion have to obtain an OWP from the Chinese Public Security Bureau, certifying that the holder is allowed to leave the Mainland to settle permanently in Hong Kong.

Technically speaking, the OWP Scheme is an exit quota of the Mainland rather than an immigration quota of Hong Kong as Beijing insisted that Hong Kong is part of China and Mainland Chinese have the right to enter Hong Kong. Approval is at the discretion of Mainland authorities. In practice, the Scheme has been designed in consultation with the Hong Kong Government as Beijing wanted to limit population pressure in Hong Kong.[7] Since May 1997, the Scheme adopted a point–based system with transparent approval criteria.

Due to the OWP quota, migration to Hong Kong from the Mainland for family reunion usually involves a long wait while migration from other countries to Hong Kong for family reunion is much faster. With the institution of IVS in 2003, cross–border families can choose to have their children born in Hong Kong to acquire residency status, circumventing the OWP quota. However, the migration of spouses still takes four years or so.

Due to fears of population pressure arising from kinship links, Hong Kong's controls on migration, visitors, and importation of skills from the Mainland have been stricter than those from other countries. After Hong Kong's reversion in 1997, Hong Kong's controls on permanent migration from the Mainland are still very strict, though the barriers against mainland visitors and importation of skills have been gradually relaxed to compete for skills and talents.

From 1994 to 2002, Hong Kong experimented with various schemes to import Mainland skills that were not successful as they were too restrictive (Sung, 2005: Chapter 3). Since 2003, more effective schemes to attract Mainland professionals, talent, investors, and students graduating in Hong Kong universities were introduced. From 2003 to early 2016, a total of 133,500 Mainlanders were attracted to work in Hong Kong. Another 40,478 Chinese nationals were approved to enter Hong Kong through a capital investment entrant scheme.[8] Altogether, over 1 million Mainlanders migrated to Hong Kong since 1997. The great majority (880,000 or 84 per cent) were migrants admitted under the OWP Scheme for family reunion. Mainland migrants accounted for the major part of Hong Kong's population growth as the fertility rate in Hong Kong is among the lowest in the world.

The Mainlanders migrating to Hong Kong for family reunion are mostly unskilled, exacerbating the difficulties of unskilled local workers who are already suffering from the structural

transformation of the Hong Kong economy towards higher value-added services. There are also a substantial but unknown number of illegal immigrants from the Mainland working in Hong Kong. The problem has become more serious with the dramatic increase in Mainland tourists. Given the large wage differential between Hong Kong and the Mainland, it is inevitable that Hong Kong has to be prepared for the problems of population pressure, unemployment, and income maldistribution, which is endemic in major cities in the globalized world.

Integration of financial and capital markets

As an international financial centre, Hong Kong's role as financier of the Mainland was multi-faceted. Hong Kong and the Mainland are each other's foremost partner in FDI (Foreign Direct Investment). Around half of the Mainland's inward (outward) FDI comes from (goes to) Hong Kong. Hong Kong is also an importance source of portfolio investment and loans. Mainland enterprises have been listed on the Hong Kong stock market (H-shares) since 1992. H-shares and the listings of China-affiliated companies (Red Chips) accounted for more than half of Hong Kong's stock market capitalization.

Hong Kong's role in inward and outward FDI

Figure 3.3 shows Hong Kong's shares in the Mainland's inward and outward FDI. Hong Kong has been the foremost source of inward FDI. Throughout the 1980s, Hong Kong's share was around 60 per cent, with Taiwan, USA, and Japan vying for second place with a share of around 8 per
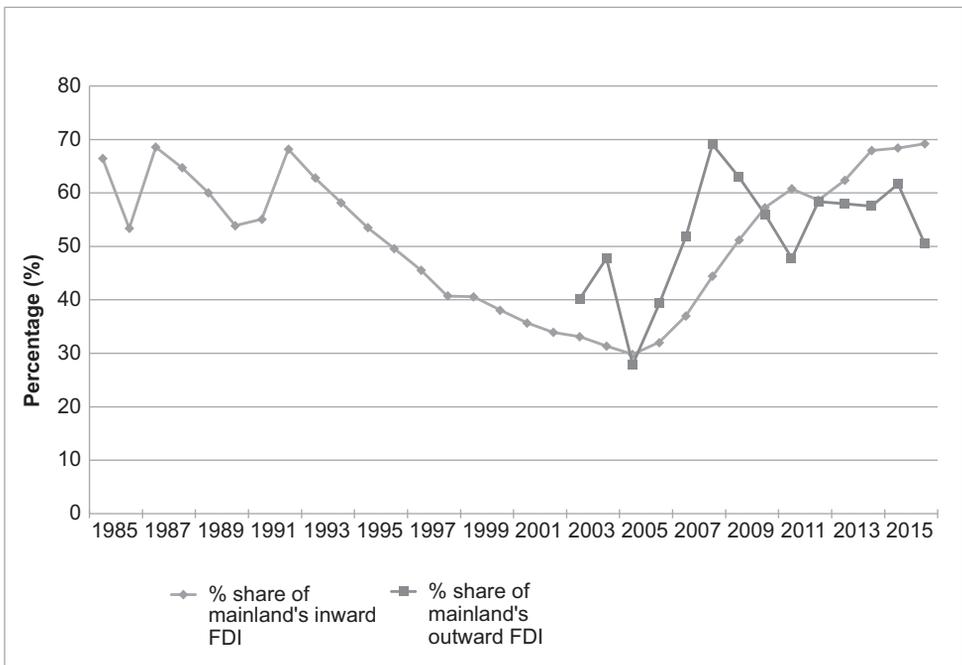
Figure 3.3 Hong Kong's shares in the Mainland's inward and outward FDI, 1985–2016

Source: Data were obtained from the Census and Statistics Department of Hong Kong.

cent. Hong Kong's share declined to a low of 30 per cent in 2005, but rebounded to a historic peak of 69 per cent in 2016. The very high share of Hong Kong in recent years is related to the Mainland using Hong Kong's financial market to raise capital.

It should be noted that, according to the Mainland's statistics, the FDI from Hong Kong includes all investment from companies incorporated in Hong Kong, which may be multi-national subsidiaries. In particular, there is a substantial 'roundtripping' of Mainland capital via Hong Kong back to the Mainland to take advantage of concessions given to foreign investors.[9]

China has been liberalizing its controls on outflows of capital since 2003, and China's outward FDI grew very rapidly. Hong Kong has been the foremost destination, accounting for close to 60 per cent of the Mainland's outward FDI from 2012–15, declining to 51 per cent in 2016. Part of this investment is channelled via Hong Kong to other places.

The rapid economic development in China and the reform of China's SOEs (State-Owned Enterprises) will generate a tremendous demand for funds. The Hong Kong financial market has the depth and also the expertise to provide funding for the Mainland. Private enterprises have grown rapidly in China, and they have a better governance structure than SOEs. As more Mainland enterprises, including private enterprises, seek listing in Hong Kong, Hong Kong could become one of the largest stock markets in the world.

Hong Kong's role in portfolio investment

China has been very careful in liberalizing controls on portfolio investment as opening of the capital account can be risky. Offshore listing of Chinese enterprises (e.g. H-shares), which has been allowed in Hong Kong since 2002, has already been discussed. Offshore bonds (dim sum bonds), which have been issued in Hong Kong since 2007, will be discussed below in connection with the internationalization of Renminbi. This section will focus on the QFII (Qualified Foreign Institutional Investor) and QDII (Qualified Domestic Institutional Investor) programmes, which were instituted in 2002 and 2006, respectively. The former allows foreign investors to invest in China's securities market while the latter allows domestic investors to invest in overseas markets. Both programmes are subject to quota and the investment must be handled through selected financial institutions.

The RQFII (Renminbi Qualified Foreign Institutional Investors) programme, introduced at the end of 2011, is denominated in Renminbi, unlike the QDII programme, which has quotas specified in US dollars. The RQFII programme allows Hong Kong subsidiaries of qualified Mainland asset management firms to channel RMB raised in Hong Kong to invest in the security market in the Mainland. Besides liberalization China's capital account controls, the programme is also intended to promote the offshore Renminbi market in Hong Kong, and to strengthen Hong Kong as an international centre of asset management.

By the end of 2015, total RQFII quota stood at 444 billion Yuan, with Hong Kong accounting for 60 per cent or 270 billion Yuan. Hong Kong also has the world's largest concentration of financial institutions and investment advisers in QFII and QDII programmes (Hong Kong Trade Development Council, 2016).

The Shanghai-Hong Kong Stock Connect launched in November 2014 links the stock markets of Shanghai and Hong. Investors in each market can trade shares on the other market through their local brokers and clearing houses. Northbound and southbound trading are subject to separate sets of quotas. The Shenzhen-Hong Kong Stock Connect, which was approved by China's State Council in mid-August 2016, was implemented in December 2016 (Hong Kong Trade Development Council, 2016).

Hong Kong's role in Renminbi internationalization

China has been the world's second largest economy and the world's largest trader. However, due to China's capital controls, the use of Renminbi in international transactions has lagged far behind China's economic strength. In July 2016, the Renminbi ranked fifth in world payments behind the US dollar, the Euro, the pound sterling, and the Japanese Yen. The Renminbi only accounted for 1.9 per cent of world payments, compared to the 41.3 per cent for US dollars and 31.3 per cent for the Euro.[10]

China has been promoting Renminbi as an international currency since 2003 to reduce China's exposure to US dollar exchange rate fluctuations and to raise China's global diplomatic influence. Hong Kong is crucial to China's efforts to internationalize the Renminbi. Banks in Hong Kong were allowed to conduct RMB business in a limited way starting 2004. The scope of business is initially limited to personal accounts with a conversion limit of RMB 20,000 per day. The limit was abolished in November 2014. Offshore Renminbi bonds (H-bonds or dim sum bonds) were first issued in Hong Kong in 2007. Issues of dim sum bonds grew rapidly to RMB 800 billion in 2015.

In late 2008, China started the Cross-Border Trade RMB Settlement Pilot Project. Phase I of the project involved trade between Guangdong and Hong Kong, and also border trade between Yunnan and the ASEAN countries. The Scheme was progressively expanded. The proportion of China's trade settled in RMB surged from 3 per cent in 2010 to 29 per cent in 2015. In December 2018, China signed its first bilateral currency swap agreement with South Korea. Since then, China has signed more than 30 bilateral currency swap agreements with other central banks. Hong Kong has the largest Renminbi swap line.[11]

The use of Renminbi in international transactions rose rapidly. According to the Statistics of SWIFT, the use of Renminbi in world payments rose rapidly from the 20th place (0.25 per cent of world payment) in January 2010 to the 5th place (2.17 per cent of world payments) in December 2014. While China has appointed Renminbi-clearing banks in Singapore, London, Taipei, Luxembourg, Sydney, Canada, and elsewhere, Hong Kong has remained the dominant global offshore Renminbi centre. Around 70 per cent of the Renminbi payments in the offshore market were handled by Hong Kong banks (Hong Kong Monetary Authority, 2016: 17).

In November 2015, the International Monetary Fund decided to include the Renminbi in the Special Drawing Right (SDR) currency basket, marking an important milestone in Renminbi internationalization. However, the unexpected depreciation of the Renminbi in August 2015 and the slowdown of the Chinese economy introduced uncertainties in China's investment climate, and the pace of Renminbi internationalization has slowed down. From the end of 2014 to 2016, the use of Renminbi in world payments remain stable at around 2 per cent. Despite this temporary setback, the increase usage of Renminbi as an international currency should continue with the long-term rise of China's economy.

Economic integration under 'One Country, Two Systems': cooperation and competition

For Hong Kong, economic integration under 'One Country, Two Systems' carries both benefits and costs. The benefits of 'one country' include access to China's big national market, ease of tapping the Mainland's pool of talents, skills, and capital and also policy support from the Central Government, e.g., using Hong Kong as a global hub of Renminbi internationalization. The costs of 'one country' include pressures of immigration on local wages, social services, and income distribution. Hong Kong is also vulnerable to economic fluctuations in the Mainland.

The benefits of 'two systems' are numerous. Hong Kong can maintain its own administrative, legislative, and judicial systems and its own fiscal and monetary systems. Hong Kong is a separate customs territory with substantial autonomy in external economic affairs. 'Two systems' also carry costs. Due to the numerous differences in the two systems, policy coordination between Hong Kong and the Mainland can be difficult. It is also difficult for Hongkongers to work and reside in the Mainland. Last but not least, Beijing allegedly favours Shanghai over Hong Kong as a financial hub as Hong Kong is less amenable to Beijing's control.

Cooperation and competition

In 2015, the Mainland's per capita GDP was US$7,900 while that of Hong Kong was US$42,000. Despite rapid economic development in the Mainland, the gap in level of development between Hong Kong and the Mainland is still large. However, the more advanced cities in the Mainland have reached a high level of development. For example, in 2015, Shenzhen has passed the 'developed' threshold with its per capita GDP of US$25,000. In the same year, the Nanshan District of Shenzhen, which has a population of over 1 million, has a per capita GDP of US$49,000, surpassing that of Hong Kong.

With rapid economic development in the Mainland, the level of economic development of the Mainland's coastal areas will approach that of Hong Kong. This will not mean the end of Mainland-Hong Kong economic cooperation. A developed economy has a bigger market than an underdeveloped one. Moreover, the many cultural and social differences between developed and developing economies are obstacles to deep integration in services. As a rule, trade and investment are much more intense among highly developed economies than between developed economies, on the one hand, and underdeveloped economies, on the other. For instance, trade and investment are extremely intense among economies of the European Union, which is composed of economies with a similar rather than disparate level of economic development.

With rapid economic development, indigenous service providers in Guangdong have also emerged to compete with those from Hong Kong. Mainland-Hong Kong economic cooperation will change from one based on complementarity between developed and developing economies to one based on complementarity among equals with strengths in different niches. For instance, in the Hong Kong-Guangdong economic nexus, Hong Kong has strengths in financing, legal arbitration, and headquarter functions while Guangdong has strengths in production, and also research and development.

Despite emerging competition between Mainland and Hong Kong, there are many areas of complementarity as Hong Kong is highly unique among Chinese cities. Hong Kong and the Mainland are very different not only in economic structure, but also in the political, legal, cultural, and social arenas. In terms of geo-politics, the Mainland is a rising power that may pose a threat to neighbours, while Hong Kong is an open, pluralistic, and cosmopolitan city that is commercially friendly. The HKSAR passport has been granted visa-free access from 156 countries/territories, while only 50 countries/territories have granted visa-free access to the passport of China. Hong Kong is the only Chinese city with a system of common law with secure protection of property rights and personal rights and freedom. Not surprisingly, Beijing recognizes the importance of Hong Kong as an international centre of arbitration.

The Mainland's society is top-down while that of Hong Kong is bottom-up. As a result, the Mainland's social enterprises and NGOs are less developed, and they have a lot to learn from their counterparts in Hong Kong. Hong Kong, which has ranked number one in the index of economic freedom of the Heritage Foundation, has a lot to contribute to the Mainland's drive towards marketization. In economic structure, the Mainland is strong in manufacturing while

Hong Kong is strong in services. Services, especially financial services, have been a focus of China's development, and Hong Kong's experience would be highly valuable. Reform of the Mainland's state-owned enterprises is crucial to the Mainland's economic reforms, and Hong Kong's highly flexible private enterprises can contribute much in this area. The Mainland excels in the construction of public utilities and infrastructure, while Hong Kong excels in the management of public utilities, including ports, airports, subways, power companies, and telecommunication facilities. Hutchison Whampoa manages and operates 52 ports in 26 countries; the Hong Kong Mass Transit Railway corporation participates in the management of subways in Beijing, Shenzhen, Hangzhou, Sweden, UK, and Australia; and Hong Kong's Airport Authority, China Light and Power, and Hong Kong Telecommunications also participates in the management of public utilities across the globe.

China's 13th Five Year Plan (2016–10), which was unveiled in March 2016, has a dedicated chapter on Hong Kong and Macao. The chapter expresses clear support for Hong Kong in leveraging its unique advantages to enhance its role and functions in China's economic development and opening. The goals for Hong Kong include consolidating and enhancing its status as international financial, transportation and trade centres; strengthening its status as a global offshore Renminbi business hub and an international asset management centre; and promoting financing services, business and commerce, logistics and professional services towards high-end and high value-added developments. The chapter also expresses support for Hong Kong in developing the innovation and technology industry, nurturing emerging industries as well as establishing itself as a centre for international legal and dispute resolution services in the Asia-Pacific region.[12]

Managing economic integration under 'One Country, Two Systems'

Hong Kong needs to carefully manage the economic integration under 'One Country, Two Systems' to harness the benefits and minimize the costs. The Hong Kong Government has been able to persuade Beijing to grant many policies that enable Hong Kong to access the vast Mainland market, e.g., CEPA, IVS scheme, and using Hong Kong as the Mainland's conduit for RMB internationalization. However, Hong Kong's elites and government officials have assumed that improved market access would automatically benefit Hong Kong, ignoring the dangers of overcrowding and the severe stress on Hong Kong's capacity constraints. Mainland tourists have severely overcrowded public transportation and retail facilities in Hong Kong, and Mainland mothers have overcrowded maternity wards and public health facilities. The hostility generated on both sides is highly detrimental to future cooperation and integration.

The responsibility for managing the surge in number of Mainland tourists lies with Hong Kong rather than Beijing. Both the CEPA and the IVS Scheme were proposed by Hong Kong soon after China's WTO entry in late 2001. After completion of the preparatory work for the IVS scheme and before implementation of the scheme in mid-2003, Beijing checked again with the Hong Kong Government to make sure that Hong Kong was prepared for possible problems of illegal immigration and crime. Beijing was deeply aware that once the control on outgoing tourism is lifted, it cannot easily be re-imposed. The Scheme was only implemented after Hong Kong's affirmation.[13] The implementation of 'M-Permits' in April 2009 again involved careful checking with Hong Kong.[14]

As the IVS scheme only covers selected Mainland cities and regions, it gives Hong Kong a mechanism to source tourists from richer and more developed Mainland cities, but Hong Kong has not taken full advantage of this Scheme. It has been proposed that, instead of attracting 'M-Permit' visitors from nearby Shenzhen, who usually do not stay overnight and do not spend much in Hong Kong, the geographic coverage of IVS should be widened to target rich cities in

the North such as Qingdao, Xian, and Harbin. As tourists from these cities need to fly to Hong Kong, they are likely to stay overnight and also spend more. According to estimates of the author, the per capita value-added and the per capita employment generated by non–M–Permit IVS visitors were much higher than those of M–Permit visitors. In 2013, the per capita value-added (employment) of non–M–Permit IVS visitors was 3.5 times (3.2 times) of that of M–Permit visitors (Sung *et al.*, 2015: 18).

The implementation of the CEPA and the IVS Scheme in 2003 helped the Hong Kong economy to recover from a deep recession. The tourist industry is labour-intensive and has been important in generating employment. However, it is deficient in terms of economic upgrading as it is not a high value-added industry. Unlike tourism, the financial services industry generates little employment but has high value-added. The Mainland's use of Hong Kong as a conduit for Renminbi internationalization has certainly enhanced the strength of Hong Kong as a global financial centre. Since 2003, tourism and financial services have been the two main engines of growth of the Hong Kong economy.[15]

By 2014, both engines of growth were faltering. Tourism has run into capacity constraints. Financial services suffered from the slowdown of the Chinese economy, China's debt problems, and the depreciation of Renminbi. Hong Kong's growth slowed. and integration with the Mainland is entering a difficult phase. Despite the almost unlimited demand from the Mainland market, Hong Kong's recent growth performance is quite modest. The Hong Kong Government has not been able to overcome capacity constraints (especially shortage of land and labour) effectively. Hong Kong's over-reliance on tourism and financial services and relative neglect of technology and innovation have come under repeated criticism.[16] Last but not least, the inability of the Hong Kong Government to manage the highly disruptive surge in Mainland tourists has bred hostility between Mainlanders and the local population. The antipathy and mistrust generated on both side are highly detrimental to future economic cooperation and integration.

Hong Kong's role in the 'Belt and Road Initiative' (BRI)

The BRI (Belt and Road Initiative) involving 65 countries along the overland and maritime silk road will be the focus of China's diplomacy and external economic strategy for many years to come. Besides military and political power, international relations in the 21st century will also be shaped by 'soft power' in culture and media. The sustainable development of BRI will require concerted efforts of governments, corporations, civil societies, and NGOs.

As Hong Kong is the premier financial and services hub of China, the BRI is expected to bring many business opportunities to Hong Kong in finance, logistics, professional services, and arbitration. Besides the economic and business arenas, Hong Kong will also be able to promote social and cultural exchanges among BRI countries. Due to the Mainland's top-down organizational structure, its civil society is underdeveloped, and the Mainland is deficient in soft power. Hong Kong provides an open and pluralistic platform for the Mainland to cultivate its soft power. Hong Kong is the most cosmopolitan Chinese city. It is a bridge between East and West, a hub of international media and NGO activities, and it has a long history of solving multi-cultural conflicts.

The infrastructure projects of BRI will be examined critically by the international media and environmental groups. To implement BRI, Beijing has to be skillful in handling international NGO's and the international media. As an international hub of media and NGO activities, Hong Kong can provide an important platform for the Mainland to foster international goodwill. Hong Kong's historical ties to communities in Southeast Asia, South Asia, and the overseas Chinese diaspora are valuable resources for cultural and social exchanges. Hong Kong is also an international educational hub with world renowned universities for educational exchange. According to

the QS World University Rankings of 'Best student cities' in 2015 and 2016, Hong Kong ranked respectively in the 6th and 8th places as a desirable city for international students.[17] BRI will enhance the status of Hong Kong as China's world city.

Problems and prospects of Mainland-Hong Kong economic integration

Despite the reversion of Hong Kong to China in 1997, the many barriers to Mainland-Hong Kong economic integration will prevent the merging of Hong Kong, Shenzhen, and Guangzhou into a megapolis for decades to come. The barriers include the framework of 'two systems' that maintain Hong Kong as a unique and highly autonomous entity, the prominent asymmetries in level of development, in economic size, and in openness between Hong Kong and the Mainland, and the widespread antipathy and mistrust in Hong Kong towards deepening integration.

After Hong Kong's reversion to the Mainland, cross-boundary infrastructural planning focused on two mega projects, the Hong Kong–Zhuhai–Macao bridge, and the Express Rail Link with Shenzhen and Guangzhou. Construction work on the two projects started in 2009–10. Both projects ran into repeated delays, escalating costs, and political and social opposition. The cost of the Express Rail Link with Shenzhen has escalated from HK$65 billion to nearly HK$85 billion.

The present outlook is that the HK–Zhuhai–Macao bridge and the Express Rail Link should be completed by 2018. When completed, these mega projects will have very significant effects on Mainland-Hong Kong integration, and Hong Kong will need time to digest, utilize, and fine-tune their operation.

A new initiative in regional economic integration in the 'Guangdong-Hong Kong-Macao Greater Bay Area'[18] was highlighted prominently in the annual work report of the Chinese Premier Li Keqiang to the National People's Congress in early March 2017. The 'Greater Bay Area' includes the nine cities of the PRD[19] and Hong Kong and Macao. Li Keqiang stressed that

> We will promote closer cooperation between the mainland and Hong Kong and Macao. We will draw up a plan for the development of a city cluster in the Guangdong-Hong Kong-Macao Greater Bay Area, give full play to the distinctive strengths of Hong Kong and Macao, and elevate their positions and roles in China's economic development and opening up.[20]

The Bay Area Initiative has generated a lot of discussion in the Hong Kong press. Commentators have stressed that the area is the richest part of China, with a combined GDP of over $1.3 trillion in 2016, close to that of world's 10th largest economy. Its GDP, trade, and container cargo throughput exceed that of the world's leading bay areas such as San Francisco and Tokyo.[21] However, there are many barriers to the realization of the Initiative. Cities in the PRD have defended their turfs fiercely to promote local interests. City governments in China have considerable economic autonomy and fiscal resources. Cooperation is easier said than done. The efforts of the Guangdong provincial government and the central government to override local interests in order to coordinate and rationalize the many airports and sea ports within the PRD have not been highly successful (Sung, 2005: 189–191). Coordination between Hong Kong and the cities of the PRD will be even more difficult due to the framework of 'One Country, Two Systems' and the antipathy of the public on both sides.

Given political mistrusts and the many problems of deep integration, it is unlikely that the vision of a seamless Greater Bay Area will be realized any time soon. However, while the pace

of Mainland-Hong Kong integration may slow down, it will not be halted nor reversed as Hong Kong and the Mainland are highly complementary. To overcome mistrust, the top-down approach to Mainland-Hong Kong integration needs to be supplemented by a bottom-up approach. Hong Kong's businesses, chambers of commerce, professional groups, NGO's, think tanks, and political parties need to voice their needs and concerns to forge a way ahead. The Bay Area Initiative may make substantial headway if Hong Kong can tailor its niche services to meet the needs of the cities of the PRD.

Since Hong Kong was ceded to the UK in 1842, Hong Kong has thrived on its unique position as a city that is close to but yet distinct from the Mainland. The framework of 'One Country, Two Systems' is designed to preserve Hong Kong's unique position. As long as Hong Kong remains a highly unique city, it will find bountiful economic opportunities in the Mainland and in the world market. The BRI will enhance the status of Hong Kong as China's world city. Hong Kong needs to upgrade the quality of its skills and services, overcome its weaknesses in technology and innovation, maintain its openness as an international platform, and further develop its advantages under 'One Country, Two Systems', especially its strengths in economic freedom, freedom of the media and information, transparency and efficiency of government, rule of law, and maintaining a level playing field for business. To achieve these goals, Beijing and the HKSAR government need to faithfully implement the many provisions in the Basic Law safeguarding personal freedoms, human rights, and rule of law in Hong Kong.

Notes

 1 The author wishes to thank Mr. Ray Poon, Research Assistant of the Shanghai-Hong Kong Development Institute of the Chinese University of Hong Kong for his able assistance.
 2 IMF data, see www.imf.org/external/pubs/ft/weo/2015/02/weodata/index.aspx.
 3 The Heritage Foundation ranked Hong Kong number one in economic freedom for the last 21 years.
 4 A "negative list" approach, which allows foreign investors to enter all sectors that are not explicitly prohibited (under a negative list), is usually more liberal than a "positive list" approach, which only allows foreign investment in sectors that are explicitly declared open (under a positive list). The latter approach, which is adopted by the WTO, is more restrictive than the former approach, which is championed by the USA and is increasingly accepted in high-standard Free Trade Agreements (FTAs) and Bilateral Investment Treaties (BITs).
 5 For details of the liberalization measures, see the homepage of the Trade and Industry Department of the HKSAR Government (www.tid.gov.hk/english/cepa/further_liberal.html).
 6 According to the estimates of the Hong Kong government, CEPA-induced service receipts and employment created in 2009 were 0.9 per cent of GDP and 0.3 per cent of total employment. See Sung (2013) for details.
 7 According to Article 24 of the Basic Law, children born outside Hong Kong to parents who are permanent residents of Hong Kong have the right of abode in Hong Kong. In a 1999 court case, the HKCFA (Hong Kong Court of Final Appeals) adopted a liberal interpretation of the Article, that the plaintiff, Ng Ka Ling, who was born to a Mainland mother in the Mainland, would have the right of abode in Hong Kong as one of her parents (the father) was a permanent resident of Hong Kong, even though, at the time of the child's birth, the father had not yet acquired permanent residency. To stem a massive influx of Mainland children into Hong Kong, Beijing overturned the decision of HKCFA, and ruled that a child born outside Hong Kong would only have the right of abode in Hong Kong if, at the time of the child's birth, at least one parent *had already acquired permanent residency status*. The pool of children in the Mainland eligible for right of abode in Hong Kong was slashed from an estimated 791,300 to 267,600 (Sung, 2005: Chapter 3).
 8 Including 84,000 Mainlanders under the Admission Scheme for Mainland Talents and Professionals introduced in 2003, 2,700 Mainlanders under the Quality Migrant Admission Scheme introduced in 2006, and 46,800 Mainland graduates under the Immigration Arrangements for Non-local Graduates (IANG) introduced in 2008 (*Ming Pao* May 3, 2016 http://news.mingpao.com/ins/instantnews/web_tc/article/20160503/s00001/1462290103063).

9 For details, see Sung (2005: Chapter 2).
10 SWIFT RMB Tracker, August 2016 (www.swift.com/file/30551/download?token=qWwg860a).
11 For details, see "Internationalization of the Renminbi" in Wikipedia (https://en.wikipedia.org/wiki/Internationalization_of_the_renminbi).
12 www.info.gov.hk/gia/general/201603/17/P201603170899.htm.
13 See http://news.ifeng.com/shendu/fhzk/detail_2012_04/19/14009044_0.shtml.
14 http://gd.people.com.cn/n/2014/0417/c362050-21019360.html.
15 According to the author's estimates (Sung *et al.*, 2015: 39–41), from 2004 to 2013, financial services and tourism respectively contributed to 22 (14) per cent and 8 (26) per cent of the increase in GDP (employment).
16 For instance, the rank of Hong Kong in the Global Competitiveness Report of the World Economic Forum slipped from 7th in 2015 to 9th in 2016. Innovation has been the weakest aspect of Hong Kong's performance (http://reports.weforum.org/global-competitiveness-index/country-profiles/#economy=HKG).
17 Globally, in 2015 and 2016, Hong Kong ranked respectively in the 6th and 8th places, www.topuniversities.com/university-rankings-articles/qs-best-student-cities/qs-best-student-cities-2016-out-now.
18 The concept of the Greater Bay Area appeared in a joint-study involving authorities in Hong Kong, Macau, and PRD cities in 2011. The Initiative received a further boost in March 2016 in the Dedicated Chapter of China's 13th Five Year Plan which supported Hong Kong and Macau to play an important role in the development of the Greater Bay Area.
19 Shenzhen, Zhuhai, Guangzhou, Dongguan, Huizhou, Zhaoqing, Foshan, Zhongshan, and Jiangman.
20 http://chinaplus.cri.cn/news/politics/11/20170316/1585_9.html.
21 www.ejinsight.com/20170327-what-guangdong-hong-kong-macau-bay-area-means-for-hk/.

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Theme 2
Governing post-colonial Hong Kong

4

Stalemate in the Legislative Council of Hong Kong

Disarticulation, fragmentation, and the political battleground of "One Country, Two Systems"

Chor-yung Cheung

Political institutions, broadly defined, are tools and procedures facilitating members and leaders of a political community to attend to their common affairs, through which issues of public interest are debated and collective decisions are made, implemented or amended. The rules constituting political institutions are, among other things, normally premised on certain political and/or administrative values (such as fairness, accountability, check and balance, identity, freedom, equality, rights, harmony, effectiveness, efficiency, and so on) the acknowledgement of which by members of the political community is essential for good governance and for legitimacy. If stalemate occurs in any political institution, the quality of governance of the political community is undermined if the institution is a government institution, since this shows the inability of the governmental institution concerned to resolve differences and disagreements by its rules and procedures authoritatively and to make needed collective decisions. If such an inability is not the result of occasional hiccups but involves fundamental disagreement over values acknowledged by members of the community, the problem the institution is facing is not just a matter of the quality of governance, but a crisis of legitimacy.

Ever since Hong Kong has been returned to China in 1997, students and informed commentators of Hong Kong politics alike appear to agree that the Hong Kong political system is in perpetual crisis of one sort or another. For example, a veteran local journalist Michael Chugani made this observation soon after the 2012–2017 Chief Executive of the Hong Kong Special Administrative Region (HKSAR) C.Y. Leung, who was elected by 689 votes from the largely pro-Beijing 1,200-member Election Committee out of a city of 7 million, assumed office:

> Hong Kong has become ungovernable. This is not a flippant statement. It is a fact. There are two main reasons for this. Firstly, the chief executive has no mandate that satisfies today's political reality to govern effectively. A mandate mattered little before, when people believed they were powerless to change things. They now believe otherwise. Secondly, the government is clueless about what the people want.
>
> *(Chugani, 2012)*

Professor Scott describes the political system of the HKSAR as "disarticulated", in which the institutional components are "separate at the joints". By this he means that in the HKSAR government, "the relationships between the executive, the legislature and the bureaucracy . . . are uncoordinated, poorly developed, fractious and sometimes dysfunctional" (Scott, 2000: 29).

It would be wrong to assume that critical remarks like these are made by unsympathetic critics of the government. Both Chugani and Scott are by no means famous for their anti-government stance. Even government supporters agree that there are huge governance problems within the HKSAR. Quite some time ago, Professor Lau Siu-kai, a former Chief Advisor of the government's Central Policy Unit, made this observation:

> The proliferation of social and economic problems, the mushrooming of social and political conflicts, the rise in political alienation and public hostility towards the government . . . the strained relationship between the executive and the legislature, the overloading of the government with public demands . . . the fraying of the social fabric have brought about a situation where effective government is extremely difficult.
>
> *(Lau, 2002: 25)*

Likewise, Professor Anthony B.L. Cheung, before he became the Secretary for Transport and Housing in 2012, said that

> [n]ot only have the executive and bureaucracy been suffering a crisis of credibility, the legislature and political parties have also been in decline. Despite the introduction of a new ministerial system of political appointments . . . in July 2002 to strengthen the government team and to improve accountability and responsiveness, the government had remained caught in a quagmire characterized by policy impasse and the lack of the capacity to deliver results.
>
> *(Cheung, 2010: 39)*

One graphic example of the stalemate in the Legislative Council (LegCo) can be found at the end of the 2015–16 legislative session. This example is particularly indicative because it did not come from the usually obstructionist opposition camp, but from a pro-establishment legislator.

On 6 July 2016, the legislator Dr. Leung Ka-lau, who was elected by the functional constituency representing medical doctors, employed stalling tactics in LegCo in an attempt to defeat the government's proposed amendments to the Medical Registration Bill, which governs the functions and composition of the watchdog of the medical practitioners, the Medical Council. The amendments, the core one of which was to increase the lay members to the Medical Council from 4 to 8, expanding the total membership of the Medical Council to 32, appeared to have the support of both the pro-government parties and some opposition members such as the Democratic Party, on the grounds that they will expedite the process of handling complaints against medical blunders handled by the Medical Council and will better represent the patients' interests. However, Dr. Leung and many in the medical profession fiercely resisted this, saying that this will greatly undermine the professional autonomy of the medical sector (Tsang, 2016). While the government probably had the support of the majority in LegCo for the amendments, Dr. Leung's stalling tactics intended to delay the passage of these amendments, hoping that the bill making these amendments would be lapsed by 15 July 2016 when the legislative session of 2015–2016 came to an end before the new legislature to be elected in September 2016 for the next 4-year term.

Earlier, Dr. Leung had submitted about 110,000 proposed amendments to the bill in an attempt to employ the tactic of filibustering against the government's proposals. One session

in examining the bill was already prematurely adjourned due to the meeting failed to fulfil the quorum requirement. When the second reading of the bill was resumed on 6 July 2016, Leung made 22 quorum calls during the LegCo session, forcing LegCo to spend over 4.5 hours to cope with these calls before it could continue the session, making it difficult for legislators to have enough time to scrutinize the contents of the proposed amendments and to put the amended bill into a vote on 6 July. The success of these stalling tactics in the end not only killed the proposed amendments to the bill by the government, it also crowded out two other important proposed legislations in the pipeline by having exhausted all the remaining time for the legislature to conduct its proceedings within the 2015–2016 session.

The significance of this incident of stalemate is that it was not an isolated case. According to the figures provided by LegCo's Secretariat, "The number of quorum calls rose from 191 in the 2012–13 legislative term to 325 in the 2014–15 session. Since . . . October [2015], when the current [i.e. 2015–16] legislative session started, there have been 282 quorum calls [up to March 2016]." The Secretariat also says that "more than 68 hours of meeting time [had been lost] after sessions had to be adjourned because not enough lawmakers were present" (*South China Morning Post*, 31 March 2016; *Sunday Morning Post*, 3 January 2016). LegCo's then president Jasper Tsang Yok-sing noted that 115 hours had been spent on quorum calls in the 2015–16 session, with 596 bells rung (Ng and Fung, 2016). Most of these quorum calls were attempts by the pan-democratic opposition who are in the minority in LegCo to delay the legislative process of passing governmental proposals that they were opposing. As mentioned, the case of the amendments for the medical watchdog bill is doubly interesting because Dr. Leung was normally regarded as a pro-government legislator, but when it came to the defence of the sectoral interest in his own functional constituency, he could be even more aggressive than the pan-democrats in employing stalling tactics in LegCo.

In this chapter, I intend to focus on explaining the structural and political reasons behind the emergence of stalemates in LegCo of the HKSAR. My main contention is that these stalemates are caused by the constitutional and institutional design of the HKSAR political system as well as by the political development in the HKSAR since the changeover. The failure of the HKSAR to introduce certain acceptable forms of universal suffrage to its Chief Executive and LegCo elections so far further perpetuates the political crisis in Hong Kong. LegCo is the most representative and open institution in the political system of the HKSAR, with half of its members now returned by universal suffrage and half by indirect functional constituency elections.[1] However, it has increasingly become an institutional battleground for different political forces, whose understanding of the concept of "One Country, Two Systems" is diametrically opposite, to fight against each other not only on policy issues, but on fundamental political value issues. This in effect means that stalemates in LegCo and in the HKSAR political system are more than just governance crises, but legitimacy crises, even though the political circumstances in Hong Kong are such that there is little prospect, as least for the foreseeable future, for any revolutionary or genuinely separatist movements to gain any substantial grounds to threaten the sovereignty of the People's Republic of China.

The legislature in Hong Kong

According to Article 73 of the Basic Law, Hong Kong's mini-constitution to implement China's "One Country, Two Systems" policy over Hong Kong after 1997, the HKSAR's LegCo has the power to legislate for the HKSAR and to approve taxation and government expenditure. LegCo also has the power to debate issues of public concern, to raise questions on the work of the executive, to receive and handle complaints, and to summon witnesses for investigation in discharging its powers and functions.

But these powers are qualified by Article 74 of the Basic Law, which requires that LegCo members could only initiate bills that do not relate to public expenditure, the political structure, and the operation of the government and bills that relating to government policies must have the written consent of the Chief Executive before they can be introduced by LegCo members. In other words, LegCo's powers over legislation and public expenditure are largely passive, since the powers to initiate bills for enactment and to raise public expenditure are in the hands of the executive, though LegCo holds the powers of scrutiny and approval or veto.

Some people believe that this executive-led nature of the HKSAR political system "weakens the capability of LegCo to perform its functions" (Lui, 2007: 48). I think it is fair to say that even in a parliamentary system like the one adopted in the United Kingdom, policy and bill initiation powers with charging effects are largely vested with the executive, and the parliamentary majority in the legislature is under the control of the executive through party discipline to ensure that government's introduced measures will normally be passed by the parliament. There are empirical evidence to suggest that in its oversight and scrutiny functions, LegCo, at least in the early years after 1997, has been more "viscous" in its oversight and scrutiny functions when compared with the colonial past, since LegCo

> spent more time on bill deliberation, and had more success in driving the government to reconsider legislation or make amendments . . . LegCo members were more adept in using a combination of panels, questions and RIS [redress information system] to demand information, provide oversight and push for policy action. The investigation, no-confidence motions[2] and financial control powers remain major means of controlling the government.
>
> *(Ma, 2002: 366)*

"Controlling" may be too strong a word used in this observation. But I think it is not far off the mark to say that all these LegCo passive powers at times do create significant political pressure against the executive since the executive, unlike in a parliamentary system, has little direct control over members of the legislature.

The HKSAR political system is no parliamentary system. In fact, it is closer to the presidential system though there are also important differences, such as the Chief Executive does not have the power to veto bills passed by LegCo, though he or she has the power to dissolve LegCo once within one 5-year term if LegCo fails to pass the Budget or any important bill proposed by the government. The Chief Executive and the legislature are to be elected by different elections, and the executive is not dependent upon the legislature in order to remain in office.[3] According to the Basic Law, ultimately both the Chief Executive and LegCo will be elected by universal suffrage. However, the first attempt to introduce universal suffrage to the election of the 2017 Chief Executive was defeated by LegCo in June 2015. I will return to this constitutional stalemate, which involved the most confrontational political showdown so far between the opposition and the pro-Beijing forces in the HKSAR in what we now call the Umbrella Movement (Veg, 2015; Cheung, 2017), later in this chapter. Meanwhile, let us focus on why the relationship between the executive and LegCo in the HKSAR's constitutional design is likely to lead to systemic disarticulation.

In the first place, it is important to take note of the fact that there are three different elections in electing the Chief Executive and members of LegCo, though their respective electorates are somewhat overlapping. Why is this the case?

As said before, the current LegCo is composed of directly elected members and functional constituency members. Since the 2012 LegCo elections, the directly elected and the functionally elected constituencies as a group each have 35 members. All eligible voters in Hong Kong

each have two votes, one in a direct election geographical constituency and one in a functional constituency. The directly elected members are returned by the proportional representation electoral system in five different multi-member geographical districts in Hong Kong, which adopts a closed list system and the largest remainder formula to allocate seats to the elected candidates (Ma and Choy, 2003). All Hong Kong permanent residents at or above the age of 18 are eligible voters, and there are currently about 3.78 million registered voters to elect 35 legislators to LegCo's directly elected geographical constituencies.

The other half of LegCo are limited to functional constituencies. Of the 35 functional constituency members, 30 are returned by 28 functional constituencies. Altogether, they have an electorate of about 250,000 registered corporate and individual voters who represent the business, professional and social service/labour sectors.[4] The remaining five LegCo members, which have been introduced since 2012, are returned by eligible registered individual voters who do not have a vote in the traditional 28 functional constituencies.

As regards the Chief Executive election, the Chief Executive is elected by a 1,200-member Election Committee whose members are returned very much like those who are in the traditional functional constituencies mentioned in the LegCo elections. While LegCo has 28 traditional functional constituencies, the Election Committee is formed by the representatives elected or chosen by its 36 sub-sectors, with the remaining seats going to some *ex-officio* members like Hong Kong delegates of the National People's Congress and LegCo members. In the election of the Election Committee in 2011, which was to elect the 2012 Chief Executive, the number of eligible registered voters to elect members of the Election Committee was around 250,000, very close to the number of eligible registered voters in LegCo's traditional functional constituencies.[5]

In other words, there are three distinct, though somewhat overlapping, power bases when it comes to the relationship between the executive and the legislature in the HKSAR from the electoral perspective. One is more or less based on all eligible registered voters, electing 35 geographical constituency members and 5 new functional constituency members to LegCo. One may say that together these members more or less represent the general public as a whole in Hong Kong. The other is largely representing corporate and sectoral interests in the traditional functional constituencies of LegCo. As for the Election Committee electing the Chief Executive, while it is less sectoral than voters in any individual traditional functional constituency of LegCo, it nevertheless is predominantly controlled by business and professional interests under the auspice of Beijing.

With three different power bases, what is the institutional device to ensure that there is an acceptable degree of coherence within the political system aligning these three separate bases to avoid stalemate and polarization? Under a presidential system in a western democracy, political parties normally play the role of the intermediate to align the executive and the members of the legislature who belong to the same party with party ideology as well as with party organization and discipline. Also, while the executive and the legislature are separately elected, the electorate that determines the results of these different elections is nevertheless comprised of all the qualified citizens of the political community.

In Hong Kong, the situation is doubly handicapped. China as the sovereign of Hong Kong is never keen to allow party politics to develop in the HKSAR, particularly for the post of the Chief Executive. While Article 43 of the Basic Law requires the Chief Executive to be accountable to the Central People's Government in Beijing as well as to the HKSAR, it is never clear what it is meant by the Chief Executive being accountable to the HKSAR, since the Chief Executive is not accountable to LegCo in the sense that the latter can remove the former from office. Furthermore, the Chief Executive has yet to be returned by universal suffrage; hence he or she is not directly accountable to the whole electorate of Hong Kong.

On the contrary, for fear that there might be problems of loyalty to Beijing for the Hong Kong Chief Executive if he or she is a member of any local political party, the Beijing-appointed Preparatory Committee, when making rules for the establishment of the HKSAR in 1996, explicitly required that candidates of the Chief Executive should be above partisan politics. Subsequently, Hong Kong's Chief Executive Election Ordinance provides that any person with party affiliation contesting for the Chief Executive Election has to give up such affiliation upon election to the post of the Chief Executive (Cheung, 2002: 47). While it is true that with the introduction of direct elections since 1991 to LegCo, party politics has been developing in Hong Kong, it is more or less confined to LegCo, with no coherent alignment with the executive because of the non-affiliation requirement of the Chief Executive. Article 79(3) of the Basic Law also requires that, if a LegCo member is appointed to a public office in the government, he or she shall resign from LegCo, making sure that there is no overlap of personnel in the administration and the legislature.

As for the electorate, I think it is important to understand that the three different power bases in Hong Kong represent three different and divergent electorates. The geographical constituencies together with the five new super-District Council functional constituency seats more or less represent the people of Hong Kong as a whole, since it comprises all or most eligible registered voters who are permanent residents of Hong Kong. As regards the registered voters, corporate or otherwise, of the traditional functional constituencies, they are representatives of sectoral interests which may be in conflict with the general interest of the whole community. What happened in LegCo in the case of the proposed expansion of lay membership to the Medical Council in July 2016 was a perfect illustration of this problem. As for the 1,200-member Election Committee, since it is mainly composed of pro-Beijing business and professional elites in Hong Kong, this electorate is a buffer to ensure that Beijing's interests and wishes will be protected when it comes to the election of the Chief Executive. With such a constitutional design, there is little wonder that the system is "disarticulated" and, as Scott observes, "[it] provides institutional support for the divided political communities that make up the polity" (Scott, 2000: 53).

One can imagine that in such a system, sectoral interests can be very much entrenched at LegCo at the expenses of the whole community (Ma, 2016), while the representatives of the general public can be very vocal but may not be able to translate its majority support into governmental policies, since the executive-led nature of the system ensures that the executive, which holds the power of initiation, is pro-business and professional, and the Chief Executive is very much mindful of pro-Beijing interests since he or she is elected by the 1,200-member Election Committee and appointed by Beijing.[6]

But this is not the end of the story of the disarticulation of Hong Kong's political system. The split voting system in LegCo provided for in the Basic Law, in which members' proposals or amendments in LegCo require both the support of the majority of the functional constituency members as well as the majority support of the geographical members to pass, in effect makes it relatively easy for sectoral interests to defeat general interest in LegCo. Furthermore, the design of LegCo's electoral methods is such that it ensures that LegCo is even more fragmented on top of this institutional disarticulation. This is the area that we must now turn.

Failed experiences

Professor Lau Siu-kai was the convenor of the Electoral Affairs Study Sub-group of the Preliminary Working Committee (PWC) set up by Beijing's National People's Congress in 1994 to prepare for the establishment of the future HKSAR. When he recalled his experience in designing the electoral methods for LegCo for the HKSAR, he reminded us of the general principles adopted by the PWC guiding such an endeavour: "the maintenance of an executive-led

government, the balanced representation of interests in the legislature, the avoidance of executive-legislative confrontation and preventing the appearance of a dominant political party in the legislature" (Lau, 1999: 8).

Looking back from the vintage point of 2018 at these principles, I believe we can conclude that, apart from the last one, all the others have more or less failed. LegCo has never been dominated by one party, whether the party is from the pro-government or pro-establishment camp or from the opposition democratic camp. As for the first three principles, it is clear that while the executive is still holding most of the powers of initiation when it comes to policy making and legislation, it has failed to gain an upper hand against, not to say dominate, LegCo or to avoid confrontation with the legislature. The so-called balanced representation in effect has ensured sectoral interests rather than a genuine aggregation of different interests into a coherent and balanced political platform of the government.

Let me briefly refer to some examples of the failed experience related to the C.Y. Leung administration to perform the government's intended executive-led functions. Before the Leung administration assumed office in July 2012, LegCo refused to pass Leung's restructuring plan for the policy bureaus under the new administration. As a result, his plan, among other things, to split the Transport and Housing Bureau into two for better policy formulation and implementation was not realized. It also took the new administration three years before it could overcome the resistance in LegCo to establish its new Technology and Innovation Bureau, which was one core policy initiative of C.Y. Leung in his political platform during the Chief Executive election of 2012. Soon after the new administration was in office, it was forced to shelve the controversial policy of introducing national education curriculum to primary and secondary schools in the face of massive and continuous demonstrations by civil society activists and opposition from democratic legislators, who feared that such a policy, if implemented, would amount to political brainwashing of the students by the HKSAR government and Beijing. Earlier in 2016, before the government faced the challenge from the medical sector on the proposed reforms to the Medical Council, the government was forced to withdraw its proposals from LegCo in March 2016 to amend the Copyright Ordinance, which were intended to catch up with international requirements, in the light of fierce opposition from netizens and from opposition legislators on the ground of interference of freedom of expression on the Internet.

The principle to avoid one-party domination in LegCo is consistent with Beijing's apprehension of party politics in the HKSAR. However, like it or not, since direct elections to LegCo were introduced in 1991 before China resumed sovereignty over Hong Kong, the political momentum was such that it triggered the development of party politics in the community with the establishment of the first major political party the United Democrats,[7] who managed to sweep 12 out of 18 directly elected seats in LegCo in 1991. This forced the pro-Beijing politicians to organize itself into the Democratic Alliance for the Betterment of Hong Kong (DAB) in 1992,[8] and the business sector legislators eventually also established the Liberal Party in response.

Beijing's and the first HKSAR government's response to the development of party politics in LegCo was to design an electoral system which is widely accepted internationally but could avoid any one party to dominate the legislature. In the end, they introduced the current proportional representation system with a closed list approach and the largest remainder formula for allocation of seats to successful candidates in 1998. Since the literature assessing the political implications of this electoral system is already voluminous (Kuan et al., 1999; Kuan et al., 2002; Ma and Choy, 2003; DeGolyer, 2009; Carey, 2015), I am not going to go over the detailed arguments and explanation of the fragmentation of LegCo under this electoral system. Suffice it here for me to concentrate on highlighting the conclusions of this fragmentation and how they contribute to the governance and legitimacy crisis of the HKSAR. It is worth here to take note of the fact that

even the very resourceful and largest pro–establishment party the DAB, which has replaced the Democratic Party as the largest party in LegCo since 2004, has only managed to have 12 legislators in the 2016–2020 LegCo out of the total number of 70. In other words, the DAB could only manage to occupy just over 17% of the total number of seats in a full LegCo, making its aspiration to become the majority or a dominant party in LegCo still an almost impossible dream.

Observations

The first conclusion supported by experience is that the electoral system for the geographical constituencies used in Hong Kong's LegCo encourages the proliferation of candidates' lists. This is the case since by using the largest remainder formula to allocate the remaining seats to candidates after having distributed seats in the first round to those who have met the quota (for example, the first round quota in a five–seat constituency is 20% of the votes for each seat), there is a strong incentive for candidates or political parties to position themselves strategically in the elections to come up with lists that could win the most optimal remaining votes without the need to reach the quota, such that they do not waste their votes and may possibly win more seats.

DAB was the most successful party in this regard in the 2012 LegCo elections, in which all nine of its lists won a seat in the five geographical constituencies, with only one list just above the required quota in the elections. Table 4.1 shows the success of DAB's strategy.

By using this strategic way of proliferation of lists, DAB managed to maximize its number of seats won in LegCo. It is important to note that in the Hong Kong Island constituency in 2012, DAB's total number of votes obtained by its two lists was 70,418, 57 votes less than the Civic Party's single list of 70,475 votes. However, the Civic Party, without splitting the list, managed only to get one seat under the largest remainder formula system, while DAB got two with fewer votes in the same constituency. Indeed, in the New Territories East constituency in 2012, Gary Fan Kwok–wai of the political party of the Neo Democrats got elected only with 6.16% (28,621) of the votes, while the quota for his constituency was 11.1% (51.639 votes). This meant that he was elected by only achieving 55% of the required quota, which naturally would encourage the proliferation of lists in LegCo elections. In the 2012 LegCo elections, only 3 out of the 35 LegCo geographical seats were won by meeting the full quota, with the rest all below the quota mostly for strategic reasons.[9]

In the 2012 LegCo elections, a total of 67 lists were competing for 35 seats in the 5 geographical constituencies. Unlike in western democracies adopting the proportional representation

Table 4.1 DAB's election strategy

Constituency	Party list	Quota required	Votes obtained	Result
Hong Kong Island	Christopher Chung Shu-kun	14.29% (47,252 votes)	10.25% (33,901 votes)	Elected
Hong Kong Island	Jasper Tsang Yok-shing	14.29% (47,252 votes)	11.04% (36,517 votes)	Elected
Kowloon West	Ann Chiang Lai-wan	20% (46,416 votes)	20.41% (47,363 votes)	Elected
Kowloon East	Chan Kam-lam	20% (56,956 votes)	16.65% (47,415 votes)	Elected
New Territories West	Leung Che-cheung	11.11% (55,401 votes)	6.79% (33,777 votes)	Elected
New Territories West	Chan Han-pan	11.11% (55,401 votes)	7.35% (36,555 votes)	Elected
New Territories West	Tam Yiu-chung	11.11% (55,401 votes)	8.74% (43,496 votes)	Elected
New Territories East	Elizabeth Quat	11.11% (51,639 votes)	9.93% (46,139 votes)	Elected
New Territories East	Chan Hak-kan	11.11% (51,639 votes)	8.82% (40,997 votes)	Elected

Source: Consolidated from www.elections.gov.hk/legco2012/eng/results.html.

electoral system, Hong Kong does not restrict the candidates' lists to those approved political parties. As a result, the proliferation of lists also encourages candidates outside the mainstream parties or political groups to join in to become independent or alternative candidates, which may not be conducive to the development of a coherent and disciplined party system. As a result, out of the 67 lists in the 2012 LegCo elections, 19 (almost 30%) of the lists were from independent or non-partisan candidates as well as from political groups outside the mainstream pro-establishment or pro-democracy camps. With Hong Kong becoming increasingly divided after the Umbrella Movement (more on this later), the 2016 LegCo elections witnessed further proliferation of candidates' lists and fragmentation of the political forces in LegCo, with 84 separate lists competing 35 seats in which only 21 (about 25%) lists could be regarded as relatively independent or non-partisan.

Another prominent conclusion reached by students of LegCo's proportional representation electoral system is its divisive effects within the same political camp and the promotion of intra-party rivalry. Under such a system with multi-seats in the same constituency, as Choy Chi-keung observes,

> [a] party's most direct enemies in the election are those whose platforms are closest to its own, not those with rival ideologies and platforms . . . voters are far less likely to drastically change their preferences to such an extent as to vote for parties at the other end of the political spectrum; they are more likely to shift between adjacent parties. Parties in adjoining positions hence are in competition for voters with similar political beliefs.
>
> *(Choy, 2002: 99)*

In the early years after 1997, before the candidates had enough experience to engage in splitting their party lists for strategic positioning in LegCo elections, this intra-camp/intra-party competition focused on the ranking of the candidates in the same list, since this would crucially affect the chances of a particular candidate being elected in a closed list system where voters can only vote for a particular list but cannot choose and pick individual candidates on the list. Right in the first HKSAR LegCo elections in 1998, two unionists of the democratic camp, Lee Cheuk-yan and Leung Yiu-chung, already failed to agree with each other on who should rank first in the supposedly same party list in the LegCo election, leading to the breakup of the two with two rival lists in the same geographical constituency. In the end, both managed to garner enough votes to get elected, indicating that this proportional representation electoral system in fact encourages the proliferation of lists as analyzed above. This inspired many of the second-tier members in the then flagship of the democratic camp the Democratic Party to urge the party leadership to split the party lists to maximize their chances of being elected. Co-incidental to this was the development of the inter-generational conflict within the Democratic Party, with the younger and more radical generation within the party being not happy with inadequate opportunities for them to take a leading role in party affairs and for higher ranking in the party lists for LegCo elections. Given their subsequent knowledge of the merit of proliferation of lists under this electoral system, there was greater incentive for the radicals within the party to break away than to follow party discipline, particularly if the party does not possess enough resources (such as regular income for the party activists) to lure the possible rebels to stay within the party (Choy, 2002).

If we look at the 2012 LegCo, both Albert Chan Wai-yip and Gary Fan Kwok-wai formerly were members of the Democratic Party. Internal party conflict and subsequent ideological differences (Chan and Fan are more radical than the mainstream democrats) led to their breaking away from the party, and Chan's subsequent People Power is one of the more radical parties in LegCo today, whose stance does not always see eye to eye with the more mainstream democrats.[10]

This tendency of fragmentation or breakaway is not restricted to the democratic camp, though it must be added that pro-establishment parties like the DAB are far more resourceful in making sure that their potential rebels are kept within the party ranks, possibly because of material considerations and partly also because the political career of many members in these parties requires the blessing of Beijing in order to develop, and any breakaway would be regarded as disloyalty. This notwithstanding, we still witnessed the internal rift between the incumbent LegCo member Christopher Chung Shu-kun and DAB when Chung learned that he would not be the leading candidate in his party's 2016 LegCo election list for Hong Kong Island in June 2016. Chung threatened to quit the party and enter into the election as an independent, though in the end, it appeared that Chung had very reluctantly accepted the party's decision. Meanwhile, a prominent pro-establishment leader in the Sheung Shui area of New Territories Bowie Hau Chi-keung planned in March 2016 to form a new political party to better represent the indigenous residents of the New Territories and to contest in the September 2016 LegCo elections, even though other leaders of the Heung Yee Kuk, which represents the indigenous villagers, do not support the idea. In the end, while Hau did not form another party, he led a separate list and joined the 2016 election on his own with his supporters. Both Chung and Hau failed to get elected in 2016.

Likewise, a prominent businessman and ex-Liberal Party member Ricky Wong Wai-kay ran as an independent in the 2016 LegCo election of the Hong Kong Island constituency. While Wong's policy stance was very much consistent with many candidates in the pro-establishment camp, his main objective in running was to fight against the Chief Executive C.Y. Leung, who, in the opinion of Wong, is a highly divisive figure contributing to the polarization of the community due to his high handed and uncompromising political approach. Wong is unhappy with Leung also because of the fact that the Leung administration refused to grant a terrestrial TV licence to Wong's HKTV in October 2013. Again, Wong's joining the fray was encouraged by the fragmented LegCo electoral system, though in the end he just failed to capture the last seat in the Hong Kong Island Constituency by about 3,000 votes.

On top of all these, it must be added that the existence of functional constituencies in LegCo is not only protecting and encouraging sectoral interests, it is also not conducive to the development of mature political parties. First of all, there is little incentive for functional constituency members of LegCo to be very loyal and faithful to any political party, since their mandates are from their respective sectors rather than from the party. Before the former chairman of the Liberal Party James Tien won a directly elected seat in New Territories East constituency in LegCo in 2004, he was representing the functional constituency of Commercial (First). At that time, there was an agreement between the Liberal Party and Tien that should a division of LegCo was called for, Tien would first cast his vote, not along the party line of the Liberal Party, but in accordance with the interest of his functional constituency. This speaks volumes about functional constituency legislators' loyalty to any political party. Furthermore, since many traditional functional constituencies only have a small electorate (ranging from a few hundreds to a few thousands voters), the dominant parties in those constituencies each can more or less pre-determine who is going to represent them in LegCo. In the past, up to 15 of the functional constituency members of LegCo could get elected or re-elected without a contest. In the 2016 elections, the number of uncontested functional constituency seats was 12. In these cases, the legislators' reliance on and loyalty to a political party is not essential to say the least.

Growing fragmentations

Even former Chief Executive C.Y. Leung now acknowledges that LegCo's electoral system contributes to the fragmentation of LegCo, and, in the light of the radicalization of politics in the

aftermath of the Umbrella Movement, it contributes to the rise of separatist platforms, aiming to garner support in LegCo elections. According to the *South China Morning Post*, Leung argued that

> since it could be enough to win a seat with only 10 per cent of the votes, and those voters were usually positioned at the most extreme end of the political spectrum, some candidates were proposing radical platforms to gain support.
>
> *(Fung, 2016a)*

In fact, ever since the resumption of sovereignty over Hong Kong by China, the contradictions entrenched in the so-called executive-led political system in the HKSAR have increasingly strained the competence of the Hong Kong government and its ability to maintain quality governance over Hong Kong. As analyzed above, the Chief Executive enjoys no popular mandate in Hong Kong since he is elected by a small-circle election whose members command little authority over the general electorate. While the majority of the Hong Kong people have no intention to challenge Beijing's authority over Hong Kong, many of them are, however, far from satisfied with the authoritarian nature of the Beijing regime and its policy over Hong Kong.

The majority of the Hong Kong people have consistently showed their dissatisfaction over the political system of Hong Kong by supporting the democrats, who ever since 1997 have played the role of opposition to the HKSAR government and to Beijing. Currently, LegCo is the most important political institution within the HKSAR that is open to universal suffrage, though only half of its seats are returned by direct elections since 2004. Nevertheless, around 55%–60% of the electorate always support the democrats or the opposition, with pro-government electors only getting the solid support of about 40% of the whole electorate. However, owing to the peculiar nature of the electoral arrangements in LegCo, the opposition, even with a clear majority support from the electorate, has consistently only managed to get less than 40% of the seats in LegCo. This means that the majority outside LegCo has become the minority inside the legislature, with no or little prospect of controlling LegCo, not to say gaining executive power since the Election Committee is always overwhelmingly dominated by pro-Beijing elements.

The consequence of having executive power without local mandate and having local mandate without executive power in the HKSAR is the gradual radicalization of the opposition in LegCo, since the wishes of the majority outside LegCo can seldom be translated into executive policy or measures inside LegCo. The alternative left to this permanent opposition inside the legislature is to become increasingly obstructionist and uncompromising. "The hours spent on quorum calls has doubled [to 108] this legislative year [i.e. 2015–16], compared with the previous year", reported the *South China Moring Post*, "while the number of Legco meeting adjournments due to a lack of quorum increased fivefold [to 11]" (Fung, 2016b).

According to the Basic Law, the earliest possible dates for universal suffrage to be introduced to the Chief Executive election and to LegCo elections were 2007 and 2008, respectively. However, the 2003 big rally against the government's national security legislation proposal under Article 23 of the Basic Law revealed the distrust of the Hong Kong people over Beijing and the HKSAR government, fearing that the proposed measures would undermine their civil liberties (Lee and Chan, 2011). In the end, because of the withdrawal of support from the pro-business Liberal Party of the government's proposal in the eleventh hour in July 2003, Tung Chee-hwa, the then Chief Executive, was forced to shelve the legislative proposal after having lost majority support in LegCo for this. For Beijing, the Article 23 saga also indicated that they could not rely on the Hong Kong people to defend its national security interest. From then onwards, Beijing believes that the need to have direct control over the constitutional development of the HKSAR has become paramount.

Subsequently, Beijing unilaterally announced in 2004 that the situation was not right to introduce universal suffrage to the HKSAR in 2007 and 2008, though minor changes for improvement for the Chief Executive and LegCo elections could be allowed in accordance with the Basic Law's procedure, which requires two thirds majority support in LegCo to pass the relevant proposals before Beijing's final endorsement. The democrats, who commanded more than one third of the LegCo seats, responded by vetoing the HKSAR government's moderate proposals. As a result, constitutional development in the HKSAR was stalled for 2007 and 2008. Although Beijing and some democrats (mainly the Democratic Party) reached an agreement in 2010 to increase the number of the Election Committee members for the 2012 Chief Executive election from 800 to 1,200 and to introduce to LegCo five more directly elected seats and five new District Council functional constituency seats to be returned by all those individual voters who do not have a vote in any functional constituency election before, the more radical democrats by then did not support such a compromise, even though in the end these proposals for 2012 were passed by LegCo members as a result of the support from the Democratic Party. However, the Democratic Party paid a heavy price for this compromise, since many of its supporters regarded it as a betrayal and continued to demand immediate introduction of universal suffrage to Hong Kong. In the end, the Democratic Party lost quite a substantial part of its support in the 2012 LegCo elections, losing its flagship status in the democratic camp, and was, in terms of the number of votes and the number of seats obtained in the direct elections, surpassed by the Civic Party of the democratic camp.

There have been more and more evidence showing that the continual failure to move substantially towards full democracy in Hong Kong has radicalized many of the Hong Kong people. For example, in the harmonious society surveys conducted by the Hong Kong Institute of Asia-Pacific Studies of the Chinese University of Hong Kong in 2010 and 2012, it was found that around one quarter of the Hong Kong people (25.9% for 2010, 24.7% for 2012) endorsed the use of radical means to make demands on the HKSAR government. (See Public Attitudes towards the Harmonious Society in Hong Kong, 2010 and 2012.) Moreover, if we look at the results of the 2012 LegCo elections, we can find that the radical democrats, which then included the People Power and the League of Social Democrats, managed to get the support of 15% of the electorate. If we include the Neo Democrats who broke away from the Democratic Party because of their dissatisfaction with the latter for the compromise struck with Beijing, the support for the more radical democrats surpassed 16%.

In 2010 a compromise was struck between Beijing and the Democratic Party: Beijing also promised that Hong Kong might introduce universal suffrage to the Chief Executive election in 2017, the successful implementation of which could lead to the introduction of full universal suffrage to LegCo's 2020 elections. However, by 2012–2013, even moderate scholars like Benny Tai of the Law School at the University of Hong Kong and Chan Kin-man (who played a mediating role in the 2010 compromise on behalf of the Democratic Party and the scholars who support full democracy in Hong Kong) of the Chinese University of Hong Kong lost faith in Beijing and started to plan for a large-scale radical civil disobedience Occupy Central Movement in Hong Kong, aiming to force Beijing to the negotiating table to come up with a plan for genuine universal suffrage for Hong Kong (Lam, 2014).

Since I have elsewhere given a full account of how the Occupy Central Movement was transformed into the even more radical Umbrella Movement after the intervention of the university students and the young activists (Cheung, 2017) in the campaign, I am not going to go over the whole saga again. Suffice for me here to highlight the following points for this chapter.

First, disregarding the requirement of the Basic Law that candidates for the post of the Chief Executive are to be nominated by a Nominating Committee before universal suffrage to take

place for the Chief Executive election, the Occupy Central Movement came up with three options for the universal suffrage of the Chief Executive, all mandating the requirement of civil nomination. This means that the candidates need to be nominated by no less than 1% of the Hong Kong electorate in order to establish their candidacy. Beijing's response to this was both strict and uncompromising. On 31 August 2014, the Standing Committee of the National People's Congress (NPCSC) made a decision to the effect that the Nominating Committee would largely follow the existing Election Committee for the selection of the Chief Executive before 2017. In other words, the Nomination Committee will comprise only 1,200 members from four sectors from the community that are largely controlled by pro-Beijing elements, and anyone who manages to get nomination from over half of the Nominating Committee members (i.e. 601 or above) will become a candidate. The committee shall each time nominate two to three candidates before voters cast their votes to elect the new Chief Executive. (See *Decision of the Standing Committee of the National People's Congress on Issues Relating to the Selection of the Hong Kong Special Administrative Region by Universal Suffrage and on the Method for Forming the Legislative Council of the Hong Kong Special Administrative Region in the Year of 2016*.) Beijing has made it clear that this is non-negotiable and forms the basis of any future constitutional reform for universal suffrage of the Chief Executive in Hong Kong.

Furthermore, Beijing characterized the Umbrella Movement as an attempt by the opposition to struggle for the control of political power in the HKSAR. To counter this, the State Council of the People's Republic of China published a White Paper on Hong Kong's "One Country, Two Systems" on 10 June 2014, in which it reiterated Beijing's supreme authority over the HKSAR, saying that

> [u]nder this system, the central government exercises *overall jurisdiction* over the HKSAR, including the powers directly exercised by the central government, and the powers delegated to the HKSAR by the central government to enable it to exercise a high degree of autonomy in accordance with the law.

The White Paper also reminds the people in Hong Kong that "[t]he central government has the *power of oversight* over the exercise of a high degree of autonomy in the HKSAR" and that all those Hong Kong people who govern the special administrative region, including the judges and officials of the Hong Kong judiciary, should above all be "patriotic" (*White Paper: The Practice of the "One Country, Two Systems" Policy in the Hong Kong Special Administrative Region*, 2014: 4, 21–22, emphasis added).

The opposition and the Umbrella Movement activists refused to accept Beijing's above arrangements and understanding, believing that the 31 August 2014 decision was nothing short of Beijing's manipulation of the nomination process to screen out unwelcome candidates before universal suffrage was allowed to take place in the election process for the Chief Executive. They also regarded the 10 June 2014 White Paper as amounting to reversing Hong Kong's high degree of autonomy as promised in the Sino-British Joint Declaration over the future of Hong Kong. In the end, however, the Movement failed to achieve its aim of "genuine" universal suffrage for Hong Kong after 79 days of occupation of major streets in parts of urban Hong Kong from late September to December of 2014. On the other hand, many of the younger generation in Hong Kong have lost confidence in Beijing, many of them have since started to believe that the previous peaceful and rational approach to strive for democracy in Hong Kong is no longer effective, and a more radical and uncompromising approach, including the use of violent and confrontational methods going beyond civil disobedience is required. They also believe that the option of separating Hong Kong from China should be contemplated too.

Some may think that the radical turn of the Hong Kong activists for separation or even independence from China is revolutionary in nature, which will make it doubtful if LegCo, as part of the existing political system in the HKSAR under the People's Republic of China, is still a suitable venue for this kind of struggle against Beijing's domination over Hong Kong. However, judging from the strategy adopted by the most vocal radicals in this regard, they do not shy away from participating in LegCo elections in order to gain the support of the Hong Kong people for their separatist or independence movement, though the prospects of which up to now are still very much in doubt, given the disparity of power between Hong Kong and Beijing.

In this regard, the 2016 LegCo by-election was perhaps the best illustration of this point. The background of this by-election is that a Civic Party legislator Ronny Tong, a prominent moderate democrat, resigned from the party and from LegCo, saying that he could no longer endorse the party's uncompromising position against Beijing and would like to quit the party to explore other possibilities of maintaining dialogues with the latter for a more co-operative approach for the achievement of universal suffrage for Hong Kong. Tong's resignation triggered a need for a LegCo by-election in the New Territories East Constituency.

The important point related to an analysis of the radical movement in this by-election, which was held on 28 February 2016, is that there was a candidate from the Hong Kong Indigenous, an organization established after the Umbrella Movement to clamour for Hong Kong's independence, participated in the election. This candidate was a Hong Kong University student Edward Leung Tin-kei, who claimed at that time that the struggle for democracy in Hong Kong should have no bottom line (i.e. using violent means against the establishment is justified). He and his organization actively participated in a violent riot against the police in an attempt to "protect" the rights of the unlicensed street hawkers to do business in Mong Kok on the second night of the Lunar New Year in 2016 after Leung had declared his candidacy in the by-election. The riot made Leung a famous protest figure in the HKSAR.

At first, when the nominations for the by-election started in January 2016, people thought that it would be a contest between the Civic Party and the pro-establishment DAB, since the former was to find a candidate to fill out the seat left by Ronny Tong, and the latter, being the largest and most resourceful pro-establishment party, was to mobilize its supporters to try to catch one more seat in LegCo. However, the rise of the Hong Kong Indigenous and the extraordinary performance of Leung took everyone by surprise. In the end, Leung managed to get almost 15.5% (66,524) of the votes, even though this was all along quite a safe seat for the Civic Party. The Civic Party's candidate Alvin Yeung, nevertheless, managed to keep the seat by winning over 160,000 votes, about 10,000 more than DAB's candidate Holden Chow.

But over 15% of support for a previously unknown and separatist candidate is nothing short of remarkable. Let's not forget that in the 2012 LegCo elections, the then radicals altogether only managed to get about 15–16% of the votes territory-wide, and they were mostly veteran politicians and did not advocate physical violence and independence of Hong Kong from China.

The politics of separatism and the authorities' hardline responses

After the by-election, other prominent separatist radicals, including the then veteran legislator Wong Yuk-man, the initiator of the claim of Hong Kong as a separate city-state Chin Wan (Chin, 2012), the radical group Civic Passion's Wong Yeung-tat and two others announced that they would participate in the 2016 LegCo elections as a coalition team (under the names of Proletariat Political Institute-cum-Hong Kong Resurgence Order/Civic Passion) to strive for self-determination.

The challenges facing them, however, are daunting. Firstly, the surge of support for the radical separatists might not be sustainable. After all, Hong Kong people by and large have been favouring peaceful approach, and the prospects for separation from China are far from realistic, at least for the foreseeable future.

Second, even if the radical share of the votes exceeds 15%, these radical separatists will have to compete with the traditional radicals (i.e. People Power and the League of Social Democrats) whose support should not be underestimated. In other words, would this become another case of intra-camp rivalry helping dilute and cancel out the support of the radicals? Moreover, inspired by the Hong Kong Indigenous strong performance in the by-election, other newly formed separatist groups, such as the Hong Kong National Party and Youngspiration also jumped into the fray in the 2016 LegCo elections. This certainly had the effect of increasing the internal competition amongst the radical separatists.

In the end, the traditional radicals and the separatist-oriented LegCo candidates managed to increase their overall share of votes by 11% to 26% in the September 2016 LegCo elections. However, the problem of intra-camp competition also led to the results that out of the five Proletariat Political Institute-cum-Hong Kong Resurgence Order/Civic Passion coalition candidates, only one of them (i.e. Hong Kong Polytechnic University academic Dr. Cheng Chung-tai) got elected, though five other self-determination/separatist-oriented new candidates from other groups also managed to get elected as legislators for the first time.[11]

Two points need to be made in this context. First, the rise of the radical/separatist-oriented share of votes to 26% is remarkable, making the support for the radical wing of the opposition camp rival that of the mainstream democrats [such as the Democratic Party, the Civic Party, the Labour Party and so on] who received 29% of the votes in the 2016 LegCo elections. Second, this happened in the context of Beijing and the HKSAR government adopting an increasingly hardline approach against Hong Kong separatism. During the nomination period of the 2016 LegCo elections, the government's Electoral Affairs Commission ruled that the nominations of six separatist-oriented candidates, including Edward Leung Tin-kei who was allowed to participate in the February 2016 LegCo by-election, were invalid on the grounds that their nominations were inconsistent with existing legal requirements, presumably because of their open advocacy for separatism or independence of Hong Kong from the People's Republic of China.

The authorities' hardline approach did not stop there. Since six of the elected radical or localist-oriented legislators appeared not to have followed the proper procedure required by law in LegCo's oath-taking ceremony pledging their allegiance to the HKSAR of the People's Republic of China before they assumed office in the legislature, the C.Y. Leung administration has taken them to court, arguing that they should be disqualified as legislators according to law. Two Youngspiration legislators Leung Chung Hang Sixtus and Yau Wai-ching had already been disqualified by the highest court in Hong Kong in relation to this. Subsequently, the cases of the remaining four legislators (Leung Kwok Hung, Nathan Law Kwun-chung, Lau Siu-lai, and Yiu Chung-yim) were also ruled by the High Court as failing to comply with the oath-taking legal requirements and they were all disqualified as legislators as a result of the ruling.

Even more significantly, when the High Court was hearing the cases against Leung Chung Hang Sixtus and Yau Wai-ching on this oath-taking saga, NPCSC made an interpretation of Article 104 of the Basic Law on 7 November 2016, making it clear that

> [a]n oath taker who intentionally reads out words which do not accord with the wording of the oath prescribed by law, or takes the oath in a manner which is not sincere or not solemn, shall be treated as declining to take the oath. The oath so taken is invalid and the oath taker is disqualified forthwith from assuming the public office specified in the Article.
>
> *(See Hong Kong Free Press, 7 November 2016)*[12]

The turnout rate of the 2016 LegCo elections was also record high at 58.28%, with more than 2.2 million voters having cast their ballots, an increase of over 400,000 from the 2012 LegCo elections. Co-incidental to this is, as shown by my analysis above, a surge of the support by LegCo voters to support the radical and self-determination wing of the opposition in LegCo in the 2016 elections. Both of these have been matched with the authorities' increasingly hardline and uncompromising responses, turning LegCo in effect into a battleground between the opposition camp and Beijing and the establishment.

The disarticulation of the HKSAR political system, the fragmentation of LegCo, the distorting effects of LegCo's electoral systems, the radicalization and polarization of Hong Kong politics, and the increasingly hardline approach by Beijing and the HKSAR government have all contributed to Hong Kong's current governance crisis, with LegCo being a focal point of political conflict in the HKSAR. While the prospects for the kind of separatist radicalism emerged since the Umbrella Movement do not look good given the power disparity between Hong Kong and Beijing, it is probably beyond doubt that Beijing's favourite candidate in the 2017 Chief Executive election Carrie Lam, who is to replace the incumbent but divisive C.Y. Leung as the next Chief Executive, will face tremendous if not insurmountable political challenges when she and her administration attempt to break the stalemate in Hong Kong's executive and legislative relationship and to bridge the political divide between the opposition and the establishment after she has assumed office from 1 July 2017.

Appendix I

The evolution of the composition of the Legislative Council of the Hong Kong Special Administrative Region since 1997

Year	Term	Composition
1997–1998	Provisional Legislative Council	60 members elected by the 400-member Selection Committee
1998–2000	1st Legislative Council	30 functional constituency seats 20 geographical constituency seats 10 Election Committee seats
2000–2004	2nd Legislative Council	30 functional constituency seats 24 geographical constituency seats 6 Election Committee seats
2004–2008	3rd Legislative Council	30 functional constituency seats 30 geographical constituency seats
2008–2012	4th Legislative Council	30 functional constituency seats 30 geographical constituency seats
2012–2016	5th Legislative Council	35 functional constituency seats 35 geographical constituency seats
2016–2020	6th Legislative Council	35 functional constituency seats 35 geographical constituency seats
2020 onwards	7th Legislative Council and beyond	To be determined, with the eventual aim of introducing universal suffrage to the whole council according to the Basic Law. Up to 2020, only the geographical constituency seats are for direct elections.

Sources: Consolidated from "History of the legislature" at www.legco.gov.hk/general/english/intro/hist_lc-overview-and-composition.htm# and https://en.wikipedia.org/wiki/Legislative_Council_of_Hong_Kong.

Notes

1 For the evolution in the composition of LegCo since 1997, please see the Appendix to this chapter.
2 These are not legally binding, since constitutionally speaking LegCo has no power to remove the Chief Executive or any government officials. LegCo does have the power to impeach the Chief Executive under certain circumstances according to the Basic Law, but ultimately, it is Beijing who has the power to remove the Chief Executive even if the impeachment motion is passed by LegCo. See Article 73(9) of the Basic Law.
3 Article 64 of the Basic Law provides that the HKSAR government must be accountable to LegCo in terms of implementing laws passed by LegCo, presenting policy addresses to LegCo, answering questions raised by LegCo members, and obtaining approval from LegCo for taxation and public expenditure. LegCo, however, has no power to remove the Chief Executive or any member of the executive.
4 For the list of functional constituencies in the current LegCo, please refer to https://en.wikipedia.org/wiki/Functional_constituency_(Hong_Kong). Please note that, in the traditional 28 functional constituencies, the Labour Sector has three LegCo members. Up to 18 of these 28 traditional functional constituencies, including the 3 members returned by the Labour Sector, have elections by corporate voters. According to a recent *Ming Pao* report, some big conglomerates in Hong Kong can each control up to 107 corporate votes in these constituencies (*Ming Pao*, 16 June 2016 at http://news.mingpao.com/pns/dailynews/web_tc/article/20160616/s00001/1466014833639).
5 Given the composition and the electoral methods of the Election Committee, it is not surprising to find that the Election Committee has been overwhelmingly dominated by pro-establishment members. However, there is an interesting development in the 2017–2022 Election Committee, in which 325 of its 1,194 members (i.e. 6 of the 1,200 members have dual capacities making the total number 1,194 instead) are from the pro-democracy camp, making them one formidable force in the Committee when it comes to nominating or even selecting candidates for the post of the Chief Executive of the HKSAR.
6 The 2017 Chief Executive election has nicely illustrated this point. Carrie Lam, former Chief Secretary and Beijing's favourite candidate, won the election to become the next Chief Executive of Hong Kong by getting 777 votes out of 1,194 in March 2017. But Lam did not get any nomination from the 325 democratic members of the Election Committee, and she was consistently behind her main rival former Financial Secretary John Tsang who, while only getting 365 votes from members of the Election Committee in the election, was nevertheless leading in all but one major public opinion surveys conducted during the election campaign by a wide margin over Lam. For example, in HKUPOP's survey results, one can find that Tsang led Lam over 25% in the opinion survey two days before the election day of 26 March 2017. See https://en.wikipedia.org/wiki/Hong_Kong_Chief_Executive_election,_2017#Opinion_polling for details.
7 The United Democrats, after having merged with the Meeting Point formed by likeminded liberals, was renamed the Democratic Party in 1994.
8 The Democratic Alliance for the Betterment of Hong Kong, after having merged with Hong Kong Progressive Alliance in 2005, was renamed the Democratic Alliance for the Betterment and Progress of Hong Kong.
9 John M. Carey has a figure showing the changes in the percentage of LegCo seats won by full quota over the years. See Figure 3 on page 5 of his article at http://sites.dartmouth.edu/jcarey/files/2015/12/Hong-Kong-PR-Formula-Carey-December-2015.pdf.
10 Chan has retired from LegCo after 2016 while Fan failed to get re-elected in the 2016 election.
11 They are Land Justice's Chu Hoi-dick, Demosisto's Nathan Law Kwun-chung, Dr. Lau Siu-lai, and Youngspiration's Yau Wai-ching and Leung Chung Hang Sixtus.
12 Many Hong Kong people, the legal profession in particular, regard NPCSC interpretations of the Basic Law by Beijing as undermining the spirit of the rule of law in Hong Kong since Beijing is not practising the Common Law tradition. They also treat these as unwelcome interferences of Hong Kong's high degree of autonomy.

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5

Advisory politics before and after 1997

In search of a new relationship between state, political society and civil society

Brian C.H. Fong

Since the founding of the colony, the colonial Hong Kong state had relied on an elite-based advisory system to mediate state-society relations. After the handover of Hong Kong's sovereignty from United Kingdom to China on 1 July 1997, the post-colonial Hong Kong state has largely followed this governing strategy with business-professional elites continue to form the majority in various advisory bodies. However, the development of electoral politics and civil society activism since the 1990s has fundamentally changed the political landscape, undermining the role of co-opted business-professional elites in mediating state-society relations. As a consequence, the old way of co-opting business-professional elites into the advisory committees cannot in any way bridge the widening gap between the state and society in the present-day Hong Kong. On many occasions, the challenges posed by political parties and civil society groups have rendered the elite-based advisory system completely ineffective, forcing the post-colonial state to abruptly change the course of policy. How to effectively mediate state-society relations remain a critical governance challenge facing the post-colonial state. As far as studying Hong Kong politics is concerned, the evolution and challenges underpinning the advisory system before and after 1997 is well-indicative of the broader political transition facing the city-state.

This chapter will be divided into four sections. First of all, I will trace the evolution of advisory system in colonial-Hong Kong and discuss its effectiveness in mediating state-society relations. Second, I will discuss how the traditional strategy of co-opting business-professional elites into the advisory system has been followed by the post-colonial state after 1997. Third, I will examine how the development of electoral politics and civil society activism since the 1990s have rendered the elite-based advisory system ineffective in mitigating state-society conflicts. The conclusion of this chapter is that the failure of advisory politics after 1997 should be understood within the broader context of the disconnection between post-colonial state, political society and civil society in present-day Hong Kong.[1]

Advisory politics in colonial Hong Kong: the intermediary role of co-opted business-professional elites

In the context of Hong Kong, advisory committees refer to both statutory and non-statutory bodies appointed by the government for the purpose of offering policy advice or carrying out legal and administrative responsibilities (Holliday and Hui, 2007). Since the establishment of the Hong Kong's colony, the British colonial state had maintained an extensive network of advisory committees with a view to co-opting the local elites and capturing the views of the community. The number of advisory committees had been increased from 50 in 1950s to more than 200 in the 1980s and further expanded to about 300 just prior to the handover of sovereignty in 1997 (Cheung and Wong, 2004).

While advisory committees are not uncommon in democratic states such as the United States[2] and the United Kingdom,[3] in Western contexts, they are usually seen as supplementary to major tiers of elected government at central and local levels. Therefore what made the colonial Hong Kong's advisory system fundamentally different from that of Western democracies was that it had been functioned as a *substitute for democracy* but not a *supplement to democracy*. As a colonial regime without popular mandate, the British colonial state was "painfully sensitive" to public opinion and was mindful of not arousing widespread opposition within the local Chinese community. As a consequence, the colonial state sought to legitimize its governance by claiming that the interests of the people were represented through the "unofficial members" sitting on the various advisory committees and public policies were consulted, discussed and agreed through the advisory system. In other words, the contribution of the advisory system to colonial governance hinged on its unique function in legitimizing the British colonial regime by creating the impressions of "government for the people" and "consultative democracy" within a non-democratic context (Miners, 1998: 188, 204).

Political developments in colonial Hong Kong proved that the elite-based advisory system played an important role in mediating state-society relations before the handover of sovereignty in 1997. Local literature indicated that the advisory committees had effectively functioned as the "crucial institutional nexus" between the colonial state and society (Chiu, 1994), and the effectiveness of the advisory system was firmly built upon the intermediary role of business-professional elites (Fong, 2013). As the colonial state's major targets of political co-option, representatives from the business and professional sectors held the majority of unofficial positions in all levels of advisory committees ranging from the high-level Executive Council and Legislative Council to various departmental advisory committees (Davies, 1989). Thanks to their active participation in different district organizations, dialect groups, trade associations and charity groups, the co-opted business-professional elites were widely seen as the "natural leaders" of the Chinese population and commanded extensive community networks (Goodstadt, 2009: 99). By virtue of their leadership status within local Chinese community, when business-professional elites were co-opted into the advisory system, they made great contributions in mediating government-society relations on two aspects. Firstly, the absorption of business-professional elites into the advisory system helped demonstrate the colonial state's gesture of respect towards the local Chinese community, therefore legitimizing the day-to-day government affairs and public policies (King, 1981). Secondly, the colonial state could draw on the community networks and political resources of the co-opted business-professional elites to defend the colonial regime in times of state-society conflicts like the Seamen's Strike in 1922,[4] the Canton-Hong Kong Strike-Boycott in 1925[5] and the 1967 Riots.[6]

To sum up, the elite-based advisory system was an important pillar of the British colonial regime because the cop-opted business-professional elites had provided "the basis for its political

legitimacy" (Cheung and Wong, 2004). The effectiveness of the whole advisory system was however firmly rested upon the intermediary role of co-opted business-professional elites whose leadership status within the local Chinese community enabled them to mitigate state-society relations.

Advisory politics in post-colonial Hong Kong: the old wine in the new bottle

The political formula of relying on the elite-based advisory system to mediate state-society relations was adopted and followed by the new sovereign state, the Chinese Government, as the foundation of the post-colonial political order. In the 1980s, when the Chinese Government decided to take over Hong Kong by way of implementing the "One Country, Two Systems" model in 1997, it was the intention of the Beijing leaders to maintain institutional continuity and political stability in the territory by preserving the British colonial system of governance after 1997 (Cheung, 2010). From the perspective of Beijing's leaders, the colonial governance system, including the concentration of political powers in the hands of the British Governors (the so-called "executive-dominant tradition"), the elite-based advisory system and the efficient civil service system, had all made significant contributions to maintaining effective governance, political stability and economic prosperity in colonial Hong Kong. Therefore in designing the political systems for the future HKSAR under the Basic Law, it was the Chinese Government's intention to adopt and preserve the British colonial system of governance as far as possible with a view to maintaining a high degree of institutional continuity. In fact, Chinese officials had once argued that the political changes they anticipated after 1997 were not more than the replacement of the British flag with the Chinese flag and also the replacement of the British colonial Governor with a Chinese Chief Executive as head of the new HKSAR Government (Xu, 1993: 179–184).

Against this background, the advisory system and its modus operandi are supposedly to remain intact after the handover. Constitutionally speaking, Article 65 of the Basic Law explicitly stated that "the previous system of establishing advisory bodies by the executive authorities shall be maintained" in the HKSAR. In practice, the whole advisory system has continued to expand in the post-colonial period with the total number of "advisory and statutory bodies" in Hong Kong had been increased from 284 in 1997 to 467 in 2013 (Figure 5.1). According to official classification, "advisory and statutory bodies" in the post-colonial period have been divided into statuary bodies and non-statutory bodies, of which the former refers to organizations set up by enabling legislation and the latter refers to bodies set up by executive authority. The "advisory and statutory bodies" have also been officially classified, according to their different functions, into seven different types including advisory boards and committees, non-departmental public bodies, regulatory boards and bodies, appeal boards, advisory and management boards of trusts/ funds and funding schemes, public corporations, miscellaneous boards and committees (Home Affairs Bureau, 2005) (Table 5.1).

A closer examination on the membership of the advisory committees best illustrates how the old wine of "business-professional elites" has been put into the new bottle of "HKSAR advisory system" as in the colonial past. Earlier research conducted by Cheung and Wong about the membership of the advisory committees have already indicated the continual dominance of businessmen and professionals from 1975 to 2000 (Table 5.2). I have adopted a similar research framework and conducted an updated analysis on the membership of all advisory and statuary bodies in 2013, showing that business-professional elites have continued to be predominantly represented in the advisory system (Table 5.3).

Figure 5.1 Total number of "advisory and statutory bodies" (1980 to 2013)

Source: Raw data for this figure was obtained by the author from the Home Affairs Bureau in December 2014 by written request.

Table 5.1 Advisory and statutory bodies in Hong Kong (2013)

Type	Functions	Total
Advisory boards and committees	Bodies set up to provide expert advice on the development of government policies or public service delivery	211
Advisory and management boards of trusts/funds and funding schemes	Bodies set up to advise on the management of trust funds and funding schemes	85
Appeal boards	Bodies set up to perform a semi-judicial function by adjudicating on appeals to resolve disputes in areas between private citizens and the Government or public body set up by the Government.	69
Regulatory boards and bodies	Registration boards, licensing boards, supervisory boards and regulatory bodies	50
Miscellaneous boards and committees	–	30
Non-departmental public bodies	Organizations set up to deliver services to the public at arm's length from the Government	18
Public corporations	Commercial entities set up by law to provide goods or services	4
Total		467

Source: Official figures obtained from the Home Affairs Bureau in December 2014.

Table 5.2 Background analysis of members of major advisory committees (1975–2000)

	1975		1980		1985		1990		1995		2000	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Business	*63*	*25.7*	*96*	*27.8*	*131*	*29*	*181*	*28*	*181*	*23.4*	*348*	*34.7*
Professions	*98*	*39.9*	*129*	*37.3*	*164*	*36.1*	*264*	*41*	*317*	*40.8*	*451*	*45*
Labour	1	0.4	2	0.6	3	0.7	9	1.4	15	1.9	18	1.8
Culture	5	2	7	2	13	2.9	9	1.4	14	1.8	30	3
Others	6	2.4	8	2.3	11	2.4	32	5.0	38	4.9	66	6.6
Unknown	72	29.4	105	30.3	130	28.8	150	23.3	211	27.2	92	9.2
All	*245*	*100*	*347*	*100*	*452*	*100*	*645*	*100*	*776*	*100*	*1005*	*100*
Business-professional elites in total	*161*	*65.6*	*225*	*65.1*	*295*	*65.1*	*445*	*69*	*498*	*64.2*	*799*	*79.7*

Source: Adapted from Cheung, Anthony B.L. and Wong, Paul C.W., "Who Advised the Hong Kong Government? The Politics of Absorption Before and After 1997". This data set did not cover all advisory and statutory bodies but only covered those advisory committees that were classified by the authors as most closely related to policy formulation and with territory-wide jurisdiction.

The preceding paragraphs showed that not only does the overall framework of the advisory system has been maintained, but there is also a substantive continuity over the pattern of political co–option with business–professional elites continue to dominate before and after 1997. Here the academic question that we need to address is "Does the advisory system, which is more or less similar to the old colonial days in terms of the pattern of political co–option, continue to function as an effective mediating mechanism between the state and society in the post-colonial period?"

Table 5.3 Background analysis of members of all advisory and statutory bodies (2013)

	Advisory boards and committees*		All other bodies*		Total	
	No.	%	No.	%	No.	%
Business	*822*	*32.44*	*1162*	*24.68*	*1984*	*27.40*
Professions	*1230*	*48.54*	*2796*	*59.39*	*4026*	*55.59*
Political sector	34	1.34	107	2.27	141	1.95
Labour	17	0.67	39	0.83	56	0.77
Culture	56	2.21	58	1.23	114	1.57
Others	247	9.75	329	6.99	576	7.95
Unknown	128	5.05	217	4.61	345	4.76
All	*2534*	*100*	*4708*	*100*	*7242*	*100*
Business-professional elites in total	*2052*	*80.98*	*3958*	*84.07*	*6010*	*82.99*

Source: Author's own research based on the data derived from the research database of SynergyNet, a policy think-tank in Hong Kong.

*Note: "Advisory boards and committees" basically covered all the relevant bodies officially classified by the Home Affairs Bureau for this category (except for the 18 District Councils which have been excluded from analysis) while "All other bodies" covered all of the remaining 6 types of organizations according to official classification scheme (i.e. non-departmental public bodies, regulatory boards and bodies, appeal boards, advisory and management boards of trusts/funds and funding schemes, public corporations, miscellaneous boards and committees). Political sector refers to full-time Legislative Councillors, full-time District Councillors and political party officers.

Similar elite co-option, different political outcomes: explaining the failure of advisory politics after 1997

In the old colonial days, the advisory system operated within an undemocratic and apolitical context, where there did not exist any form of democratic elections and civil society was far from mature – there were no political parties, pressure groups were slow to develop and the general public showed little enthusiasm to participate in local politics (Scott, 1986). Such an undemocratic and apolitical context had allowed the colonial state to maintain a high level of elite-integration by extensively co-opting business–professional elites into its advisory system, and such an elite consensual polity was largely immune from the challenges of party politicians and civil society activists (King, 1981). In other words, the underdevelopment of electoral politics and civil society in the old colonial days had provided a very favourable operating environment for the advisory system, enabling the co-opted business–professional elites to effectively perform the intermediary role between the colonial state and society within an undemocratic and apolitical context.

The principal argument of this chapter is that the development of electoral politics and civil society activism since the 1990s has fundamentally changed the operating environment for the advisory system, undermining the traditional role of co-opted business–professional elites in mediating state-society relations. In the forthcoming paragraphs, I will discuss how the operating environment of the advisory system has been significantly changed by the rise of electoral politics and civil society activism, and then I will use the case study of conservation of Government Hill to illustrate the failure of advisory politics in the post-colonial period.

The rise of electoral politics

The year of 1991 marked an important milestone for the democratization of Hong Kong because 18 popularly elected seats had for the first time been introduced into the 60-strong territorial–wide Legislative Council. In 1995, the number of popularly elected seats had been further increased to 20. Since the handover of sovereignty in 1997, the number of popularly elected seats has been gradually expanded, and now the percentage of relevant seats in the Legislative Council, including those 5 new functional constituencies returned by quasi–popular elections, has already reached 57.14% (Table 5.4). Concurrently, the 18 District Councils at the local level have even gone through a much faster pace of democratization. The percentage of popularly elected seats occupied for less than one-third of the total seats in 1982 when the District Boards were firstly established. All the appointed seats had once been abolished by the last Governor Christopher Patten as part of his constitutional reform package, but appointed seats were re-introduced to the District Councils (re-named from District Boards) after the handover of sovereignty in the 1999, 2003 and 2007 District Councils. Appointed seats were abolished again by two phrases in 2011 and 2015 District Councils and now basically all the seats have been returned by popular elections, with the exception of 27 ex-officio members from the rural committees (Table 5.5).

The gradual democratization of Legislative Council and District Councils has certainly provided a fertile ground for the growth of political parties.[7] In April 1991, the first formal political party the United Democrats of Hong Kong (UDHK) was set up by members of major pro-democracy groups on the eve of the 1991 Legislative Council general election and it won a landslide victory by capturing 12 out of the 18 popularly elected seats. The pro-Beijing leftists set up their political party namely the Democratic Alliance for the Betterment of Hong Kong (DAB) in 1992, while in 1994 the pro-British businessmen and pro-Beijing businessmen also formed the Liberal Party (LiP) and Hong Kong Progressive Alliance (HKPA) respectively. After

Table 5.4 The expansion of popularly elected seats in the Legislative Council (from 1991 to 2020)

Session	(1) Appointed seats	(2) Election Committee	(3) Traditional functional constituencies (returned by corporate electors/ professionals)	(4) New functional constituencies (returned by quasi-popular elections)	(5) Geographical constituencies (returned by popular elections)	Total number of seats	Percentage of seats returned by popular elections
	Number of seats	Number of seats	Number of seats	Number of seats	Number of seats		
1991–1995	20	0	21	0	18	59	30.51%
1995–1997	0	10	21	9	20	60	48.33%
1998–2000	0	10	30	0	20	60	33.33%
2000–2004	0	6	30	0	24	60	40%
2004–2008	0	0	30	0	30	60	50%
2008–2012	0	0	30	0	30	60	50%
2012–2016	0	0	30	5	35	70	57.14%
2016–2020	0	0	30	5	35	70	57.14%

Source: Reports on Legislative Council by the Electoral Affairs Commission, Various Years (www.eac.gov.hk).

Note: This table excluded the Provisional Legislative Council (1997–1998) appointed by the Chinese Government.

Table 5.5 The expansion of popularly elected seats in the District Council (from 1982 to 2019)

Session	(1) Appointed official members	(2) Appointed unofficial members	(3) Urban Council members	(4) Ex-officio rural committee members	(5) Elected members (returned by popular elections)	Total number of seats	Percentage of seats returned by popular elections
	Number of seats	Number of seats	Number of seats	Number of seats	Number of seats		
1982–1985	167	134	30	27	132	490	26.94%
1985–1988	0	132	30	27	237	426	55.63%
1988–1991	0	141	30	27	264	462	57.14%
1991–1994	0	140	0	27	274	441	62.13%
1994–1997	0	0	0	27	346	373	92.76%
1999–2003	0	102	0	27	390	519	75.14%
2003–2007	0	102	0	27	400	529	76%
2007–2011	0	102	0	27	405	534	76%
2011–2015	0	68	0	27	412	507	81%
2015–2019	0	0	0	27	431	458	94.10%

Source: Figures before the handover come from the Government Review of the Roles, Functions and Composition of District Councils (www.legco.gov.hk/yr05-06/english/panels/ca/papers/ca0427cb2-consultation-e.pdf); figures after the handover come from reports on District Council elections by the Electoral Affairs Commission, Various Years (www.eac.gov.hk).

Note: This table excluded the Provisional District Board (1997–1999) appointed by the Chinese Government.

handover of sovereignty, more new political parties such as the Civic Party (CP), the League of Social Democrats (LSD), People's Power (PP), the New People's Party (NPP) and the Labour Party (LaP) have been formed. When compared with the old colonial days, the advisory system in the post-colonial period is no longer operating within an undemocratic context without any form of elections and party politics. Instead, the advisory system is now operating within a partially democratic context subject to the day-to-day pressure of party politicians from the Legislative Council and District Councils who are definitely in a much better position than the co-opted business-professional elites to represent public opinion.

The rise of civil society activism

The rise of civil society in recent decades has also fundamentally changed the political contexts of Hong Kong, resulting in a completely different operating environment for the elite-based advisory committees. Since the 1970s, as a consequence of rapid socio-economic development, Hong Kong people had begun to develop a stronger sense of local identity, and civil society became more active (Ip, 1998). In the 1980s, the Sino-British negotiations over the future of Hong Kong and the June 4 Incident triggered off further expansion of civil society activism (Lo, 1998). But a vibrant and vocal civil society has only come of age after 1997 and particularly after the two July 1 protest rallies in 2003 and 2004 when Hong Kong people generally feel "empowered" to take part in civil society activities (Chan and Chan, 2007).

Following the coming of age of civil society, new groups of participants have entered the policy process. Official statistics showed that, between 1997 and 2013, the number of civil society

organizations increased tremendously by 371% from 8,695 to 32,307 (Figure 5.2). The story behind the statistics is that citizens from different sectors of the community, including both well-educated professionals (e.g. lawyers, accountants, doctors, social workers and teachers) and grassroots-level citizens (e.g. truck drivers, poultry workers and residents of urban communities), who have been mobilized to participate in the policy process (Lam, 2007). Official statistics also indicated that the number of public meetings/possessions is generally on a rising trend after 1997. The rapid growth of public meetings/possessions has undoubtedly reflected the vibrancy of civil society meaning that voicing their demands through demonstrations, protests, rallies and petitions have already become an integral part of Hong Kong's civil society after 1997 (Figure 5.3). When

Number of civil sociey groups (registered societies and societies exempted from registration under the Society Ordinance)
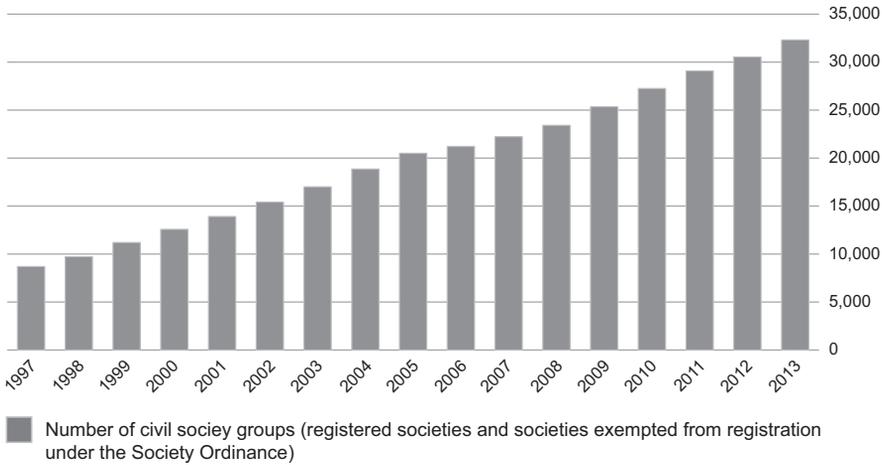
Figure 5.2 Number of civil society organizations (1997–2013)

Source: Raw data for this figure was obtained by the author from the Hong Kong Police Force in October 2014 by written request. Civil society groups here were operationalized as registered societies and societies exempted from registration under the Society Ordinance.

Number of public meetings/processions
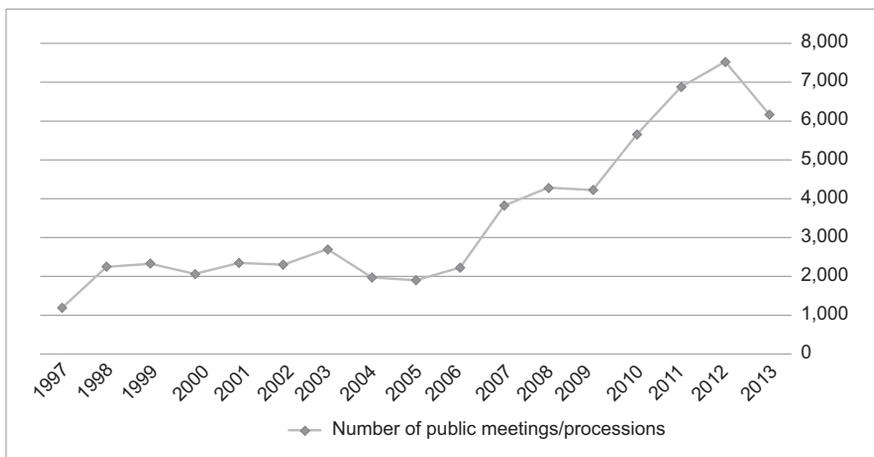
Figure 5.3 Number of public meetings/possessions (1997–2013)

Source: Raw data for this figure was obtained by the author from the Hong Kong Police Force in October 2014 by written request.

compared with the old colonial days, the advisory system in the post–colonial period is no longer operating within an apolitical context where the local population had relatively little demands and expectations towards the government. Instead, the advisory system is now operating within a highly politicized environment facing the policy demands of civil society activists from different backgrounds and sectors.

The erosion of the intermediary role of co-opted business-professional elites

The rise of electoral politics and civil society activism since the 1990s has given rise to a political environment which is fundamentally different from the old colonial days. The basic logic of advisory politics in the old colonial days was that the co-opted business-professional elites were well-respected community leaders, and therefore their representation in the advisory system could help legitimize government policies and mediate state-society conflicts—public policies consulted through the advisory system should have been legitimized with the endorsement of co-opted elites and its implementation should encounter no serious challenge from society. Nevertheless, the intermediary role of co-opted business-professional elites has already become a product of a bygone era, by which their "representativeness" was in fact workable only in the old colonial days when representative institutions were underdeveloped and local population were relatively politically apathetic. Therefore following the rise of electoral politics and civil society activism in recent decades, co-opted business-professional elites have been caught in an embarrassing situation facing direct challenges of party politicians and civil society activists who better command and represent public opinion. When the co-opted business-professional elites can no longer carry public opinion as in the old colonial days, they are almost powerless in defending government policies in the face of the challenges of party politicians and civil society activists (Fong, 2013), and the functioning of the whole advisory system in mediating state-society relations has immediately come into question. As a result, nowadays securing the endorsement of those co-opted business-professional elites in the major advisory committees cannot in any way guarantee that public disputes could be avoided because both party politicians and civil society activists are always ready to challenge the decisions of the advisory committees (Cheung, 2007).

The case study of the preservation of Government Hill was illustrative. In October 2009, Chief Executive Donald Tsang announced in the 2009–10 Policy Address that after relocating the Government Headquarters from Government Hill to Tamar, only the Main and East Wings of the original Central Government Complex would be preserved, but the West Wing would be demolished and redeveloped for commercial use (Tsang, 2009). The government's plan had aroused grave concerns from both party politicians and civil society activists. In February 2011, a total of 20 heritage and social groups joined together to establish the "Government Hill Concern Group" to oppose the government plan and request the retention of the whole Central Government Complex including the West Wing due to its great historical values.[8] Pan-democratic political parties such as Civic Party also voiced their opposition by releasing a public opinion survey about public's reservation on government's plan.[9] In June 2012, the Antiquities Advisory Board, which was a statutory advisory body responsible for advising the Antiquities Authority on matters relating to antiquities and monuments, proposed "Grade 1 Status" (buildings of outstanding merit which should be preserved) for the Main and East Wings of the Central Government Complex but only accorded a lower "Grade 2 Status" (buildings of special merit which should be selectively preserved) for the West Wing.[10] The usual playbook of the government was that, once the proposed gradings had been accorded and endorsed by the co-opted business-professional elites of the Antiquities Advisory Board (Table 5.6), the follow-up public consultation on the proposed gradings should not have met with much public resistance. Nevertheless,

Table 5.6 Background analysis of members of the Antiquities Advisory Board (2013)

	No.	*%*
Business	*3*	*13.04*
Professions	*16*	*69.57*
Political sector	0	–
Labour	0	–
Culture	1	4.35
Others	3	13.04
Unknown	0	–
All	*23*	*100*
Business-professional elites in total	*19*	*82.60*

Source: Author's own research based on the data derived from the research database of SynergyNet, a policy think-tank in Hong Kong.

the Government Hill Concern Group and democratic legislators continued to organize signature campaigns and petitions to mobilize opposition in the public consultation exercise. Worse still, the credibility of the Antiquities Advisory Board had been severely undermined when its Chairman Bernard Chan was accused of colluding with the government for casting the deciding vote to accord the West Wing a "Grade 2 Status" instead of "Grade 1 Status" (*South China Morning Post*, 2012a). The strong opposition voices finally forced the Development Bureau to abruptly abandon its original plan to redevelop the West Wing and to bow to public pressure for preserving the whole building block (*South China Morning Post*, 2012b). The embarrassing U-turn by the Development Bureau over the preservation of Government Hill was illustrative of the failure of advisory politics in mediating state-society relations in the post-colonial Hong Kong. It fully demonstrated that "consultation" and "consensus" achieved amongst co-opted business–professional elites sitting *within the advisory system* was far from effective in moderating opposition voices from civil society activists and party politicians sitting *outside the advisory system*. The advisory system as a mediating mechanism is no longer effective to bridge the gap between the post-colonial state and society.

Conclusion: the disconnection between the post-colonial state, political society and civil society

Political scientists have long observed the strategic interactions between the state (bureaucratic and coercive state apparatus like bureaucracy, courts and military); political society (mediating mechanism for aggregating societal interests like political parties and legislature); and civil society (autonomous and self-organized groups like interest groups, religious groups and social movements) in modern governance (Weigle, 2000; Kooiman, 2003: 216). In non-democratic regimes, the state has overriding powers to structure and steer political outcomes, with political society and civil society incapacitated and substituted by a network of corporatist arrangements; while in democratic regimes, political society plays a dominant role in mediating the interactions between state and civil society Ekiert and Kubik, 1999: 86–87).

Against the above theoretical background, the failure of advisory politics in post-colonial Hong Kong should be understood within the broader context of *Hong Kong's unfinished journey of democratization*. For much of the British colonial period, the colonial state governed Hong Kong

without the existence of a meaningful political society and an active civil society. Under such circumstances, the advisory system and co-opted business-professional elites functioned as the major (and indeed, limited) intermediary between the colonial state and society and helped legitimize the colonial regime by creating an image of government by consultation. But once Hong Kong kicked off its journey for gradual democratization in the 1990s, the rise of political society (i.e. a democratizing Legislative Council and District Councils and political parties) and civil society (newly emerged autonomous social groups) has fundamentally changed the political landscape. What makes Hong Kong's situation difficult and embarrassing is that its democratization journey is so far unfinished (and also has no concrete final destination) (Fong, 2016), therefore resulting in the prolonged underdevelopment of a popularly elected party government in post-colonial Hong Kong (Fong, 2014). As a consequence, the post-colonial state, on the one hand, could no longer rely on the outdated advisory system to mediate its relations with civil society like the non-democratic colonial state; on the other hand, it also cannot aggregate, channel and mediate various societal interests through a full-fledged political society like the Western democratic states. In other words, the failure of advisory politics after 1997 is surely an important indicator of the disconnection between the post-colonial state, political society and civil society during Hong Kong's unfinished journey of democratization. From this perspective, no matter Hong Kong could complete its journey of democratization in the forthcoming future or just stay in the present hybrid status over a long period of time, the advisory system has already found itself becoming a product of bygone political era.[11] Studying the evolution of advisory system before and after 1997 therefore will provide a useful perspective for interpreting the broader nature and dynamics of Hong Kong's political transition.

Acknowledgements

Notes

1 It was worth noting that the advisory system in colonial Hong Kong also performed a critical function in fostering intra-elite unity. But for purpose of this chapter, I will focus on examining the function of advisory system in mediating state-society relations only.

2 In the United States, ad hoc advisory committees may be set up by President, Congress and federal agency heads to obtain expert views drawn from business, academic and other interests. The creation and operation of these advisory committees are specified by the Federal Advisory Committee Act, and the General Services Administration maintains and administers relevant management guidelines. See Smith (2007) and Ginsberg (2011).

3 Royal commissions and departmental committees have a long history in the United Kingdom, and they considered as supplementary to representative democracy. See Chapman (1973) and Cartwright (1975).

4 During the Seamen's Strike in 1922, the business-professional elites such as Ho Tung, Liu Chu-po and leaders of the Tung Wah Hospital acted as intermediaries in the search for a settlement with the strikers. A settlement was at last worked out with the mediation of these local Chinese community leaders. For more detailed discussion of the role of business elites in Seamen's Strike of 1922, see Chan Lau (1990).

5 Similar to their roles in combating the 1922 Seamen's Strike, business-professional elites such as Chou Shou-chen and R.H. Kotewall (an Eurasian businessman) played an important role in the handling of the Canton-Hong Kong Strike-Boycott in 1925. In the course of the strike, these business elites advised the colonial administration on anti-strike strategies and measures, publicly supported the government, maintained stable food provision to the poor through the Tung Wah Hospital, recruited hundreds of volunteers for maintaining essential public transport services, assisted in the censorship of local Chinese newspapers,

mobilized support of other businessmen and professionals and organized a counter-propaganda campaign (including the publication of the Kung Sheung Yat Po and distribution of leaflets to the Chinese communities). For more details, see Chan Lau (1990).

6　In the 1967 Riots, business-professional elites in the Executive Council stood firmly behind Governor David Trench throughout the riot period. Hundreds of business groups, professional associations and community groups pledged their support to the colonial state in the early weeks of the riots, and they also endorsed the police's combat actions against the rioters. For details, see Yep (2009).

7　For an overview of the development of party politics in Hong Kong, see Ma (2012).

8　The 20 heritage and social groups included Central and Western Concern Group, The Professional Commons, Designing Hong Kong, Green Sense, Greeners Action, The Conservancy Association, Heritage Watch, Community Alliance for Urban Planning, Community Development Initiative, Save Our Shorelines, Lung Fu Shan Environment Concern Group, HK Redevelopment Concern Group, Heritage Hong Kong, Clear the Air, Green Environmental Health Group, South Tokwawan Concern Group, Society for Protection of the Harbour, Soho Residents Committee, Mini Spotters and World City Committee. For details, see the website of the Government Hill Concern Group, accessible on: https://notforsalehk.wordpress.com.

9　See the website of the Civic Party for detailed findings of the public opinion poll, accessible at www.civicparty.hk/?q=node/2240.

10　See the website of the Antiquities Advisory Board for details of the proposed gradings, accessible at www.aab.gov.hk/en/news_20120620.php.

11　Interestingly, despite of the fact that advisory politics has already been proved its limitations to accommodate the contemporary governance challenges the post-colonial state still attaches great importance to advisory system and occasionally claims to reform its operation. For example, Tung Chee-hwa pledged in his 2004 Policy Address to strengthen advisory committees as channels for public participation while Donald Tsang also made a similar promise in his 2005–06 Policy Address to bring in more talents from different sector to advisory system so as to help the government to take public pulse. In 2017, the Chief Executive-elect Carrie Lam, in announcing her candidacy, also pledged to provide more chances for youth to take part in government affairs by appointing more young people to advisory bodies. Why did the post-colonial state's repeatedly claims to reform the advisory system despite of its proven limitations? I believe that such a paradox has largely reflected the embarrassing situation facing the post-colonial state, i.e. it faces so many constraints to rebuild the state-society relations through structural democratic reforms and therefore it can only resort to advisory politics as some forms of remedial measures for addressing the democratic deficits. From this perspective, advisory politics, ironically, remains a "substitute for democracy" as in the colonial past although it has been proven to be an "ineffective substitute" after 1997. For Tung Chee-hwa and Donald Tsang's remarks on advisory system, see: www.policyaddress.gov.hk/pa04/eng/p67.htm and www.policyaddress.gov.hk/05-06/eng/p15.htm; For Carrie Lam's candidacy announcement, see: www.carrielam2017.hk/en/speech_0227_a.

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6

"Consultative politics" refined

The precarious development of civic engagement in post-colonial Hong Kong

Kay C.Y. Lam[1]

Public participation in the policy-making process has emerged in recent years as a testy topic in academic and practical research, as many democratic governments have realized the need to work in partnership with public and civil society groups in order to facilitate effective governance. A great deal of research has noted how various processes of engaging citizens in governance, such as participatory budgeting, e-democracy, deliberative polling, etc., has complemented representative democracy in contexts such as Australia, the United States and the United Kingdom (Cooper, 2005; Bingham et al., 2005; Boulianne, 2009; Smith, 2010).

These processes of stimulating citizen participation yield the advantages of developing good civic habits, encouraging communities to interact in meaningful ways and in general providing greater legitimacy for policy outcomes. In addition to the cultivation of civic virtues, civic engagement also improves the quality of policies by providing the evidence base for making policies. It further reduces implementation costs and taps wider networks for innovation in policy-making and service delivery (Brannan and Stoker, 2006; OECD, 2009). Nonetheless, there are also skeptics who argue effective governance is not necessarily an outcome resulting from civic engagement (Irvin and Stansbury, 2004).

Civic engagement refers here to an organized process through which the government takes the initiative to systematically involve citizens in all stages of policy-making (Centre for Civil Society and Governance, 2007: 5). It may include the setting of policy agendas, identification of problems, clarification of values and interests. The above definition emphasizes the need for engaging the public in an organized manner, in contrast to ad hoc or informal consultation. Civic engagement also departs from traditional consultations that only allow minimal and one-sided communication between government and citizens. While civic engagement allows citizens to participate in all stages of policy-making, it also differs from traditional consultations that merely seek citizens' views after problems and policy proposals have been defined by the government.

It is noteworthy that the above definition serves as a narrow definition of civic engagement, since "engagement" mainly refers to how a government takes an active role in involving citizens in policy-making stages. For some, organized activities and actions by individuals or groups of citizens which aim at identifying policy needs from civil society's perspective and exerting influence on various stages in the policy-making process should also be considered as civic engagement.

Civic engagement in semi-democracies: the case of Hong Kong

In recent years, certain forms of civic engagement have been adopted by some non-democratic regimes, including semi-democracies and authoritarian regimes. Related academic discussions have often been put under the framework of state–society relations, meaning that civic engagement has become a strategy of managing increasing demands for political participation (Cheung, 2011; Lee et al., 2013; Gil de Zuniga, 2014; Wu, 2014). Though civic engagement opens up an institutionalized channel for public participation in policy-making, a substantial degree of government control has to be maintained throughout the process. Civic engagement can be a two-edged sword to the stability of a semi-democratic regime like Hong Kong, since it may increase societal expectation for more fundamental reforms in the long run. Scholars are therefore inspired to analyze the way by which these regimes maintain a delicate balance between public participation and state domination, features of engagement exercises in semi-democracies and the prospect of civic engagement in semi-democracies in general.

While current studies on semi-democratic regimes (Levitsky and Way, 2010; Truex, 2017) have produced a variety of labels or mixed cases (such as liberal autocracy/illiberal democracy), Hong Kong serves as a case where judicial independence and a certain degree of civil liberty is constitutionally enshrined, yet with the absence of competitive forms of elections in choosing the executive. These institutional features provide opportunities and incentives for the development of civic engagement but at the same time inhibit the citizen from seeking genuine political accountability from the executive authorities:

On the one hand, popular election is not a principal means for the Chief Executive to obtain and exercise political authority. Since government leaders are free from electoral pressure, the executive is not strongly compelled to be responsive to popular preferences in the processes of policy-making. Further, compared with other semi-democratic regimes, Hong Kong is an interesting case in the sense that the powers of policy-making and policy implementation are retained by the bureaucracy at large. With these institutional features, the policy-making processes still remain top down, and the policy networks of the government are relatively exclusive. Consultation skills such as "soft-lobbying" continue as a commonly used means to secure consensus within the group of key stakeholders and to make sure that the proposed policies can cruise through the legislature.

On the other hand, though Hong Kong's legislature is not a powerful body in policy-making; its power over legislation and the budget pressures the government to secure its support. Since the legislature is partly constituted by direct election, the opposition and even the pro-establishment may, from time to time, align with the increasingly vibrant civil society to put forth their policy agenda. The government could be embarrassed by the legislature when its policies lack a certain degree of popular support. Democratic shortfall and popular demands for political influence point to the necessity for a more inclusive approach to policy-making, particularly when "performance" remains an important indicator of good governance (Lee et al., 2013). The effectiveness of policy implementation and the quality of policies are thus important yardsticks for citizens to evaluate government performance.

In this vein, civic engagement may compensate for the lack of electoral mandate in a semi-democratic context like Hong Kong. It confers some kind of legitimacy not only on the final policy outcome, but also the policy-making procedure itself. By taking the initiative to engage, the government may also preempt massive public opinion backlash that may cause major disturbance to state–society relations. However, given the limited political openness of the system and the dominant role played by the government in the policy-making process, the prospect for more widespread and effective civic engagement in Hong Kong remains uncertain. Full-scale

engagement in critical policy areas such as constitutional reforms can hardly be observed in a semi-democratic regime, since it may threaten the regime's very core interests and its survival.

Taking its hybrid political setting as a framework, this chapter aims at examining how civic engagement acts as a response to the changing state-society relations in Hong Kong and how far it can provide some degree of legitimacy for the policy-making process. The article begins with the evolution of the consultation system in the colonial and post-handover periods. By focusing on the narrower definition of civic engagement, it probes into the social and political reasons that have driven the government to open up the consultation process. Subsequent sections provide a review of the consultation exercises and engagement methods in the recent ten years. It shows that, alongside the traditional means of consultation (such as advisory bodies and consultation papers), various forms of engagement have become the norm, particularly in policy areas relating to planning and development. Besides, the government has been experimenting more innovative methods of engagement.

Nonetheless, not only have the institutional design and procedural weaknesses imposed major obstacles to effective civic engagement, the increasingly diverse and proactive civil society has also added further challenges to the engagement process. The conclusion of this chapter is that civic engagement may mediate state-society relations by extending the government's policy network, clarifying the public's misconceptions, and enhancing policy implementation. The degree of inclusiveness in the engagement process, however, varies across policy areas. Civic engagement also falls short in resolving major political and ideological disagreements in a climate of distrust.

Consultative politics in colonial Hong Kong

Colonial governance in Hong Kong has often been described as some form of "consultative politics" or "government by consultation", which is characterized by its willingness to consult the population to compensate for the fact that those decision-makers were not selected by democratic elections (Chiu and Lui, 2000). The system is essentially closed and highly exclusive – executive powers were concentrated in the hands of the governor and the bureaucracy, and these decision-makers were politically insulated from society. The Executive Council (ExCo) functioned as the governor's colonial cabinet which comprised prominent figures and top civil servants, while the Legislative Council (LegCo) mainly served to endorse the government's proposals. Alongside the ExCo, an elaborated advisory system was developed to achieve the principle of government by consultation. With the continuous cooptation of prominent professional and business elites through the ExCo and the advisory bodies, these influential groups were given special status and prone to feel that they were part of the system and that their interests had been taken into account.

Aside from accommodating elite interests, specific mechanisms for public participation were established by the colonial government to cope with increasing community demands for responsiveness since the 1966 and 1967 riots. Without compromising the very core interests of colonial governance, part of these reforms aimed at institutionalizing communication with the general public and hence enabled the government to prevent social discontent. For instance, the City District Officers introduced in 1968 were meant to function as political officers, who were responsible for collecting popular views on the one hand and explaining government policies to the general public on the other hand (Scott, 1989). As a district body vested with both advisory and executive powers, the two municipal councils also provided highly constrained elections to positions with limited political power.[2]

On a larger scale, starting from the early 1970s, public consultation exercises were conducted in major social policy areas, so as to solicit public comments for policies. In the colonial

government's practice, public consultation often took the form of "Green Paper" and "White Paper" consultations. A White Paper was an official policy position and was preceded by a Green Paper, which was issued for the sake of stimulating public discussion. To align with the policy agenda of providing public goods and services in the 1970s, the very first Green Papers and White Papers were about universal secondary education and schemes for public assistance (Scott, 1989). As a token of the government's commitment to consultation, a considerable portion of these Green Papers was produced by high-powered advisory committees and was able to reach key interest groups and the general public. In addition to social policies, notable Green Paper consultations on political reforms, such as district administration and representative governments, were embarked shortly before the Sino-British negotiation (Ching, 1994).

With its ability to secure consensus and to provide public goods that people wanted, the colonial government was able to establish some kind of moral authority. Nonetheless, what constituted a "consensus" was subject to the government's judgment after hearing views from the public. The government's powers to appoint members of the advisory bodies and to start off public consultation naturally shaped the agenda of policy-making, meaning that discussions could be meticulously restricted to certain boundaries. With the tactful practice of "consultative politics", the most fundamental problem of colonial governance, that is, the legitimacy problem, remained intact from popular debates before gradual democratization took place in the 1980s. As long as society remained disarticulated and depoliticized, "consultative politics" could be effective in stabilizing state-society relations.

The rise of electoral politics and civic actions: pressure on the SAR government's approach to public consultation

The SAR government inherited most of the colonial institutions, in the sense that it still has the nearly exclusive power of initiating policy and budget (Cheung, 2004; Scott, 2005). The predominance of business interests in the Chief Executive election and the presence of a sizeable pro-establishment camp (comprised of pro-Beijing parties, labour unions, and businessmen) in the legislature, provide limited incentive for the Chief Executive to reach beyond a relatively exclusive policy network. Nonetheless, the inability of the executive to constitute the LegCo has inevitably changed the institutional dynamics. With all lawmakers returned by elections, there is no institutional guarantee that the government's policies can be passed.

The emergence of electoral politics in the late colonial years is also conducive to the rise of political parties, civil society groups, and politicians, which led to the gradual erosion of consultative politics. Unlike the colonial elites, these individuals and groups are likely to have interests and ideologies that are different from the government. Their presence in the legislature and civil society has triggered more vigorous policy debates, particularly when the lawmakers and civil society appear as a joint-force to urge the government to open up. The policy-making process is inevitably politicized – it is no longer limited to efficiency and procedural concerns, but making political judgments to balance diverse social demands and interests. The complexities of interest-negotiation and decision-making can hardly be managed by the bureaucracy alone. In a similar vein, the colonial strategy of "co-opting" opinion leaders and social forces into the institution is getting less effective.

In his first term of office, former Chief Executive Tung Chee-hwa had few means to respond to the increasingly politicized policy-making process. Under the limitations of bureaucratic governance, Tung had to rely on high-powered advisory bodies (such as the Education Commission), his personal advisors, and the ExCo's unofficial members to make important policy recommendations in their areas (Lau, 2002). Hence, in his second term, Tung embarked a number of reforms

that were directly related to the government's approach to policy-making. First is the introduction of the Principal Officials Accountability System (POAS) in July 2002, which allows the Chief Executive to recruit principal officials from different sectors of the community rather than just from the senior ranks of the civil service. Policy initiatives and resources are now devolved to the policy bureaus, and the principal officials are expected to shoulder political responsibilities in case of policy pitfalls, subject to the Chief Executive's discretion (Sing, 2008). In principle, the government's seeming commitment to "political accountability" provides more incentives for the principal officials to interact with the public, such as attending public policy forums, appearing in phone-in programmes, and liaising with various stakeholders.

Secondly, after the implementation of the POAS, Tung's government had to elucidate the relationship between the advisory bodies and the principal officials. Along with the public concerns in relation to the transparency and representativeness of the consultation process, the government decided to reform the advisory bodies and mechanisms of public consultation altogether. In April 2013, a review of the advisory bodies was launched. Though there were no significant changes regarding the role of these bodies in the policy-making process, the government put on stricter regulations, known as the "six-six rule",[3] to the duration of appointment. The review also suggested a wider base of representation for the advisory bodies, so as to incorporate the middle class and professionals such as social workers. The government also published a five-page guideline on public consultation called "Guidelines on Public Consultation" ("Guidelines"), which provided the very basic procedures and requirements for a standard consultation process, such as considerations on the duration and the means of consultation (Constitutional Affairs Bureau, 2003).

The effectiveness of these institutional adjustments in securing popular support in each and every step of policy-making also depends on civil society's political expectations and its eagerness to engage in collective actions. While the 1st July demonstration in 2003 has been widely recognized as the reawakening of civil society, policies on urban renewal and development also attracted a lot of attention and even civic actions. Induced by the post-handover economic transformation, there witnessed increasing demands for land in the major business districts. Projects on reclamation and urban renewal were initiated to increase land supply, yet some of these sites involved considerable historical and cultural significance. Civil society's reactions were not just protests and legal actions to delay the development plans, but efforts to present alternative proposals to the government. Reclamation for the Central-Wan Chai Bypass, the Lee Tung Street Renewal scheme, and the Wan Chai Market building reconstruction are cases in point (Cheung and Wong, 2006; Cheung, 2011). These cases illustrated that civil society groups and activists are not satisfied with a predetermined agenda but could work with the government to define the problems and to set the agenda. In this sense, the government saw the need to reorient its consultation strategies for more inclusive participation.

Reorientation of the government's consultation strategies

Preliminary experiments have been done by the government to enlarge its policy deliberation framework since 2004; some of these efforts resemble features of civic engagement. Destined committees or taskforces were established to act as agents of the consultations. Take the Harbourfront Enhancement Committee (HEC) as an example. The HEC was established to provide guidance for development plans for selected harbour-side areas in 2004–2006 (HEC, 2009). It was an innovative model in the sense that its membership comprised a wide range of representatives nominated by professional bodies and civil society organizations (CSOs), but not by the government. It enabled the government to form partnerships with CSOs and extend its policy network.

Under the auspices of the HEC, the Kai Tak Planning Review (2004–2007) was conducted openly without a predetermined agenda. The Review was organized into a number of stages, in which the public was allowed to play a role in shaping the agenda and was invited to a process of collective envisioning in the very early stage of engagement. The government also introduced more unprecedented ways to actively engage the stakeholders, such as design forums, public forums, and focus groups, rather than just relying on regular consultation papers (Planning Department, 2007). Though a number of projects experienced success and departed from the traditional modes of consultation, some consultation exercises during the period of 2004–2007 (such as the Commission on Poverty) experienced mixed success (Centre for Civil Society and Governance, 2007).

Despite these changes, it was not until 2007 that the government explicitly named "civic engagement" as a means to achieve good governance. Former Chief Executive Donald Tsang Yam-kuen openly acknowledged that the government's approach to policy-making remained "top-down", which fell short of meeting social demands and coping with technological progress (news.gov.hk, 2007). From then on, "civic engagement" not only refers to a mechanism of consultation, but an important part of Tsang's governing discourse. Tsang's effort to officially introduce civic engagement can be attributed to a number of reasons. First, after the constitutional reform had been voted down by pro-democratic legislators in 2005, the government realized that a more inclusive electoral system can hardly come into being in the short run. With major changes to the institutional framework stumbling, taking civic engagement seriously is a wise move to compensate for such democratic deficit. In particular, "consultative politics" has already been set on track for a few decades, the path is difficult to alter.

Second, the last-minute efforts made by citizens in halting the demolition of the Star Ferry Pier and Queen's Pier in 2006–2007 revealed the emergence of new forms of politics and new ways of social mobilization. These ad hoc gathering and individual activists increased uncertainties to policy-making since they are not attached to particular organizations. The emergence of the radical wing in the pro-democratic camp also generated more vigorous forms of resistance, such as physical confrontation and sit-in protests without prior approval from the police. These new trends of civic action have further shaken the long-established foundation of "consultative politics", since the activists can hardly be identified, coopted and neutralized. It hence pointed to the need for more advanced strategies of engagement on the part of the government. In the coming years, the series of civic actions triggered by urban renewal and heritage preservation was further crystallized into identity and class politics, particularly when these projects involved cross-border development and planning.

The announcement of civic engagement in 2007 is a significant move made by the SAR government, which can be seen as a refinement of "consultative politics" instead of a complete paradigm shift. Civic engagement gives more room for civil society to negotiate for their own agenda. The government thus has to take the risk of triggering more vivid policy debates and higher social expectations, which may go beyond the policy itself. Nevertheless, civic engagement is still compatible with an executive-led government. It does not dispense with government authority, since civic engagement is about policy development rather than making policy decisions.

Civic engagement exercises (2008–2016): their achievements and challenges

On average, there are around 30 public consultation exercises per year. Data presented in Table 6.1 is compiled from the government's "Archives of Consultation Documents and Related Reports" (GovHK, 2017). It must be noted that the Archive is an incomplete record of all public

Table 6.1 Number of public consultation exercises and percentage of civic engagement (2008–March 2017)

Year	Number of public consultation exercises	Percentage of consultations called "civic engagement"
2017 (until March 2017)	16	25%
2016	29	24%
2015	31	13%
2014	36	25%
2013	32	22%
2012	30	10%
2011	21	N/A
2010	31	N/A
2009	9	N/A
2008	9	N/A

Source: Figures derived from GovHK's Archives of Consultation Documents and Related Reports (2017).

consultation exercises conducted, which can only serve as an approximation of the total number of public consultations (especially for archive records before 2010).

For instance, in 2016, three on-going civic engagement exercises, namely "Stage 3 Engagement of Pedestrian Environment Improvement Scheme for Transformation of Kwun Tong Business Area", "Stage 3 Community Engagement for Planning and Engineering Study for Housing Sites in Yuen Long South – Investigation", and "Stage 1 Community Engagement of Boardwalk Underneath Island East Corridor" cannot be found from the Archive. Another notable case that is not included in the Archive is the civic engagement exercise of Tsim Sha Tsui Waterfront Revitalization Plan. The engagement exercise took place in 2015 and only lasted for a month; the website of this engagement exercise has already been removed. The incomplete official records not only created difficulties for academic and practical research on civic engagement, it is not user-friendly for the general public as well.

The scale and method of these consultations vary. They may range from distributing consultation papers to engagement exercises that involve a number of stages. Nonetheless, we should not assume that one kind of public consultation exercise is superior to another. There may be some situations where the traditional approach to consultation is more suitable, especially for policy issues that are highly technical. On the other hand, there may be some situations in which civic engagement is more desirable.

In the government's practice, not all public consultations are named "civic engagement". For example, in 2016, there were 29 public consultation exercises, of which 7 were called "civic engagement". Though some comprehensive public consultations resemble key features of civic engagement, no distinctions were made before 2012, meaning that all consultations, regardless of their nature, scale, and duration, were entitled "public consultation".

Despite the changes made in 2012, there is no agreed-upon definition of engagement between the government and civil society, nor has the government explicitly explained its definition of civic engagement to the public. In general, those named by the government as "civic engagement" usually have a number of features:

(1) The process is relatively organized, which involves administratively defined goals, plans for implementing the engagement exercises and mechanisms for evaluation. Periodic reports are

sometimes used to summarize public views, to give feedback, and to indicate the progress of engagement. Occasionally, evaluation is conducted with the help of consultancy firms or local universities.

(2) These exercises usually encompass different stages of policy-making. With varying degrees, the government opens up part of its policy agenda in the earlier stages of engagement. Some exercises involve a two-stage consultation: the public is invited to give views on a proposed policy framework in the first stage. The collected views will then be consolidated into concrete proposals in the second stage. Some exercises include a three-stage consultation: in the Kai Tak Planning Review, for instance, the public was vested with more agenda-setting power, in the sense that they were invited to collectively determine the vision of the policy and identify key issues in the very first stage of engagement (Planning Department, 2007).

(3) They involve various methods of engagement, which provide opportunities for learning and deliberation. In addition to public forums, topical discussions, focus groups and workshops, the government also utilizes information technology in the engagement exercises, such as mobile apps and interactive public engagement map.[4]

It is difficult to provide a general evaluation to all engagement exercises conducted in the past ten years, since assessments can be made on a number of grounds, including the timeframe of engagement, its design and techniques, its inclusiveness, the public's response, the decisions made, and so on. Take the timeframe of engagement as an example. The Kai Tak Planning Review (2004–2007) and the Kwun Tong Town Centre Renewal Plan (2005–2007) are well received by academia and the public, partly because of the timeframe of engagement – almost two years of time and considerable resources have been spent on these engagement exercises (Cheung, 2011).

Though timeframe is an important yardstick in evaluating the quality of engagement, an agreed mechanism on how to determine the duration of engagement is lacking. From the data compiled from the "Archives of Consultation Documents and Related Reports", engagement exercises may range from years to weeks (see Table 6.2). For example, the engagement exercises for Lantau Development in 2016 attracted a number of criticisms, mainly due to the fact that the engagement exercise only lasted for three months (Lantau Development Advisory Committee, 2016). Given the complexity of the issue and the potential stakeholders involved in Lantau development, it is difficult for the government to justify such a narrow timeframe.

The effects of consultation also depend on the nature of the policy. Certainly, the government has more room in managing policy discussions that are "directional" in nature than in resolving any particular or urgent problem. The Urban Renewal Strategy Review (URSR, 2008–2010) is a case in point, which is commonly identified by academia and the public as a case without much confrontation. The URSR is not about collectively deciding an urban renewal plan but about developing a new consultation framework for carrying out urban renewal projects ahead, including deliberations on the role of various stakeholders in future engagement exercises. Without time pressure, it allows sufficient deliberation among the stakeholders, and the government is less prone to having a very clear stance. The URSR lasted for two years, with three rounds of engagement where the public was allowed to set the agenda and envision the project in the first stage. It also included periodic reports to ensure that public views are accurately reflected (Urban Renewal Strategy Review, 2010).

Conversely, the government tends to have a firm grip over policies that it considers as politically risky, or those involving relations with the Chinese government. The public consultation exercises for the moral and national education curriculum (2011) and constitutional development (2013–2014) are obvious examples. Compared with other engagement exercises, the consultations on the moral and national education curriculum were far less transparent in presenting

Table 6.2 Duration of civic engagement activities (2012–2017)

Year	Name of activity	Duration (Days)
2017	Stage 1 Public Engagement for the Pilot Study on Underground Space Development in Selected Strategic Urban Areas	91
2017	Stage 1 Public Engagement for Kowloon East smart city study	60
2016	Public Engagement on Promotion of Sustainable Consumption of Biological Resources	112
2016	Stage 2 Public Engagement on Wan Chai North and North Point Harbour-front Urban Design Study	70
2016	Public engagement exercise for Kai Tak Sports Park	60
2016	Public Engagement Exercise on Retirement Protection	182
2016	Public Engagement Exercise for Lantau Development	90
2016	Public Engagement for Electronic Road Pricing Pilot Scheme	98
2016	Stage 3 Public Engagement for Relocation of Sha Tin Sewage Treatment Works to Caverns	70
2015	Stage 1 Community Engagement for Planning and Engineering Study for Tuen Mun Areas 40 and 46 and the Adjoining Areas	70
2015	Stage 3 Community Engagement for Hung Shui Kiu New Development Area	91
2015	Stage 1 Community Engagement for Topside Development at Hong Kong Boundary Crossing Facilities Island of Hong Kong-Zhuhai-Macao Bridge	63
2015	Stage 1 Public Engagement for Urban Design Study for the Wan Chai North and North Point Harbour-front Areas	61
2014	Phase II Public Engagement Exercise for Proposed Establishment of Harbour-front Authority	90
2014	Stage 3 Public Engagement for Tung Chung New Town Extension Study	77
2014	Public Engagement and Consultation Exercise on Working Hours	184
2014	Stage 3 Public Engagement for "Kowloon Bay Business Area Pedestrian Environment Improvement – Feasibility Study"	53
2014	Stage 2 Community Engagement for "Planning and Engineering Study for Housing Sites in Yuen Long South – Investigation"	63
2014	Stage 2 Community Engagement for Planning and Engineering Study on Future Land Use at Ex-Lamma Quarry Area – Feasibility Study	64
2014	Public Engagement Exercise on Population Policy	122
2014	Stage 2 Public Engagement for "Kowloon Bay Business Area Pedestrian Environment Improvement – Feasibility Study"	51
2014	Engagement Exercise for Proposed Establishment of Harbour-front Authority	92
2013	External Lighting Document for Engaging Stakeholders and the Public	91
2013	Stage 2 Public Engagement for Relocation of Sha Tin Sewage Treatment Works to Caverns	84
2013	Stage 2 Community Engagement of Hung Shui Kiu New Development Area Planning and Engineering Study	92
2013	Public Engagement on Kai Tak Fantasy Competition	60
2013	Stage 2 Public Engagement for Tung Chung New Town Extension Study	123
2013	Stage 2 Public Engagement for Kowloon City Urban Renewal Plan	62
2013	"Our Future Railway" Stage 2 Public Engagement exercise	88
2012	Stage 1 Public Engagement for Kowloon City Urban Renewal Plan	48
2012	Stage 1 Public Engagement for Tung Chung New Town Extension Study	61
2012	Stage 1 Public Engagement on Enhancing Land Supply Strategy	142

Source: Figures derived from GovHK's Archives of Consultation Documents and Related Reports (2017).

opinions collected from the public, such as proposals for revising the curriculum and those demanding the government to withdraw the subject from secondary school curriculum.

Overall, the methods and effects of engagement vary across policy areas. Such variation can be attributed to both institutional weaknesses and bureaucratic values. Besides, the increase in actors and their diverse demands also means that civic engagement now operates in a highly complex political environment.

Civic engagement in appraisal: major obstacles to civic engagement

Bureaucratic dominance

From an institutional perspective, one of the major obstacles of civic engagement is bureaucratic dominance, meaning that, under the executive-led system, the bureaucracy is the major source of policy. Meanwhile, legislators can only initiate bills in their individual capacity without inducing changes to the government structure and government spending. The introduction of the POAS in 2002 did not change the asymmetric allocation of decision powers and the source of power between the legislature and the executive. Even with the presence of appointed politicians, senior civil servants still possess enormous powers in drafting policies, giving policy advice to the politically appointed officials, as well as implementing policies. Formal documents such as the Civil Service Code continue to underscore the civil servant's dominant role in civil service management, financial management, and the exercise of statutory powers (Civil Service Bureau, 2015).

Earlier studies on civic engagement in Hong Kong pointed out that, with 150 years of colonial rule, bureaucratic dominance has been strongly entrenched, not only in the institutional sense but also in the worldviews embraced by the administrative elites. These elites have an inclination to perceive themselves as the guardians of public interests, as well as gatekeepers of administrative efficiency and distributive impartiality (Lau, 1982; Scott, 2010). With such self-perceptions and perceptions on the public good, the administrative elites certainly have reservations on civil society and elections, such that popular participation inevitably politicized the policy-making process. As civic engagement is more about showing toleration to the increasingly politicized environment rather than suppressing it, there is potential for professional judgments being threatened by popular sentiments.

More recent studies on the attitudes of senior civil servants pointed to the moderate adaptation of bureaucratic values to social and political changes (Burns and Li, 2015). Senior civil servants generally agreed with giving more weight to political considerations than professional or technical considerations in the policy-making process. Regarding who is in a better position to balance all these considerations, senior civil servants strongly believed that they themselves are in a better position to make policies than the politicians. Aside from holding tight to values such as "guardianship of public interest", civil servants also held mixed views towards the presence of interest groups and political parties in making policies.

In order to provide more solid analyses of civil servants' perceptions on civic engagement, interviews were conducted with a number of senior administrators during the course of research.[5] Though there are institutional obstacles to a more collaborative form of governance, data collected from the interviews showed variations on how they perceived the value of civic engagement. Interviewees pointed out that some administrative officers are more enlightened and eager to work with civil society, while some may not feel comfortable to take part in civic engagement exercises. Such reluctance may not necessarily be attributed to bureaucratic arrogance, but to the lack of skills and guidance for handling engagement exercises.

As argued by an interviewee, the ability to handle civic engagement is not a necessary outcome of their professional training. Since administrative officers are periodically assigned to new roles and duties, sometimes the relatively inexperienced may need to be in charge of engagement exercises (Hong Kong Policy Research Institute, 2016: 94–96). Hence, another way to perceive the problem is how far the government provides enough support for civil servants who are eager to engage and motivates those who are reluctant to do so. To answer this question, we may need to explore the government's internal guidelines and procedures of civic engagement.

Procedural weaknesses of civic engagement

Despite more than ten years of practice, civic engagement has not been fully institutionalized in the policy bureaus, in the sense that it lacks a clear and updated guideline. According to a senior civil servant, the consultation guideline was written in 2003 and has never been updated; neither has it been widely promoted among principal officials, civil servants and other stakeholders (Hong Kong Policy Research Institute, 2016: 94–96). The Guideline also lacks details or specifics, which enables the officials to interpret general principles in their own terms.

For instance, under the key principle of "Timeliness", the Guideline suggested that "The public should be consulted on a subject at as early a stage as possible, so as to give the public a reasonable period of time to air their views during a consultation exercise" (Constitutional Affairs Bureau, 2003). What constitutes "a reasonable period of time", however, is subject to interpretation. The absence of a commonly agreed framework and standard of consultation not only induces unnecessary criticisms and distrust from the public, but it also adds to the burden on civil servants, particularly those without a great deal of experience in engagement.

Though it is impractical to provide a fixed timeframe for all sorts of consultation, guidelines in other countries and contexts generally suggest that public consultation periods should last for no less than twelve weeks (European Commission, 2016: 87). Likewise, there is no way for the public to understand the rationale behind "closed-door" consultations in Hong Kong, particularly when public consultations are completely substituted by "informal" or "closed-door" consultations. Better practices in foreign contexts showed that consultation guidelines should also include scenarios where the government is exempted from holding public consultations, such as when dealing with policies that lack margins of discretion or those that may involve state secrets (European Commission, 2016: 89).

Another procedural weakness is the absence of an in-house mechanism to accumulate successful experience of civic engagement. There is a common practice for government bureaus and departments to make tenders to hire consultancy firms. While different consultancy firms are employed for different projects, they have neither incentive nor responsibility to carry valuable experience of a successful consultation exercise down to the next round and to improve the quality of engagement.[6]

With the absence of guidelines and in-house learning mechanisms, there is no procedural guarantee that the standards of engagement in different government bureaus are in line with each other, nor could they regularly share among themselves previous experiences of engagement. In this way, whether civic engagement can become the norm in a policy bureau depends on the judgment of particular officials. For example, the newly elected Chief Executive Carrie Lam Cheng Yuet-ngor is relatively experienced in managing civic engagement. Lam was the mastermind behind the setting up of the HEC when she was Permanent Secretary for Housing, Planning and Lands. In 2008, she was the Secretary for the newly established Development Bureau and embarked on the aforementioned URSR (Lee et al., 2013).

The Archive shows that most of the civic engagement exercises are managed by the Development Bureau or departments under the Bureau. Among the 32 civic engagement exercises which took place between 2012 and 2016, 24 of them were managed by the Development Bureau. As mentioned in earlier discussions, planning and development is a selected policy area where significant breakthroughs in civic engagement have been made. The Bureau is thus more likely to accumulate experience and techniques for succeeding officials to follow. Notwithstanding, the uneven development of civic engagement in different policy bureaus may be detrimental, since blunders made in every single engagement exercise are likely to undermine the public's trust towards the government.

Attributes of civil society

Aside from institutional and procedural weaknesses, the increase in actors and their diverse demands further raises the threshold of a successful engagement exercise. The growth of CSOs over the years raises the difficulty of conducting large-scale engagement. In response to the increase of CSOs, the government has tried to build up partnerships with CSOs by inviting them to co-organize and implement engagement activities. For example, in the URSR, secondary schools, CSOs, District Councils and professional groups could apply for the Urban Renewal Authority's (URA) Partnering Organization Program by submitting proposals for engagement. They then received funding from the URA and carried out activities that were principally related to urban renewal (Urban Renewal Strategy Review, 2010).

Compared with traditional modes of consultation, this partnership model may enhance the effectiveness of engagement, as the CSOs have their own networks and expertise. Though the partnership model continues to be an important means to broaden the government's policy network, it has limited effect in accommodating the emergence of key opinion leaders and ad hoc social groups (such as issue-based concern groups). These new actors increase uncertainties of engagement at the public level, in the sense that they can hardly be identified and engaged beforehand.

The policy debate over the Copyright (Amendment) Bill (2011) is a case in point. The very first public consultation dates back to December 2006, with the results of the consultation publicized in 2008 (Intellectual Property Department, 2016). The major theme of this public consultation exercise was to extend the coverage of the Copyright Bill so that it may deal with potential copyright infringement cases induced by the emerging internet services of streaming and communications protocol of peer-to-peer file (P2P) sharing, such as BitTorrent. Though the opinions collected from the previous consultation exercises were included in the Copyright (Amendment) Bill (2011), these results of the consultation can hardly catch up with the development of technology and the corresponding habits of internet users.

In 2011, P2P and streaming services had already become very popular among internet users. Besides, derivative works made by internet users had also emerged as new forms of collective creation. Such kind of internet activity had not been foreseen by the government and hence not been exempted from the Copyright (Amendment) Bill (2011). Holding tight to previous consultation results, the government's insistence of not exempting derivative works from copyright infringement further induced public suspicion that the Bill is actually a means of curtailing the freedom of expression (Chow, 2014). Eventually, facing severe criticism from internet users, the public, and pro-democracy lawmakers, the government had to withdraw the Bill and initiate a new round of consultation in 2013.

In effect, the seemingly "disarticulated" civil society is attributed to a number of reasons, including inadequate linkage between civil society groups (Chan, 2012); the political parties'

limited capacity in interest articulation (Ma, 2012); information segregation on the internet (Li and Wang, 2014); and so on. While such kind of disarticulation may not be unique to the context of Hong Kong, other countries attempt to relieve the problem by applying techniques called "stakeholder mapping", so as to recognize potential stakeholders in earlier stages of engagement and to tailor-make engagement strategies.

Civil society has not only grown in size, but also complexity. A senior civil servant pointed out in an interview that, disagreements in a policy-making process may be attributed to misconceptions, interest diversities and ideological disagreements (Hong Kong Policy Research Institute, 2016: 101–102). He argued that, although civic engagement may be effective in clarifying the public's misconceptions on certain policies and fostering a certain degree of interest negotiation, it lacks capacity in resolving ideological disagreements. To him, the discussions over the universal retirement scheme in 2016 is essentially ideological, in the sense that people arguing for the "universal option" and those opting for "those with financial needs" have presented two distinct views on distributive justice.

In colonial days, "consultative politics" worked in a context where society was minimally integrated, and social demands were about immediate and material interests (Lau, 1982). Conversely, social demands and public debates in recent years have been increasingly shaped by visions and ideas of social development. Ideological conflicts are visible in recent policy debates on environmental protection, the universal retirement scheme, heritage preservation, and so on. While civil society has its own agenda, policy debates could no longer be configured by the government. From the clashes and challenges made by the social activists in various public consultation forums, we can see that the government's legitimacy problem has become an integral part of policy debates.

Conclusion: the prospect of civic engagement in post-colonial Hong Kong

In conclusion, there has been much continuity in terms of the institutional setting, the bureaucratic values, and the formal means of political participation in Hong Kong. Despite the need to cope with a more crowded policy habitat, the colonial governing technique of "consultative politics" has not been superseded by civic engagement. Civic engagement co-exists with traditional methods of consultation and is subsumed under an executive-led structure. On the one hand, the government has to open up considerable parts of its policy agenda and to actively involve the public in major policy areas. "Collaboration" and "participatory public" have become the government's discourse in defining its relationship with civil society, so as to persuade the public that they possess a certain degree of ownership and influence in policy-making. At present, civic engagement is largely the only means for the government to bring in the public without a full-scale electoral reform. On the other hand, the government has not compromised its power in making the final decisions and inclines to exercise tight control over policy areas that are politically risky and controversial. These explain why civic engagement has not been fully institutionalized and why efforts in engagement vary significantly across policy areas.

In a semi-democratic context, the SAR government has to face enormous challenges in conducting civic engagement. First, its decision to reorient its stance towards civic engagement is not without contradiction. Though there is a possibility that public satisfaction and trust gained from successful engagement experience may compensate for the lack of democratic legitimacy, there is also a chance that civic engagement increases social demands towards democratization in the long run, not to mention that blunders in the processes of engagement may further undermine the state-society relations. Second, the government lacks an electoral mandate to make authoritative

judgments on controversial issues and to implement its decisions. Thus, though civic engagement may be effective in clarifying misconceptions towards a policy, it has limited effect in settling ideological disagreements. Such disagreement can only be settled by a democratically elected government taking responsibility for its political judgments. To this end, civic engagement cannot substitute genuine political reforms, and a comprehensive review of the political system is a necessary step to attain better governance.

Notes

1 Part of the empirical data in this chapter was derived from the research report "Strengthen Deliberation Rebuild Trust – Improve the Systems of Advisory Committees and Public Engagement" published by Hong Kong Policy Research Institute, a think-tank in Hong Kong. The author gratefully acknowledges the Institute's permission to use the empirical data from the report. The author would also like to thank Mr. Jasper Tsang Yok-sing and Mr. Andrew Fung Ho-keung for their invaluable advice, Mr. James Kwok Yiu-chung and the research team for their research support, and all the interviewees who have contributed to the writing of this chapter.
2 From 1973 onwards, there cease to be government officials on the council.
3 "Six-year Rule" means not appointing a non-official member to serve on the same body in any one capacity for more than six years to ensure a healthy turnover of members of advisory and statutory bodies. "Six-board Rule" means not appointing a person to serve as a non-official member on more than six advisory and statutory bodies at any one time to ensure a reasonable distribution of workload.
4 The interactive public engagement map is used in the "Smart City @ Kowloon East" Engagement exercise. It allows the public to click on any location on the Kowloon East map and comment on smart city initiatives.
5 Views were collected from a number of civil servants, government officials, legislators and advisory body members during the research process; the research finding is presented in the report "Strengthen Deliberation Rebuild Trust – Improve the Systems of Advisory Committees and Public Engagement" published by Hong Kong Policy Research Institute. The full report is available on the official website of Hong Kong Policy Research Institute.
6 In the UK, for instance, one criterion that public servants have to meet in running an effective consultation is to seek guidance from a Consultation Coordinator. Unlike consultancy firms, Consultation Coordinators work within the Government departments. Owing to one's position as an in-house advisor, one has better observations on how particular department works and what it needs to foster better consultation. During public consultations, the Consultation Coordinator is the contact point for any public enquiries or complaints; simultaneously, he/she also facilitates the sharing of lessons learned within the department and between departments and agencies. To provide external checks, consultation papers submitted by departments have to be approved by a Regulatory Policy Committee.

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Party underdevelopment in protracted transition

Ngok Ma

Introduction

For decades, party politics in Hong Kong was underdeveloped. With the lack of progress of democratization after 1997, the two decades after the sovereignty changeover did not see a healthy growth in party politics. Instead, the party system in Hong Kong suffers from increasing polarization and fragmentation. Most parties, especially the pro-democracy parties, have declined in capacity, influence, and credibility, with supporters vesting hope in civil society and new political groups instead. The proliferation of new political groups before the 2016 Legislative Council elections and the election results specifically show the incapability of the political parties in Hong Kong.

This chapter analyzes the changes in party politics after 1997 from multiple perspectives. It will first discuss the systemic factors that are unfavorable to the development of party politics in Hong Kong. It delineates how the systemic factors interacted with institutional and political changes after 1997 to hinder party development in Hong Kong. It will also trace how political developments in recent years brought about polarization and fragmentation of the party system and a further discrediting of party politics in Hong Kong.

Systemic unfavorable factors

The most important systemic factor that hinders the development of party politics in Hong Kong is Hong Kong's status as a Special Administrative Region (SAR) under China. As Hong Kong is not an independent political entity, it cannot determine its own constitutional structure. Advancing to full democracy needs the approval of Beijing, who has never been sympathetic with instituting a fully democratic system in Hong Kong. The power dependence of Hong Kong on China (Kuan, 1991) is the chief factor that brought about the underdevelopment of political parties in Hong Kong.

As early as the 1980s, Chinese officials in charge of Hong Kong affairs (e.g. Lu Ping) had expressed skepticism over developing party politics in Hong Kong. The Basic Law has no reference to party politics or a governing party. To Beijing, the logic was simple: a Chief Executive (CE) backed by a ruling party with mass support and deep roots in society would be difficult

to control, at least if compared with a non-partisan one that is "elected" by an elite-dominated Election Committee that can be easily influenced by Beijing. When the Basic Law was drafted in the 1980s, Beijing leaders might have envisaged post-1997 Hong Kong being governed by a non-partisan CE who would broker different political and social interests in Hong Kong, assisted by "politically neutral" civil servants as officials. The principle of a non-partisan CE largely remained unchanged after 1997, best demonstrated by the provision in the Chief Executive Election Ordinance that disallows a party politician to serve as CE. The provision originated from a Preparatory Committee conclusion in 1996, claiming that if the CE belongs to a party, he/she will be biased in his/her policy and personnel decisions (Young and Cullen, 2010: 101). The Ordinance stipulates that, if a party politician runs and is elected CE, he/she will need to relinquish party membership to take office.

Lau and Kuan (2002) saw Tung's refusal to form a governing party as the root cause for the "stunted party system" in Hong Kong. It was not Tung's fault: Beijing had never agreed to the CE forming a governing party. This took away a most important function of political parties in modern political systems: party in government. Over the years, political parties had minimal role in forming the executive branch in Hong Kong. Even when the Principal Official Accountability System (POAS) was introduced in 2002, which replaced all the civil-servant bureau secretaries by political appointees, only a handful of secretaries or undersecretaries had been selected from political parties over the years. For aspiring political talents, the party route may not be the most effective one to get to the apex of political power. This serves as a disincentive for party formation and growth in Hong Kong.

The electoral methods for the CE and the Legislative Council (Legco) serve as further constraints to party development in Hong Kong. For 20 years after the handover, popularly elected seats have taken up no more than one half of the seats in the Legco, with half of the Legco seats elected by functional constituencies (FCs) (see Table 7.1). One of the major functions of political parties was organized political participation, as people and politicians with similar political inclinations would group together and mobilize for mass support during election. This function is more or less constrained in Hong Kong, as no more than half of the seats are popularly elected. The pro-democracy camp has been getting a majority of the popular vote (55–65 per cent) since 1991. Due to institutional constraint, not only that they could not serve as the governing coalition, they were reduced to a permanent minority in the Legco.

The FCs as a method of election also hindered party development. The FCs mostly represented only the major business, professional, and social groups, with the franchise limited to fewer than 240,000 electors for 30 seats by 2017. Since the 1980s, when the Basic Law was being drafted, Beijing saw the FCs as a "method of election" that could serve as a buffer to full democracy and also as a good tactic to co-opt business and professional elites. It could enlist the support of business and professional elites and enhance their political confidence by guaranteeing them

Table 7.1 Distribution of Legco seats by electoral method, 1998 to 2016

Year	Functional constituencies	Election Committee	Directly elected
1998–2000	30	10	20
2000–2004	30	6	24
2004–2008	30	0	30
2008–2012	30	0	30
2012–2016	35	0	35

Source: Author's own compilation.

significant political participation before and after 1997. For decades, the business sector saw the FCs as a vital institution to protect their interests and stood firm against its abolition.[1]

The narrow franchise of the FCs means that little party help was needed for mobilization of FC voters. As most of the FCs are defined in sectoral terms, FC candidates and voters stress sectoral interest issues more than territory-wide or political/ideological issues (Ma, 2013). In addition, the FC system, together with the voting-by-group arrangement[2] in the Legco, granted veto power to the business and professional elites. This has several effects. It offers strong protection to the business and professional elites, making them reluctant to support full democracy and/or participate in party politics that seek support from the general public. It also greatly weakens the influence of the Legco in policy-making, which in turn discourages party competition. With their interests institutionally protected, these business groups, unlike their western counterparts, have weak incentives to donate to parties or form their own parties. This took away a major source of funding support for the political parties in Hong Kong (Ma, 2013).

The Election Committee (EC) as a method of election for the CE is also not conducive to party development. To begin with, the EC subsectors are mostly structured along functional or sectoral lines, which means in terms of representation they share the problems of the FC elections. As Kuan (1999: 293) pointed out, this form of election promotes behind-the-scenes, personal politics liable to manipulation and corruption. As most EC members are reluctant to defy Beijing's wishes, the CE election becomes a *de facto* appointment process with political parties playing a very limited role in aggregating interests. Even for the pro-Beijing parties, who held hundreds of votes in the EC, mostly followed Beijing's instructions when they made voting "decisions".

Hong Kong's status as an SAR and a hybrid regime, with its constitutional development ultimately determined by Beijing, severely constrained party development. With no real public contestation of executive power, it is difficult to attract political talents and big interest groups to invest in the game of party politics. With the executive branch invariably refraining from appointing party members as officials, party politicians can only compete in the limited elections for half of the Legco, a legislature with relatively weak political influence. Lobbying the executive branch and mainland officials, or building connections with mainland shot-callers through the backdoor, may be more effective means to access power and influence decisions, than playing the difficult and risky game of competitive party politics. With the ever-uncertain prospects of protracted democratization, it is common for elites to adopt a wait-and-see attitude after 1997, without indulging in party politics in Hong Kong. This served as a major systemic constraint to party development in Hong Kong.

Weak growth and institutionalization

While the systemic constraints are discouraging, political developments in Hong Kong since the handover brought about a decline in political parties, instead of growth or institutionalization. Political parties in Hong Kong enjoyed its most rapid growth period in 1991–94, largely as a response to the introduction of direct elections to Legco in 1991 and to Patten's democratic reforms in 1992–95. Three major parties, the Democratic Party (DP) (1994), the Democratic Alliance for the Betterment of Hong Kong (DAB) (1992), and the Liberal Party (LP) (1994), were all formed in this period.[3] The growth largely stopped after 1997, an important reason being the lack of progress in democratization. Without further expansion of political space, party development went into a blind alley.

The attitude of the Hong Kong government towards party politics has never been forthcoming, and did little to encourage party development. Ma (2007) pointed out that the government officials in general adopted an anti-party stance, invariably dismissing party politicians as

self-interested, as contrasted with the government officials who were "working for the common good". There were no political reforms that promoted party development after 1997. Party politicians got token representation in government-appointed bodies. With the implementation of the POAS in 2002, and its expansion in 2008, more people with party backgrounds were appointed as bureau secretaries, undersecretaries, or political assistants. Yet there was no formal share of executive power with political parties (even with pro-Beijing ones), creating little incentive for party formation and recruitment of political talents.

Other post-1997 institutional changes also hampered party development. Firstly, the constraints in the Basic Law had weakened Legco's policy influence after 1997. In the years 1995–97, the democrats could force government policy changes by a combination of private members' bills, bill amendments, vetoing of government appropriations, and the like, to force concessions from the government (Ma, 2007; Choy and Lau, 1996). After 1997, with the constraints on the private members' bills imposed by Article 74 of the Basic Law, and the voting-by-group restrictions for private proposals, the Legco was powerless to propose and pass alternative policies. With the democrats trapped in a permanent minority, and the pro-government majority loath to propose alternative policies, the Legco was reduced to an oversight role (Ma, 2002a). Comprehensive party programs did not matter that much in elections, as voters gradually understood that these would not be put into practice no matter which party candidates were elected. As far as monitoring or scrutiny is concerned, sometimes vocal independents could be more effective. Opposition parties provided an important check to governing parties in democracies because of the constant threat of replacing the poorly performed incumbents as the ruling party in the next election. This would not happen in the hybrid regime of Hong Kong.

Other changes after 1997 served to weaken the resources of political parties, especially for the pro-democracy opposition. Before 1997, the Municipal Councils (Urban Council and Regional Council), as financially self-sufficient councils with independent decision-making and executive power for hygiene, cultural, and recreational affairs, were an important training ground for party politicians. Young party politicians accumulated political experience and name recognition by running for District Boards, Municipal Councils, and then Legco. The abolition of the Municipal Councils in 1999 was a big blow to the succession plan of the two largest parties, DP and DAB, as it took away the middle rung of their succession ladder. It was now difficult for District Councillors, who served in very localized districts, to gain enough name recognition to compete in the large constituencies under proportional representation. With the lack of monetary resources, the DP suffered more from the abolition of municipal councils, which indirectly contributed to the factional struggle since the later 1990s (Ma, 2002b; Ma and Leung, 2001).

The change of the Legco electoral formula from first-past-the-post in 1995 to proportional representation (PR) in 1998 did not strengthen party politics. Scholars had believed that PR generally strengthened party discipline and organization, as it means individual candidates would be more dependent on the central party for resources, nomination, and party identification (Farrell, 1996; Kreuzer, 2000; Epstein, 1980). However, the switch to PR in Hong Kong led to factionalism within parties, and infighting and competition within the two camps. The institutional arrangements of PR in Hong Kong also did not help to bring about stronger parties. Hong Kong PR adopted the Largest Remainder formula with the Hare quota (PRLR-Hare), parameters that are unfavorable to large parties in seat allocation. It also allowed independents to run and allowed parties to field more than one list in a constituency. The parties quickly learned that it is easier for them to win extra seats by splitting into more than one list in the same district. This creates extra incentives for factionalism and splintering for parties. As pointed out by Cox and Shugart (1995), in terms of seat allocation effects, PRLR-Hare is similar to single-non-transferable vote (SNTV) systems. The strategic coordination and voting behavior induced by this system hence

was similar to that induced by SNTV in Japan (before 1993) and Taiwan: patron–client politics, proliferation and competition of small parties, strategic voting, and factionalism within large parties or camps (Ma and Choy, 2003).

The partial nature of the elections in Hong Kong means that there is a weaker incentive to vote for large parties under PR, as there is no chance the largest party will be the governing party. This creates extra incentives for strategic voting, as voters sometimes turn away from leading lists in the last minute in favor of marginal candidates. This also means there is no disincentive for voting for independents, driving voters in Hong Kong to focus more on personalities of candidates than party platforms in electoral campaigns (Ma and Choy, 2003). All these pose obstacles to the formation and growth of large and powerful parliamentary parties in Hong Kong.

A disabled political society

The hybrid nature of the Hong Kong regime, and partial nature of the Legco elections, led to a disabled political society after 1997 (Ma, 2007). In the 1980s and early 1990s, civil society groups in Hong Kong had high hopes of the impacts of gradual democratization in Hong Kong. They saw the limited elections in the District Boards and the Legco as "wars of position" which would allow reformist forces to gain resources and political influence, in the process of which mobilizing public participation and expanding political space. They believed the limited elections would bring about a more open political system, and social and political reforms pointing towards a more equitable and free society. They had relative success from the mid-1980s to 1997, when the gradual opening of political power allowed civil society to exert better influence via the political parties and the elected members. This was (partly) the reason political parties enjoyed good growth in the period. The pro-democracy parties had relatively good support from civil society in the 1980s, drawing their leaders from social movements and pressure groups.

However, developments after 1997 showed that the impacts of these elections were over-estimated. The hybrid institutional context more or less disabled the role of political society, including the Legco and the political parties. The Legco had weak policy influence, and failed to turn social demands into public policies. With most of the policy-making power still firmly in the hands of the state elites and bureaucrats, the political parties could not effectively aggregate interests and bridge the gap between state and society. As it turned out, the power exercised by the Legco and the political parties (in particular the pro-democracy opposition) after 1997 was mostly negative (Ma, 2002a). It was intent on checking against government misdeeds, the waste of public money, infringement of civil rights, and problematic policies, instead of bringing about policy changes.

The weak political influence of the parties brought with it declined capacity and credibility. Civil society groups began to question if it was worthwhile to participate in the limited election game, instead of preserving their autonomy outside the establishment. There was also an inherent conflict between the roles of electoral politicians and principles of civil society, as the latter stressed spontaneity, empowerment, and participation of the masses, while as electoral machines political parties were more inclined to compromise and wanted to use grassroots organizations as vehicles of mobilization (Lui, 1994).

With the lack of progress of democratization in Hong Kong after 1997, this conflict between the logic of civil society and the logic of political parties became more apparent. For the pro-democracy parties, the Legco seats were still vital because they helped to resist the expansion and encroachment of the pro-Beijing forces, check the government, and provide important resources to sustain their movement. The partly elected councils also created important platforms for them to propagate democratic values and draw public support. For civil society

groups, the Legco seats were becoming less and less meaningful as they could not bring about constitutional and policy changes. The permanent minority was going to lose the vote decision anyway; a few seats more or less would not make much difference. They preferred to preserve their resources and autonomy in civil society. Some groups proposed that Hong Kong needed a more radical movement to push for fundamental changes. Since around 2007, this call for radicalization began to get more support (see below). The detachment of the political parties from civil society led to a "hollowing out" of the party politics in Hong Kong, weakening party capacity and mobilization power.

Table 7.2 shows the institutional trust in major political institutions in Hong Kong in the four waves of Asian Barometer surveys of 2001, 2007, 2012, and 2016. Political parties and the Legco as institutions both have consistently low confidence, compared with the executive branch, the civil service, and the courts. This has led to a vicious circle: weak confidence in parties brings weak participation and identification for parties, which in turn brings weaker influence and capacity for the parties, leading to even lower public confidence. While party candidates still captured most of the votes in popular elections after 1997, in repeated opinion surveys, a large portion of respondents claimed that they were not supportive of any party. (See Table 7.3.)

Table 7.2 Institutional trust in major institutions**

	Wave I (2001)	Wave II (2007)	Wave III (2012)	Wave IV (2016)
The Chief Executive	/	71.5%	58.9%	37.3%
The courts	69.5%	78.0%	82.3%	74.2%
Political parties	22.1%	26.7%	36.0%	26.3%
The Legislative Council	51.5%	57.1%	48.5%	37.3%
Civil service	59.4%	64.5%	75.1%	60.7%

Note: ** Includes those who expressed "a great deal of trust" plus "quite a lot of trust".

Source: Author's own dataset.

Table 7.3 "The party that you most support", 2010–2015 (in percentages)

Responses/date	July 2015	July 2014	July 2013	July 2012	July 2011	July 2010
(Sample size)	(811)	(829)	(840)	(839)	(832)	(891)
DAB	11.3	12.8	11.2	10.6	7.9	9.1
DP	7.5	5.9	7.6	7.5	7.6	15.8
Civic Party	5.7	4.9	5.7	5.1	6.6	9.5
New People's Party	1.7	1.9	1.3	0.8	0.6	
People's Power	1.6	2.4	2.1	4.2	1.4	
Liberal Party	1.4	1.1	1.2	1.7	1.3	0.8
Others	11.3	9.8	9.3	8.2	5.3	7
None	55.4	57.5	58.1	59.8	66.7	55.9
DK/No answer	4.1	3.5	3.5	1.9	2.5	1.7

Source: Surveys from Institute of Asia-Pacific Studies, Chinese University of Hong Kong, Various years www.cuhk.edu. hk/hkiaps/tellab/pdf/telepress/15/SP_Press_Release_20150729.pdf last accessed April 24, 2017.

Polarization and fragmentation

The increased polarization and fragmentation of the party system in Hong Kong in recent years, I argue, was mostly structurally induced. Firstly, the effect of PR, and in particular the PRLR–Hare formula, encouraged the formation and competition of small splinter parties. Secondly, the protracted democratic transition in Hong Kong led to divisions in the democracy movement and gave rise to radicalism after a lack of progress over too many years.

Table 7.4 shows the number of lists in the geographical constituency election under PR since 1998. It showed that, in both the pro-democracy and pro-Beijing camps, the number of competing lists increased over the years. PR in general encouraged the formation and participation of small parties, as a small portion of the vote would be able to earn representation. In the 1998 election, partly because of the legacy of the single-member system in the 1995 election, the two political camps were mostly led by the DP and the DAB, with other groups playing a minor role. With the gradual increase of directly elected seats from 20 in 1998, to 24 in 2000, 30 in 2004, and 35 in 2012, most constituencies saw an increase of seats allocated over the years. It means that the percentage of vote needed to be elected has decreased over the years, encouraging new participants.

In PR, parties adjacent to each other on the political spectrum invariably have to compete for voters of similar political persuasions. When new groups entered the race, they needed to find new political space in the political spectrum. They found it necessary or at least desirable to distance themselves from the leading party in the camp and sometimes useful or imperative to criticize the leading party to establish their niche. This induced internal conflict within the

Table 7.4 Number of lists in geographical elections, 1998–2012

		1998	*2000*	*2004*	*2008*	*2012*
Pro-Democratic	Hong Kong Island	2	2	2	4	5
	Kowloon West	2	2	3	4	4
	Kowloon East	1	1	3	4	4
	New Territories West	4	5	5	8	8
	New Territories East	3	4	2	5	8
	Sub-total	*12*	*14*	*15*	*25*	*29*
Pro-Beijing	Hong Kong Island	2	2	1	3	5
	Kowloon West	2	1	1	3	2
	Kowloon East	1	1	2	2	2
	New Territories West	2	2	3	3	6
	New Territories East	2	4	2	3	6
	Sub-total	*9*	*10*	*9*	*14*	*21*
Independents	Hong Kong Island	4	7	3	4	4
	Kowloon West	1	0	2	5	3
	Kowloon East	1	2	0	0	3
	New Territories West	5	1	4	3	2
	New Territories East	2	2	2	2	5
	Sub-total	*13*	*12*	*11*	*14*	*18*
Total		**34**	**36**	**35**	**53**	**67**

Source: Author's own compilation.

two camps, sometimes much more vehement conflict than externally between the two camps (Ma and Choy, 2003).

In the pro–Beijing camp, initially the DAB coordinated most pro-Beijing community groups, labor unions, rural elites, and conservative residential organizations during elections. Yet the united front strategy by Beijing pre-determined that there were a lot of differences in interests and ideology among the pro-Beijing elites in Hong Kong, leading to infighting and competition among themselves (Ma, 2007). Since 1997, there were two main internal "cleavages" within the pro-Beijing camp: one was about class and one was about political positioning. Along the class division, traditionally business conservatives were loyal followers of Beijing when it comes to political reform, but they were loath to actively participate in the direct election battlefront. The Liberal Party, as the major pro-business party, had had limited success in direct election. Other pro-business conservative parties, such as the Hong Kong Progressive Alliance or the Business and Professional Alliance of Hong Kong, all had limited popular support and were much more reliant on the Liaison Office to allocate organizational support to them in direct elections.

While the DAB started as a pro-grassroots party since labor unionists and pro-Beijing community organizations were well represented in its leadership, it gradually positioned itself as a "catch-all" party in terms of class positions. The Federation of Trade Unions (FTU), the pro-Beijing association of unions with 300,000 members, facing the challenge from the pro-democracy Confederation of Trade Unions (CTU), felt the need to distance themselves from the DAB. The FTU began to field their own lists in 2004, to maintain their labor-union image. In the 2012 and 2016 elections, the FTU fielded their own lists in four of the five districts, winning three seats each time.

The other internal division was about political positions. Identified as a traditional pro-Beijing party, the DAB found it difficult to attract conservative middle-class voters. After 2004, the Liaison Office supported candidates with professional backgrounds (such as Paul Tse and Priscilla Leung) and groups that have a middle-class appeal (e.g. Regina Ip's New People's Party) to capture the middle-class conservative vote. Other pro-Beijing groups, such as the Heung Yee Kuk, which were seen as more conservative in the political spectrum, would field their own lists from time to time.

The division within the pro-Beijing camp actually fit the overall strategy of Beijing in governing Hong Kong. As long as no governing party was needed, they did not want to see a single strong party with good popular support and deep social roots, albeit it was a pro–Beijing party. Fragmentation into groups of different ideological persuasions and class positions somehow ensured that Beijing or the Liaison Office remain the final arbiter or king-maker of pro-Beijing forces in Hong Kong that pulled the strings during elections.

Compared to the divisions within the pro-Beijing camp, the split within the pro-democracy camp was much more serious and hostile. The democrats in Hong Kong had never been a very unified force since the democracy movement in 1980s. In the 1980s, the pro-democracy groups managed to unite under the umbrella organization of the Joint Committee for the Promotion of Democratic Government (JCPDG) to fight for democracy. In 1991–1997, the United Democrats of Hong Kong (UDHK), which merged with the Meeting Point to form the Democratic Party (DP) in 1994, was the flagship party that united most democrats. However, after 1997, the fragmentation effect of the PR system and the lack of progress of the democracy movement drove the democrats onto the road of severe division and infighting.

The major divisions within the pro-democracy camp in the 1990s were based on different political and class positions. For the most part of the 1990s, the major competitor for UDHK and DP was the Association for Democracy and People's Livelihood (ADPL). The ADPL upheld a more pro-grassroots position, compared to the catch-all appeal of DP. Facing up to 1997,

when DP was under heavy attack by the Central government and pro-Beijing forces as "anti-China", ADPL managed to maintain a dialogue with mainland officials and get appointed in cooptational bodies appointed by Beijing, posing a more "moderate" and pro-grassroots option compared to DP.

The divisions within the pro-democracy camp continued and sped up after 2004, partly due to a lack of progress in democratization. Factional struggles within DP started in 1998, a combination of differences over movement strategies and class positions, personal rivalries, and power struggles (Ma, 2002b). The infighting within the pro-democracy camp and DP's decline gradually led to the rise of other new pro-democracy parties, trying to take advantage of the political void. In 2006, a group of barristers and professionals formed the Civic Party (CP), which initially was inclined to a more moderate political position to attract middle-class voters, stressing the need to communicate with Beijing and not to be preoccupied with the Tiananmen crackdown. In the same year, a group of more radical democrats, including social movement activists and members of the former "Young Turk" wing of DP, formed the League of Social Democrats (LSD).

Radicalization and split of democrats

The relative success of the LSD in the 2008 election signified a change towards radicalization in party politics in Hong Kong. Led by radical media-critic Raymond Wong, long-time street protester Leung Kwok-hung, and former DP Young Turks such as Albert Chan and Andrew To, the LSD openly hailed a social-democratic platform and a more radical approach to the democracy movement. In the 2008 Legco campaign, the LSD's slogan of "No struggle, no change" earned good support, especially among young voters. Their major narrative was that the democracy movement in Hong Kong had little success over the years because it was too moderate. They claimed that more confrontational strategies were needed to enforce change.

The LSD got a decent result of about 10 per cent of the popular votes and won three seats in the 2008 election. The three LSD Legco members promptly used different disruptive tactics to protest in the chamber. LSD's rise more or less stretched the political spectrum for the democrats, as more voters began to accept that more "radical" means were needed to push for reforms. The radical narrative posed a major challenge to the mainstream democrats (not limited to DP), that the past movement had been too moderate and a radical turn is imperative to success. This theme will be repeated in years to come, which the mainstream democrats found difficult to retort as long as Hong Kong remained non-democratic, the pro-democracy opposition was in a permanent minority, and the government ignored public opinion from time to time. The splintering effect of the PR system and the radicalization trend interacted, to the effect that at each stage new radical groups would crop up, dismissing the "radical" group at previous stage as too conservative.

The radicalization trend also means more direct action in social movements. A "post-materialist" mode of social movements, focusing on environmental concerns, heritage protection and others, marked major departures from the concerns of the traditional pro-democracy parties (Chan, 2005; So, 2008). Usually mobilized through social media and joined by young people, these movements pushed Hong Kong towards a new stage of mobilization.

The split of the pro-democracy camp came full throttle in 2010, over the political strategy of the democracy movement. In December 2007, the Standing Committee of the National People's Congress (NPCSC) handed down a resolution that the 2012 CE and Legco would not be elected by universal suffrage, but the 2017 CE "can be elected by universal suffrage". While the NPCSC resolution also ruled that the ratio of directly elected seats in the 2012 Legco election cannot be changed, incremental changes were still possible. By 2009–10, the democrats were deeply divided over how to force the government to commit to universal suffrage, or to at least

put forward a more progressive reform proposal for the 2012 CE and Legco elections. The CP and LSD joined hands to instigate the "*de facto referendum*", in a bid to step up public opinion pressure (Ma, 2011). The narrative was familiar: since the democrats had tried almost everything over the course of 20 years without success, it is necessary to try something new. By asking five pro-democracy legislators, one in each geographical constituency, to resign simultaneously, it will trigger five by-elections which would require all Hong Kong voters to cast a vote. This could be seen as a "referendum on democracy". The "referendum" concept had special appeal to the young people, who thought that the campaign gave them a chance to take their political futures into their own hands.

For the moderate democrats including the DP, the "*de facto referendum*" was a dangerous move. To Beijing, all talks of "referendum" smack of separatism. The moderate democrats thought the key to democratic progress was to narrow the political gap with Beijing, so as to build trust and engage Beijing in direct dialogues over democracy in the near future. The "*de facto referendum*" was seen as a move that would unnecessarily antagonize Beijing, making it more difficult to engage them in future dialogues, without really putting pressure on Beijing. They formed a new Alliance for Universal Suffrage (AUS), including about two-thirds of pro-democracy legislators, to try to initiate dialogue with the Central government. In the end DP struck a compromise deal with Beijing, supporting a proposal which carried a minimal democratic progress. This brought strong criticism from the radical wing and liberal civil society groups, who saw DP as betraying the democratic cause and collaborating with Beijing. After the 2010 political reform episode, the pro-democracy camp was deeply split between the moderate democrats who had refused to join the "de facto referendum" and voted for the government proposal in 2010, and those who supported the "de fact referendum" and voted against the government proposal. The latter was further divided between the more radical groups such as the People's Power and LSD, and more "mainstream" democrats such as CP, the Labour Party, and other smaller groups. The radical wing in turn continued to split, with severe infighting and mutual criticisms. This change in the political spectrum gave rise to an unprecedented chaotic campaign in the 2012 and 2016 elections.

Back to civil society, "localism", and weaker parties

The years 2012–16 brought further weakening of the political parties in Hong Kong. The party system saw more polarization and fragmentation. Especially for the pro-democracy camp, the rise of "localism" and the formation of new groups from civil society aggravated the decline in credibility and influence of the traditional parties, as reflected in the 2016 Legco elections.

The years after 2012 saw more confrontation and polarization between political parties in Hong Kong. This was partly due to radicalization, as the radical legislators drew public attention by their ferocious criticisms, and sometimes abuse, of government officials and pro-government legislators. Some resorted to "filibusters" to try to block the passage of government bills, budgets, and appropriations, leading to serious retort from government officials and pro-government legislators, and frequent confrontations in the chamber.[4] In response to the radical challenge, the pro-government bloc became less tolerant to opposition opinion and took a tighter grip on legislative procedures. For example, since 2012, the pro-government majority almost monopolized all the chairs and deputy-chairs of the panel meetings, bill committees, and other committees. The pro-government committee chairs usually conducted the meetings in a more autocratic way, trying their best to help push through government proposals by shortening discussions, disallowing challenges from the opposition, making private amendments and motions difficult, and pushing for a quick vote. This in turn led to more resistance and confrontation from the pro-democracy

opposition. It also sometimes pushed more moderate democrats to join the radicals in confrontational actions.

Polarization and confrontation was further heightened with the political debate around universal suffrage in 2013–14. In particular, after the initiation of the movement of Occupying Central with Love and Peace (OCLP) in early 2013, the pro-Beijing parties were much hostile against the movement and the democrats who supported it. Most democrats saw the OCLP as the last hope of forcing Beijing to agree to free and fair elections for the 2017 CE, or at least to an electoral method that would allow pro-democracy candidates to contest.

The August 31, 2014, NPCSC resolution on the 2017 CE election more or less ended all hopes of reconciliation. It ruled that all CE candidates must get majority approval from the 1,200-member Nomination Committee, the composition of which resembled the 2012 Election Committee, before they could be put to popular vote. To Beijing, controlling nomination guarantees that the future CE would be politically reliable. To many in Hong Kong who had been fighting for genuine democracy for so many years, this shows that all along Beijing was only prepared to give Hong Kong a "fake democracy". To the younger generation, the mainstream democrats had made a big mistake to have vested hope on the Chinese government to grant democracy to Hong Kong. With even the moderate democrats admitting failure in engaging Beijing for dialogue over democracy, it seems that only two paths were possible. One is more radical or even violent confrontation. The other is to strive for self-determination, if not outright independence, when it was clear that Hong Kong would not get democracy as long as it remained an SAR and needs Beijing's approval for full democratization.

The low credibility of the political parties was partly the reason why the OCLP movement was organized from civil society at the very beginning. The initiators of the OCLP knew that young people would turn away if the pro-democracy parties took the lead in the Occupation movement. When the Occupation did break out on September 26, it was the students who took the charge, and the pro-democracy parties largely played a supporting role by providing manpower and logistic support. The 79-day Occupation, dubbed the Umbrella Movement, failed to bring any concessions from Beijing. It did leave various aftermaths, some of which have had adverse effects on party development in Hong Kong.

First of all, the end of the movement, and the eventual failure to land universal suffrage elections for the 2017 CE, marked a temporary failure of the democracy movement which was led by the pro-democracy parties for some 30 years. Netizens, young activists and other radicals held these veteran democrats responsible for the "30 years of failure" of the Hong Kong democracy movement. Secondly, if full democracy would not be delivered in the near future, the electoral or party path would be ineffectual to bring about social or political reforms. Some activists suggested a return to civil society or the communities to plant the seeds of democracy anew and to strengthen the organization or education of the masses. Thirdly, the end of the Umbrella Movement brought disappointment and demobilization to Hong Kong. Many of the pro-democracy masses were at a loss as to what else they could do to force Beijing to change its mind. Conventional means such as rallies and demonstrations saw a dramatic decline in participation after 2014, as a lot of people thought these were no longer "useful" in pressuring Beijing. A sense of helplessness prevailed quickly after the occupation movement. Few were able to provide a new promising and convincing strategy for the next stage, but the party politicians who had been leading the movement had somewhat lost their appeal, especially among the young generation.

The end of the Umbrella Movement also led to major disappointment in and detachment from the Chinese government, especially among the young generation. It seems that there is little hope of getting genuine democracy or autonomy under the sovereignty of autocratic Chinese government who was only intent on controlling Hong Kong. This led to a rapid rise of

"anti-China sentiments" or "localism" in Hong Kong after 2014 (Ma, 2015; So, 2015; Chen and Szeto, 2015; Kaeding, 2017; Chan, 2016). The localist groups could at least be divided into two factions: the "progressive localists" and the "anti-China localists" (Chen and Szeto, 2015). The latter largely saw the Chinese government and/or the influx of immigrants and visitors from the mainland as the root of all evil and proposed the formation of a new "Hong Kong nation" or a separate sovereign state. The former hailed bottom-up grassroots movements from the communities, rendering a genuine form of self-determination in social and political life.

In the 2016 Legco election, these two strands of localists formed new political groups, which posed strong challenges to the traditional democratic parties. The "anti-China localists" included Hong Kong Indigenous (本土民主前線), Youngspiration (青年新政), and the electoral alliance formed by Raymond Wong, etc. The "progressive localists" included the Demosistos which was formed out of Scholarism, and activists originated from movement groups before or after the Umbrella Movement. Groups of both strands were critical of the existing pro-democracy parties, seeing them as too moderate or conservative. The "anti-China localists" saw the mainstream democrats as the major culprits for the futility of the Hong Kong democracy movement, having supported Hong Kong's repatriation into China in the 1980s on nationalist grounds.

The results of the 2016 elections showed reasonable support for the localists, with a shrinking of the vote share for the traditional pro-democracy parties. The eight different "anti-China localists" lists got about 10% of the vote and won three seats, while the "progressive localists" fielded only three lists, winning three seats with a decent vote share of 8%. Yet these new groups were by no means parties with formal organizations or elaborate manifestos, but more like movement groups or electoral machines of individual politicians. The traditional pro-democracy parties saw a decline in both vote shares and seats. The smaller parties such as the Labour Party, the ADPL, and NeoDemocrats were gradually squeezed out. This all showed that parties in Hong Kong were facing challenge from both sides: on the one hand, there was a severe limitation or even constriction of political space, with encroachment from the state and challenges from pro-Beijing parties. On the other hand, they were facing challenges from new civil society groups or more radical groups who seek to replace their political positions.

Conclusion

From a macro perspective, the underdevelopment of political parties in Hong Kong was overdetermined. The partially democratic regime, coupled with Beijing's reluctance to develop party politics in Hong Kong, dictates that parties cannot develop healthily in Hong Kong. While other developing democracies might adopt reforms to promote party development, post-1997 Hong Kong saw institutional changes that served only to curtail party development and institutionalization. The fragmentation effect of PRLR-Hare, a legislature weak in policy influence, the inability of parties to share executive power, are all institutional obstacles to party development in Hong Kong.

Hong Kong's party development was also special in that political parties (at least the pro-democracy ones) carried the expectation from civil society as vehicles for social and democratic reform. After some optimism in the initial stage (i.e. mid-1980s to early 1990s), the inability of the parties to exact changes in a partially democratic but executive-dominant regime quickly led to disappointment and detachment from civil society. The protracted democratic transition in Hong Kong led to cycles of mobilization and demobilization, but it was difficult for the opposition parties to lead and unify the movement for very long. The difference in strategies, plus the electoral logic of PR, brought radicalization, polarization, and fragmentation to the party landscape. Yet civil society groups and the pro-democracy masses still expected pro-democracy party

politicians to lead the struggle for democracy. The pro-democracy parties were caught wavering between their party roles of interest aggregation, bridging state-society gap, and compromise/consensus building and their civil society roles of principled struggle, maximizing social mobilization, and anti-establishment postures. On the pro-Beijing side, the pro-government parties were entrusted with the task of supporting the SAR government without sharing executive power. They held a majority in the legislature but could not really play the role of a "party in government". As pro-government parties, they needed to face electoral pressure if things went wrong, but the real decision-makers in the executive branch do not need to face the voters. As a result they resemble transmission belts to garner social support for the regime, more than political machines that can enhance political capacity of the regime.

On the whole, there was no clear institutional logic as to the role of political parties in the post–1997 Hong Kong political system, if compared to the governing and opposition parties in modern democracies. Party politics in Hong Kong is trapped in the vicious cycle of continued partisan struggles, fragmentation, and radicalization. It serves only to continue to weaken institutional confidence and political capacity of parties. With the vetoing of the change to the 2017 CE election method, no fundamental reform is on the horizon for some time. Without an overhaul of the current system or a transition to full democracy, where the public may have a chance to see the full functions of parties in Hong Kong, this trap of party underdevelopment will persist for some time to come.

Notes

1 For origins, operation and nature of the FCs, see Ma (2009) and Ma (2013).
2 The Basic Law Annex II rules that, while the passage of government bills require only a simple majority, the passage of motions, bills, or amendments proposed by Legco members need majority support of both groups of legislators: the FC group, the group elected by EC, and the group elected directly. It in effect allows the FC members to veto non-governmental proposals that they do not like, as one-fourth of the overall Legco members will be enough to veto any private proposals.
3 The predecessor of the DP, the United Democrats of Hong Kong, was formed in 1990.
4 There is no formal provision for filibusters in the Hong Kong Legco. Since 2012, some legislators discovered that they could use a combination of tactics such as putting in numerous amendments and motions, repeated questioning and lengthy speeches, to create substantial delays during the scrutiny of bills and appropriations, in a bid to force concessions from the government.

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Theme 3
Social mobilization

8

Social mobilization for large-scale protests

From the July 1 demonstration to the Umbrella Movement

Francis L.F. Lee and Joseph M. Chan

One of the most important trends of social development in Hong Kong in the past 15 years is the rise of contentious collective actions (Lee and Chan, 2013a; Ma, 2011; So, 2011). According to government statistics, the number of public processions and meetings rose from 2,228 in 2006 to 7,529 in 2012, and it stayed above 6,000 in 2013 to 2015.[1] A number of protests and campaigns were particularly notable because of their scale, prominence, and in some cases, persistence. These include the annual July 1 protests, the June 4 commemoration rallies, the anti-express rail protests in 2010, the anti-national education movement in 2012, the protest surrounding free TV licensing in 2013, and the Umbrella Movement in late 2014.

Pro-establishment politicians and media in Hong Kong often claimed that these large-scale protests were the results of manipulation by political parties and/or intervention by foreign powers. On the other side, the notion of *zi-faat* (自發) which literally means self-initiated, was often used in commentaries in the more liberal–oriented press to characterize the protests. In our research, we also emphasized that the July 1 demonstrations, including the 2003 event and the subsequent ones, were the result of *citizen self-mobilization* (Lee and Chan, 2011).

Subsequent protests in Hong Kong would continue to be described in similar ways. But as movement formation evolved, the notion of *zi-faat* has come to cover a wider range of possibilities of how formal organizations, ad hoc groups, and individual citizen–protesters relate to each other. This chapter reviews the characteristics and transformation of citizen self-mobilization in Hong Kong since 2003.

There are two reasons for this choice of thematic focus. First, while the growth of social mobilization in Hong Kong can be attributed to numerous factors, such as the failure of other social and political institutions in mediating between the polity and society, changes in (young) people's cultural values, and deepening of grievances against increasingly serious social and economic inequalities (see Lee and Chan, forthcoming), the increase in citizens' capability to organize and mobilize among themselves is arguably also one of these factors. Second, an analysis of the form taken by some of the most significant episodes of contentious politics in Hong Kong should help us understand both the power and the limitations of social mobilization in the city.

This chapter does not begin with a "theory" of self-mobilization. Instead, it takes a bottom-up approach and pays attention to the contingent evolution of protest formation in Hong Kong. From analyzing a number of representative cases in succession, this chapter will identify three types of protest formation which involve different combinations of organizational organizing and citizen self-mobilization. Hence the first few sections of the chapter will analyze specific protest campaigns or series. Based on the empirical cases, the chapter will discuss the general characteristics of citizen self-mobilization and its implications on social protests in the city.

Citizen self-mobilization in the 2003 July 1 protest

With the rise of resource mobilization theory (McCarthy and Zald, 1973, 1977), social movement studies since the 1970s have emphasized the role of social movement organizations (SMOs) in pooling together various kinds of resources, defining goals, devising strategies, organizing activities, and mobilizing people. In this view, collective actions arise "because organizations exist which make possible the channeling and expression of [grievances] into concerted social action" (Gamson, 1990: 138).

However, various scholars have noted the weaknesses of civic associations and movement organizations in Hong Kong (e.g., Chu and Tang, 2005; Sing, 2004). Historically, civic and movement groups in the city adopted a "coalition model" when organizing large-scale protest campaigns, *i.e.*, they formed ad hoc coalitions to pool together their limited resources to address specific imminent issues. The campaign against national security legislation in 2002 began with the same model: more than 30 social and civic associations formed the Civil Human Rights Front (CHRF) in September to address the matter.

On December 15, 60,000 citizens participated in CHRF's protest march. Yet it does not mean that the coalition or its participating organizations had close connections with huge numbers of followers. In fact, when asked by the police to estimate the size of the December protest, CHRF's figure was only 5,000, which was a tally of the number of people each group within the coalition was certain that it could mobilize. In other words, seemingly fewer than 10 per cent of the protesters came from the coalition's direct mobilization.

The same situation recurred in June 2003 when CHRF was planning for the upcoming July 1 protest. Each group in the coalition mobilized supporters through their own channels using their conventional methods, and there was a lack of an effective method to estimate the impact of these mobilizing efforts. As a result, the estimated crowd size CHRF provided to the police a few days before the protest was 100,000. The estimation had probably already taken into account how many people outside the coalition's mobilization networks might join the protest. However, it still turned out to be another severe underestimation, as half a million people joined the demonstration on the day (Lee and Chan, 2011: 42–48).

The limited mobilizing power of CHRF and civic associations in general was illustrated in our protest onsite survey. Slightly less than one-fourth of the respondents indicated that they were members of some "political, social, or religious groups," and only 26.7 per cent of these respondents attended the activities of their groups frequently. It means that only 6.5 per cent of the protesters were active members of social and political groups. There was also no evidence showing that the active social and political group members had played a leading role in the mobilization process. For example, 78.3 per cent of the active group members decided to join the protest about one or two weeks ago or even earlier, whereas 72.7 per cent of all other participants made similarly early participation decisions. That is, the active group members were only somewhat more likely to have made an early participation decision. Besides, among active group members who participated in the protest with others, 27.5 per cent claimed that they initiated the idea of

joining the protest, whereas the corresponding figure for all other participants was even slightly higher at 31.0 per cent (Lee and Chan, 2011: 48–49).

If movement organizations had only limited mobilizing power, who could mobilize citizens to join the demonstration? When the protesters were asked how important the calls to action issued by various entities were to their participation decision, 42.3 per cent claimed that calls from "friends, schoolmates, and colleagues" were "highly important." Other agents perceived to be influential include newspaper reports (41.4 per cent), radio phone-in programmes (45.0 per cent), and radio news (43.7 per cent). Indeed, the news media played an important role in communicating information and messages to the public. In the onsite survey, 62.5 per cent of the respondents acknowledged that they acquired the information about the time and place of the protest from newspapers, while 47.1 per cent and 41.0 per cent said they acquired the information from TV and radio respectively. In contrast, only 22.9 per cent, 36.1 per cent, and 10.1 per cent of the respondents, respectively, acquired the information from the Internet, interpersonal channels, and promotional leaflets.

Population survey data also showed that readers of the pro-democracy newspaper *Apple Daily* and the professional and somewhat liberal-oriented *Ming Pao* were more likely to have participated in the protest after controlling for a wide range of variables. However, an analysis of the contents of the two newspapers showed that only *Apple* exhibited a clear and one-sidedly critical attitude toward national security legislation. *Ming Pao* was only somewhat tilted toward an overall negative tone on the issue. What the two newspapers shared – and differed from the others – was the prominence of the planned July 1 protest in their news pages. Hence the fact that both papers' readers were more likely to have joined the demonstration, we argued, suggested that the liberal-oriented media's role was more akin to a messenger than a mobilizer: they enhanced people's participation mainly by agenda-setting and communicating action-facilitating information (Lee and Chan, 2011: 51–57).

Completing the process of social mobilization, then, were the citizens themselves. Only 7.5 per cent of the participants in the 2003 July 1 protest joined the demonstration alone. More than 40 per cent participated with friends, 29.0 per cent participated with family members, and 16.1 per cent participated with spouses. Participants who joined the protest with some companions were asked if they asked their companions to join the protests (*i.e.*, participation leaders); they were asked by their companions to join (*i.e.*, participation followers); or they and their companions had the idea of joining the protest simultaneously (*i.e.*, co-initiators). The results show that close to half (48.6 per cent) of the respondents with companions were "co-initiators," 32.5 per cent were participation leaders, and 18.9 per cent were followers. The large percentage of co-initiators was indicative of a general social atmosphere in the weeks before the protest that favoured participation. Under this condition, when people realized that others around them had the same desire to act, they could easily "confirm" the participation decision of each other.

Meanwhile, by comparing the characteristics of participation leaders, followers, and co-initiators, we could gain insights into the citizen self-mobilization process. The onsite survey found that participation leaders in the 2003 July 1 protest were more likely to be men, people aged 30 or above, had university educations, and belonged to the middle class. They were more likely to be suffering from familial financial hardships and to hold strongly negative attitudes toward the Hong Kong government and Chief Executive Tung Chee-hwa.

Similar to the findings in studies of opinion leaders in communication research (e.g., Weimann, 1991; Nisbet and Kotcher, 2009), participation leaders in the 2003 July 1 protest were more active in media consumption and interpersonal discussion. They were more likely to read *Apple Daily* or *Ming Pao*, the two newspapers that had kept the issue of national security legislation high on the news agenda. participation leaders were also more likely to have shared opinions

about public affairs, satirical messages about the government, and other protest-related informa-
tion via the Internet with others (Lee and Chan, 2011: 57–62).

Taken together, we argued that the classic notion of "two-step flow" (Katz and Lazarsfeld,
1957) remains a useful heuristic to understand the citizen self-mobilization process. Information
and messages about the protest first reached a group of participation leaders who occupied the
more privileged positions within the social structure and who were particularly aggrieved about
the social and economic situations. These participation leaders actively communicated with their
acquaintances through interpersonal discussions and online communications, and in the process
mobilizing others to act. Social communication thus contributed to the snow-balling of the
number of participants in the month before the protest.

The continuation and idealization of self-mobilization

In the years after 2003, the July 1 protest became a series of annual protest marches, with
numbers of participants ranging from around 19,000 in 2008 to above 150,000 in 2014.[2]
According to our onsite surveys in 2004, 2005, and 2007, the demographic characteristics of
the July 1 protesters had remained largely the same – about 60 per cent were males, more
than half had university degrees, and about two-thirds self-proclaimed to be middle class.
Regarding which agents had influenced their participation decision, in the 2007 protest, only
19.8 per cent of the respondents saw "friends, schoolmates and colleagues" as very important.
The figure was down from 42.3 per cent in 2003. The percentages seeing radio talk shows
and newspapers' news coverage as highly important also went down from above 40 per cent
in 2003 to around 20 per cent in 2007. When asked about the time they decided to join the
protest, about or more than half of the respondents in the three surveys chose the answer
"since July 1 last year."

These figures suggest that participation in the July 1 protests in later years has become ritual-
istic for a group of citizens. In one sense, these hardcore participants of the annual protests simply
did not need to be mobilized by outside forces. Nevertheless, even when the protest size was
reduced substantially, the percentages of active group members were only slightly higher at 9.0
per cent, 9.7 per cent, and 7.6 per cent in the three years respectively. The protests could still be
characterized as a combination of the organizational efforts by movement groups and the self-
mobilization among citizens.

The same pattern, broadly speaking, can be used to describe another series of annual protests
in Hong Kong – the June 4 candlelight vigil commemorating the 1989 Tiananmen Incident.
The event is organized by the Hong Kong Alliance in Support of Patriotic Democratic Move-
ments in China (the Alliance) since 1990. Up to 2015, the number of vigil participants had never
fallen below 35,000. Amidst heightened China-Hong Kong tension, the size of the vigil even
went beyond 150,000 between 2009 and 2014.[3]

The Alliance certainly played an important role in sustaining the pro-Chinese democracy
movement in Hong Kong (Lo, 2013). By emphasizing the significance of "passing on the baton"
in its rhetoric and ritual, the Alliance helped the transmission of society's memory about Tianan-
men to a new generation (Lee and Chan, 2013b). Moreover, on a yearly basis, the Alliance was
instrumental in mobilizing Hong Kong society's collective memory about Tiananmen. It orga-
nized a set of annual activities between late March and early June reminding people about the
events in 1989. Their political allies would attempt to bring the issue into the formal political
arena, forcing government officials to respond, and sometimes generating controversies when the
officials reacted inappropriately. These efforts helped built a social atmosphere of remembering
(Lee and Chan, 2016a).

Nevertheless, it does not mean that the vigil participants would necessarily identify strongly with the Alliance. In our onsite survey in the 2011 vigil, the respondents were asked to indicate the extent to which several public figures could represent the movement, including student leaders in 1989 Wang Dan and Wu-er Kaixi; leader of Tiananmen Mothers Ting Zilin; and Szeto Wah and Li Cheuk-yan, the Alliance' chairperson and vice-chairperson at the time. On a 0-to-10 scale, Wang Dan, Wu-er Kaixi, and Ting Zilin obtained mean scores of 8.15, 8.09, and 8.57 respectively, whereas the mean scores for Szeto Wah and Li Cheuk-yan were only 7.64 and 6.98. These figures might be unsurprising, since the three mainland figures were directly involved in the events in 1989. Yet they do suggest that the vigil participants were attaching themselves mainly to the broader movement rather than to the Alliance itself.

In another onsite survey in 2010, the respondents were asked to evaluate the extent to which six information sources were important for deepening their understanding of the events in 1989. Nearly 80 per cent regarded newspaper and magazine reports as important, and 81.9 per cent regarded broadcast news or public affairs programmes as important. About 65 per cent regarded the Internet as important, followed by discussions among friends, colleagues and classmates (59.2 per cent). The Alliance ranked only fifth (55.3 per cent), and "family" (49.2 per cent) finished the list.

Similar to the July 1 protesters, the onsite survey also asked those who joined the vigil with others if they were a participation leader, follower, or co-initiator. Among participation leaders, 54.6 per cent regarded the Alliance as an important information source, while 61.2 per cent of participation followers did so. That is, the participation followers were even slightly more likely than participation leaders to regard the Alliance as important. By the same token, in the 2011 onsite survey, participation leaders and followers did not hold significantly different evaluations of the two Alliance leaders. Therefore, those who held more positive views toward the Alliance did not necessarily play a leading role in the mobilization process. On the whole, the role of the Alliance in the June 4 vigil was similar to that of CHRF in the July 1 protests: it was crucial in the organization of the action, but it did not seem to have much power in directly mobilizing citizens to join the vigil.

Nonetheless, the above discussions only illustrate the reality of citizen self-mobilization. The significance of self-mobilization in Hong Kong also resided in how it became a symbol signifying an ideal regarding political participation. In media discourses, the self-mobilized or self-initiated character of the pro-democracy protests was hailed by commentators as signifying the participants' quality, *i.e.*, the participants were autonomous citizens who decided to join the action independently. In contrast, supporters of the government and the pro-government parties were regularly portrayed in the liberal-oriented media as being collectively mobilized or even paid to join the pro-government rallies. In such coverage, the pro-government rally participants (and voters in elections) are portrayed as ignorant citizens who do not even know what or who they are supporting.

Professional journalists and the pro-democracy protesters themselves also held such positive views regarding the idea of self-mobilization. In a survey of professional journalists in 2011, the respondents were asked to rate to what extent five objects can represent public opinion: newspapers' forums, radio phone-ins, university conducted polls, demonstrations initiated by social organizations, and demonstrations initiated by common people.[4] On a five-point Likert scale, demonstrations initiated by common people obtained the highest mean score at 3.77, followed by radio talk shows (3.57) and university-conducted polls (3.40). Demonstrations initiated by social organizations had a mean score of only 3.33. Meanwhile, in our focus group study of July 1 protesters conducted in 2005, many participants held the idea that the value of mass demonstrations resided in the "directness" of opinion expression. That is, joining a demonstration was

seen not as giving support to the organizer, but as voicing one's own views in one's own ways (Lee and Chan, 2011: 177–178).

While the reality of citizen self-mobilization could be explained largely from a capacity perspective (i.e., SMOs' lack of mobilizing power and the citizens' ability to mobilize each other through various means of communications), the idealization of self-mobilization needs to be understood within both the immediate context of discursive contestations in the public arena and the historical context of Hong Kong citizens' distrust toward political organizations. As mentioned, officials and pro-government media often criticized anti-government protesters as being manipulated by political groups or even foreign powers. The emphasis on self-mobilization is a direct counter-argument against such conservative discourses. It serves to legitimize the protests through defending the integrity of its participants.

Historically, Lau (1994, 1998) has noted that Hong Kong citizens in the 1980s and 1990s tended to see politicians and political parties as self-interested people and organizations searching for their own gains. The "classic explanation" of such distrust toward politicians is that, as a result of Hong Kong's post-war development as a refugee society, the city had a conservative political culture in which passivity, utilitarianism, and a deep-rooted belief about the dirtiness of politics predominated (Lau and Kuan, 1988).

Lam (2004), among others, had challenged the view of the apathetic Hong Kong people by stressing the presence of a tradition of activism in the city. But she also acknowledged that activism indeed co-existed with a culture of de-politicization in Hong Kong. The culture of de-politicization was manifested in our study of the July 1 protests in how even some of the hardcore protesters would present themselves as being apolitical (Lee and Chan, 2011: 173–175). The culture of de-politicization and the (over)emphasis on self-mobilization arguably prevented many citizens from engaging more deeply with politics and establishing closer connections with political groups, a theme to which we will return later.

From self-mobilization to internet-based citizen-initiated actions

In the July 1 protests and June 4 vigils, citizen self-mobilization essentially refers to citizens mobilizing each other to participate in collective actions organized by SMOs. The citizens did not initiate the collective actions. But it is certainly possible for ordinary people to initiate protests. During a sex photo scandal in 2008 surrounding a number of celebrities in Hong Kong, netizens initiated a protest against the police whose actions were perceived to damage freedom of online expression. Four hundred citizens joined the demonstration. For another example, in January 2012, more than 1,000 citizens joined a "photo-taking action" initiated by netizens to protest against a Dolce & Gabbana store for obstructing citizens' rights to take pictures on the street. The action forced the company to issue a public apology.

Of course, citizen-initiated protests had long existed. However, because contentious collective actions conventionally require the physical co-presence of participants, citizen-initiated protests typically involved the mobilization of residents in a local community or people belonging to an existing group to protest against a matter affecting their rights or common interests. It was more difficult and rare for citizens to initiate society-wide protests. The situation changed, as the examples above illustrated, with the emergence of digital media. Digital media lower the costs of information transmission and coordination and provide a means for people to connect with others efficiently. Social movement scholars have noted how digital media can become a platform for effective resource mobilization (Hara and Huang, 2011) and Buechler (2011: 211) saw the Internet as an "organizational substitute."

The power of digital media should not be exaggerated though. The two cases mentioned above were protest events on a specific day with a small or moderate turnout. They were not prolonged campaigns or "movements" in the substantive sense, which would involve a continual interaction between the demand-making social forces and their targets (Tilly, 2004). Yet the emergence of the public's capacity to initiate collective actions did generate new possibilities regarding how citizen self-mobilization relates to SMOs.

In this regard, Lee (2014) tried to conceptualize the possible complementarity between citizen self-mobilization and SMOs from a resource mobilization perspective. He argued that SMOs' strengths reside in the amount and range of resources that they could pool together. Even with digital media and practices such as crowdfunding, ordinary citizens are unlikely to match established SMOs in their ability to generate substantial amount of financial and intellectual resources. Certain types of resources, such as full-time staffs, status, credibility, and connections with journalists and stakeholders, are also unlikely to be reliably generated by citizens themselves. However, established SMOs have their weaknesses, including the rigidity introduced by bureaucratization and the possibility of cooptation by the establishment (Clemens and Minkoff, 2003). Formal organizations may, over time, become more interested in their own growth than on the issues they are established to address (Piven and Cloward, 1979). Within a movement field, there can also be "blind spots" – specific issues that are not addressed by any existing organization of the social movement sector.

Therefore, citizen self-mobilization can complement the work of SMOs because they are capable of responding to new issues more quickly and address issues that were hitherto ignored. Following previous discussion, citizen self-mobilization may also have an advantage in perceived "moral purity" in Hong Kong. Indeed, self-mobilizing citizens are not easily coopted because they do not need to face questions of growth and survival. At the same time, self-mobilizing citizens can benefit from cooperating with SMOs because the latter can provide the resources for the protests to succeed. SMOs' resource mobilization capacity can become particularly crucial when collective actions intensify, such as when the campaign becomes bigger in scale and scope, extends over time, escalates in the form of action taken, and/or needs to diversify its tactics.

Lee (2014) examined two environmental collective action campaigns to illustrate such complementarity. In the case of the Protect Lung Mei Beach campaign, which involved a protest against the government's plan to construct an artificial beach in an area deemed by activists to have substantial ecological value, a group of users of an online forum first initiated the effort to produce an ecological report countering the official version. They pooled together their own knowledge and social connections for the purpose and succeeded in producing a report that attracted media attention and recognition.

Nonetheless, from the beginning, the self-mobilizing citizens received advice from environmental organizations. When the legislature was about to approve funding for the project, the campaign had to scale up. Resources from formal organizations became even more important. A coalition including both the initiators and more than 15 environmental organizations was formed. The role of the initiating-citizens gradually declined over time. This is because, as "part-time activists," constraints of personal lives made it difficult for them to sustain a high level of activism. Also, when the coalition turned to the tactic of applying for judicial review, the coalition had to rely on activists more experienced in and knowledgeable about the process to take charge. Overall, the self-mobilizing citizens forged a largely collaborative relationship with the environmental organizations. Without the latter's involvement, the campaign would not have been as sustainable and prominent.

A collaboration between self-mobilizing citizens and formal organizations also characterized the anti-national education (ANE) campaign in 2011 and 2012. The campaign was a response to

the government's plan to turn national education into a core subject in primary and secondary schools. The issue aroused significant media and public concerns in May 2012 when the content of a "teaching guide" on the "China model" was publicized. The most controversial aspects of the teaching guide included its description of the Chinese Communist Party as "a progressive, selfless and unified ruling group" and a general lack of critical discussions about social problems and controversial events in China.

The public was concerned that the subject would become the platform for political indoctrination. On July 29, 2012, about 90,000 citizens participated in a demonstration organized by Scholarism, the Parents Concern Group, and the Hong Kong Professional Teachers' Union. In late August, the campaign evolved into a hunger strike by a number of movement leaders and public figures and a prolonged "occupation" of the area in front of the Government Headquarters. Thousands of participants joined the occupation every evening, and about 100,000 people joined the rally in the evening of September 7. The occupation ended in the early morning of September 9 after the government announced the scrapping of the plan to request all schools to introduce the subject within three years.

The success of the campaign to achieve tangible outcome was grounded partly in the opportunity structure of the issue. To successfully implement the subject, the government needed the cooperation by primary schools. By late August, the campaign had persuaded many primary schools to refuse introducing the subject immediately. In this situation, introducing the subject became a daunting task. Meanwhile, the campaign's framing of the issue in terms of "brainwashing" and "protecting the children" also resonated with the public.

For this chapter, another key characteristic of the campaign is that its two most prominent leaders – Scholarism and the Parents Concern Group – were informal groups formed by citizens without much experience in social movement organizing. Scholarism was formed in May 2011 by a group of high school students. The Parents Concern Group was initiated by a university lecturer through asking in an online forum if there were other deeply concerned parents. With these two groups as leaders, the campaign acquired a positive public image of being led by ordinary parents and students who did not have other agendas.

Nevertheless, similar to the Protect Lung Mei Beach campaign, the ANE campaign received support from a range of established social groups and political parties. The Hong Kong Professional Teachers' Union, which had long been active in progressive social movements, was another key leading group. Where the ANE movement differed from the Lung Mei Beach campaign was that the established organizations stayed largely "at the backstage" throughout. Another important difference lied in that the initiating groups of the ANE movement grew in stature throughout the movement. They became relatively established civic groups after the end of the campaign. Scholarism even became a key player in the Umbrella Movement in 2014. This shows that citizen self-initiated actions may get absorbed by SMOs as in the Lung Mei Beach campaign, but they may also thrive and establish themselves as distinctive and sustainable civic groups if they organize effectively.

Self-mobilization, connective actions, and the Umbrella Movement

The Umbrella Movement represents another protest formation that differs from both the July 1 protests and the campaigns discussed above. If the ANE movement and the Protect Lung Mei campaign were cases in which SMOs and citizen self-mobilization collaborated largely successfully (though not tension-free), the Umbrella Movement illustrated more clearly the challenges posed by citizen self-mobilization to movement organizing.

On January 16, 2013, Hong Kong University academic Benny Tai published a newspaper article in which he suggested the organization of "Occupy Central" as a means to pressurize the Chinese government to make concessions on democratic reform. Occupy Central was conceived as a civil disobedience campaign involving the occupation of the main roads in the financial centre of Hong Kong. The idea aroused much public attention and interest from pro-democracy activists and politicians. In March 2013, Tai was joined by fellow academic Chan Kin-man and reverend Chu Yiu-ming and launched Occupy Central for Love and Peace (OCLP). In the subsequent months, the Occupy Central Trio (the Trio) – as the media called them – engaged in efforts to promote, articulate, and defend the concept of non-violent civil disobedience (Lee, 2015). Deliberation days were held to discuss OCLP's stance on democratic reform, and a civil referendum was conducted in late June 2014 to allow supporters to vote on the preferred arrangement of the 2017 Chief Executive (CE) election.

On August 31, 2014, the National People's Congress of China decided on a "framework" for the 2017 CE election. The framework was criticized for setting up an unreasonably high entrance barrier for the election and effectively allowing China to pre-select the candidates. The Trio immediately announced that Occupy Central would go ahead. In September, OCLP pinpointed October 1, the National Day, as the time to stage the civil disobedience.

At the beginning, Occupy Central was similar to the ANE campaign in that its leaders were people without much experience in movement organizing. Yet unlike Scholarism and Parents Concern Group, who struck a chord among citizens who found the government's plan of national education problematic, the OCLP's plans were controversial even among the pro-democracy citizens. Occupy Central was criticized by the radicals for its insistence on non-violence, and student groups were dissatisfied with the Trio's apparent paternalism. After the July 1, 2015, protest, Scholarism and the Hong Kong Federation of Students (HKFS), the federation of student unions in Hong Kong's universities, conducted a "rehearsal" of Occupy Central. It was already apparent by the time that the Trio would find it difficult to control the occupation campaign.

The student groups would continue to heavily influence the evolution of events. HKFS organized a class boycott from September 22 to 26, ending with a rally in front of the Government Headquarters. Earlier in 2014, the front area of the Government Headquarters, once dubbed the "Civic Square" by activists during the ANE campaign, was turned into an area with restricted access. In late night of September 26, some student protesters tried to "retake the Civic Square." The police evicted the area and arrested the protesters in the morning of September 27. The conflicts drove more citizens to the rally. There were calls for the Trio to begin the occupation. Consequently, Tai announced the beginning of Occupy Central in the early morning of September 28.

In the Trio's original plan, Occupy Central was meant to be a highly disciplined action in which the protesters would sit down and await police eviction. The beginning of the occupation had already deviated somewhat from the original "script." The script was further destroyed in the afternoon of September 28 due to a series of contingent happenings. As tens of thousands of citizens flocked to Admiralty, the district where the Government Headquarters were located, the police blocked the entrances to the Government Headquarters, thus cutting off the connections between the movement leaders and the supporters. In the afternoon, citizens breached the police defence and inadvertently started the occupation of the main roads. At around 6pm, the police fired tear gas into the protesting crowd. The tear gas not only failed to disperse the crowd; televised images of the action created "mediated instant grievances" among the public, leading more people to go to the street (Tang, 2015).

At night, in order to prevent the police from evicting all occupied areas, some protesters spread the occupation to other districts. The occupation was transformed into a decentralized

configuration. The international media dubbed the protests the "Umbrella Revolution." Local activists appropriated the label and called the campaign the "Umbrella Movement" in order to emphasize that the occupation did not aim to overthrow the regime.

The Umbrella Movement participants upheld the ideology of self-mobilization. In our onsite survey conducted in Admiralty in the first weekend of the occupation (October 4), 68.9 per cent of the respondents agreed that self-initiated action "makes the movement purer," and 62.2 per cent agreed that self-initiated action "prevents the movement from being hijacked." In our November onsite survey, the percentages agreeing with the two statements were 60.4 per cent and 58.6 per cent respectively in Admiralty, and 73.0 per cent and 73.3 per cent respectively in Mong Kok. Only 36.8 per cent in October agreed that "self-initiated action has the disadvantage of leading to a loss of focus," and 50.7 per cent agreed that it has the disadvantage of "leading to a loss of leadership." The percentages agreeing with the two statements were even lower in November: 35.9 per cent and 43.9 per cent respectively in Admiralty, and 24.7 per cent and 38.5 per cent respectively in Mong Kok.

More importantly, in the Umbrella Movement, citizen self-mobilization took up the form of what Bennett and Segerberg (2013) called "connective action." Instead of having huge number of individuals engaging in the same standardized action, the Umbrella Movement was marked by the co-presence of a large variety of personalized and/or small-group based activities initiated by the participants, e.g., temporary temples and churches, self-studied areas, a Lennon Wall, and mobile classrooms were established; the occupiers engaged in public art creation, cultivation, and music performances; they self-coordinated to maintain order and handle the counter-protesters. Moreover, connective action extended to cyberspace and outside the occupied areas, such as by the hanging of huge "I Demand Genuine Popular Election" banners around the city and the establishment of numerous Facebook pages with themes associated with the occupation. Taken together, not unlike other occupation protests around the world, the participants constructed the occupied areas according to their images of the ideal communities and produced a space of autonomy by combining urban space and cyberspace (Castells, 2012).

We contend that the Umbrella Movement is a case where connective actions intervened into a planned collective action. As Bennett and Segerberg (2013) explicated, connective action does not require the participants to share the same elaborated collective action frame; they only need to respond to a simple personal action frame (the idea of genuine popular election in the case of the Umbrella Movement). The loose organization and flexibility in ideology means that connective action can be more inclusive and attract larger numbers of participants. Participants can selectively join the activities they are interested in and construct their own unique mode of participation in the movement (Lee and Chan, 2016b).

However, connective action also presented problems of decentralization and made it more difficult for the movement's organizers to negotiate with the government. As individuals engaged in occupation in their own ways, many participants arguably developed a sense of "ownership" of the movement. In the onsite survey conducted in November, only 64.4 per cent of the respondents indicated that they were willing to consider the opinion of HKFS on issues of movement direction and strategies, whereas 60.3 per cent were willing to consider the views of Scholarism. Only 32.5 per cent were willing to consider the views of the Trio. Comparing the Admiralty and Mong Kok participants would show that the Mong Kok participants, who were more adamant about the value of self-mobilization, were also less willing to listen to the opinion of the three main leaders of the movement.

Notably, the question wording uses "consider" instead of "follow," *i.e.*, replying affirmatively to the question does not entail the sacrifice of individual autonomy. Yet a substantial proportion of the participants still did not provide an affirmative answer. Furthermore, Lee (2016) showed

a negative relationship between degree of involvement in the occupation, measured in terms of time spent in the occupied areas, and willingness to listen to the opinions of the three main leaders. That is, the most involved participants were especially unlikely to see the three leading groups as capable of representing themselves. All these findings point to the tension-filled relationship between citizen self-mobilization and centralized movement coordination in the Umbrella Movement.

The strengths and limitations of self-mobilization

The previous sections have examined the characteristics of the social mobilization processes behind various large-scale protests in Hong Kong in the past 15 years through focusing on the notion of citizen self-mobilization. The discussion illustrates three distinctive meanings or forms of self-mobilization. First, self-mobilization can refer to citizens mobilizing each other to participate in conventional forms of collective actions set up by SMOs. This was the case in the annual July 1 protests and June 4 vigils. These events were the results of citizen self-mobilization to the extent that the organizer's role was restricted to setting up the event, and social mobilization relied on a horizontal and decentred process of mutual mobilization among the citizens.

Second, self-mobilization can refer to citizens initiating protest actions by themselves. These protests can be singular, one-off events, or they could be turned into sustained and large-scale campaigns through the collaboration between the citizen-initiators – often appearing as an informal, loosely formed group – and established social and political organizations. While the citizen-initiators remain the main public face of the movement, the established organizations could provide the needed resources for the intensification of the protests. The anti–national education movement arguably belongs to this category.

Third, in the Umbrella Movement, self-mobilization took up the form of connective action, with citizens engaging in personalized and small-group based actions against the background of a planned collective action. The formation of the protest campaigns was even more decentralized and even fragmented.

Common to the three formations, however, is the fundamental point that the mass participants were not linked directly or even indirectly to the main organizers – be they established social and political organizations or informal groups. Besides, regardless of the form it took, self-mobilization was treated as an ideal in public discourses; it was seen as signifying the independence and moral quality of the collective actions and their participants. The idealization of self-mobilization can be understood as a strategic response to the political conservatives' attempt to delegitimize the pro-democracy protests, as well as the result of a political culture marked by a deep-rooted distrust toward political organizations.

The significance of citizen self-mobilization in Hong Kong is grounded partly in the basic fact that social and political organizations have weak membership bases and direct mobilizing power. In addition, contrary to the portrayal of sociologists and political scientists in the 1980s (Lau and Kuan, 1988), scholars since the late 1990s have recognized the presence of a tradition of political activism in Hong Kong society (Lam, 2004). Since the turn of the century, protests have become further normalized and routinized as part of the political process. Lee and Chan (2013a) noted that Hong Kong citizens' attitude toward protests has become increasingly positive: people held positive beliefs about the capability of the public as a collective actor to effect social change, and more and more people acknowledged that they may participate in collective actions to fight for their rights and interests.

Beside the generalized protest potential of the Hong Kong public, the discussion in this chapter also suggests that the presence of an open and effective communication system is a condition

for effective citizen self-mobilization. The mass media were crucial in transmitting mobilizing information and persuasive messages, thus connecting the social movement organizations and the public. The mass media may not intend to mobilize the public for social protests, but the content they provided could facilitate and sometimes invoke actions. In the Umbrella Movement, for instance, televised images of the protest and the police's use of tear gas were crucial in the quick scaling up of the protest (Tang, 2015).

Meanwhile, although digital media technologies should not be treated as the cause of social mobilization in a mechanical sense, the Internet could indeed facilitate citizen self-mobilization as it provides additional channels for citizens to communicate with each other. Even in the pre-social media era, the Internet was already a channel through which participation leaders in large-scale protests could mobilize people around them. As the Internet evolved, social media became a condition for the pervasiveness of personalized and small-group based connective action in the Umbrella Movement. Scholarism, the informal association leading the ANE campaign and the Umbrella Movement, was also adept at using digital media to promote their cause and mobilize their supporters (Lee and Ting, 2015).

Self-mobilization has made large-scale protests in Hong Kong possible despite the lack of strong social and political organizations. But this chapter argues that self-mobilization also has its problematic aspects. The emphasis on independence from social and political organizations is both rooted in and arguably reinforcing people's distrust toward organizations and avoidance of "politics." The implication is that the connections between social movement organizations and protest participants remained loose and weak. The mobilizing capacity of social movement organizations thus did not improve much over time.

There can be tension between the autonomy-seeking individual protesters and the central organizers of protest campaigns. In some cases, the tension between the protesters' emphasis on independence from formal organizations and the need of organizations for effective coordination and resource mobilization was addressed through the rise of informal associations formed by individuals without background in social movement organizing. The ANE campaign was a successful example, with the leadership of Scholarism and the Parents Concern Group contributing to an image of a morally pure movement led merely by students and parents. However, in the Umbrella Movement, even Scholarism, HKFS, and OCLP became objects of distrust among part of the movement participants. There was a sense that some participants were rejecting not only established and formal organizations; they were rejecting any form of organization, representation, and centralized coordination.

Theoretically, whether the trend toward decentralization, fragmentation, and even individualization of protest actions would undermine a progressive social movement's search for social and cultural change would depend on the characteristic of the movement concerned. Castells (2012), for instance, talked about the rise of networked social movements that are typically non-programmatic: they do not put forward any concrete policy programmes and do not aim at seizing power; they merely aim at perpetuating itself and promoting cultural change. Decentralization may not present a huge problem for such movements. In Hong Kong, some scholars have long noted that civil society is much more capable of defending existing rights than achieving new rights (Ma, 2005; Lui, 2003). When a movement is "defensive" in nature, decentralization and fragmentation may also not constitute a problem. However, when a movement needs to put forward a concrete policy programme, it would have the need to enter into negotiation with established power. Some form of leadership and representation would become inevitable, and decentralization and fragmentation are likely to undermine the capability of such movements to achieve outcomes.

The above is not to dismiss the value and possible advantages of citizen self-mobilization and a more variegated and decentralized movement landscape, but what seems clear is that

self-mobilization should not be viewed as an absolute value that is inherently good. It has its strengths and weaknesses. Rightly or wrongly, organization remains a key component if people want to be effective in their continual fights for rights and social justice.

To complete the review of development and transformation for movement formation in Hong Kong, the Mong Kok "riot" in the Chinese New Year of 2016 should be mentioned. The event signified the continual capability of loosely organized associations formed largely in the online arena to initiate protests with substantial influence. The incident was highly controversial because of the degree of violence involved. Evolving from a protest against the crackdown on street hawkers, some protesters dug up bricks from the pedestrian ways and threw them at the police. The government and the mainstream media branded the protest a "*bou dong*," which can be literally translated as violent riots.[5] While the protesters' tactics shocked many citizens, some commentators pointed out that the idea of digging up bricks from the sidewalks was discussed in certain online forums weeks before the protest.

The protest was purportedly initiated and led by The Hong Kong Indigenous, one of many new informal associations formed after the Umbrella Movement, but many participants in the incident were not followers or supporters of the group in particular. In any case, the rise of The Hong Kong Indigenous and other new groups is, on one hand, typical of a protest cycle (Tarrow, 1998), i.e., the energy generated by a powerful collective action campaign is often channelled into the formation of new political actors and groups. On the other hand, the proliferation and seeming splintering of the new groups may also be another indicator of the continual distrust toward large and powerful organizations. After the Umbrella Movement, not only were there continual tension between the "localists" and the leftist social movement sector, there were also often tension among the numerous localist groups themselves.

While the Mong Kok "riot" signified further radicalization of movement tactics, there was also a trend of radicalization of movement ideologies and goals in Hong Kong signified by the emergence of debates surrounding Hong Kong independence, especially since Chief Executive C.Y. Leung proactively criticized supporters of Hong Kong independence in his 2015 Policy Address. How radicalization may relate to the development of social movements in general and self-mobilization in particular in Hong Kong is an important topic for research and observation, but it is beyond the scope of this chapter.

Concluding remarks

This chapter has examined the characteristics of social mobilization behind large-scale protests in Hong Kong. In lieu of conclusion, we may offer some remarks on whether the Hong Kong situation is unique or actually comparable to other countries.

The phenomena described in the previous pages are certainly not entirely unique to Hong Kong. The Umbrella Movement, as noted, deviates in some ways from the ideal type of what Castells (2012) has called "networked social movement" or what Bennett and Segerberg (2013) has called "crowd-enabled connective action," most notably the presence of policy programmes and central leaders. However, the Umbrella Movement did take up some of the characteristics of the two conceptual ideal-types, such as the presence of personalized actions and the prominent role played by digital media. Without formal comparative analysis, we are also not entirely sure if the citizen self-mobilization processes we identified in the July 1 protests and June 4 vigils are common to other large-scale protests in other societies or not. Maybe all large-scale protests rely on citizen self-mobilization to a certain extent.

Moreover, the idealization of citizen self-mobilization and distrust toward established institutions may also be occurring in other countries to different extents. In these senses, the Hong

Kong scenario can be considered as a case which has taken up specific "values" on certain "variables," and the analysis of the Hong Kong case can help illustrate what kinds of movement dynamics and outcomes may emerge when the specific set of parameters are in place. To reiterate, this chapter suggests that, when a culture of de-politicization, a strong capacity of citizens to initiate actions and mobilize each other, and weak social and political organizations co-exist, citizen self-mobilization could emerge as a prominent phenomenon. It makes large-scale protests possible, but also the strengthening of movement organizations difficult. The latter could in turn constrain the development of a stronger civil society and the capability of social movements to achieve their outcomes through sustained actions.

In addition, regardless of the degree of specificities of the Hong Kong situation, the three protest formations identified in this chapter are all concerned with not only citizen self-mobilization itself, but also the relationships between self-mobilizing citizens, informal and ad hoc groups, and established organizations. This underlying focus, we believe, is somewhat different from the extant literature's tendency to either focus on the work of social movement organizations (as in conventional resource mobilization theory) or on how networked social movements can arise without the presence of formal organizations.

Much theorization about "new social movement formation" in the past decade is often premised on the weakening of the role of social organizations (Earl and Kimport, 2011). While it might be true that formal organizations are, relatively speaking, not as important as before, they are also unlikely to disappear. Actually existing protest campaigns are likely to involve different types of dynamic combinations of formal organizations and networked and self-mobilizing individual protesters. Theorizing such dynamic combinations should be a fruitful direction to go for scholars concerned with social mobilization.

Notes

1 The figures are available at: www.police.gov.hk/ppp_en/09_statistics/poes.html.
2 The figures are based on the estimations by the Public Opinion Program of Hong Kong University.
3 The figures are based on estimations provided by the Alliance.
4 The survey was conducted by the present authors together with Prof. Clement So of the Chinese University of Hong Kong.
5 The Hong Kong government arrested more than 70 people in relation to the incident and charged around 30 to 40 of them for rioting. In March 2017, the court trial of the first three cases ended with the courts sentencing the three protesters for three years in jail.

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9

Opinion media

From talk radio to internet alternative websites

Francis L.F. Lee

The news media are not only providers of public affairs information; they also constitute platforms for public debates and opinion expression. Both are central to the media's role of facilitating the formation of reasoned public opinion. Hence a media system typically carves out arenas specifically for fostering public discussions, such as newspapers' letters sections, broadcast talk shows, and most currently, online forums and opinion websites.

This chapter uses the term "opinion media" to refer to the range of media outlets whose main content is constituted by opinions and discourses instead of news and information. The prominence of various types of opinion media vary over time and place. In many democratic countries, the growth of opinion media in recent decades is related to the advancement of media technologies, which has led to the proliferation of media channels and thus the formation of a "high-choice" media environment (Bennett and Iyengar, 2008). Being opinionated and adopting a clear ideological stance is a way for a media outlet to develop its niche. The rise of opinion media in turn facilitates higher degrees of audience selectivity and exacerbates the trend of audience fragmentation (Jamieson and Cappella, 2008; Stroud, 2010).

Opinion media also tends to gain prominence in countries experiencing political transition. Radio and television talk shows, for instance, are often pinpointed as a significant phenomenon when scholars discuss media and democratization in countries such as South Korea (Kwak, 2012); Taiwan (Rawnsley and Rawnsley, 1998); Spain (Gunther et al., 2000); and Hungary (Sukosd, 2000). Such programmes provide the platforms for new and oppositional political forces to express their views and for the public to debate about emerging issues. They push the boundaries of acceptable political discourses and offer materials for the news media to report on, thus help furthering social and political change.

Hong Kong has been undergoing its unique form of social and political transition in the past 25 years. The promised transition toward a democratic political system has been stagnant since the handover. At the same time, civil liberties are under siege. Hong Kong ranks 70 among 180 countries in Reporters without Borders' World Press Freedom Index in 2015, down from 61 in 2014 and as high as 18 in 2002. The mainstream media are mostly owned by businesspeople with vast interests in China (Ma, 2007), and self-censorship is perceived by both journalists and citizens as increasingly serious (Lee, 2015a). In this context, the rise to prominence of opinion media in Hong Kong since the 1990s signified a way the media system could respond to

increasing political pressure. An analysis of the development of opinion media is therefore a way to interrogate into how political, commercial, and technological forces impinge on the configuration of the mediated public sphere in the city.

This chapter discusses the development and transformation of opinion media in Hong Kong by focusing on talk radio and Internet alternative media. Radio phone-in talk shows on public affairs exerted substantial influence on public discourses and public opinion from the mid-1990s to the late 2000s, while Internet alternative media emerged in the city in the early 2000s and proliferated since 2012. They are the two most important types of opinion media in contemporary Hong Kong. Their development and transformation is a story of the struggle for freedom of the press and of expression in Hong Kong.

The rise and transformation of talk radio

Brief history of talk radio in Hong Kong

Radio phone-in talk shows addressing public affairs first appeared in Hong Kong in the late 1960s. The history of talk radio in Hong Kog can illustrate how the social significance and functions of a medium is tied to the character of the media system and the socio-political context within which it is embedded (Lee, 2014).

The early emergence of public affairs talk radio in Hong Kong needs to be understood in relation to governmental response to the urban riots in 1966 and 1967. While the 1967 riots were related to the Cultural Revolution in China, they were also rooted partly in the social tensions and conflicts generated by poverty and pervasive corruption. Following the suggestions by a Commission of Inquiry set up to interrogate into the 1966 and 1967 riots, the colonial administration became more active in providing basic public services and improving citizen–official communications. For example, the government set up the City District Officer Scheme. The main task of the district officers included connecting with local residents, explaining policies to the local communities, and informing citizens about the achievements and difficulties of the government (Tsang, 2004).

In line with the new emphasis on citizen–official communication, the government also relied on the public broadcaster *Radio Television Hong Kong* (*RTHK*) to produce a range of public affairs programmes serving related purposes. This was the background for the earliest radio phone-in talk shows. The earliest talk radio programmes were by no means platforms for critical public discussions. They were mostly attended by mid-level officials from various government departments. The calling citizens typically talked about their personal problems and situations. The shows were like a government service hotline broadcast publicly, with contents focusing on the private implications of public policies (Lee, 2014: 33–35).

The character of public affairs talk shows changed significantly only in the 1980s when Hong Kong entered the "transition period" after the signing of the Sino-British Joint Declaration in 1984. Uncertainties about the future of the city brought about a high level of public anxiety and a wave of emigration. At the same time, the British government initiated the process of democratization in Hong Kong in order to strengthen the legitimacy of the colonial government (Scott, 1989). Within this context, civic and political groups proliferated. The political society emerged and expanded quickly.

Meanwhile, the transition period was marked by a dual power structure in which neither the outgoing British colonial government nor the incoming Chinese government was in full control. The relative balance of power in the political structure opened up the space for a high degree of press freedom (Chan and Lee, 1991). Journalism professionals took up the liberal conception of

the press as their legitimating creed. They posited themselves as the defenders of the interests of Hong Kong society and the watchdog monitoring the exercise of political power. Professional neutrality was manifested in the press's willingness to criticize both sides of the power divide.

Corresponding to the above changes, the content of radio phone-in shows shifted from personal complaints toward public discussions. People started to express their views on government policies from the perspective of the general public instead of private citizens. *Commercial Radio* (*CR*), the major commercial broadcaster in Hong Kong, also started producing public affairs phone-in shows in the early 1980s. Into the mid- and late 1980s, the presumed "publicness" of the talk radio programmes was reflected in changes in the programme names: instead of the relaxed, friendly, and informal tone set by the titles of early talk radio shows such as *Speaking Your Heart through the Telephone*, *RTHK* titled its main morning phone-in show *The Eighties*, connoting a sense of being in the era of flux and change. CR titled its main phone-in show *Free Talk, Free Port*, even more directly tying the programme to the idea of freedom of expression (Lee, 2014: 38–40).

Politicization of society continued throughout the transition period and received a further "boost" through the Tiananmen massacre, which left a deep emotional imprint onto the Hong Kong public and led to heightened support for democratization (So, 1999). The Legislative Council held its first-ever direct elections in 1991, in which "the democrats" won the majority of directly elected seats. In 1992, Chris Patten took over as Hong Kong's last governor and initiated a political reform that was heavily criticized by the Chinese government. Sino-British conflicts over the city's political set up would dominate the news agenda in the last years of colonial Hong Kong (Willnat and Zhu, 1996). Political debates thus became even more heated and vibrant.

The influence of talk radio rose further in this context, and the emergence of several popular talk show hosts, dubbed "famous mouths" in local parlance, pushed the prominence of the genre to its peak. Albert Cheng's early morning radio talk show at *CR*, *Teacup in the Storm*, set a new tone for the genre. At the peak of its popularity, the show had about 450,000 listeners per day. Notably, the show was produced by the entertainment programming unit instead of the news and public affairs programming unit of the radio station, and this allowed Cheng to express his personal style more freely. Cheng not only played the role of a fierce critique of the government; he and the show's staffs would also proactively follow up on the issues raised by callers in the programme (Ma and Chan, 2006). In early 2003, when Hong Kong was struck by the outbreak of severe acute respiratory syndrome (SARS), Cheng's persistent criticisms against the government even earned him the nickname of "Chief Executive of Hong Kong before 10am."

In response to Cheng's success, other phone-in programmes and hosts needed to adjust their styles. While the programmes continued to provide channels for citizens to express their views, the personalities and "core values" of the hosts were seen as the key to programme success (Lee, 2014: 46–48). Meanwhile, the government adjusted its regulatory framework by establishing the new category "personal view programs," which is subjected to guidelines such as the inclusion of a sufficiently broad range of views in a programme series, respect for facts, and provision of opportunities for response to those criticized in the programmes.

Between the mid-1990s and mid-2000s, when talk radio was in its heydays in Hong Kong, the programme genre constituted the platforms where the media system exercised its watchdog function most conspicuously and powerfully.

The power of talk radio in its heyday

To more fully understand the reasons for the rising significance of talk radio in Hong Kong in the mid-1990s, one needs to consider the conditions facing the mainstream media at large. The aforementioned dual power structure, which gave the media the space to criticize both the British

and Chinese governments, was only a temporary condition destined to end by China taking over as the sole sovereign. Since the early 1990s, the Chinese government had started to exercise influence on the Hong Kong press by coopting media owners and issuing informal warnings regarding how the Hong Kong media would be expected to perform after the handover (P. Lee and Chu, 1998; F. Lee, 2007a). The result was the rise of media self-censorship and the shifting of the mainstream media's political stances toward the "pro-China" direction (Fung, 2007; C.C. Lee, 1998).

Nevertheless, several factors prevented the mainstream media from succumbing totally to political pressure: the commercial orientation of media outlets required them to maintain their market credibility; the open information environment of the city at large meant that the media system could not turn a blind eye to information that is already circulating in society; professional values compelled frontline journalists to find ways to practice their normative roles. As a result, the politics of press freedom in post-handover Hong Kong was marked by a strategic interaction between the power holders and the media in which the professional-oriented media and journalists developed various "strategic rituals" to help them *deal with political pressure and perform their professional functions simultaneously*. Examples of such strategic rituals included a heightened emphasis on the practices and discourses of objectivity, a reliance on foreign media reports on some of the most sensitive political matters concerning China, and, for newspapers, a clearer division of labour between the news and the commentary pages (C.C. Lee, 2000; F. Lee, 2007a, 2015a).

Against this background, reporting on talk radio content could be regarded as another strategic ritual utilized by the mainstream media. That is, the mainstream media could report on the critical views expressed by the hosts and citizens through radio talk shows, thereby fulfilling their watchdog role (*i.e.*, criticizing the power holders) while remaining relatively detached (*i.e.*, they were just reporting on the views expressed elsewhere). In fact, in the late 1990s and early 2000s, the major radio phone-ins were often incorporated into the mainstream media's news routines: personnel were assigned to monitoring talk radio content, and government officials' and politicians' talk show appearances were treated as news events to be reported. When major policies were announced, talk radio constituted a very important source of citizens' immediate reactions, and the mainstream media could reconstruct "social dialogues" surrounding the policies through weaving together discourses from talk radio and those from other occasions (Lee, 2014: 135–156). Through such practices, mainstream media coverage widened the circulation of talk radio content and strengthened the symbolic status of talk radio as channels of public opinion expression.

Hence there was arguably an informal alliance between talk radio and the mainstream press. The former helped the latter to perform its watchdog function. This argument could be supported by a survey of professional journalists in 2006. The data showed that as much as 55.6 per cent of Hong Kong journalists saw talk radio as the most representative channel for public opinion expression in Hong Kong when compared to newspaper forums, legislators' offices, and government departments. More importantly, those journalists who saw talk radio as the most representative were more likely to hold more liberal political attitudes, more likely to see media self-censorship as a serious problem, less likely to regard "facilitating citizen-official communication" and "providing forums for public discussions" as an important media function, and more likely to see "monitoring through public discourse" as an important media function (Lee, 2014: 113–120).

The above also implies that the most prominent radio phone-in shows in the 1990s and 2000s all exhibited a "liberal and pro-democracy bias." This is the crucial background for understanding the impact of talk radio on its audience. In an early study based on a survey in 1998, Lee (2002) showed that, while supporters of both pro-government and pro-democracy political

parties were more likely to engage in interpersonal political talk and pay attention to the news, only supporters of pro-democracy parties were more likely to listen to talk radio. Lee argued that talk radio listening constituted a form of politically significant infotainment. Talk radio listening was positively associated with political knowledge, and the relationship was stronger among the less educated. This suggests that talk radio, with its dialogic format, could help close down the knowledge gap between the better and less educated.

Meanwhile, talk radio listening related positively to support for democratization and negatively to attitude toward the government. Consistent with the notion of "canalization" in media studies (*i.e.*, media effects are stronger when the content matches the audience's predispositions), the negative relationship between talk radio listening and attitude toward the government was stronger among supporters of the pro-democracy parties.

Beyond political attitudes, other studies demonstrated the relationship between talk radio listening and political participation. Lee (2007b) showed that both listening to "populist talk radio" and listening to "journalistic talk radio" were significantly and positively related to interpersonal discussions with acquaintances. Listening to journalistic talk radio was positively associated with voting in Legislative Council elections, whereas listening to populist talk radio was positively related to protest participation.

Indeed, as radio talk shows are much less constrained by the conventional journalistic norms of objectivity and detachment, talk radio could constitute a platform for direct mobilization for collective actions. In Lee and Chan's (2011) onsite survey of the participants in the 2003 July 1 protest, in which half a million citizens demonstrated against the national security legislation, 68.7 per cent of the respondents acknowledged that calls to actions issued through radio phone-in programmes were "highly important" to their participation decision. The figure is only slightly lower than that for "newspaper reports" (69.2 per cent) and "friends, schoolmates and colleagues" (69.3 per cent), and it is higher than the figures for seven other entities including television news, the Internet, political parties, family, etc.

The Hong Kong and Chinese government did not miss the mobilizing impact of talk radio. After the 2003 July 1 protest, the media reported that the Chinese government had pinpointed "one newspaper, one magazine, and two mouths" – *Apple Daily*, *Next Magazine*, Albert Cheng, and fellow talk show host Wong Yuk-man – as the major instigators of anti-government protests in Hong Kong. As talk radio's impact reached an unprecedented height, political pressures on the genre also increased.

The decline of talk radio's influence

After the SARS outbreak and the July 1 protest in 2003, 2004 continued to be a year of political controversies for Hong Kong. Debates about the arrangement for the 2007 Chief Executive election and the 2008 Legislative Council elections were high on the public agenda. In late February, the three most important official media of China – *Xinhua News Agency*, *Chinese Central Television*, and *People's Daily* – republished the late national leader Deng Xiaoping's speech on "One Country, Two Systems" in 1984, in which Deng pointed out that Hong Kong should be governed by "patriots." This raised the curtain for a "debate on patriotism" which heated up the political atmosphere and served as the immediate background for the "resignation controversy" in the talk radio scene.

The resignation controversy started on May 2 when *CR* issued a statement announcing that Albert Cheng would stop hosting *Teacup in the Storm* as of the following day. Cheng explained his decision by stating that "I felt like I can't breathe in the current political environment." Ten days later, Wong Yuk-man resigned from his hosting job at *CR*. Another week later, Allen Lee,

who replaced Albert Cheng only two weeks ago, also announced his resignation. In various ways, all three hosts pointed toward political pressure as the main reason behind their resignations (Lee, 2014: 185–187). It is impossible for outsiders to judge exactly how political pressure was applied, but the resignation controversy did illustrate the precariousness of media freedom in the city.

It is important to note that the resignation controversy did not spell the end of critical and liberal-oriented talk radio. For years after 2004, *RTHK*'s *Open Line Open View* and *CR*'s *Left Right* inherited and continued the populist-critical style. The main hosts of the two programmes, Ng Chi-sum and Lee Wai-ling, would be recognized as another generation of "famous mouths." The fact that *CR* continued to produce talk shows featuring harsh criticisms toward the political establishment, in particular, is another illustration of the tension between political and commercial considerations: regardless of whether *CR* was under political pressure to end its working relationship with Albert Cheng, commercial considerations compelled it to continue to produce programmes that would appeal to the audience.

Nevertheless, neither *Open Line Open View* nor *Left Right* could reach the level of influence of Albert Cheng and Wong Yuk-man. Meanwhile, a new "sub-genre" of "accountability shows" emerged since the late 1990s and became more and more prominent in the public arena in the mid-2000s. The typical accountability show involves the participation of top government officials conversing with the radio hosts and the call-in citizens directly on hot public issues or government policies. The programmes may be labelled accountability shows because appearing on such programmes can be considered an important way for officials to perform their accountability to the public.

On the one hand, having government officials conversing directly with the public can be a way to force the government to respond to public opinion. The programmes do allow citizens to criticize the attending officials directly and sometimes fiercely. Critical news coverage might arise especially when officials committed verbal blunders. But on the other hand, an analysis of the conversational flows of such programmes that the hosts typically observed the norms of politeness and, intentionally or not, smoothened the most radical views expressed by the call-in citizens. The overall consequence "is the construction of a relatively friendly, respectful, and safe conversational space for [the attending officials]" (Lee, 2014: 108).

It would be difficult to ascertain the relative influence of the critical phone-ins and the accountability shows, but the presence of top officials ensured a high degree of mainstream media attention to the accountability programmes. To the extent that the talk radio scene was no longer dominated by the critical phone-ins, the overall significance of talk radio also shifted. By 2011, another survey of professional journalists found that the percentage of journalists choosing talk radio as the most representative channel for public opinion expression when compared to newspapers, legislators' offices, and government departments had declined from 55.6 per cent to 50.3 per cent. Also, the journalists who regarded talk radio as the most representative no longer differed from other journalists significantly in terms of perceived seriousness of media self-censorship and perceived media functions. In other words, talk radio no longer stood out as a watchdog medium in the eyes of professional journalists.

The critical phone-in shows suffered a further blow in late 2011 when *RTHK* refused to renew contract with Ng Chi-sum, the host of *Open Line Open View*. In February 2014, *CR* also fired Lee Wai-ling, the host of *Left Right*. Again, professional and market orientations ensured that *RTHK* and *CR* would not simply turn themselves into "official media." For a period of time between 2012 and 2015, *Open Line Open View* was hosted mainly by ex-journalist Allan Au, who is known for his pro-democracy and pro-social movement views. *CR*'s morning talk radio is hosted by media persona Steven Chan. Although Chan's prominence does not reside in his political profile, he does frequently adopt critical stances toward the government in the

programme. However, just as Ng Chi-sum and Lee Wai-ling could not match Albert Cheng and Wong Yuk-man in prominence, Allan Au and Steven Chan also could not match the influence of Ng and Lee.

In summary, the history of talk radio produced by mainstream broadcasters in post-handover Hong Kong features a tug-of-war between political forces and commercial-cum-professional considerations, with political forces gradually gaining the upper hand. As talk radio became increasingly docile, online alternative media became more and more important as the sites for the articulation and expression of critical voices.

The turn to online alternative media

Defining and tracing the development of online alternative media in Hong Kong

Compared to talk radio, the term online alternative media refers to a broader range of media outlets in the Internet arena. Conceptually, Meyer (2008) highlighted four approaches to define alternative media or journalism: 1) emphasizing alternative media as financially and structurally independent from both political and commercial influences; 2) emphasizing the adoption of political stances and ideologies that are anti-establishment; 3) relying on the practitioners' own definition of whether they are alternative or not; and 4) emphasizing the adoption of practices and norms that differ substantially from conventional journalism.

On one hand, these four approaches to defining alternative media do not contradict each other. Instead, they point toward four interconnected aspects of alternative media, e.g., the ability to sustain an anti-establishment stance is often tied to financial and structural independence, and the expression of their anti-establishment stance could also require practitioners to disregard conventional journalistic norms such as objectivity and detachment. On the other hand, very few actually existing media outlets can be classified as alternative media if all four aspects identified by Meyer (2008) are considered indispensable. Given our concern with media politics in this chapter, we may define alternative media as media outlets that are structurally independent from established mainstream media institutions and challenge dominant political, economic, and media power. This definition leaves open the possibility that alternative media can be funded partly or even wholly commercially, and it also does not set media practices and norms as a defining characteristic.

Around the world, alternative media have a long history and had taken various forms such as newspapers, magazines, pamphlets, radio, films, and documentaries (Downing, 2001). In Hong Kong, Ip (2009) traced the history of "independent media" to a range of independent magazines, mostly produced by civic associations, published since the 1950s, as well as independent film-making since the 1960s and 1970s. But similar to other countries, the Internet facilitated the growth of alternative media by lowering the costs of production and distribution, affording new practices such as open-sourcing and culture-jamming, and allowing interactions and collaborative production with audiences (Lievrouw, 2011). It is therefore not surprising that the emergence and development of online alternative media has constituted a significant phenomenon in the past decade in Hong Kong.

Nevertheless, political events and social developments are also crucial to understanding the rise of online alternative media in Hong Kong. The first wave of alternative Internet radio in Hong Kong arose in 2004, the same year of the resignation controversy surrounding talk radio and one year after the July 1 protest in 2003. As Leung (2015a) recounted, the most prominent alternative net radio station was *People's Radio Hong Kong* (*PRHK*), which was established by an activist group called "Anti-Tung Solidarity" (Tung refers to C.H. Tung, Chief Executive of Hong Kong at the time).

PRHK was established with only HK$7,000 of investment in necessary equipment. The station was launched on June 29, 2004, two days before the anniversary of the July 1, 2003, protest and a month after the resignations of three prominent radio talk show hosts discussed in the previous section.

In other words, the emergence of online alternative media was from the beginning closely linked to the rise of social mobilization and protest politics. Prominent examples of alternative Internet radio stations established in Hong Kong between 2004 and 2006 included: 1) *DIYHK*, which had the participation of activists from the group 71 People Pile, itself established after the July 1, 2003, protest; 2) *A45* (later renamed *Radio 45*), which was established by the Article 45 Concern Group, formed by prominent lawyers and legal scholars concerned with the implementation of Article 45 of the Basic Law (which is the article dealing with democratization of the Chief Executive election); and 3) *Citizens' Radio*, established by an ex-legislator-cum-social-activist (Leung, 2015b).

Besides Internet radio, another main form that online alternative media in Hong Kong had taken is the commentary website. The earliest and most important example is *Inmedia Hong Kong*, which was established in 2004. Many of the founding members of *Inmedia* were the core members of the activist group Local Actions, which came into public prominence in 2005 and 2006 during the protests against the demolition of the Star Ferry Pier and the Queen's Pier. The latter protests, though unsuccessful in preserving the two piers, helped initiate the heritage protection movement in Hong Kong.

Inmedia not only publishes the commentaries of activists; the website is open for all users to upload their articles onto it. According to the website's self-introduction, the editors would not delete articles and comments except in cases of severe discrimination, libel, personal attacks, and commercial promotion. Since 2009, *Inmedia* also established a team of citizen journalists to conduct first-hand coverage on selected social and political issues. Yet overall, the website remains primarily a place for opinion discourse.

However, what can be described as the first wave of online alternative media in Hong Kong did not achieve a high level of social prominence and influence. Instead, they had to struggle with the problem of survival. Among the nine Internet alternative radio stations established between 2004 and 2006 listed in Leung (2015b: 197), only *Citizens' Radio* was still operating in early 2016. A few radio stations did not survive for more than a few years. For instance, *PRHK*, once arguably the most prominent online radio station in the city, closed down in 2007 due to internal dissension among the founders as well as financial problems.

Even those who survived did not necessarily gain a significant audience. *Inmedia*, for instance, did survive financially by being capable of attracting sufficient donation. Yet a survey conducted in September 2013 still found that only 2.9 per cent of the Hong Kong public had occasionally or frequently browsed the website of *Inmedia*, 2.8 per cent claimed that they had browsed the site once or twice, 11.5 per cent claimed they had heard of the website but had never browsed it, and as much as 82.8 per cent had never heard of the website.[1] Certainly, alternative media are by definition non-mainstream. One simply should not expect them to have large audience sizes. Yet having a large proportion of people who had not even heard of the website is still indicative of the marginality of online alternative media in the political communication process in Hong Kong between the mid-2000s and the early 2010s.

The second wave of online alternative media in Hong Kong

In August 2012, Tony Choi, formerly CEO of operation for *Commercial Radio*, established the website *House News*. *House News* explicitly modelled itself upon *The Huffington Post*, with an emphasis on news curation and "breaking views" – *i.e.*, quick responses to and commentaries

on breaking news.[2] In addition, *House News* invited a wide range of academics, businesspeople, media personnel, and members of NGOs to become bloggers for the site. The site was treated as a business, with income derived from online advertising and "sponsored content." But its commercial character did not rule out the possibility of classifying it as an alternative media outlet. Tony Choi himself proclaimed that the site did not aim at being objective, and he was among the first group of public figures who publicly supported the idea of Occupy Central (which would later become the Umbrella Movement). Until its sudden closing down in July 2014, *House News* constituted an important source of critical and pro-democracy commentaries for local netizens.

The aforementioned survey conducted in September 2013 found that 6.5 per cent of the respondents were "occasional or frequent" visitors to *House News*, whereas 3.2 per cent said they visited once or twice before. About three-fourths of the respondents (75.5 per cent) had not heard of the site. Yet it still means that, after just one year of operation, the number of users for *House News* was even higher than that for the decade-old *Inmedia*. Moreover, in another survey conducted in July 2014,[3] the percentage of respondents who occasionally or frequently visited *House News* surged to 16.5 per cent, with another 5.6 per cent having visited the website once or twice. The percentage of respondents who had not heard of the site went down to 60.3 per cent.

For the present purposes, the important point is not the quick success of *House News*; the 2014 survey also found that the percentages of respondents who had occasionally or frequently visited *Inmedia* had gone up from 2.9 per cent a year ago to 5.8 per cent. In addition, 2012 and 2013 witnessed the birth of a number of other alternative media websites. Examples include *Passion Times*, which is closely associated with the radical political group Civic Passion; *VJMedia*, an online commentary site similar to *Inmedia*; and *Meme Hong Kong*, which was established by Stephen Shiu, one of the original founders of the online radio station *PRHK*. One might therefore argue that a second wave of online alternative media, mostly in the form of news and commentaries websites, had started around 2012 and 2013. The above survey evidence had shown that the more prominent among the alternative websites did gain a substantial number of audience and degree of public recognition.

Three main factors lied behind the emergence of the second wave of online alternative media. First, related to the earlier discussion about talk radio, the continual worsening of the problem of self-censorship and the further contraction of spaces for free expression in the mainstream media provided the opportunity for online alternative media to serve society's demands for critical viewpoints and information. In fact, many of the famous radio hosts had simply moved onto online platforms after they were forced to leave their original programmes. Albert Cheng, for instance, established the online radio station *D100* in December 2012, and Cheng himself "re-produces" and hosts *Teacup in the Storm* in the morning. Ng Chi-sum also joined *D100* and hosts the early evening programme *Open Line in the Storm*. Cheng and Ng's movement to online radio is symbolic of how online alternative media had taken up part of the social roles and functions of talk radio in its heydays.

From the audience perspective, Leung and Lee (2014) demonstrated that, among Hong Kong citizens, Internet alternative media usage is positively and significantly related to perceived seriousness of the problem of media self-censorship. At the same time, their analysis shows that Internet alternative media usage is positively related to news acquisition via social media. Moreover, there is an interaction effect between news acquisition via social media and perceived seriousness of media self-censorship on Internet alternative media usage: the connection between perceived self-censorship and Internet alternative media usage is particularly strong among people who use social media to acquire news.

The latter finding points to the second main factor behind the second wave of online alternative media in Hong Kong, namely, the popularization of social media as platforms for political

communication. Hong Kong has high levels of Internet, broadband, social media, and mobile penetration. According to government statistics, in November 2015, the household broadband penetration rate was 83.8 per cent. In the same month, there were more than 14 million 2.5G/3G/4G mobile subscribers in this city of only about 7 million residents.[4] Regarding social media, Facebook constitutes by far the most widely used platform in Hong Kong, with number of users estimated to be 4.4 million in 2015.[5] More importantly, over the years, Facebook has become a platform where citizens share news information and discuss public affairs. In the survey analyzed by Leung and Lee (2014), which was conducted in March 2013, 13.0 per cent of the respondents reported acquiring news and public affairs information via Facebook "frequently," while another 18.7 per cent claimed to do so "occasionally."

The emergence of political communication via social media gives an obvious boost to online alternative media because it allows the latter's content to spread more easily, quickly, and widely. The rise of social media also explains why news and commentaries websites had replaced Internet radio stations as the main form taken by online alternative media: the content produced by such sites, such as photos, texts, and infographics, can travel in the social media arena more conveniently than clips of segments of radio programmes.

Third, just as the emergence of the first wave of Internet radio stations in Hong Kong was related to the 2003 July 1 protest, the second wave of online alternative media also needs to be understood in relation to the continual growth of social protests in Hong Kong. By the early 2010s, Lee and Chan (2013) had noted that Hong Kong had taken up some features of a "social movement society": the numbers of public rallies and processions had increased over the years, a more diverse range of social groups had become active in protests, citizens held positive beliefs about the capability of the public as a collective actor to effect social change, and citizens were showing higher and higher levels of protest participation potential. Since 2012, in particular, a number of large-scale protests occurred in Hong Kong, including the anti-national education movement in 2012, the protest against the government's decision regarding free television licensing in 2013, and the Umbrella Movement in 2014.

The growth of social mobilization contributed to the formation of new social and political groups, some of which were active in organizing and operating online alternative media. More generally, citizens' demands for social-movement-related information increased as protests became more common, and online alternative media constituted a valuable source for relevant content.

The role and impact of online alternative media

Several empirical studies have examined the roles and impact of online alternative media in contemporary Hong Kong. Yung and Leung (2014), through a case study of *Inmedia* based on observations and in-depth interviews, summarized the functions of alternative media into: 1) providing alternative information and viewpoint absent in the mainstream media, 2) providing a public sphere for like-minded individuals to discuss public affairs, 3) serving as a platform for civil society groups and social movement organizations to communicate with the public and with each other, 4) initiating public discourses and "proposing" items onto the news agenda, and 5) generating social activism on the part of the users of the site.

The fourth point of Yung and Leung's (2014) summary is worth elaborating. As long as the media and information system in Hong Kong remains open, it would be difficult for the mainstream media to ignore matters that are already widely discussed in society. Online alternative media may therefore help set the public agenda both directly through influencing what people talk about online, and indirectly through forcing the mainstream media to respond if they

succeed in turning an issue into a hot topic on the Internet. A case in point is the role of *Inmedia* in stimulating social discussion about Occupy Central in early 2013. In January of the year, Hong Kong University Law Professor Benny Tai published an article on the *Hong Kong Economic Journal* about the idea of organizing a civil disobedience campaign in order to force the government to make concessions on democratization. Tai himself acknowledged that the article did not get a lot of attention until *Inmedia* followed up and published an interview with him. The latter generated heated online discussions, which in turn led to widespread discussions and additional coverage in the mainstream press.

Meanwhile, in specific protest campaigns, online alternative media can be an important source of information for movement supporters and participants. In a protest onsite survey conducted in November 2014 during the Umbrella Movement,[6] the participants were asked to evaluate the importance of various media platforms as sources of movement-related information. On a five-point Likert scale ranging from 1 = very unimportant to 5 = very important, 66.0 per cent of the respondents regarded *Inmedia* as important or very important, while the corresponding figures were 60.5 per cent and 59.9 per cent respectively for *Passion Times* and "other alternative media sites that support the movement." The figures are comparable or even somewhat higher than the percentages for "television live reporting" (53.5 per cent), "television news report" (50.1 per cent), and newspapers (61.5 per cent). In other words, the online alternative media sites were considered as equally important as or even more important than mass media by the participants. The percentages for online alternative media are also comparable to that for WhatsApp (60.3 per cent), the most popular mobile app for interpersonal communications in Hong Kong. Online alternative media sites only fell behind Facebook (86.7 per cent).

More generally, Lee (2015b) showed that online alternative media have become an important source of "oppositional knowledge" for Hong Kong citizens. Oppositional knowledge is defined as "knowledge about facts and concepts that are instrumental in the formation of critical attitudes toward dominant power and generating support for or actual participation in oppositional actions" (Lee, 2015b: 321). Analyzing a survey in September 2013, the study showed that online alternative media use was positively associated with ability to identify movement groups and activists, recall information about political scandals, and explain the concept of civil disobedience. Yet online alternative media use was not significantly related to citizens' ability to identify the names of government officials and recall government policies that were regarded by the respondents themselves as good. Moreover, mainstream news media consumption was positively related only to ability to recall good government policies, but not to any category of the oppositional knowledge. When alternative media use was controlled statistically, using Facebook for informational purposes also did not have any significant relationship with any category of oppositional knowledge. Online alternative media is therefore a unique and distinctive source of oppositional knowledge to people.

Other studies demonstrated the positive relationship between online alternative media use and protest participation. Lee (2015b) showed that alternative media use was related to protest participation, with oppositional knowledge mediating part of the relationship. Leung and Lee (2014) showed that Internet alternative media use related positively to both actual protest participation and support for civil disobedience even after controlling for news acquisition via social media. The positive impact of alternative media use on protest behaviour was stronger among supporters for democratization. Chan (2017) also found a significant relationship between alternative media use and protest intention, and he showed that the impact was mainly mediated by anger and movement identification. On the whole, there is solid evidence of the mobilizing power of alternative media in Hong Kong.

Concluding discussion

Tying talk radio and online alternative media together, the discussion of opinion media in this chapter can be considered as a narrative about the rise and transformation of the "counter-public sphere" in Hong Kong, *i.e.*, the sphere where communications against the dominant power are concentrated and where oppositional consciousness – "an empowering mental state that prepares members of an oppressed group to undermine, reform, or overthrow a dominant system" (Mansbridge, 2001: 4–5) – can be developed. In the liberal ideal of the free press, the mainstream media should play a key role in monitoring the state and other power holders and providing platforms for the expression of even the most critical and radical views. But as long as the mainstream media are embedded in the dominant political economic structure of a society, they often fall far short of reaching their self-proclaimed ideal. The situation is particularly troublesome in post-handover Hong Kong, where an authoritarian state serves as the sovereign of a city with at most a semi-democratic political system (Lee, 2015a).

In this context, talk radio first emerged as a site where prominent hosts and ordinary citizens could express strongly oppositional and critical views. It helped the mainstream news media to perform their normative social roles without the need to confront the power holders directly and proactively. Nevertheless, as political pressure on the mainstream media strengthened, despite a continual tug-of-war between the mainstream media and political power, the overall trend remained one of gradual contraction of the space for free speech in the mainstream media arena. Counter-public communications thus turned to the Internet, and together with advancement in digital technologies and developments in civil society, online alternative media became the centre-piece of the counter-public sphere in Hong Kong in more recent years.

It means that, structurally speaking, the counter-public sphere in Hong Kong has been increasingly dissociated from the mainstream media. Certainly, the dissociation is incomplete. There is still a non-negligible degree of diversity within the mainstream media system. *Apple Daily* has retained a strong pro-democracy stance, and several media organizations such as *RTHK*, *Cable TV*, and *Ming Pao* remained significantly more liberal-oriented than many other media outlets. More importantly, as discussed earlier, part of the impact of online alternative media resides in their capability of forcing the mainstream media to respond. The media system in Hong Kong is an integrated one with mass media institutions, alternative media outlets, and digital media platforms intertwined with each other.

Nonetheless, the rising significance of online alternative media does imply an increasing role of civil society actors in defending freedom of expression and of information. Civic and political groups and social movement activists have become more and more active in engaging in new media practices. To the extent that their media practices are expanding the space of political expression in Hong Kong, we can argue that the relationship between civil society and the media on the issue of freedom of expression has reversed since the handover. Originally, press freedom, as exercised by the news media, was seen as crucial for defending various civil liberties in the city; in more recent years, it seems that civil society actors have become the main defenders of media freedom in Hong Kong (Lee, 2015a).

Theoretically, the development of opinion media in Hong Kong in the past twenty years illustrates the complex relationships among the impact of technological developments, political economic forces, and social factors on media developments. On one hand, technological, social, and political economic factors can be regarded as having conjoint effects on the media – in the sense that some media phenomena may arise only when technological, social, and political economic factors are present simultaneously. The rise of online alternative media, of course, is premised on the presence and popularization of the Internet. As the analysis has pointed

out, the emergence of social media laid part of the foundation for the second wave of online alternative media in Hong Kong. But social media such as Facebook and user-generated content sites such as YouTube arrived in Hong Kong since around 2007, yet the second wave of online alternative media in Hong Kong did not arise until 2012. The timing of the emergence of a new wave of online alternative media has to be understood in relation to the dynamics of social mobilization and worsening problem of media freedom in the city. In other words, the influences of technological, social, and political economic factors on the media system are interdependent on each other.

What is the likely future of opinion media in Hong Kong? Unless there are significant and fundamental changes to the political economic structure of society at large, it is difficult to be optimistic about the future of press freedom for the mainstream media in the city. The question seems to be to what extent the few progressive media outlets and professional and liberal–oriented frontline journalists, together with the support of alternative media and civil society at large, can resist or at least slow down the decline of media freedom. It also means that online alternative media are likely to continue to play a crucial role in maintaining freedom of information and expression for Hong Kong society.

However, there are also challenges surrounding the further development of online alternative media. First, as online alternative media sites adopt more and more sharply defined ideological positions in a high–choice online environment (Bennett and Iyengar, 2008), observers and commentators have started to question if the proliferation of online media in Hong Kong would lead to fragmentation of the counter–public. For instance, there is a clear distinction between the so–called "localists" and the "leftists," often derogatorily described as the "leftards" by their opponents, in the online arena, each "supported by" certain alternative media sites. What is emerging, therefore, may not be a singular and powerful counter–public sphere; rather, it could be a large number of counter–public sphericles. The configuration of online alternative media could have important implications on their social import and consequences.

Second, the rise of online alternative media in Hong Kong has also been premised on the presence of an open Internet. After the Umbrella Movement in late 2014, some commentators have opined that the Chinese and Hong Kong government would try to curtail freedom in academia and on the Internet. On one hand, taming the highly decentred communication networks on the Internet would be much more difficult than taming a finite number of large–scale media organizations. On the other hand, Internet freedom is indeed not something that can be taken for granted. Tsui (2015) commented that the government and the pro–establishment forces have been catching up on their digital media tactics. It remains to be seen whether and how the government's tactics would shape the evolution of online alternative media and the configuration of opinion media in general.

Notes

1 The survey was conducted by the Center of Communication and Public Opinion Survey of the Chinese University of Hong Kong as part of a research project of the present author.
2 Based on a talk given by Tony Choi at the Chinese University of Hong Kong in September 2012.
3 The survey was conducted also by the Center of Communication and Public Opinion Survey of the Chinese University of Hong Kong as part of a tracking study at the Center.
4 See www.ofca.gov.hk/en/media_focus/data_statistics/key_stat/
5 The figure is cited from www.go-globe.hk/blog/social-media-hong-kong/
6 The survey was conducted by the present author and Professor Joseph M. Chan. For methodological details, see Lee and Chan (2016).

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10

Social media and social mobilization

Gary Tang

Introduction

Hong Kong is a developed city with vibrant Internet communication. According to the official statistics, there were 15 million mobile broadband subscribers in 2016, which is more than double of the city's population. The household broadband penetration rate is as high as 86.1 per cent (Office of the Communication Authority, 2016). In 2015, 84.9 per cent of the population aged 10 or above used Internet in the past 12 months (Census and Statistics Department, 2016). In a broader context, Hong Kong is also at one of the leading places compared with other countries in terms of the penetration of fixed broadband subscriptions and Internet users (World Bank, 2015).[1]

The above Internet communication infrastructure enables Hong Kong people to keep pace with the advanced trend of communication practice, the use of social media in particular. According to the survey conducted by a marketing research company, the number of Facebook (FB) users in Hong Kong reached 4.4 million in 2014, and 44 per cent of the respondents indicated that FB was the first source of information for them to be exposed to breaking news (Lam, 2014). More on the use of FB for news-seeking, a survey conducted by Centre for Communication and Public Opinion Survey (CCPOS) at the Chinese University of Hong Kong (CUHK) in 2013 showed that 85.1 per cent of the respondents were exposed to information on political or public affairs through social media. 48.6 per cent of them kept themselves updated through social media about current development of political actors and movement organizations. Moreover, 57.7 per cent did have the experience of expressing their views on political or public affairs on social media. The demographic differences for the use of the Internet is also part of the concern. Among the population answering 'often' or 'always' for the above three measurements, young people aged 18–29 were 51.2 per cent, 45.5 per cent, and 54.5 per cent respectively.[2]

Focusing on young people, who are the most active users of social media, the survey conducted by the Centre for Youth Studies at CUHK showed that, 67.7 per cent of those aged 15–29 used FB as the most important social media, followed by Whatsapp (14.4 per cent) and Instagram (12.2 per cent). Nearly half of them (46.4 per cent) used social media as the most prominent source for information of public affairs. The percentage was double that of television (21.7 per cent), which was traditionally considered as the most influential channel for news information.

Also, 12.3 per cent of the young people indicated that they 'frequently' wrote or shared political commentaries or other political information on social media. Of course, other socio-economic variables are also pertinent to the use of social media among the younger generation. As shown in the above survey, among those young people who adopted social media as the most important source of news information, 62.3 per cent attained tertiary education or above, and 38.1 per cent of them came from families with a monthly salary of HK$50,000 or above.[3]

The above figures about the penetration of the use of social media give us some background understanding of the role social media can play in contentious politics in Hong Kong. Apart from that, two factors that promote the political influence of social media should be noted. Firstly, press freedom for traditional mass media has gradually been tightened after the transfer of sovereignty. At the macro level, there is increasing number of news media owned by businessmen who have strong interests with China or are co-opted by the Chinese government (Ma, 2007a). In the newsroom, self-censorship has become an issue of concern. From 2001 to 2011, the percentage of journalists who felt that there existed serious self-censorship increased from 13.3 per cent to 39.0 per cent (Lee, 2015d). The question of self-censorship is so serious that it can also be sensed by the general public. According to the surveys conducted by the Public Opinion Programme at The University of Hong Kong, the percentages of Hong Kong people feeling some kind of self-censorship in news media have been above 40 per cent since 2007. Concerning the source of news information, the percentage of respondents who considered TV as the most trustworthy source of news dropped from 60.3 per cent in 2008 to 33.4 per cent in 2016. Simultaneously, that percentage for trust in the Internet rose from 3.3 per cent in 2008 to 16.9 per cent in 2016 (Public Opinion Programme, 2016a, 2016b). That the traditional mass media are under the pressure of political intervention and self-censorship gives social media additional space to exert their political influence. For instance, after the 1 July Rally in 2003, some programme hosts of radio phone-in talk shows, who were famous for being critical of the government, quit their jobs unwillingly. Afterwards, some of them set up similar radio programmes on online platforms. Besides, due to the awareness that the information delivered by traditional news media may be strongly biased or partial, more and more people turn to pay more attention to the online media.

Meanwhile, the culture of activism provides the soil for social media to demonstrate their capability for social mobilization. Hong Kong has been named as the 'city of protest' since 2000 (Chandler, 2000). The 1 July Rally in 2003 that successfully pressured two government officials to resign strengthened the collective efficacy of the public. People's collective efficacy has become higher than their internal efficacy thereafter. That is, instead of believing in their own capability of comprehending and understanding political affairs, they tend to believe that political change is possible by collective actions. With the notion 'movement society', Lee and Chan observe that collective contentious actions have been a common scene of Hong Kong politics and society. Different stakeholders bargain for their interests by organizing or joining protest actions. In the eyes of many people, the representativeness of opinions or interests articulated by social movements is even higher than that of the Hong Kong SAR Government and/or political parties (Chan and Lee, 2015; Lee and Chan, 2013).

The changes described above together bring social media to a favourable position for the facilitation of social mobilization. Without overstating their influence on social mobilization, it is observed that, given the popularity of these new media, their impacts are evident. With this note, this chapter is an attempt to give a conceptual overview of the impact of social media on the formation of contentious politics in Hong Kong. More specifically, it will focus on two aspects. Firstly, we discuss the impact of social media on the users' political attitude, especially their view on protest actions. Secondly, our discussion will focus on the impact of social media on the agents of mobilization, and more specifically the rise of self-mobilized protest actions.

Before going to the main body of the chapter, it would be useful to define social media in the first place. Indeed, 'social media' itself is a loose and layman expression. It is often discussed as 'social network site' (SNS) in the academic literature. According to boyd and Ellison (2007), SNSs are the web-based services that allow individuals to (a) "construct a public or semi-public profile within a bounded system", (b) "articulate a list of other users with whom they share a connection", and (c) "view and traverse their list of connections and those made by others within the system" (boyd and Ellison, 2007: 211). Based on the above definition, SNS implies a network of information dissemination. Every user of an SNS can curate their own online social network to share and receive various kinds of information. More importantly, as the network of each user is to a large degree visible to the other users, every user is thus easy to expand their network by increasing the number of connections with the other users who belong to a similar circle. SNS is qualitatively different from merely online media in terms of the process of information dissemination. Before the wide adoption of SNS, although the Internet has already enabled media to run at much lower cost, how to make a piece of information widely accessible to a significantly large audience is still the challenge to most of the online media, including web pages, blogs, and forums, etc. In this sense, the rise of SNSs implies a paradigm shift of online information dissemination. Instead of seeking ways to reach Internet users as a mass audience, as long as the online media can deliver the information to the right network of audience, the information can be spread through SNS spontaneously. Besides, although some instant messaging programmes such as Whatsapp are included as social media, they can hardly be categorized as SNS in a stricter sense of the word. This chapter mainly focuses on the use of SNS instead of social media in a broad sense of the term. For the convenience of understanding, 'social media' is adopted in this chapter equivalent to the meaning of SNS.

Social media, online alternative media, and political attitudes

Concerning the general impact of the use of social media on political participation, some researchers have arrived at their conclusions that the use of social media relates positively to political participation (e.g. Gil de Zúñiga et al., 2012; Rojas and Puig-i-Abril, 2009). The survey carried out by the Centre for Youth Studies at CUHK also found that young people seeing social media as the most important source of information for political and public affairs were more active in political participation. They were also less satisfied with the government when compared to those seeing traditional media as the most important information source (see Table 10.1). Similarly, a telephone survey conducted during the Umbrella Movement also found that the respondents who acquired news via FB tended to be more supportive to the Movement, in terms of attitude as well as actual participation (Lee et al., 2015).

Cultivating attitudinal support for political activism by online alternative media

The rise of online alternative media is an important topic for discussion regarding the role of social media for social mobilization. Online media are not necessarily alternative media. Defining alternative media broadly, it is 'alternative from' the mainstream media in the sense that, alternative media are critical of mainstream media as the latter are perceived as parts of the ideological state apparatus. To alternative media, mainstream media actually are parts of the *quasi* coalition with political and commercial interests due to capital ownership and/or their dependence on advertisement as the major source of revenue. Alternative media tend to represent marginal groups which are usually overlooked by the mainstream media. Besides, different from conventional journalism that emphasizes on objectivity and neutrality, alternative media tend to report

Table 10.1 Comparison of political attitudes and political participation of Hong Kong's youths relying on different media for information of political and public affairs

	Social media as the most important source of information of political and public affairs (N = 385)	TV, printed media, or radio as the most important source of information of political and public affairs (N = 312)
Political attitudes (score 1–5)		
Satisfaction with the HKSAR Government***	1.73	2.42
Trust in the HKSAR Government***	1.80	2.57
Political participation (score 1–4)		
Donation for events related to political and public affairs	1.17	1.17
Communicate with government officials or Legislative Councilors	1.10	1.06
Petition***	1.45	1.20
Participation in activities of social and political organizations***	1.26	1.15
Participation in protest actions***	1.49	1.19
Percentage of respondents who voted in the LegCo election 2016***	67.8%	54.0%

Note: T-test comparison for political attitudes and political participation, except voting. Chi-square test for the percentage of respondents who voted in the LegCo election 2016.
* p < .05, ** p < .01, *** p < .001

Source: Centre for Youth Studies, Hong Kong Institute of Asia-Pacific Studies, CUHK.

news stories from critical and more subjective perspectives. Very often, being different from the common practice in conventional journalism (Couldry and Curran, 2003), alternative media would even actively mobilize people for protest actions.

In Hong Kong, the first wave of online alternative media emerged after the July 1 Rally in 2003. For example, *In-Media* (獨立媒體) is an attempt to conduct in-depth citizen reporting. Other online alternative media, including *People's Radio Hong Kong* (香港人民廣播電台), *Our Radio*, and *Hong Kong People Reporter* (香港人網), etc., tend to be run in the form of net radio. They cover various topics that are overlooked by mainstream media, and they contribute a lot to broadening the range of public discussions and enhancing civic empowerment. However, as the use of social media was still far from very popular during that period, the influence of the alternative net radio stations was actually limited, in spite of the support they could give for the social movement (Leung, 2015). Later, with the improvement in the penetration of social media in the broader community, various online alternative media were set up, e.g. *The House News* (主場新聞), *Passion Times* (熱血時報), and *VJMedia* (輔仁媒體), etc. With the support of social media, these online alternative media became popular at a much faster pace. In the survey conducted in 2016, nearly half of the respondents indicated that they were exposed to *The House News* (48.3 per cent). Among young people aged 18–29, more than 60 per cent of them are 'sometimes' or 'always' exposed to news information by *The House News* and *Passion Times* respectively (Lee, 2016b). In terms of the overall size of audience, the online alternative media are still significantly smaller than mainstream media. Yet, many incidents show that online alternative media can exert substantial impact on social mobilization.

In the protests against the demolition of Star Ferry Pier and the Queen's Pier in 2006 and 2007, which were the early attempts of organizing protest by direct action for the purpose of heritage conservation, *In-Media* assumed a significant role to update the situation of the protests, and to call for more support from the public. Later, in those large-scale protests like the protests against Moral and National Education and supporting licensing the HKTV, online alternative media also served as an important platform to rally support for the protests and to be critical of the government's official discourse. To what extent is the audience's exposure to online alternative media related to their political attitudes? The study by Lee (2015a) suggested that the readers of online alternative media were more likely to vote in election and to participate in rallies and demonstrations. It seems reasonable to believe that online alternative media do have a role in cultivating a sense of political activism among their audience.

The vibrant development of alternative media facilitates the formation of an 'online counter public'. Different from the conventional public sphere that is considered as being dominated by the pre-existing economic and political power, the online counter public enables the articulation of alternative discourses which are critical of the dominant discourse. The online counter public can provide the general public with very different views and perspectives from those represented via mainstream media (Leung and Lee, 2014). It is therefore possible to expect that persistent exposure to online alternative media can influence one's political attitude and promote political activism. In Hong Kong, *The House News* and *In-Media* were online alternative media that were politically critical of the SAR Government, with *In-Media* adopting an ideologically leftist perspective. Drawing upon the experiences of these two cases, Lee (2015a) argues that exposure to online alternative media can alter one's political attitudes as well as the perception of Hong Kong society. Readers of the two media outlets tended to have stronger post-material orientation and were less inclined to believe that Hong Kong is a city characterized by open opportunities and fair competition. Lee's findings (2015a) critically point to the role of online alternative media as 'online counter public'. They cultivate a perception of society that challenges the dominant perspective.

Moreover, online alternative media favour the spread of 'oppositional knowledge' that can facilitate critical political discussion. Previously, the so-called 'political knowledge' was measured according to one's knowledge about public figures inside the establishment and their understanding of the operation of the government. 'Oppositional knowledge' refers to the knowledge at another side, e.g. the recognition of movement groups and activists and the knowledge of scandals of politicians, etc. And it is expected that the public discussions that carry discontent towards the government and protest actions would involve using 'oppositional knowledge' than conventional political knowledge. Lee (2015b) suggests that the possession of 'oppositional knowledge' and conventional political knowledge forms the basis for two different kinds of political participation. The former relates positively to protest participation, while the latter relates positively to voting. Given that voting is a kind of political participation that implies some degree of trust of the existing political institution and such a form of participation takes place within the existing norms and institutional setting, his observations give us some hints about the correlation between the kind of political knowledge possessed by the respondents and their trust of the existing political institution. Exposure to social media, and concomitantly to the 'oppositional knowledge', seems to have the effect of undermining institutional trust.

Acceptance of radical activism

Being named as a 'movement society', Hong Kong is not short of protest actions. Indeed, they are so common that it is more or less a routinized practice for a concerned group to arouse public awareness and to bring up policy advocacy by organizing a protest (Lee and Chan, 2013).

However, it is actually quite ironic to see protest action becoming routinized: when a protest action is routinized, and becomes not disruptive, it will inevitably lose it power to arouse public awareness. Therefore, we found a turn towards radical actions in the past decade. At the same time, there emerged public discourses that challenged the effectiveness of the 'peaceful collective actions' such as the 1 July Rally. Peaceful and orderly protests were criticized and described as 'karaoke protest actions' and 'carnival-style protest actions'. New repertoires of protest that had gone beyond the framework of peaceful rallies and demonstrations emerged. Following the direct action in the Star Ferry Pier protest (2006), the anti–Express Rail protest in 2010 was the first protest that sieged the building of the Legislative Council and blocked the Councillors' exit. Actions trying to physically confront the police were also found in the protest. In the anti-NT Northeast Development protest (2014), again radical actions to confront the police and to break into government building were practised. For the Reconquering Movement in 2015–16, a series of demonstrations that aimed at causing physical encounters with the parallel traders and the mainland Chinese tourists were staged.

In some protest actions, online alternative media such as *Passion Times* played an active role to advocate radical actions. Apart from that, the calls for radical actions were also found on FB pages or FB groups that were created for particular protest in an ad hoc basis. Concerning the impact of social media on radical protest actions, our observations are at best preliminary. In this connection, the survey conducted by Lee and Chan (2012), with the anti–Express Rail protest in 2010 in the background, on the respondents' acceptance of different types of protest action taken place in social movement, e.g. protest marches, trekking protests, besieging the LegCo, and charging the police line, is pertinent to the discussion here. Protest marches and trekking protests too are mild protest actions while besieging the LegCo and charging the police line are radical actions. It is observed that those respondents who strongly support protest actions and use the Internet as a major source of information are more inclined to accept radical protest action. And for those respondents who continue acquire information via television, they are less likely to accept radical protest action.

In order to further understand the impact of social media on the acceptance of radical protest actions, I conducted a secondary analysis of the CCPOS data and constructed a variable 'political user of social media'. It is a combination of the mean score of frequency of exposure to information of political and public affairs, frequency of sharing personal view on political and public affairs, connections with opinion leaders of political and public affairs at social media, frequency of information update about opinion leaders on social media, and frequency of joining social media groups about political and public affairs. The answers were categorized as 'frequent political user of social media' and 'less frequent political use of social media'.[4] As shown in Table 10.2, the respondents categorized as frequent political users of social media tend to accept radical action in a larger degree (in terms of their attitude towards radical protest action) than those who belong to less frequent political users of social media. The mean differences fall in the 0.78–0.95 range. In terms of their acceptance of specific protest actions, six kinds of protest action are put forward for consideration: protest marches, labour strikes, sit-ins, charging the police line, hunger strikes, and petitions. Among the six types of protest actions, protest marches, sit-ins, and petitions are mild in character and are commonly seen in Hong Kong, while charging the police line can be categorized as radical as it is conducive to physical confrontation. Labour strikes and hunger strikes are somehow in between, even though a prolonged labour strike could be very disruptive. As seen in Table 10.2, the respondents with high scores in 'political user of social media' are more likely to accept the action of charging the police line, with a mean difference as high as 1.00. Among the three examples of mild protest action, significant difference is only found with protest marches, and the acceptance is higher for the respondents belonging to

Table 10.2 Comparison of attitudes towards radical protest actions and acceptance of specific protest action of Hong Kong citizens with different degrees of political use of social media

	Political use of social media: Frequent (N = 24)	Political use of social media: Less frequent (N = 424)
General attitude towards radical protest actions (score 1–5)		
In order to express opinion in a more powerful way, the use of radical actions occasionally is understandable**	3.16	2.38
When the government is not bothered by public opinion, it is acceptable to use radical protest actions***	3.59	2.69
Sometimes, it is necessary to express opinion by radical action in order to make substantial impact***	3.42	2.47
Acceptance of specific protest action (score 1–5)		
Protest marches*	4.31	3.79
Labour strikes	3.69	3.52
Sit-ins	4.31	3.92
Charging the police line***	2.87	1.87
Hunger strikes***	3.31	2.49
Petitions	4.47	4.24

Note: * p < .05, ** p < .01, *** p < .001

Source: Centre for Communication and Public Opinion Survey, School of Journalism and Communication, CUHK.

'frequent political users of social media'. Lastly, those frequent 'political users of social media' also have a stronger tendency of accepting hunger strikes.

The above observations show an association between the use of social media and the orientation towards political activism in Hong Kong. Basically, Internet is a 'high-choice environment' that the audience, instead of being passively influenced by the media, can actively seek for and select the information they want to see (Bennett and Iyengar, 2008). But then it is also important to note that the above association is also affected by social factors like the exact usage of the platform, network heterogeneity on FB, etc. (for further discussion, see Chen et al., 2016; Tang and Lee, 2013). It is still too early to jump to the conclusion that social media breed political activism and radicalism. The political effects of social media may well be self-selective: it is rather likely those people, who seek information on social media, are themselves more inclined towards political activism. Tentatively, it is reasonable to see social media as important platforms for the circulation of political discontent. People are exposed to online alternative media, and they share political information as well as get involved in political discussion on social media. Political activism becomes self-reinforcing. In this regard, social media facilitate social mobilization.

Social media and self-mobilized actions

High penetration of social media in Hong Kong society is an important condition for such information technology to play a key role in social mobilization and the promotion of political activism. The political impacts of social media are growing. In contrast, the role of political parties and movement organizations in social mobilization in recent years is far from impressive. Both the political parties and movement organizations seem to have difficulties in claiming political

representativeness. Equally interesting is that the Legislative Council is also losing its status of being the most significant arena of political debate and thus the most important channel to represent public opinions. Indeed, in the early years after the handover, the mass media, and not the Legislative Council, were perceived by ordinary people as the more effective means to represent public opinion (Chan and So, 2005).

Based on on-site surveys conducted during the July 1 Rallies in 2003 and 2004, Chan and Lee (2009) observed a new pattern of social mobilization in Hong Kong which they described as 'self-mobilization'. That is, most participants of the rallies believed that their participation was not an outcome of being mobilized by political agents. To the participants, social movement organizations merely served to provide the coordination necessary for the protest to take place. Movement organizations were not regarded as the agents to lead the protest. It is even possible that the participants simply joined a protest without fully endorsing the demands and issues articulated by movement organizations. The participants were self-mobilized.

Bennett and Segerberg (2013) put forward the idea of connective action and argue that social mobilization in the digital age is facilitated by the connections of individuals in social networks. Accordingly, the importance of movement organizations in the process of mobilization is significantly reduced. Concomitantly, the role of movement organizations in managing the repertoire of protest and framing the actions in a social movement is also minimized. In the context of contemporary Hong Kong, given the emerging practice of self-mobilization and the loose connection between movement organizations and the active participants, social media can play a critical role in social mobilization.

Social media as platform of direct mobilization

There had been cases of online articulation of opinion in Hong Kong prior to the popularization of social media. For example, the Golden Forum was one of the prominent online platforms for discussion and articulation of opinion. But compared with the users of social media, the netizens of a particular online forum is still largely restricted to people with specific interests. In the case of social media, they have a wider appeal. The so-called D&G Incident in 2012 was an example of bottom-up mobilization through social media. The incident was about a Hong Kong local who was prohibited from taking photo on the walkway in front of the Dolce & Gabbana shop, which was supposed to be a public area. Meanwhile, the shop assistants had not done the same to the tourists from China. The incident was disclosed and widely circulated on social media, leading to an outcry at the online community. The D&G shop was criticized for its differential treatment to locals and mainlanders. Netizens called for taking photos together outside the shop, and this call gathered nearly 1,000 people joining the action. Thereafter, there had been similar attempts of calling for action via social media. For example, the so-called 'Reconquering Movement', which was composed of a series of actions to directly confront the mainland tourists and parallel traders in a few locations, was a case of mobilization through social media.

Mobilization via social media relies a lot on inter-personal networks. On social media, people can share information on political and public affairs, discuss with friends about public affairs, and even persuade or invite the friends to join a protest action. In Hong Kong, as noted earlier, people keep their distance from major political organizations and political leaders. They are more likely to be persuaded by their peers and other people in their horizontal networks to engage in social issues. For the June 4 commemoration rally in 2014, 26.5 per cent of the participants were found to be initiators that had invited other people to join the action (Lee and Chan, 2015). In the Umbrella Movement, such a form of action initiation was found significant: 34.8 per cent of the respondents of an on-site survey indicated that they did 'once or twice' mobilize others to join

the movement, and 42.7 per cent of them did this 'more than twice'. The study by Lee and Chan (2016) reveals that the so-called participation leaders in the Umbrella Movement have a stronger tendency to debate with others at online platform, and to communicate with others about the issue through mobile device. This unravels a major difference between social media and mass media in the process of mobilization. While mass media emphasize on information delivery on a top-down basis, the powerful side of social media is on the process of discussion and persuasion at the horizontal inter-personal network.

Antagonistic and complementary relations of social media mobilization and agents of mobilization

The rise of connective action transforms the relationship of movement organizations and participants. On the one side, there are tensions. Social media constitute an environment of highly selective exposure so that people sharing similar views would echo and reinforce each other (Bennett and Iyengar, 2008; Sunstein, 2009). This phenomenon is also found in Hong Kong's social movements. Movement organizations became targets of criticism by those online alternative media that advocated radical protest action. In a number of cases, including the anti-NT Northeast Development protest and the 'Reconquering Movement', movement organizations were criticized for not being supportive enough. Such antagonism was rather obvious during the Umbrella Movement. Labels including 'main stage' and 'ghost' appeared, and they were used to stigmatize movement organizations and their organizers. The term 'main stage' hinted at the hegemonic (and seen as imposing from above) position assumed by some movement organizations in the movement. 'Ghost' referred to movement organizations and their organizers who should not be trusted (as their proposed action might well serve the interests of the establishment). In an on-site survey conducted during the Umbrella Movement, respondents were asked to what extent they agreed with the statements 'self-mobilization enhances the purity of the movement' and 'self-mobilization prevents the movement from being "kidnapped"'. 74.2 per cent of the respondents 'agreed' or 'strongly agreed' with the former statement. And the percentage for the latter statement was 65.3 per cent. The extent of agreement for both statements is stronger among those respondents who are frequently exposed to information through FB.[5] Being the connective action that was very much mobilized by social media, it embodies strong distrust towards movement organizations.

While mass media had a significant role to play in the mobilization of the 1 July Rally in 2003, their importance dropped in recent protests. Again, drawing on data collected by an on-site survey during the Umbrella Movement, 70.3 per cent of the respondents indicated that FB was a 'very important' source of information, with the percentages for *In-Media*, *Passion Times*, TV news, and newspaper being 36.4 per cent, 29.6 per cent, 25.7 per cent, and 31.6 per cent respectively. It is important to note that the credibility of mass media has been falling long before the Umbrella Movement. According to a survey conducted in 2016, both electronic broadcasters (a drop of 9 per cent) and printed newspaper (that of 20 per cent) faced a drop of perceived credibility after the change of sovereignty. TVB, the television broadcaster with monopolistic position in Hong Kong, was strongly criticized for self-censorship and its pro-establishment bias. It was the media organization with the lowest perceived credibility among all electronic broadcasters in 2016 (Centre for Communication and Public Opinion Survey, 2016). Such a drop in perceived credibility was partially an outcome of journalist practice maintaining a critical tone in reporting social movements (Chan and Lee, 1984; Gitlin, 1980; Lee, 2014b). However, in a social context wherein popular discontent has been growing and online alternative media are gaining popularity, increasingly many people expect mass media to take a stand on matters of social and political

significance. The public's expectation of having a more adversarial and critical style of reporting puts mass media in a difficult situation (Lee, 2015d).

But that said, the role of agents of mobilization should not be written off. For example, the role of a movement organization as a coordinator is still important. In his study of two environmental protection campaigns, i.e. the protect Lung Mei campaign and the pellet-picket campaign, Lee (2015c) observes that the function of people's self-mobilization through Internet and the role of social movement organizations are complementary. Social movement organizations continue to play a role in resource mobilization and coordination, while people's self-mobilization through the Internet can expand the scale of collective action.

Although the Umbrella Movement is widely described as a movement mainly mobilized by social media, the role of movement organizations should not be dismissed. The use of tear gas by the police, which was beyond people's anticipation, was a critical factor in drawing public attention to the protest. However, without the one-year long preparation of Occupy Central with Love and Peace (OCLP) that facilitated organizing and coordinating material resources to support the protest participants in the occupied sites, the movement could hardly be sustained for 79 days. Moreover, many participants did see movement organizations as the movement's organizers. According to an on-site survey, 33.0 per cent and 33.6 per cent of the participants indicated that the call from the Hong Kong Federation of Students (HKFS) and Scholarism was 'important' or 'very important' for them to join the Umbrella Movement. When the Movement reached moments of conducting dialogue or negotiation with the government, the HKFS, instead of any online alternative media, was regarded as a legitimate organization to join the dialogue with the government.

Lately, the role of mass media in the age of social media mobilization is usually seen as declining. But it is important to note that their role is still overwhelmingly important in certain circumstances. Again taking the Umbrella Movement as an example, though social media were crucial to sustaining the mobilization for 79 days, most participants came to know of the police firing tear gas and responded by going to the occupied sites via conventional news media. Tang's study (2015) suggests that those participants who decided to join the movement on 28 September, i.e. the evening when tear gas was used by the police, relied heavily on television for information about what happened then. This alerts us to a hypothesis that, without television delivering the images of the use of tear gas by the police in an attempt to scatter the crowd, response to the call for action by the protestors might not be as strong as it turned out subsequently. Similarly, on police violence broadcasted by TVB during the Umbrella Movement, Lee (2016a) argues for the importance of mainstream media in affecting the public's view of the police and of the movement. Mainstream media, which are still widely accessible among the local households, continue to have a role to play. Together with social media, they make their impacts on the public.

Participation leaders are regarded as nodes for mobilization via social media (Lee and Chan, 2015, 2016). Their views toward social media and the agents of mobilization can further reveal of relations of the two. Table 10.3 shows the views of participation leaders and non-participation leaders toward political parties, movement organizations, mass media, online alternative media, and FB.[6] The first three sections in Table 10.3 basically support the thesis for antagonistic relations of agents of mobilization and social media. Participation leaders tended not to support any political parties, especially those moderate political parties. They were less likely to join the Movement in response to the call of the OCLP, and they relied more on Facebook, *Passion Times*, and *In-Media* for information on developments in the occupied areas. Compared to non-participation leaders, participation leaders were generally more distant from the agents of mobilization but closer to social media. However, does this mean that the role of movement organizations was insignificant for them? The fourth section in Table 10.3 gives some hints for

Table 10.3 Comparison of attitudes towards political parties, movement organizations, mass media, online alternative media, and Facebook of participation-leaders and non-participation leaders

	Participation leaders (N = 437 or 1226)	Non-participation leaders (N = 114 or 282)
Support for political parties		
Do not support any political parties#	49.5%	43.4%
Support moderate pro-democracy parties#	15.2%	19.5%
Support radical pro-democracy parties	17.3%	18.4%
Reason of participation (score 1–5)		
Support the call of Hong Kong Federation of Students (HKFS)	3.07	3.04
Support the call of Scholarism	3.06	3.00
Support the call of Occupy Central with Love and Peace (OCLP)#	2.38	2.53
Importance of respective source of information for situation of the occupied areas (score 1–5)		
Facebook***	4.64	4.33
Passion Times and *In-Media***	3.89	3.50
Television, newspaper, and radio	3.66	3.72
Willingness of listening to the opinion of respective source (score 1–5)		
HKFS*	3.87	3.63
Scholarism*	3.79	3.57
OCLP	2.89	2.91
Newspaper editorials	3.05	2.88
Commentaries posted on social media**	3.02	2.74

Note: 'Mild pro-democracy parties' includes the Democratic Party, the Civic Party, and the Hong Kong Association for Democracy and People's Livelihood. 'Radical pro-democracy parties' include the League of Social Democrats, Civic Passion, and People Power.

Chi-square test for 'support for political parties'. T-test comparison for the rest of them.

There were two rounds of on-sites survey conducted on 4 to 5 October 2014 and 2 November 2014 respectively. The sample size is 969 and 569 respectively. Questions for 'support for political parties', 'reason of participation' and 'source of information for situation of the occupied areas' were asked in both rounds of survey, so the sample size for those questions is 1538. The questions for 'willingness of listening to the opinion of respective source' were asked only in the second round.

# $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

our preliminary understanding. When the respondents were asked to what degree they were willing to listen to the opinions of different parties regarding the strategy for the next step of the Movement, participation leaders were more open than non–participation leaders regarding listening to both movement organizations and the commentaries posted on social media. Participation leaders were the most willing to listen to the opinion of the HKFS (3.87), followed by Scholarism (3.79). Although participation leaders were attracted more to the online alternative media rather than the agents of mobilization in the course of the Movement, movement organizations retained their place and their views were consulted.

Concluding remarks

This chapter is an attempt to review the role of social media in social mobilization in Hong Kong. On the whole, it is observed that social media play a significant role in social mobilization and the facilitation of political activism in the city. Here rather than amplifying the importance of social media, some remarks should be made.

Firstly, social media are one of the mobilizing agents, and they work at the meso-level, i.e. between the macro environment and the micro processes. Other agents at the meso-level include political parties, civil society organizations, and mass media, etc. They all have their part to play in social mobilization. However, it is important to recognize that those social and political conditions at the macro level continue to play a key role in shaping contentious politics. The political institution structures the effectiveness of various ways of opinion expression. And it defines the major repertoires of contention. Of course it has been commonly agreed that the political institution of the Hong Kong SAR is conducive to protest actions (e.g. Ma, 2007b). But the governing style of the Chief Executive would also impact on state-society interactions. Although the signs of gradual radicalization of Hong Kong's contentious politics can be traced back to the anti–Express Rail campaign, the most remarkable radical protest actions were taken place during the administration of C.Y. Leung (2012–2017). Indeed, his governing style, which was confrontational and divisive, fuelled political activism. This macro-level background has to be taken into account when we study the effects of social media at the meso-level. Research on social media and contentious politics in Hong Kong is a new area of research, and most of the relevant studies were conducted in the past five years. It is still early to assess how a different governing style may affect the role of social media in political mobilization. Yet, it is important to bear in mind that the macro background is always pertinent in shaping collective action.

Secondly, research on social media and social mobilization is still an emerging literature. There are still many areas of research interest that are left untouched. For example, how social media as the platform of opinion expression enable new forms of collective action, i.e. 'e-movement', is rarely investigated (e.g. Chan and Lee, 2015; Lee, 2014a). Moreover, connective action usually embodies a 'personal action frame' which is the framing strategy for personal access to the action rather than articulation with movement organizations (Bennett and Segerberg, 2013). This suggests that more research on the framing of movements on social media is in order. Thirdly, we also need to know more about how social media and mobilizing agents can either work together or become contradictory to each other. With all these notes on further research, it is certain that nowadays we have to include an analysis of new media in our understanding of social mobilization. Indeed, the rise of social media, and possibly other forms of new media in the coming years, has changed our research agenda for studying contentious politics.

Notes

1 Hong Kong ranked 22nd and 27th for the penetration of fixed broadband subscription and Internet use, respectively. Among Asian countries, its ranking was 2nd and 5th, respectively.
2 The survey of CCPOS (Questionnaire Survey on 'Hong Kong Society and Public Affairs') is a telephone survey based on random sampling. It was conducted in April 2013. The target respondents were adult Hong Kong citizens who can speak Cantonese. Its sample covered 814 persons. The response rate was 38%.
3 The survey of the Centre for Youth Studies (Questionnaire Survey on 'Political Participation and Use of Social Media of Hong Kong's Youths') was a telephone survey based on random sampling of mobile phone numbers. It was conducted in October to November 2016. The target respondents were Hong Kong residents aged 15 to 29 who could speak Cantonese. The sample size was 829 persons. The response rate was 70 per cent.

4 The score of this variable is between 1 and 5. The respondents with score 4.0 or above are categorized as 'frequent political user of social media'.

5 The respective zero-order correlations of the frequency of having exposure to the update of the Umbrella Movement through FB and the degree of agreement with the statement 'self-mobilization enhances the purity of the movement' and 'self-mobilization prevents the movement from being "kidnapped"' are 0.07 and 0.09.

6 In the survey, respondents were asked how many times they had invited other people to join the Umbrella Movement. The respondents answering 'none' are regarded as 'non-participation leader'. Those answering 'one to two times' or 'many times' were regarded as 'participation leader'. The survey was conducted in the occupied sites in Admiralty and Mong Kok. Please see Chan and Lee (2014) for details of the survey such as the sampling procedure and demographics of the samples.

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11
Legal mobilization

Wai Keung Tam

Introduction

Legal mobilization has become an important political phenomenon in post-colonial Hong Kong. Citizens and groups have increasingly turned to the court to challenge the decisions made by the Hong Kong government (Chan, 2009, 2014; Tam, 2013). In this chapter, legal mobilization is defined as the process by which individuals and groups invoke their legal rights and use litigation to defend or develop these rights against the government (Zemans, 1983: 690–694; McCann, 2008: 527, 532). Although scholars have explained the reasons behind the rise of legal mobilization in post-colonial Hong Kong, systematic research on the *results* of legal mobilization is lacking. Specifically, how often does litigation against the Hong Kong government succeed?[1]

This chapter serves as the first step to systematically study the results of legal mobilization in post-colonial Hong Kong by examining how the Hong Kong government and its challengers fared in all the administrative cases that the Hong Kong Court of Final Appeal (HKCFA) heard between July 1997 and 2015. It addresses three related questions. First, what kinds of issues were challenged before the HKCFA? Second, who litigated against the Hong Kong government before the top court? Third, how did the HKCFA dispose of the administrative cases? What were the success rates of government and the non-government parties before the HKCFA? Did government and non-government litigants have a higher success rate in particular types of issues?

To be sure, apart from the cases relating to administrative decision, the HKCFA has also heard other types of cases, such as human rights, criminal appeals, and tort. However, this chapter focuses on administrative cases, given that aggrieved citizens and groups have increasingly used litigation to challenge important government decisions. The litigation results can bring profound socio-political impacts. For example, in *Town Planning Board v. Society for the Protection of the Harbour Ltd*, in 2003 the Society challenged a crucial harbor reclamation project and more broadly the government harbor reclamation policy.[2] Given that the Hong Kong government has long heavily depended on reclamation for obtaining usable land, this environmental litigation has significantly affected the development of large infrastructure projects. Similarly, in *Leung Hon Wai v. Director of Environmental Protection*, in 2015 a Cheung Chau resident litigated against the government's decision to construct a municipal waste incinerator on an island near Cheung Chau.[3] If it is found that the HKCFA tended to rule in favor of the government in the administrative cases

and the non-government litigants had a low success rate, legal mobilization may not be a viable means for citizens and groups to change government decisions, and vice versa.[4]

This chapter is organized as follows. First, it outlines the methodology of this study and the sources of the data. Second, it discusses the administrative issues that were challenged before the HKCFA between July 1997 and 2015. The third section examines the background of the litigating parties. This is followed by an analysis of how the government and non-government litigating parties fared before the HKCFA. Important observations will be highlighted. The final part concludes and suggests future research directions.

Methodology and sources of the data

To assess how the Hong Kong government and the non-government litigants fared in the administrative lawsuits heard by the HKCFA, I first read all the judgments on substantive appeals delivered by the HKCFA between July 1997 and 2015.[5] These judgments are available from the "Hong Kong Legal Information Institute" databases.[6] In total the HKCFA heard 72 administrative cases during the aforementioned period,[7] and these 72 cases were chosen for in-depth analysis. While studying these 72 cases, I classified them into the following seven categories: 'tax/rent assessment', 'administrative power/administrative negligence', 'land', 'social policy', 'environmental protection', 'remuneration of civil service', and 'others' (see Table 11.1). I also recorded the identity of the litigating parties in each case. Drawing from Galanter's framework (1974), I classified the litigating parties into the following identities: 'government', 'big business', 'small business', 'civil society groups', and 'individuals'.[8] Big business refers to the corporations that are listed in the stock markets in Hong Kong or other countries, multi-national corporations, or big business groups.[9]

Additionally, I examined how the HKCFA disposed of each administrative case. In other words, I identified the winners and losers. This piece of information was later used for calculating the overall success rate of the government and the non-government litigants before the HKCFA. It should be noted that, out of the 72 administrative cases, two have partial results. Partial results refer to either of the following two situations. First, a litigating party presents multiple claims, and the court only allows some of them. This happened in *Leung Ka Lau and Others v. The Hospital Authority* in which the HKCFA only allowed some of the claims made by the government hospital doctors.[10] Second, when there is more than one appellant, the court allows some appellants' appeals and dismisses others'. This happened in *Thang Thieu Quyen and Others v. The Director of Immigration and Another*, in which out of the 119 appellants' appeals, only three of them were successful.[11]

Table 11.1 Breakdown of the administrative cases that the HKCFA heard (July 1997–2015)

Category	Number of cases	As % of the total number of cases
Tax/rent assessment	28	39%
Administrative power/administrative negligence	17	24%
Land	17	24%
Social policy	3	4%
Environmental protection	3	4%
Civil service remuneration	3	4%
Others	1	1%
Total	72	100%

Source: Author's own analysis based on data accessible at www.hklii.hk/eng.

Apart from reading the judgments of every administrative case that the HKCFA heard, I also searched local newspapers so as to find the background of the litigants. Finally, part of the information of this study is based on my previous research on legal mobilization in post-colonial Hong Kong (Tam, 2013).

Before moving on, it may be useful to briefly describe the Hong Kong legal system. Hong Kong adopted the British style common law legal system with an independent and impartial judiciary. Throughout the colonial period, the Judicial Committee of the Privy Council in London served as the final appellate court of Hong Kong. With the transfer of Hong Kong's sovereignty in July 1997, the Hong Kong Court of Final Appeal (HKCFA) becomes the final appellate court in Hong Kong. Situated in Hong Kong, the establishment of the HKCFA in the post-colonial period provides favorable conditions (e.g. a lower litigation expense) for citizens and groups to use law to challenge important government decisions (Tam, 2013). Below the HKCFA is the High Court (which is composed of the Court of Appeal and the Court of First Instance).

What were challenged before the HKCFA?

What kinds of administrative issues were contested before the top court? Table 11.1 shows the breakdown of all the administrative cases that the HKCFA heard into seven categories, including: 'tax/rent assessment', 'administrative power/administrative negligence', 'land', 'social policy', 'environmental protection', 'remuneration of civil service', and 'others'.

Tax/rent assessment accounted for more than one-third of the administrative cases that the HKCFA heard. These cases were mainly concerned with disputes over the assessment of profits tax or rent payable to the government or over interpretation of the tax provisions. In *ING Baring Securities (Hong Kong) Ltd v. The Commissioner of Inland Revenue* [2007], for instance, the litigating parties contended whether the profits made by the appellant, which were derived directly or indirectly from transactions in securities traded on stock exchanges outside Hong Kong, were subject to the Hong Kong profits tax.

Administrative power/administrative negligence and land each took up 24 percent of the total number of the administrative cases. Administrative power/administrative negligence cases focused on whether the government has acted beyond its powers, committed illegality, abused its discretion, behaved irrationally, or followed procedural rules of justice in the decision-making process. In *Oriental Daily Publisher Ltd v. Commissioner for Television and Entertainment Licensing Authority* [Court of Final Appeal 1998], for instance, the publisher argued that the Obscene Articles Tribunal had not properly discharged its duty to provide reasons in deciding whether an article is obscene or indecent. Cases relating to land were also among the most frequently contested issue before the HKCFA. These cases mainly centered on assessment of compensation for land resumption by the government, approval of building plans submitted by property developers, and disputes over land use. In *Director of Lands v. Yin Shuen Enterprises Ltd. and Another* [Court of Final Appeal 2003], for example, the litigating parties disputed the assessment of compensation for land resumption by the government. Given that land is a scarce and highly valuable resource in Hong Kong, it is not a surprise to find that the issue of land had been frequently contested before the top court.

Summing up, tax/rent assessment, administrative power/administrative negligence, and land took up 87 percent of all the administrative litigation that the HKCFA heard (see Table 11.1). Although cases relating to social policy, environment, and civil service remuneration together only accounted for a minority of the administrative cases, the small number does not mean that these three types of cases are not important. As will be elaborated below, these cases have brought far-reaching socio-political impacts.

The HKCFA heard three social policy cases during July 1997–2015. In *Lo Siu Lan v. Hong Kong Housing Authority* [2005], the appellant contested the government's policy of privatizing the retail and parking facilities within public housing estates, which involved the world's largest property trust listing (the Link REIT case) (Tam, 2013: 34–35). In *Ho Choi Wan v. Hong Kong Housing Authority* [2005], the appellant challenged the public housing rental policy, arguing that the Housing Authority should reduce public housing rent during deflationary times. These two cases not only deeply affected the livelihood of 630,000 households (30 percent of the population in Hong Kong) but also the government policy of privatizing other crucial public assets and the resources available to the Housing Authority for constructing new public housing.[12] In *Kong Yunming v. The Director of Social Welfare* [2013], the appellant opposed the government's policy of requiring all recipients of comprehensive social security assistance to have been residing in Hong Kong for at least seven years.

There were three environmental lawsuits before the HKCFA. Apart from the harbor reclamation and the municipal waste incinerator cases mentioned in the beginning of this chapter, in 2006 the government's proposal to construct a permanent air fuel farm for storing aviation fuel in Tuen Mun was challenged before the HKCFA as well.[13] The discussion below will examine how the outcomes of these environmental lawsuits have substantially affected the development of large-scale infrastructure projects in Hong Kong.

Another significant issue brought to the HKCFA for decision was civil service remuneration, even though there were only three such cases. In *Secretary for Justice v. Michael Reid Scott* [2005], two senior government officials contested the government policy to cut civil servant salaries after the Asian Financial Crisis. In *Cheng Ho Kee and Others v. Secretary for Justice* [2006], more than 3,000 officers and former officers of the Correctional Services Department claimed that they are contractually entitled to remuneration for overnight on call duty. In *Leung Ka Lau and Others v. The Hospital Authority* [2009], over 160 government hospital doctors argued that government hospital doctors are entitled to compensation for being assigned on-call duties beyond their normal working hours. These lawsuits indicate that civil servants may no longer be content with the existing mechanisms for determining their remuneration. Legal mobilization has become an alternative channel for civil servants to pursue better remuneration.

Who challenged the government before the HKCFA?

Having studied the issues brought to the HKCFA for decision, we turn to examine the background of the government challengers. Table 11.2 illustrates *who* litigated against the Hong Kong government across different types of issues. The majority of the tax/rent assessment litigation was brought by big business (71 percent) and significantly fewer cases by small business (21 percent). Individual litigants only brought two cases. Coming to lawsuits relating to land, the roles played by big and small business reversed. The majority of the litigation concerning land was brought by small business (71 percent) and significantly fewer cases by big business (18 percent). The remaining two cases on land were initiated by Tong and Tso (two types of organizations managing Chinese customary trust in the New Territories).[14]

Regarding cases on administrative power/administrative negligence, individual litigants assumed a more active role. 10 out of 17 cases (59 percent of the total cases) were brought by individual litigants. Small and big business together were only responsible for 35 percent of the cases (see Table 11.2). Civil society organizations also brought important litigation against the government. In *The Catholic Diocese of Hong Kong v. Secretary for Justice* [2011], the Roman Catholic Bishop of Hong Kong maintained that the Education (Amendment) Ordinance 2004 undermined the Bishop's control over the management of aided-schools. The Bishop has long

Table 11.2 Background of non-government litigants across various types of issues

Tax/rent assessment

Litigant background	Number of cases	As a % of the total number of cases
Big business	20	71.43%
Small business	6	21.43%
Individual	2	7.14%
Total	28	100%

Land

Litigant background	Number of cases	As a % of the total number of cases
Small business	12	70.59%
Big business	3	17.64%
Civil society organization	2	11.76%
Total	17	100%

Administrative power/administrative negligence

Litigant background	Number of cases	As a % of the total number of cases
Individual	10	58.82%
Big business	4	23.53%
Small business	2	11.76%
Civil society organization	1	5.88%
Total	17	100%

Social policy

Litigant background	Number of cases	As a % of the total number of cases
Civil society organization	3	100%
Total	3	100%

Environmental protection

Litigant background	Number of cases	As a % of the total number of cases
Civil society organization	1	33.33%
Big business	1	33.33%
Individual	1	33.33%
Total	3	100%

Civil service remuneration

Litigant background	Number of cases	As a % of the total number of cases
Individual	3	100%
Total	3	100%

Others

Litigant background	Number of cases	As a % of the total number of cases
Individual	1	100%
Total	1	100%

Source: Author's own analysis upon the basis of data accessible at www.hklii.hk/eng.

been a sponsoring body operating aided schools (both primary and secondary) in Hong Kong. It operated 80 aided schools when it filed the lawsuit against the Hong Kong government. The Bishop together with other Roman Catholic organizations (which are directly the Bishop's leadership) provided about 30 percent of school places in Hong Kong in the early 2000s.[15]

For social policy litigation heard by the HKCFA, the background of litigants was completely different from that in tax/rent assessment and land litigation. All the social policy litigation was initiated by civil society organizations. In both *Lo Siu Lan v. Hong Kong Housing Authority* and *Ho Choi Wan v. Hong Kong Housing Authority*, the appellants were actively supported by two civil society organizations, namely the Alliance for Defending Grassroots Right to Housing and the Neighourhood and Worker's Service Centre (Tam, 2013: 195–196). Apart from defending grassroots right to housing, the Alliance has also been a long-time advocate for greater democracy in Hong Kong. For example, the Alliance appealed public housing residents to join a non-cooperation movement in late 2014 in order to press for universal suffrage.[16] The Neighourhood and Worker's Service Centre, led by a pro-democracy legislator Leung Yiu-chung, has long been championing worker rights. *Kong Yunming v. The Director of Social Welfare* was brought by the Society for Community Organization (SoCO). Established in 1972, SoCO is a pro-democracy grassroots advocacy group. Taking advantage of the opening up of legal opportunities (the enactment of the Hong Kong Bill of Rights Ordinance in 1991 and the promulgation of the Basic Law), SoCO has been actively mobilized the law with a view to advancing progressive socio-economic reforms in post-colonial Hong Kong (Tam, 2013: Chapter 8).

The role played by civil society organization in legal mobilization was not limited to social policy issue. Regarding environmental litigation, civil society organizations also played an important role. The litigation against the government's harbor reclamation plan in 2003 was launched by the Society for the Protection of the Harbour.[17] Established in 1995, the Society promotes the protection of the harbor from excessive reclamation through lobbying, public education, and litigation. It was led by Winston Chu (a lawyer) and Christine Loh (a former pro-democracy legislator). In 2008, the Society successfully litigated against another government's harbor reclamation project (Tam, 2013: 94–95). While the harbor reclamation litigation was brought by the Society, not all environmental litigation was initiated by civil society organizations. Table 11.2 shows that big business and individual took up another two environmental litigation heard by the HKCFA. In *Shiu Wing Steel Ltd v. Director of Environmental Protection* [2006], the plaintiff belongs to a big business group Shiu Wing Ltd. In *Leung Hon Wai v. Director of Environmental Protection* [2015], the plaintiff is a resident of Cheung Chau.

To summarize, there are substantial variations concerning the background of non-government litigating parties before the HKCFA. For tax/rent assessment and land litigation, big and small businesses were the major challengers to the government. For lawsuits concerning administrative power and especially civil service remuneration, individual litigants played the major role.[18] Regarding the environmental lawsuits, civil society organization, big business, and individual each took up one case. Finally, all social policy litigation was launched by civil society organizations.

Who won and lost before the HKCFA?

This section investigates how government and non-government litigants fared in the administrative cases that the HKCFA decided. Apart from discussing the overall success rates of both government and non-government litigants, I pay special attention to the litigation results of various types of issues. In other words, did government and non-government litigants experience a higher success rate in particular types of issues before the HKCFA?[19]

The overall success rate of the Hong Kong government before the HKCFA was 63 percent (won 44 out of the total 70 administrative cases) – higher than its counterpart in Singapore. In their empirical analysis of court decisions on judicial review in Singapore during 1965–2012, Chua and Haynie (2016: 50–52) find that the success rate of the Singaporean government before the Court of Appeal (the top court in Singapore) was 61 percent. In other words, the Singaporean top court ruled in favor of the non-government litigants in 39 percent of the judicial review cases. Given that our study of Hong Kong has not included human rights litigation, to make the cases of Hong Kong and Singapore comparable, I exclude the six judicial review decisions on constitutional liberties that the Singaporean top court made.[20] After this exclusion, the success rate of the Singaporean government in judicial review cases before the Court of Appeal was 56 percent. The result of the Hong Kong-Singapore comparison is somewhat surprising. The pro-government stance shown by the HKCFA in deciding administrative litigation is obvious when we compare the higher success rate of the Hong Kong government before the HKCFA to that of the Singaporean government – a single-party-dominated state known for its use of law to promote economic development and suppress human rights.

Although the overall success rate of the Hong Kong government in administrative litigation was relatively high, there were substantial variations in the government's success rate across different types of issues, and they will be examined below. Table 11.3 shows the success rate of the government across different types of issues. As can be seen from Table 11.3, the government won all the civil service remuneration cases and cases classified as 'Others'.[21] In calculating the success rate of the government in civil service remuneration cases, we have excluded the *Leung Ka Lau* case given that it had partial results. Even if we have included that case, the government's success rate was still remarkable – 67 percent (won 2 out of the total 3 cases). The remarkable record of the government may indicate that the HKCFA is reluctant to interfere in the management of the civil service, especially civil service remuneration.

The HKCFA also heavily ruled in the government's favor in social policy litigation (see Table 11.3). Of the three social policy lawsuits, the government won two of them. The government's victories included its policy of privatizing the retail and parking facilities within public housing estates and public housing rental policy. The government only lost in the *Kong Yunming* case, in which the top court ruled that the policy requiring all recipients of comprehensive social

Table 11.3 Success rate of different types of litigants in administrative cases before the HKCFA (July 1997–2015) (%)

Issues	Government	Big business	Small business	Civil society organization	Individual
Civil service remuneration	100	Nil	Nil	Nil	0
Social policy	67	Nil	Nil	33	Nil
Land	71	0	25	100	Nil
Tax/rent assessment	68	40	17	Nil	0
Administrative power/ administrative negligence	44	75	50	0	56
Environmental protection	33	100	Nil	100	0
Others	100	Nil	Nil	Nil	0

Note: Nil: had not filed any litigation on this issue

Source: Author's own analysis based on data accessible at www.hklii.hk/eng.

security assistance to have been residing in Hong Kong for at least seven years was unconstitutional. In other words, civil society organizations failed 67 percent of the time in their challenges to social policy before the HKCFA. This poor result suggests that legal mobilization may not be a viable means for civil society to pursue social policy reforms.

More broadly, the social policy litigation outcomes reflect that the HKCFA and the lower courts are reluctant to adopt a more proactive role in addressing the rising social and economic inequalities in Hong Kong. In the Link REIT case, the HKCFA gave the green light to the government's policy to privatize the retail and parking facilities within public housing estates. It turned out that the privatized shopping malls and carparks raised the rent and fees drastically, which has adversely affected the livelihood of public housing residents. In *Ho Choi Wan*, the HKCFA dismissed the appellant's claim for affordable public housing. The judiciary's reluctance to proactively address the rising socio-economic inequalities is also illustrated by the following two cases. In *Chan Noi Heung and Others v. The Chief Executive in Council* [2009], the HKCFA refused to grant leave to the plaintiff to appeal against the government's decision not to enact a minimum wage law. In 2009 the Court of First Instance dismissed an application for judicial review by parents of students with disabilities, which challenged the government policy of not allowing students with disabilities to continue their studies in special schools, if they are 18 years old or above.[22]

Concerning land and tax/rent assessment cases, the HKCFA also substantially ruled in favor of the government. Table 11.3 shows that, in land cases, the government overall won 71 percent of cases. Small businesses filed the most land litigation challenging the government, but their success rate was only 25 percent (won 3 out of 12 lawsuits filed). The performance of big business in land litigation was more disappointing, as they lost all the three lawsuits that they had brought to the HKCFA. Interestingly, while big and small business fared poorly in land litigation, civil society organizations (Tong and Tso) fared relatively well as they won the two land cases that they filed against the government.[23] Regarding tax/rent assessment cases, the government also scored substantial victory before the top court, as its overall success rate was 68 percent (see Table 11.3). Compared to their poor performance in land litigation, big businesses fared better in tax/rent assessment litigation as they won 40 percent of the litigation (8 out of 20 cases) that they brought to the HKCFA. The success rate of small businesses was only 17 percent (succeeded in 1 out of 6 cases brought by them). Individual taxpayers also brought two lawsuits against the government, but they were both dismissed by the HKCFA.[24]

With respect to the administrative power/administrative negligence cases, the success rate of the government was only 44 percent – much lower than that in civil service remuneration, land, and tax assessment. By contrast, big businesses achieved remarkable success in this issue, as they won 75 percent of the four cases that they filed. The success rate of small business and individual litigants also reached 50 percent and 56 percent respectively. Civil society organization only filed one case, and it was dismissed by the top court.

The government's success rate was lowest in the area of environmental litigation – only 33 percent. Of the three environmental lawsuits the HKCFA heard, the government only won the *Leung Hon Wai* case. In this case, the plaintiff opposed the proposal to construct and operate a municipal waste incinerator on an island near Cheung Chau. The government lost in the lawsuits against a harbor reclamation project and the construction of a permanent air fuel farm for storing aviation fuel in Tuen Mun. The loss of the government in the harbor reclamation case has particularly far-reaching impact on the development of large infrastructure projects in Hong Kong. The Hong Kong government has long heavily depended on harbor reclamation for acquiring usable land. In its judgment, the HKCFA ruled that the presumption against reclamation in the harbor, as stipulated in the Protection of the Harbour Ordinance, can only be rebutted by

establishing an overriding public need for reclamation.[25] The HKCFA set a demanding threshold for the government to justify any proposal for harbor reclamation. The litigation results described in this paragraph indicate that suing the government before the HKCFA may be a viable means for citizens and groups to pursue environmental protection.

Conclusion

This chapter provides the first systematic analysis of the outcomes of legal mobilization against the government before the HKCFA. It investigates how government and non-government litigants fared in the administrative cases that the HKCFA heard between July 1997 and 2015. Our study highlights three important findings.

First, the overall success rate of the Hong Kong government in administrative litigation was relatively high – 63 percent. In the 70 administrative cases that it heard, the HKCFA ruled in favor of the government in 44 cases. The overall success rate of the Hong Kong government before the top court is even higher than its counterpart in Singapore.

Second, although the overall success rate of the Hong Kong government was high, there were substantial variations in its success rates across different types of issues. Whereas the Hong Kong government enjoyed a strong advantage in cases on civil service remuneration, land, tax/rent assessment, and social policy, its advantage is weaker in administrative power/administrative negligence and environmental protection litigation.

Third, our empirical analysis of the litigation outcomes demonstrates the diverse background of the non-government litigants. Apart from big and small business and individual litigants, civil society organizations have also increasingly played an important role in mobilizing the law, particularly in social policy litigation and to a lesser extent in environmental protection litigation.

This study has two limitations. First, it has not analyzed the outcomes of those human rights cases in which the Hong Kong government is a litigating party. The inclusion of human rights litigation may alter the success rate of the government before the HKCFA.

Second, our study has not examined administrative litigation that the lower courts (the Court of Appeal and the Court of First Instance) have decided. The litigation outcomes at the lower courts may be very different from those at the HKCFA. Environmental protection litigation is a good example. While our analysis of the HKCFA shows that non-government litigants had a relatively high success rate in environmental protection litigation (winning two out of three cases), the situation was quite different in the lower courts. A preliminary survey illustrates that non-government litigants in environmental protection litigation fared poorly in the lower courts. In *Chu Hoi Dick and Another v. Secretary for Home Affairs* [Court of First Instance 2007], the Court of First Instance dismissed two environmental protection activists' application to oppose the government's decision to demolish the historic Queen's Pier. In *Ng Ngau Chai v. The Town Planning Board and Another* [Court of First Instance 2007], the judge dismissed the plaintiff's application for leave to challenge the government over the designation of a piece of land near the waterfront in West Kowloon. The government designated the land for residential development without any height restrictions.[26] In 2014 the Court of First Instance dismissed Ho Loy's (an environmental protection activist) judicial review application for overturning the government's decision to build a bathing beach at Lung Mei, Tai Po.[27] Environmental concern groups pointed out that Lung Mei has a rich and diverse ecological system. In 2016 Ho's appeal to the Court of Appeal was dismissed as well. The aforementioned examples illustrate that it is crucial for researchers to study the decisions reached by the lower courts, if we want to have a comprehensive understanding of the outcomes of legal mobilization.

Our research serves as the first step to empirically assess the outcomes of legal mobilization in post-colonial Hong Kong. Building on this study, the following research directions are suggested.

First, we can investigate how government and non-government litigants fared in human rights cases and criminal appeals before the HKCFA. Second, we can extend our study to the lower courts in order to examine whether the decisions made by the lower court are substantially different from those by the HKCFA. In other words, how often has the HKCFA upheld or overturned the decisions of the lower courts? Third, and more importantly, figures on who won and lost may not fully reflect the outcomes or impacts of legal mobilization. We need to move beyond these figures and explore the bureaucratic impacts of legal mobilization (see Hertogh and Halliday, 2004; Rosenberg, 2008). How have leaders of the executive branch and government agencies responded to their losses in legal mobilization? Have they complied with court decisions? Or have they defied? Under what circumstances will government agencies comply or defy court decisions? These are important research questions for us to answer.

Notes

1 It should be highlighted that legal mobilization has not only happened in post-colonial Hong Kong. Indeed, it is an important political phenomenon in many democratizing regimes around the globe (Tate and Vallinder, 1995; Sieder et al., 2005). Legal mobilization developed in Hong Kong during the process of the sovereignty transition from Britain to China. Beijing's military crackdown on the 1989 Tiananmen democratic movement and the more gradual process of the sovereignty transition which created new legal opportunities and a weakened legislature were the structural factors of the rise of legal mobilization in post-colonial Hong Kong (Tam, 2013).

2 *Town Planning Board v. Society for the Protection of the Harbour Ltd* [Court of Final Appeal 2004].

3 *Leung Hon Wai v. Director of Environmental Protection* [Court of Final Appeal 2015].

4 Apart from using administrative litigation, aggrieved citizens and groups can also bring their complaints of administrative malpractice to the Office of the Ombudsman, the Independent Commission Against Corruption, and the Public Complaints Office of the Legislative Council.

5 This study does not include court decisions (judgments) on whether to grant leave to appeal to the Court of Final Appeal (i.e., leave application).

6 The databases are accessible at www.hklii.hk/eng (last accessed on 23 June 2016). The Hong Kong Legal Information Institute (HKLII) is a free, independent, and non-profit Internet facility providing the public with legal information about Hong Kong. HKLII is developed and operated by the Faculty of Law and the Department of Computer Science of the University of Hong Kong. The databases include all the judgments of the HKCFA, the Court of Appeal, the Court of First Instance, the District Court, the Family Court, and the Land Tribunal.

7 Some human rights cases like *Ng Ka Ling and Another v. The Director of Immigration* [Court of Final Appeal 1999] may be classified as administrative cases, given that the litigants were contesting administrative decisions. Two criteria guided me to decide whether a case should be classified as human rights or administrative case. First, if the litigant primarily argued about fundamental human rights principles, such as right of abode, freedom of expression and association, and right not to be subject to torture or unlawful detention, that case would be classified as human rights case. Second, if the litigant had invoked the Hong Kong Bill of Rights Ordinance and/or the articles in Chapter III of the Basic Law (on the protection of fundamental political and civil rights), I would categorize that case as human rights case.

8 Galanter (1974) suggests that some classes of litigants are more successful in the court than other classes. According to Galanter, the government is generally a more successful litigant than businesses because the former possesses better resources and litigation experience than the latter. Businesses are generally more successful litigating parties than individuals for the same reason. Since Galanter published his seminal work, students on law and society have tested Galanter's theory in different contexts. In this study, I borrow Galanter's classification and add the category 'civil society groups'. As will be elaborated later in this chapter, civil society groups have played a pivotal role in social policy litigation and to a lesser extent environmental litigation in Hong Kong.

9 Examples of big business which had litigated against the government before the HKCFA include Swire Properties Ltd, the Hong Kong Electric Co Ltd, and PCCW–HKT Telephone Ltd.

10 *Leung Ka Lau and Others v. The Hospital Authority* [Court of Final Appeal 2009].

11 *Thang Thieu Quyen and Others v. The Director of Immigration and Another* [Court of Final Appeal 1998].

12 See *Ho Choi Wan v. Hong Kong Housing Authority* [Court of Final Appeal 2005], paragraphs 1–3.
13 *Shiu Wing Steel Ltd v. Director of Environmental Protection* [Court of Final Appeal 2006].
14 See *Wong Wan Leung and Others v. Secretary for Transport* [Court of Final Appeal 2001] and *Secretary for Justice v. Chau Ka Chik Tso and Others* [Court of Final Appeal 2011].
15 *The Catholic Diocese of Hong Kong v. Secretary for Justice* [Court of Final Appeal 2011], paragraphs 1–8.
16 One of the movement's plans was to call on public housing residents to postpone payment of rents to the end of each month, instead of the usual practice of paying at the beginning of the month. The objectives were to reduce the government's interest income and increase the government workload. See Economic Journal Insight, "Pro-democracy groups launch non-cooperation movement," *Hong Kong Economic Journal*, 15 December 2014, available from www.ejinsight.com/20141215-pro-democracy-groups-launch-non-cooperation-movement/ (accessed on 27 June 2016).
17 *Town Planning Board v. Society for the Protection of the Harbour Ltd* [Court of Final Appeal 2004].
18 All the lawsuits relating to civil service remuneration were brought by individual litigants – civil servants.
19 To calculate the success rates of government and non-government litigants, I exclude the two cases with partial results: *Thang Thieu Quyen and Others v. The Director of Immigration and Another* [Court of Final Appeal 1998] and *Leung Ka Lau and Others v. The Hospital Authority* [Court of Final Appeal 2009]. This leaves our study with 70 cases.
20 For these six judicial review decisions on constitutional liberties, see Chua and Haynie (2016: 52).
21 There is only one 'Others' case, which is *The Registrar of Births and Deaths v. Syed Haider Yahya Hussain and Another* [Court of Final Appeal 2001].
22 See *Tong Wai Ting v. Secretary for Education and Another* [Court of First Instance 2009], and Tam (2013: 105–106).
23 The two cases are *Wong Wan Leung and Others v. Secretary for Transport* [Court of Final Appeal 2001] and *Secretary for Justice v. Chau Ka Chik Tso and Others* [Court of Final Appeal 2011].
24 See *Lee Yee Shing and Another v. Commissioner of Inland Revenue* [Court of Final Appeal 2008] and *Fuchs, Walter Alfred Heinz v. Commissioner of Inland Revenue* [Court of Final Appeal 2011].
25 See the judgment *Town Planning Board v. Society for the Protection of the Harbour Ltd* [Court of Final Appeal 2004], paragraphs 44–49.
26 For discussion of these two environmental lawsuits, see Tam (2013: 22, 201).
27 See *Ho Loy v. Director of Environmental Protection and Another* [Court of First Instance 2014].

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12

Transformative events and their frames and repertoires of contention

Edmund W. Cheng

Introduction

A new wave of activism from below has diffused through Hong Kong at the turn of the century, enabling contingent, massive and resilient mobilization and resulting in appraisal of the claims and repertoires of its three-decades-long democracy movement. According to two university polls, 7.5 per cent and 18 per cent of the local population, or 502,000 and 1.25 million people, participated in the July 1 rally in 2003 and the Umbrella Movement in 2014, respectively (HKUPOP, 2003; 2014). While demonstrations, rallies and vigils have been ritualized before and after the handover, a series of critical events featuring pro-heritage, anti-hegemony and anti-integration claims have proven effective in mobilizing progressive actors to join in collective action and spurring cognitive recognition of grievances in the new regime (Lee and Chan, 2011; Cheng, 2016). Compared with regulated protests that serve as an integral part of pressure group politics, this wave of bottom-up activism favours direct action, participatory practice and polycentric protest structure. Consequently, despite possessing essential material and network resources, veteran political parties and social movement organizations (SMOs) have gradually diminished from organizers and partners to become bystanders in the course of these protest events (Cheng and Chan, 2017).

This chapter seeks to explain this temporal clustering of protest events and to assess their transformative effects in Hong Kong's democracy and social movements. William Sewell (2005: 110) defines events as "sequences of occurrences that result in transformations of structures" by "constituting and empowering new groups of actors or by re-empowering existing groups in new ways". Donatella Della Porta and Sidney Tarrow (2005) further recognize the democratic potential of a contingent and populist protest cycle that can transform a structure from below. Following Ruther Collier (1999), David Hess and Brian Martin (2006) and Donatella Della Porta (2014), bottom-up activism and its transformative effects are measured by the changes in a) power relations between insiders and outsiders, b) the scale of protests and the background of protestors, c) the arena in which political conflicts and social dramas occur and d) the cognitive meaning of protest experience in forgoing solidarity and identities among protestors.

By examining the recurring claims and repertoires connecting critical events, this chapter reveals the historic-institutional foundations for the emergence of street politics in Hong Kong

and analyzes how participants' practice and interpretation of events might shape their future actions. Critical events are thus regarded as *both* products and producers of political opportunities. This chapter also studies the ways in which "democratic reunification", a master frame of Hong Kong's democracy movement, has been contested by localist claims and occupy tactics amidst bottom-up activism. Not all political actors endorse this master frame, but "democratic reunification" has long served as communicative discourse to inform participants of what to fight for and as coordinative discourse to appropriate their collective action. As framing helps to identify grievances, label antagonists, shape repertoires and solidify identities (Benford and Snow, 2000), its reshuffling would have shaped Hong Kong's democratic transition and its relations with mainland China.

The findings of this chapter came from intensive fieldwork. First, we obtained official event data by filing an application to the Security Bureau and the Legislative Council. Second, we conducted two random surveys (n = 1681 and n = 600) during the Umbrella Movement in 2015 and the June Fourth Vigil in 2015. Third, we reported a dozen semi-structured interviews with veteran politicians and activists as well as emerging student and movement leaders who inspired, led or brokered a series of critical protest events.

Democratic reunification and organizational embeddedness

Despite the notion that Hong Kong is an apathetic society featuring a "minimally integrated socio-political system", grassroots social movements and informal negotiations with its sovereign powers have not been uncommon (cf. Lau, 1984; Ngo, 1999; Lam, 2004; Yep, 2013). Accompanied by rapid social transformations and an agitation of local identity in the 1970s, Hong Kong citizens began to organize collective action and make claims against the state. A tradition of the rule of law and a relatively free press also ensured that peaceful protests would normally not end in state repression. However, despite the increase in contentious actions, the boundaries of contention remained contained as colonial authorities tackled these challenges through extensive social reforms and gradual democratization – what Lui and Chiu (1997: 109) call "the accommodation of popular demands within the political parameters of the growing administrative state". Accordingly, protests served the role of pressure group politics and advanced primarily issue-specific and functional claims, leaving the undemocratic and corporatist nature of the colonial regime unscathed.

The signing of the Sino-British Joint Declaration in 1984 that confirmed the handover in 1997 activated Hong Kong's democracy movement. Considering the change of sovereignty as an ascension in the "political opportunity structure", grassroots activists, social workers and public intellectuals, who were young and passionate, rallied to form political parties and SMOs (Chiu and Lui, 2000). In 1986, as many as 91 NGOs and political groups formed the Hong Kong Democratic Foundation, coordinating their resources and reinforcing one another's legitimacy through an umbrella network (Ma, 2012: 96–97). Since then, Hong Kong's social movement and democracy movement were merged, based on the discourse of decolonization and democratization. Known as "democratic reunification" (*minzhu huigui*), literally reunion with China through democratization, this master frame of contention allows activists to attribute the autocratic-corporatist structure as the source of injustices and to mobilize the moderate middle class to engage in collective action (Law, 2014).

This master frames denotes that fighting for the populace's political representation through democratic reforms enables not only coping with uncertainty during the regime transition but also exercising one's citizenship through equal and civic participation (So, 2000:

359–360). Similar to other successful framing exercises, "democratic reunification" managed to attribute problems and responsibility to the old regime in addition to mobilizing actions of its supporters to prepare for a new era (Snow and Benford, 1992: 138–142). In this sense, it assured the new sovereign and local business elite that Hong Kong citizens are capable of governing themselves under the "One Country, Two Systems" framework, which endorses a liberal democratic system while concurrently checking the emergence of welfare populism. Accordingly, political demands and social protests must be expressed and articulated in a highly civilized manner, featuring the repertoires of peace, rationality, legality and non-violence (*heli feifei*) (Law, 2018). By leveraging a popular mandate rather than protest militancy to advance their functional and incremental claims, the newly emerged SMOs and political parties cultivated movement solidarity and earned their legitimacy in coordinating Hong Kong's social and democracy movements.

This master frame has consolidated a "civilized" protest cycle that has counted on the organizational embeddedness of activists and its potential adherents. Does SMO enjoy the legitimacy and autonomy needed to leverage protest strength? In what ways are material and network resources a prerequisite for mass mobilization? Why do existing groups absorb new groups or crowd them out? How does the choice of tactics illustrate the form of protest structure? These questions refer to organizational embeddedness, illustrating protestors' dependence on organizational resources in mobilization as well as their solidarity within a movement hierarchy.

June Fourth Incident and pressure group politics

The June Fourth Incident in 1989, a contingent pro-democracy movement in mainland China in which Hong Kong citizens were deeply involved, caused direct and unintended consequences that were at times conducive to Hong Kong's political mobilization. To pro-democracy supporters, the utility and urgency of having democratic institutions to defend the political enclave's existing freedoms and lifestyle against an authoritarian sovereign could not be more evident. A massive and uninterrupted annual vigil has since been organized by the Hong Kong Alliance in Support of Democracy Movement in China (The Alliance) to signify the intertwined relations between China's and Hong Kong's democracy movements and to reinforce the precedent of assembling a massive rally to mobilize political participation. To the Beijing government, deepening co-optation of the elites and gradual representation for the masses were necessary to maintain stability in the transition years. A united front framework was extensively applied to delegate political autonomy and representation to former collaborators of the colonial regime. The constitutional framework and reforms in the 1990s and early 2000s were largely the interplay between these concerns and bargains.

As preserving the existing systems instead of inventing a new order seems to be a compromise between state and society after June Fourth, the master frame of "democratic reunification" was reinforced, but its decolonization claim has been halted. Some scholars have insisted that the implicit master frame has evolved to become "democratic resistance" (*minzhu kanggong*), literally referring to resisting communism through democratization (Law, 2014). Regardless, the Basic Law, Hong Kong's mini-constitution, resembled the corporatist structure inherited from the colonial regime. Business groups secured majority representation to elect the Chief Executive (CE), and the functional constituencies that account for half of the Legislative Council (Legco) seats were tailor-made for them. While the pro-democracy camp has secured between 55 and 60 per cent of the popular votes in geographical constituencies over the years, they are institutionalized as a minority in the legislature (Ma, 2016). To revive an executive-led model and appear impartial, the CE is prohibited from having any party affiliation. These arrangements, however,

effectively restrict the formation of a formal ruling coalition and subject the executive and legis-lative branches to diverse electorates and, hence, different levels of accountability.

The restoration of the corporatist structure amidst gradual democratization constitutes the hybrid nature of Hong Kong's regime and establishes the institutional foundations for street politics. While pro-regime lawmakers or establishmentarians always collaborate with the govern-ment on the constitutional agenda, they act as if they were in opposition on socioeconomic issues. They regularly protest in front of government buildings to fulfil election promises, prompt policy changes or profit from unpopular officials. The government often selectively adopts their recom-mendations to boost the pro-regime camp's popularity. Subordinated to similar logic but aimed at a different audience, the opposition or pan-democrats also regard the periodic mobilization of the masses as an effective means of bolstering its leverage against a semi-closed political system and cultivating networks of the pro-democracy camp.

July 1 rally and the expansion of protest space

Although the agendas varied, the scale of protests during this cycle of "civilized" protest was consistently limited to one or several dozen people, primarily politicians, unionists and their friends or assistants. Regardless of the camp, the slogans and strategies used during protests were typically designed and standardized by experts. This practice indicates the absorption of protests into electoral politics, in which organized elites articulate and express public interests through contentious yet controlled means.

The July 1 rally in 2003, in which more than half a million Hong Kong citizens marched onto the streets to protest a proposed national security law, set the precedent of using coordi-nated rallies and protest headcounts to achieve political concessions. Coordinated through civil society platforms such as the Civil Human Right Front and self-mobilized through personal-ized networks, SMOs and political parties in Hong Kong overcame their resource constraints (Lee and Chan, 2008). This consolidated the notion of civil society in self-defence indicating that the struggle to gain democratic rule and preserve existing freedoms are primary reasons to participate in protests (Ma, 2007). While this critical event expanded the protest space, its claims remained instrumental. Once the national security bill was dropped, the CE considered respon-sible for the governance crisis resigned, and the economy rebounded. The annual rally persisted, but its scale declined dramatically, with many civic groups becoming idle.

More importantly, certain preordained relations between protest repertoire and regime response endure. Characterized by similar aims, means and agencies, regulated protests standard-ized the following state-society expectations:

a) Organizers regularly plan rallies and vigils and conduct them within legal boundaries to avoid clashes with police and to control the ups and downs of the protest cycle;
b) Participants ritualistically engage in pre-set routines with their participation reduced to merely being part of a headcount aimed at increasing leverage in the Legco; and
c) The government waits for crowds to disperse and emphasizes elite cohesion, as all protests are eventually containable and confrontation is both costly and unnecessary.

A nascent but impeded movement society

The trend of regulated protests from 2003 to 2015 is summarized in Figure 12.1. First, the number of legal processions, which refer to public meetings of more than 30 people or public processions of more than 50 people, increased from 2,705 in 2004 to 6,029 in 2015. Despite
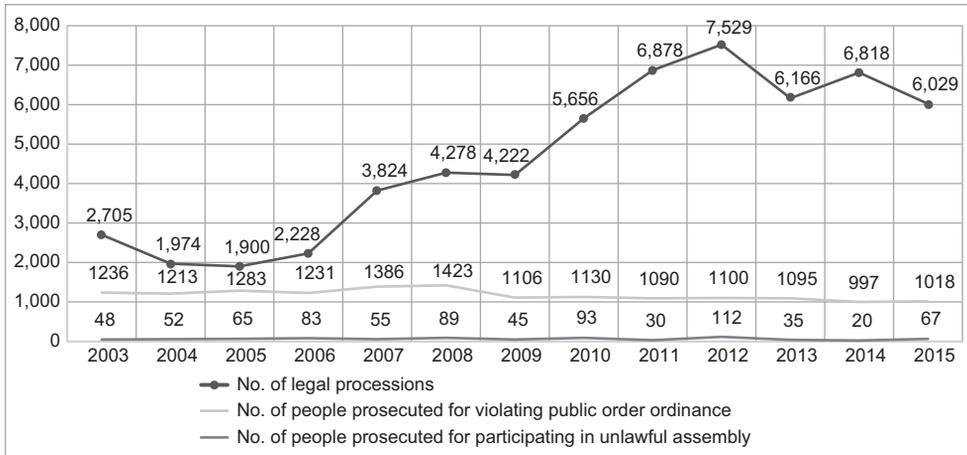
Figure 12.1   Protest trends and prosecutions in Hong Kong, 2003–2015
Source: Hong Kong Security Bureau, *Reply to Public Access of Information*, 9 May 2016.

the ebbs and flows of this protest cycle, the protest threshold has clearly been amplified. Within a period of 13 years, 60,207 protests of that scale have occurred – an average of more than 12 protests per day. Second, the data also suggest that 2003–04, 2006–07, and 2010–12 were the critical junctures at which the number of protests increased rapidly. Since then, the annual change in processions has been highly correlated with the timing of occurrence of other critical events, which will soon be discussed. This finding suggests that, while organized protests and bottom-up events adopted different repertoires, they reinforced one another's protest space and commitment. Third, the percentage of processions ending with a prosecution has, however, remained constant. The number of prosecutions resulting from violation of the Public Order Ordinance (Cap 245) and participation in unlawful assembly (Cap 245 section 18) has also remained constant. This phenomenon partly implies that civil disobedience has not been not widely adopted by ordinary protest participants. It also reflects aspects of the hybrid regime, such as the right of assembly, the independent court system and even the economic ecology, that constrained the scope of legal maneuvers and massive arrests. However, this does not mean that the regime has ignored the escalation of protests. Whereas protestors charged with assaulting police office before 2005 were constantly prosecuted under the Police Ordinance (Cap 232 section 61), indicating that an individual, if convicted, is eligible for the suspected sentence, those charged after 2006 were consistently prosecuted under Offences against the Person Ordinance (Cap 212 section 36b), indicating that conviction, if it occurs, must lead to imprisonment. The hybrid regime has exhibited a learning curve in the face of the new challenges from radical repertoires.

Whereas regulated protests have become more frequent, sizeable and contentious, they have largely functioned as a form of pressure group politics to advance primarily issue-specific and functional claims. The main objective is to increase the pan-democrats' leverage to solicit concessions from the authorities. Aligning with the frame of democratic reunification, veteran politicians have prioritized lobbying central and local governments as a rational and ultimate solution. Hong Kong's nascent "movement society" has been impeded (Meyer and Tarrow, 1998), in which protests have not been fully institutionalized into the regime to allow effective checks and

balances of the opposition, and political elites have not accepted its normalization without the fear that it could weaken the regime's legitimacy and hamper policymaking.

Thus, whereas pro-democracy supporters consider regular mobilization a necessary means to exercise freedoms and improve governance, the central government perceives protests as signs of disloyalty, inferring that the "people's hearts and minds have not returned" despite the change of sovereignty (Jiang, 2010). The July 1 rally, in particular, reinvigorated the rhetoric of national security threats, according to which Beijing changed its policy from "non-intervention" to "pro-action" in Hong Kong (Cheng, 2016). These diverse interpretations of contentious politics have separately led to the state's strategy of institutional adjustments, economic integration and cultural embodiment that aim to haul the ex-colony to its motherland and led to civil society's repeated backlash in the battle to defend the semi-autonomous city's distinguished freedoms, lifestyle and identities.

This process of regime reconfiguration has pushed the boundaries of contention. First, whereas the reach of the central government expanded, the authority of the local government weakened. This power reshuffling neither reduced protests nor accommodated dissent in the system. Instead, an increasing number of activists insisted that regulated and predictable protests were unable to freeze preordained central-local relations and combat the new challenges. Second, when final decision-makers surfaced, the subject of contention inevitably shifted from the Hong Kong government to the Beijing government. A series of critical events synchronizing pro-heritage, anti-hegemony and anti-integration claims has thus invented creative repertoires, mobilized youth participation and constructed a localist frame of contention.

The diffusion of bottom-up activism

Between 2006 and 2014, seven critical events featured the change in actor, scale, arena and cognitive effect of contention discussed earlier. These events included the Pro-Star Ferry Pier occupation in 2006, the Pro-Queen's Piers occupation in 2007 (pro-piers), the anti-national education curriculum movement (anti-NEC) in 2012, the anti-Guangzhou-Hong Kong express railway link protest (anti-XRL) in 2009–2010, the anti-Northeast New Territories Development Plan in 2012–2014 (anti-development) and the re-issuing free-to-air television licence campaign in 2013 (pro-licence), which unfolded to become the Umbrella Movement in 2014.

Although most new activists shared resources and networks with existing SMOs and pan-democrats, their solidarity with the protest leadership has decreased. Moreover, the critical events they initiated exhibited certain recurring patterns that differentiated bottom-up activism from regulated protests: a) young activists and progressive SMOs have contested the leadership of veteran political parties and SMOs, favouring direct action, participatory practice and digital reconstruction; b) the scale of mobilization has reached a new threshold, extending beyond the traditional pro-democracy supporters of the middle class; c) the street rather than the Legco has become the arena in which political conflicts and social dramas are staged and deliberated; and d) collective action is regarded as not merely a means to democratization but also an end in itself in empowering citizens and solidifying their identities.

On the one hand, this protest cycle has diffused to other sectors including industrial action, the LGBT (lesbian, gay, bisexual and transgender) movement and green activism, which strengthen the efficacy of occupy tactics. For instance, the Bar Bender Strike in 2007 and the Dock Strikes in 2013 were subsequently the longest strikes in post-war Hong Kong. On the other hand, while these strikes or movements performed similar repertoires, they attacked the hegemonic

composition of the regime but primarily targeted functional claims. Detached from the pro-heritage and anti-integration frame, they were not widely diffused despite the rise of this protest cycle. In particular, Occupy Hong Kong in 2011, built upon a dogmatic rejection of neoliberalism without effective indigenization and network mobilization, attracted only a few dozens of supporters and left few traces. By comparing events that failed to diffuse and events that escalated, we emphasize that the alignment between frame and repertoires, instead of occupy tactics *per se*, made these bottom-up events transformative.

Youth actors and massive mobilization

The scale and persistence of protest participation increased rapidly. Although the organizers' figures are not always accurate, they are highlighted in mass and social media and serve as a catalyst for further mobilization. The number of protestors willing to participate in an illegal assembly increased from a maximum of 450 in the pro-piers events in 2006–2007 to 8,500 in the anti-XRL event in 2009–2010 – a 19-fold increase in event size in approximately two years. That size reached 120,000 in the anti-curriculum event in 2012 and the pro-licence event in 2013, reflecting an additional 14-fold increase in participation over two years.

The pace and networks of mobilization also expanded. Unlike past rallies that required months of resource mobilization, these events were spontaneous. While personal ties continued to connect event organizers, the rallying of protestors took only weeks or days. For example, the anti-curriculum event prompted the formation of new SMOs such as Scholarism on 17 July 2012 and mobilized 90,000 people to siege the government headquarters a fortnight later. A founder of Scholarism recalled that all of its 300-plus members were secondary school students rallied through Facebook and WhatsApp (interview, 17 July 2015). On 15 October 2013, two university graduates of Left 21 created a Facebook page to contest the government's decision to reject a highly competitive – and relatively critical – television operator's application for free-to-air television licences. In less than 24 hours, the page received more than 440,000 "Likes" and ranked number five among all Facebook pages in Hong Kong (Socialbakers, 2014). The online criticisms were translated into collective action, mobilizing 120,000 people to occupy the government headquarters three days later.

Moreover, resilient protest and decentralized organization reinforced each other. The longest event lasted 122 days, and the shortest lasted 43 days. On average, 67 days of contentious episodes involved multiple peaks of mobilization. This figure is comparable to the 79-day occupation in the Umbrella Movement, revealing both the resilience and physical limitations of occupy tactics. Compared with regulated protests typically lasting minutes or hours, the contentious episodes of these critical events were greatly extended. Tens to hundreds of hard-core activists secured the field between the peaks of each event, waiting for the masses to rally after work or on weekends. To sustain the occupations, these protestors tackled many logistical issues, such as soliciting donations, recruiting volunteers and distributing goods and services. These robust interactions cemented the horizontal and self-mobilized image of individuals while downplaying the roles of SMOs and political parties.

However, a decentralized protest structure must be distinguished from disorganization. First, many progressive actors emerged and became stronger through these events. Apart from Scholarism and Left 21, other examples include Local Action, Land Justice League and Civic Passion. These new SMOs established their propaganda outlets to contest the leadership of pan-democrats and develop their power base. Second, a plurality of communal and digital communities served as centres of influence through flexible networks and overlapping membership. Whereas new SMOs played crucial roles in framing the protest and making claims, these deliberative and

participatory practices of autonomous individuals sustained the daily operations and coordinated future actions. In this light, these SMOs largely succeeded in constructing a unique identity and building inter-personal trust for mass mobilization rather than forming a hierarchical organization to enable coordinated actions. However, many young activists considered this dispersed and polycentric organizational form to be fairly conducive to disbanding the central and local governments' united front and infiltration strategies (Interview, 18 August and 26 August 2014).

Direct action and street arena

Another defining feature of the bottom-up activism is the standard application of direct action to frame Beijing's intervention and its surrogates' subversion as antagonists eroding Hong Kong's autonomy, values and freedoms. Direct action is not merely a tactic that involves using pressure to gain immediate political concessions but is the idea that people should take power for themselves. A long debated difference between direct action and civil disobedience concerns participants' attitude toward the established authority. While both are willing to accept the legal consequences of their actions, direct actionists aim to use their participatory practices to concurrently demonstrate the injustice of the political system and to operate an alternative social order (Graeber, 2009: 202–204). In this light, although union strikes, student sit-ins and street riots were practiced before and after the handover, the scale, duration and repertoire of direct action, along with their interactions in mass and social media, established an unprecedented contentious discourse (Ku, 2012). While the regime rarely offered concessions, it has adapted to the new activism by shifting from the tactic of ignoring to attrition (Yuen and Cheng, 2017). Legal tools and countermobilization have been practiced, which effectively shielded the regime but inevitably amplified the social drama on the street.

Occupy tactics are central to bottom-up activism. This process creates a new space, visualizes the contention and disrupts the very idea of ordinariness. Three youth activists who initiated the city's first and longest occupation admitted that they consciously emulated the direct actions of South Korean farmers at the World Trade Organization's Sixth Ministerial Conference in Hong Kong in 2005 with the view that civil disobedience is a means of defying the legitimacy of an undemocratic regime (Cheng, 2016: 395):

> The idea of reclaiming our public space emerged long ago. It was practiced at Star Ferry Pier but was short lived. Lack of surprise was one reason, and [a lack of] persistence another. On the eve of 26 April 2007, we decided to replicate the direct action. A dozen of us marched toward Queen's Pier, which was already blockaded, waiting to be demolished. The guards tried to stop us, and the police arrived within minutes. When we thought that our action would fail, the police suddenly retreated and secured the perimeter.
>
> Different sorts of people moved into it [the perimeter], not only activists and students but writers, architects, artists and academics. We organized talks, concerts and hunger strikes and shared our ideas, foods and tents. That perimeter produced the city's most visible public space in the following months; the period was itself monumental.
>
> *(Interviews with activists, 13, 21 and 23 August 2014)*

A plausible explanation for the regime's inaction is its adherence to a let-it-vanish precedent that relies on the containment of protests. This dominant strategy proved fatal, as the initial occupation by tens of activists diffused into the siege of the Legco building, the CE's residence and the government headquarters by tens of thousands of protestors in subsequent events. The use of siege to coerce government officials and elected representatives to align with the majoritarian

view was rather unparalleled. Even during the high tide of past rallies, this option was not considered. One concern involves respect for the office's statutory symbol rather than the holders of it. Another is that radical action would contradict the city's political culture (Interviews, Hong Kong, 15 and 21 May 2014). Both of these were no longer considered notable. On several occasions, officials and establishmentarians had to be escorted out by the masses. Subsequent opinion surveys show that a significant portion of the public sympathized with, if not approved of, such direct actions. This change from consensual disapproval to conditional acceptance is temporal, but once initiated, it is difficult to reverse.

The convergence toward occupy tactics also served as the prerequisite for staging creative performances that swelled the pro-heritage and anti-integration claims. Heritage tours were held to monumentalize the Star Ferry and Queen's Piers indigenous activism against the colonizers dating back to the 1960s and 1970s but then unfolding a collective memory of the good old days. Imitating the "prostrating walk" of Buddhist pilgrims, protestors held a parcel of rice, kneeled and bowed across five Hong Kong districts to show their affection for the city and its indigenous community and express their disapproval of the XRL megaproject. Three subsequent events, directed toward the undemocratic regime and pro-regime elites, witnessed a dramatic increase in participation and confrontation. Hunger strikes and student strikes were respectively launched and proposed to protest against the implementation of the "brainwashing" NEC, revealing the awakening of youth activism. A bazaar was established in front of the government headquarters to sell organic and home-grown products that would be endangered by the extensive North-East development plan aimed at regional integration and service upgrades. Satirical sketches were freely and openly performed in front of the government headquarters, uncovering citizens' commitment to freedoms of assembly and speech. These spectacular events thus provoked a segment of society that would not otherwise pay attention to, endorse or participate in illegal assemblies.

Cognitive affections and committed protestors

Learning from prior protests plays a crucial role in affecting protestors' commitment to the democracy movement. Although this wave of bottom-up activism has been motivated by different – at times conflicting – claims, it has empowered supporters with deep emotions and hence enabled a period of sustained collective action.

A good measure of cognitive affection is how participants express and debate controversial issues in their everyday lives. Subject to the influence of these events, the idea of citizen journalism has flourished. By emphasizing native accounts, instant sharing and critical experience, many reporters and writers actively participated in these events. Derivative works including seminars, exhibitions, songs, books and cartoons have been reproduced to deepen the acts of resistance. These alterative re-experiences have overcome self-censorship in the mass media and blurred the boundaries between objective observers and passionate participants, thereby expanding the reach and durability of contentious episodes. Internet traffic data confirmed that the circulation of these platforms increased concurrently with the events. As of 15 March 2014, the most popular alternative news outlet, HouseNews, ranked number 95 in Hong Kong and number 18,693 globally, rising 7,326 places in three months (Alexa Internet, 2014). When the patron of HouseNews closed the site in July 2014 because of fear and advertisement boycotts, this vacuum was instantly filled (Tsoi, 2014). InMedia, *Dash* and the more radical VJMedia and *Passion Times* absorbed its former readership. Activists were both saddened and provoked by the closure of HouseNews. One legislator considered its closure "the end of constructive dialogue"; an event organizer referred to it as "the beginning of guerrilla warfare" (Interviews, 31 July 2014 and

Table 12.1 Motivations for participation among Umbrella Movement participants

Umbrella Movement 2014 (n = 1681)		Indicators	June 4 Vigil 2015 (n = 600)	
Espouse universal suffrage	86.4	Civic-political	73.1	Espouse universal suffrage
Defend high autonomy	82.5	Civic-political	78.2	Defend high autonomy
Resist Beijing interventions	33.3	Civic-cultural	29.9	Resist Beijing interventions
Preserve Hong Kong identity	42.1	Ethno-cultural	37.9	Preserve Hong Kong identity
Support civil disobedience	46.1	Event-specific	36.2	Support occupy spirit
Oppose police violence	52.2	Event-specific	31.2	Construct democratic China
Champion better livelihood	4.6	Socioeconomic	−36.9	Champion policy change

Source: Author's onsite survey. Respondents were asked to rank on a Likert scale. Measured in terms of degree of importance.

15 August 2014). Again, the attack of a relatively moderate and organized platform has led to radical and decentred backlash.

The ways that people attribute and understand their collective action are also a good reference for the transformative effect of protest events. Table 12.1 reports survey data randomly collected at the protest sites in the Umbrella Movement of 2014 and in the June 4 Vigil of 2015. Although the former event was spontaneous and illegal and the latter was regulated and sanctioned, the claims of protestors surprisingly converged more than they diverged. First and foremost, civic-political claims are among the most important protest motivations. Espousing universal suffrage was ranked slightly higher than defending high autonomy, indicating that protestors are increasingly proactive and committed to universal values. In contrast to the understanding that Hong Kong's democracy movement is partly a pretext to secure high autonomy, these data sets suggest that the claim for systemic political reform is a means of preserving freedoms and redressing policies. Compared with event-specific claims, the form of action or antecedent experience such as civil disobedience and the spirit of the occupy movement also received comparable endorsement. Compared with some past surveys at the June 4 Vigil, the declining score assigned to "building democratic China" was most likely caused by the rise of localism. This trend indicates the recession of "democratic reunification" frame among the stalwart protestors and marks the divergence, if not divorce, between China and Hong Kong's democracy movements. Read alongside the extremely low scores for socioeconomic indicators, these preferences imply a gradual decline in apolitical and anti-conflict sentiments.

If we divide the respondents into those who participated in at least one critical event in addition to regulated protests (stalwart protestors) and those who participated only in rallies and vigils (casual protestors), their transformative effect in participatory or deliberative antecedents are evident. Although both groups valued democracy, stalwart protestors attributed the higher scores to universal suffrage. Meanwhile, they are also more strongly motivated by the drive to resist Beijing's encroachment or interventions in Hong Kong's identity or lifestyle, while event-specific factors remain less compelling. Stalwart protestors are thus fuelled more by the logic of accumulated grievances than by suddenly imposed grievances.

Instead of being motivated by functional claims and pragmatic agenda, protestors attributed the lack of political enfranchisement as the source of socioeconomic inequalities and governance crisis. The common style of dress at protest sites suffices to exemplify the protestors' cognitive affection. While unified colour is always a symbol of solidarity and a tool for mass mobilization, it primarily appears in organized events such as the Red Shirts in Thailand or the

Muslim Brotherhood in Egypt. However, despite the spontaneous and decentralized protest structure, Hong Kong's protestors have always and almost unanimously worn black or white. When hundreds of thousands of protestors observe uniform dress codes during an occupation, this denotes both their individual autonomy and their sense of collective solidarity and identity. Thus, although these events often failed to gain concessions, they generally convinced the participants that their grievances and sufferings are structural in nature.

Contested organizational dependence and regime response

Given these resilient and creative repertoires, the relations between protest leaders and protest participants have changed. Lawmakers have steadily devolved from organizers and partners to bystanders. Initially, almost every pan-democrat duplicated the protestors' claims at Legco council and committee meetings to confirm their support for the masses and exert pressure on the hybrid regime. Legco hearings and bipartisan splits also clearly differentiated friends and enemies, thereby strengthening the pan-democrats. Several radical pan-democrats such as the League of Social Democrats have urged their colleagues to endorse filibusters since the anti-XRL event in 2009. They eventually succeeded in winning the support of the once-moderate Civic Party to use resignations to initiate a *de facto* territorial-wide referendum in 2010 to allow voters to showcase the populace of democracy. Considered then a violation of hidden norms, the establishmentarians reacted by breaching the agreement of alternating committee chairs with pan-democrats and by tightening deliberation procedures. Legco has since been evolved in another field of action in which any controversial or publicly recognized issue has either a pro-people or pro-regime connotation.

Despite these reactions, the pan-democrats have barely reclaimed their leadership position in collective actions. The outcomes of two events amidst of rise of the protest cycle are particularly illustrative. First, the 2010 civil referendum managed to mobilize only two-thirds of traditional pro-democracy supporters to vote, indicating the pan-democrats' internal split as much as their weakening authority. Second, the Democracy Party's negotiation with the central government's Liaison Office in 2010 that resulted in an instrumental constitutional reform has been severely attacked by its grassroots allies and traditional supporters. Although constructive engagement with Chinese authorities had been approved under the frame of democratic reunification, it has increasingly been self-discrediting, if not suicidal. Despite its track record in resisting collaboration with Beijing and promoting democracy, the Democracy Party has since been framed as traitors, suffering severe electoral defeats in the 2012 Legco elections and failing to recover its public esteem. When the opposition's leadership was at stake, it lost its mandate to bargain with authorities and began to function as envoys rather than senators.

While Hong Kong's regime suffered from similar challenges, its responses have been more adaptive and proactive. Structurally, the local regime managed to check elite defections by convincing political elites that their economic interests and political careers lie in preserving the existing order rather than invigorating a new mandate. Strategically, the regime adopted proactive strategies to repel these challenges while appearing to tolerate them. First, the regime relies on the institutional tools available to increase the cost of resistance. Instead of raising charges on young and renowned activists, they targeted stalwart protestors. For example, among the 17 arrested occupiers in pro-Piers events, only two publicly unknown yet highly active protestors were prosecuted, imprisoned and bankrupted for illegal assembly. These targeted reprisals capitalize on the public's cross-sector respect for court verdicts while leveraging the ambiguity in selective prosecution. This tactic effectively places a moral burden on protest leaders by punishing their close allies and deters the formation of hierarchical organizations by destroying committed

intermediaries. Second, regime–tolerated, if not regime–sponsored, counter–mobilizations have developed rapidly. Since 2010, "civil" organizations such as Caring Hong Kong Power and the Silent Majority for Hong Kong, with close elite linkages, surfaced and claimed to represent the silent majority who treasure order and business, liberty and peace, yet adopting similar tactics as activists. Through mass demonstrations, petitions and sit–ins, they mobilized the opposition against the youth, trivialized the events' goals and affirmed the popular base of the regime. Certainly, the counter–protests helped create a media spectacle of chaos and violence in the once–peaceful rallies and imposed hefty costs on protest organizers and participants. However, these confrontations have also reinforced the sacredness of the street arena rather than weakened it amidst an escalating protest cycle.

The Umbrella Movement unfolds

Notwithstanding the effects of contingent factors and hardliner policy, the Umbrella Movement in 2014 is largely a particular manifestation of this wave of bottom–up resistance. Table 12.2 documents a positive relationship between participation in these critical events and participation in the Umbrella Movement. While as many as 85 per cent of protestors had participated in previous sit–ins, rallies or occupations – especially the July 1 rally (84.7 per cent) and the June 4 vigil (73.7 per cent) – only 15 per cent were newcomers who had no protest experience. Compared with the vigils and rallies lasting decades and hence attracting a popular base, this participation in a one–time anti–NEC event (63.6 per cent), including 72 per cent who visited the protest sites before tear gas was fired, clearly served as a rehearsal for the 79–day occupation. The storming of Civic Square on 26 September 2014, a contingent event initiated by student leaders triggering police suppression and mass mobilization, was therefore a highly symbolic action in reclaiming a public space structured by experience in the anti–NEC event.

While participation in pro–heritage and anti–integration events was relatively minor, the escalating trend of and commitment in direct actions is evident in these small–scale initiatives. As many occupiers concurred, although they were not fully prepared to pay dues for civil disobedience, they could already imagine the scene of occupying roads after several years of public deliberation. The localist framing connecting these critical events also appeared to have defined the protestors: as many as 81 per cent self–identified as pure Hongkongers, much higher than the

Table 12.2 The protest history of Umbrella Movement participants

	Overall		Timing of participation (%)	
	n	%	Pre-28/9	Post-28/9
June 4 vigils	1054	73.7	77.3***	54.8***
July 1 rallies	1211	84.7	85.1***	65.1***
Pro-heritage events	105	7.4	9.5***	4.6***
Anti-integration events	337	23.6	34.1***	12.7***
Five-constituency civil referendum	413	24.7	34.7***	19.4***
Anti-national education movement	908	63.6	72.3***	44.3***
Reissuing free-to-air television licences	677	47.3	54.5***	36.9***

Note: *** p < 0.001.

Source: Author's onsite survey.

Table 12.3 Political affiliation of Umbrella Movement participants

	n	%
Voting preference in previous Legco election		
Pan-democrat supporters	648	98.5
Moderate parties	433	65.9
Radical parties	215	32.6
Pro-establishment supporters	10	1.5
Voting preference in the next Legco election		
Pan-democrat supporters	929	99.4
Moderate parties	485	51.8
Radical parties	444	47.5
Pro-establishment supporters	6	0.6

Source: Author's onsite survey. This question has higher omission data, as many young protestors did not register or were not eligible to vote.

42 per cent of the general population and 60 per cent of 18- to 29-year-olds as of December 2014. In contrast, while its attracted more than half a million people, the five-constituency civil referendum in 2010 initiated by the pan-democrats was a dummy variable showing that such electoral politics events barely trigger mass mobilization onto the street despite the much greater participation relative to any of the critical events (Cheng and Chan, 2017).

The firing of tear gas on 28 September 2014 was considered another contingent event revealing "suddenly imposed grievances" that triggered mass mobilization. Separating early mobilizers from late mobilizers offers insights into the source of protest resilience. Although police violence provoked late mobilizers, who may not have protested if the regime had not erred, one-third of the protestors were motivated by deep-rooted factors and by the direct actions of the young protestors.

Despite the impressive turnout, Table 12.3 indicates that the movement was unable to attract pro-establishment supporters. Measured by the protestors' previous voting preference, as many as 98.5 per cent of the participants were pro-democracy supporters. Admittedly, given that the survey was conducted between the 24th and 30th days of the protests, it might not capture the less committed pro-establishment protestors. However, this also means that the contingencies of youth sacrifice and police violence had not overcome the overarching political cleavages in Hong Kong society. Instead, reshuffling occurred within the democracy camp; many protestors would shift their support from moderate political parties to radical political parties in the next election, reflecting the transforming effects of the occupation along with scepticism of the pan-democrat leadership. These critical events do not merely illustrate the connected claims and repertoires of stalwart protestors; they are also an appraisal of the regulated protests led by pan-democrats.

In terms of movement outcomes, Hong Kong's post-occupy trajectory is noteworthy. In January 2016, an abrupt but violent riot erupted in Mong Kok, illustrating the mobilization capacity of the militant repertoire. In September 2016, at least nine broadly defined "umbrella activists" who were deeply involved in the 79-day occupation and who endorsed a localist framing were elected as legislators in the Legco elections. In December 2016, several movement-inspired professional organizations either successfully contested seats in the Election Committee for the Chief Executive or thoroughly rejected participation in what they regarded as "small-circle elections". These social phenomena echo official data showing that the vote share for the 18–30 age

group out of the total turnout steadily increased from the 2011 to the 2015 District Council elections and from the 2012 to the 2016 Legco elections. Whether the increase in youth and professionals' political participation and whom they voted for are the results of their protest experiences is yet to be revealed. However, the interplay between parliamentary and street politics raises the questions of whether more institutional resources are used for promoting the new actors' localist or self-determinist claims and of how the adaptive hybrid regime can limit the scope and efficacy of movement outcomes. As of May 2018, two newly elected localist legislators and four other self-determinist legislators were unseated by the court following the NPCSC's interpretation of the Basic Law and the SAR government's juridical review. This interplay between radicalized protest repertoires and proactive regime responses might well enhance intra-group solidarity among the new actors but loosen dependence in the direction of organizational embeddedness in civil society as a whole.

Contradictions among protest actors, frame and structure

Against this backdrop, the master frame of democratic reunification entrusted to communicative actors and coordinative actions faces new challenges and widening contradictions. Contradiction does not necessarily mean opposition, but it arises when "two seemingly opposed forces are simultaneously present in an entity, a process or an event" (Harvey, 2014: 6). At least two contradictions have concurrently diffused and impeded the transformative effects of these protest events.

The first contradiction concerns the potential of critical events to transform protest structure but not regime structure. The frame of defending Hong Kong's distinguished civic values and cultural heritage through creative and non-violent repertoires has been normalized. Strategically, the use of occupy tactics to attract new actors and empower them in the process has amplified the claims that regulated protests are too ritualistic and impotent. Relationally, the new activists established new propaganda networks and counted on citizen journalism to connect supporters and mobilize their resources. Cognitively, the undemocratic system and its collaborators are denounced as the source of all types of injustices and grievances, generating solidarity among protestors. While the hybrid regime's institutional weakness creates opportunities for the nascent movement society, it was the critical events that further expanded political opportunities to rally more stalwart protestors.

However, political concessions are unlikely in Hong Kong's unique hybrid regime, in which the final decision-makers in Beijing would be scarcely affected by instability from afar. This exogenous political environment functions as a ceiling to halt the transformative effects of these endogenous protest dynamics. While bottom-up activism has altered the protest structure in Hong Kong, it has not concurrently fortified ruptures in the regime structure. Supported by Beijing, political elites choose to align with the local regime instead of considering defection. A power struggle between softliners and hardliners common in Latin American and post-Soviet transitions has been obstructed. Changes are largely societal instead of institutional; new activists have become insiders in the public arena but not insiders in the political regime. Aware of this constraint, many activists aim to create opportunities through their actions, a mentality clearly reflected in the manifesto of the Hong Kong Federation of Students (HKFS) on 21 September 2014: "We persist not because there is hope, but because hope will only appear if we persist" (Chow, 2014).

Another contradiction concerns the civic faction and localist faction among the protest actors. The former consists of student and left-wing activists who have led the critical events and hence maintained working relations with the pan-democrats despite their differences. By introducing

the idea of localism and practicing direct actions, these young activists aimed to negate the corporatist-autocratic regime structure. In doing so, they reinvigorated the decolonization notion that has been deferred in the aftermath of the June Fourth Incident. The latter consists of right-wing politicians and home-grown groups that did not lead the critical events but flourished through the localist discourse. By promoting an indigenous identity and by initiating radical anti-mainland tourist protests, their separatist-localism has respectively captured the discursive vacuum remaining from democratic reunification and has appeared to be both proactive and decisive. The thrust of central-local integration projects and conflicts has provided recurring social reality to justify claims of urgency in sketching the ethno-civic boundaries of the *demo* before the coming of democratization.

Ironically, although the bottom-up activism emerged from contesting the regime structure inherited from the colonial era, its potential has largely been harvested by those who manipulate the nostalgia of colonial legacies. After the perceived failure of the Umbrella Movement, nearly all the strongholds within veteran and left-wing SMOs have since been taken over by those endorsing a localist discourse. The social institutions, including the HKFS, university student unions, trade unions and the Alliance, that previously provided materialistic, network and ethical resources for coordinated protests were disintegrated, marginalized or taken over by the localists. Thereafter, Hong Kong's social activists have diffused into the civic faction, insisting on non-violent tactics and the goal of universal suffrage, as well as the localist faction, prioritizing violent means and the construction of a political community. While the civic faction explicitly endorses democratic unification and implicitly applies democratic resistance, the localist faction softens the political representation element embedded in these master frames in formulating its political autonomy argument.

Conclusion

This chapter examines changes in the frames and repertoires of contention in Hong Kong through the trajectory of activism from below. While new activists continued to rely on the resource mobilization of pan-democrats, the critical events they initiated show great potential: a) young activists and progressive SMOs have contested the leadership of veteran political parties and SMOs, favouring direct actions, participatory practices and digital reconstruction; b) the scale of mobilization has reached a new threshold, extending beyond the traditional pro-democracy supporters of the middle class; c) the street rather than the Legco has become the arena in which political conflicts and social dramas are staged and deliberated; and d) collective action is regarded as not merely a means to democratization but also an end in itself in empowering citizens and solidifying their identities. The defining repertoires of the Umbrella Movement, including indigenous identity, resilient occupation, participatory practices and decentralized protest structure, are clear manifestations of these antecedents.

However, the democratic potential of protest events must be critically assessed. Relationally, the creative repertoires have rallied and empowered new actors to join collective actions, but pro-democracy supporters are also split over protest structure, political identity and the frame of the democracy movement, and this division weakens cohesion among pan-democrats and activists and fragments civil society, the city's liberal stronghold. Cognitively, although contesting the master frame of contention has given protestors more flexibility to reinvigorate their collective action, it has also opened a window for the local regime to boost elite cohesion, to rally counter-mobilization and to marginalize the opposition by depicting them as radicals. Structurally, regardless of the scale of mobilization and the intensity of participation, street politics is insufficient to

challenge the regime structure as the final decision-maker from afar regards concessions to protestors and outsiders as a sign of regime weakness.

In the absence of signs of political compromise, Hong Kong's activism will continue to exercise the semi-autonomous city's political existence. The Umbrella Movement and its aftermath has certainly demonstrated momentum and challenges for this enduring democracy project, but its transformative effects depend on how much it can overcome both endogenous and exogenous constraints and whether it can transgress the newly established boundaries or rituals of decentralized protests. Hence, whether this wave of activism from below constitutes the beginning of systemic movement or merely spectacular moments remains uncertain.

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Confrontation, state repression and the autonomy of metropolitan Hong Kong

The Umbrella Movement and the 1967 Riots compared

Ray Yep

Introduction

Political scientists have remained divided on the subject of the political disposition of Hong Kong people in colonial years. While Lau's notion of "utilitarian familism" (1978) and King's idea of "administrative absorption of politics" (1981) had been held as a template to understanding the political character of the local community in colonial Hong Kong, the validity of their general claim on the low level of political activism has been challenged by more recent works by Lam (2004), Scott (1989), Tsai (1993) and Chiu and Lui (2000). There is, nevertheless, a general consensus on the surge of interest in political participation in the post-1997 years. In fact, Hong Kong is dubbed as the city of protests with demonstrations, petitions and other forms of political articulation becoming more or less daily routines after the handover. While one can take these as positive signs of the growing vibrancy and maturity of civil society, there are concerns with the rising propensity of inflicting violence in the repertoire of protest. The appeal of tactics like disruption of traffic, breaking into government building as well as skirmishing with police have been growing in recent years. Confrontation has gradually emerged as a legitimate political discourse and a viable option of action and engagement in local scene.

The Umbrella Movement that commenced on the 28th of September 2014 attests to the prevalence of this trend. Inspired by an article written by Prof. Benny Tai, a law professor in the University of Hong Kong, tens of thousands of young people embraced the idea of "Occupy Central" as the ultimate act of the fight for democratization in Hong Kong, laid siege at Government headquarters. The images of protesters holding feeble umbrellas against police encroachment earned the campaign a sympathetic label as the Umbrella Movement. Within two weeks, barricades at key traffic junctions in financial and commercial districts were set up and the city was in a stalemate for 79 days. It is the most serious challenge to the legitimacy of the prevailing political order since the handover. For the majority of participants who were born in the 1970s or afterward, this is a confrontation of unprecedented proportion. However, as a matter of fact, there

was another episode in the post-war history of Hong Kong that could resonate, or even dwarf the Umbrella Movement in terms of scale and intensity: the 1967 Riots. Started as an industrial dispute, the colony soon witnessed mayhem from the total mobilization of pro-Beijing forces in the territory and a protracted anti-colonial campaign characterized with excessive violence. Interestingly, there are a lot of parallels in the state responses in these two confrontations of historical proportion. In both cases, the authority responded with firm actions. The study of state repression, "action taken by authorities to impede mobilization, harass and intimidate activists, divide organizations, and physically assault, arrest, imprison, and or kill movement participants" (Stockdill, quoted in Earl, 2003: 45), has become a growing industry as scholars see this not only as a key variable in explaining movement mobilization or evolution, but also as a derivative of particular political systems (Davenport, 2007; Moore, 2000). That is, state coercion is viewed as something of a pathology – the actions and strategies deployed by political leaders are simply results of some system deficiency. Their options are just determined by the nature of political order they are embedded in.

This chapter tries to evaluate the nature of the post-1997 political authority by identifying the parallels as well as contrasts in the two episodes of major confrontation in the history of Hong Kong. Historical analogies are useful because past experiences can provide the intellectual framing through which we interpret current events. How did the colonial administration and Special Administrative Region and their respective sovereign perceive the threat posited by the protesters? Were there any similarities and differences in state responses? What were the perimeters for response and reaction of the local authority? Answers to these questions can contribute to the analysis of the context and predicament of the local state in Hong Kong after 1997 and enrich the evaluation of the prospect of political order under the grander scheme of "One Country, Two Systems". This is the purpose of this comparative endeavour.

The forthcoming discussion starts with an introduction of the background of the two confrontations. It is followed by an analysis of the three major tactics of state responses: firm repression by the police force, legal intervention and conspiracy theories of foreign involvement. The remaining part focuses on the key concern of this chapter: the autonomy of Hong Kong. I argue that, while the Chinese sovereign does enjoy a much more extensive array of tools of intervention after 1997 when compared with its British counter-part before the handover, its misguided understanding of the relationship between London and Hong Kong and its reluctance to accommodate the concerns of the Hong Kong people has contributed to the ever-growing friction with the local community.

Nature of the confrontations

The disturbances in 1967 started as an industrial dispute in a factory in Kowloon when workers complained about unfair compensation. Police was involved in a seemingly routine confrontation, but it soon emerged that it was nothing ordinary. Leftist trade unions quickly came to the aid of the workers and demanded release of workers arrested, compensation for the injured, guarantees of the workers' personal safety and non-interference of police in the labour dispute. All these appeared to be rather innocent and hardly controversial. What happened next, however, was a political atomic bomb for the British. On 15 May 1967, the Chinese Ministry of Foreign Affairs issued a formal protest statement on this incident. This was followed by anti-British demonstration in Guangzhou and Beijing and editorials in *People's Daily* criticizing the brutality of the Hong Kong authority. All these maneuvers heralded a full-scale mobilization of local communist organizations in Hong Kong, and the original concern for industrial relations was replaced by highly politicized slogans of anti-imperialism. The All Circles Anti-Persecution

Struggle Committee comprised of all leftist organizations in the territory was formed. The colony was soon swamped by violence, demonstrations, strikes, bomb explosions and even military confrontation at the border until the end of the year. The confrontation should be understood in the context of the rampaging of radical politics in mainland China in the mid-1960s. Like all local leaders in China, local party bosses in Hong Kong were under pressure to prove their loyalty to the radical leaders overseeing the Great Proletariat Cultural Revolution (Yep, 2008). With the leftist victory in bringing the Portuguese administration in Macao to her knees in the "12.3 Incident", the local communist officials simply needed to deliver some "success" to confirm their "revolutionary credential" (Bickers, 2009). Yet, one should not lose sight of the harsh social reality at the time. The inadequacy of the limited provision of social services provided by the colonial government was fully exposed by the upsurge of population in the post-war years. The local population were by and large left to take care of their own needs with little support from the colonial government. Squatter housing was the spontaneous solution to the pressing problem of sheltering, and substandard schools devoid of safety measures and qualified teachers provided an ad doc response to the growing demand for education. In addition to the fiscal implication of the prospective expansion of social services, the reluctance of the colonial administration was also defended on a vicious cycle logic, i.e. more welfare would simply encourage more migration from the mainland and thus perpetuate the gap between supply and demand for public services. Despite the warning of the outbreak of another smaller-scale confrontation in 1966, the colonial administration did not react soon enough to address general grievances. When the tsunami of social discontent merged with the impetus of radicalism of mainland politics, the colonial government was left to endure the full impact of the political explosion.

The Umbrella Movement is a confrontation of different genre. The trigger point of the event is controversy over the constitutional arrangement and democracy in Hong Kong. In December 2007, the Standing Committee of the National People's Congress of the People's Republic of China issued a timetable for universal suffrage in Hong Kong and agreed that the election of the fifth Chief Executive of Hong Kong SAR in the year 2017 may be implemented by the method of universal suffrage.[1] While segments of the local community may take it as a positive development, skepticism lingered. The appeal of this promise is undermined by a provision in the Article 45 of the Basic Law that stipulates that candidates of the election must be nominated by "a broadly representative nominating committee in accordance with democratic procedures". A substantial segment of the local community remained unconvinced and saw the provision a mockery of free election. Benny Tai, a law professor at the University of Hong Kong, argued that democracy in Hong Kong stood no chance unless Beijing was put under immense pressure. He championed the plan of "Occupy Central". Premised on the spirit of civil disobedience, the plan was to blockade the financial district and consequent paralysis of the financial and economic order of Hong Kong should push Beijing to further concession, Tai reasoned. Benny Tai's campaign also contained another component – hammering out a constitutional package which is consistent with the ideals of democracy and international standards. In the last week of June 2014, more than 700,000 people participated in a popular vote organized by the Occupying Central Movement and expressed their general support for the notion of civic nomination (*Apple Daily*, 5 May 2014; *Mingpao*, 30 June 2014). That is, any person with the support of a certain number of voters should be allowed to stand as a candidate. This is basically an anti-thesis of the idea of nomination committee preferred by Beijing. It simply bypasses this exclusive body and thus undermines Beijing's interference in the process. Expectedly, the Beijing was furious and responded by an official ruling by the Standing Committee of National People's Congress on the 31 August 2014. While the ruling endorsed the HKSAR Government's request for amending the election method of Chief Executive in 2017, it also prescribed a detailed arrangement on how

the nomination process should proceed. The nomination committee for the 2017 election is to be modelled on the structure of existing Election Committee for Chief Executive. The latter is composed of 1,200 members who are in turn chosen by about 5% of the eligible voters in Hong Kong. Most importantly, the so called "831 decision" stipulates that only people with at least the support of half of total members of the nomination committee can be accepted as candidate for the contest, though the ultimate decision of who will be the Chief Executive is subject to a popular vote by the 5 million eligible voters in the territory. For many Hong Kong people who have been craving democracy for decades, this requirement simply means only those who are approved by Beijing will be allowed to stand in the election. They found this perverse interpretation of the notion of universal suffrage an insult, and this is the trigger-point of the 79-day long "Occupation" since 28 September 2014.

Police competence and public expectation

Both the Umbrella Movement and the 1967 Riots were serious challenges to social order and caused major disruptions of normal life. Yet, in both occasions, the police had demonstrated a high degree of competence in handling the crisis and eventually managed to restore order.

In terms of the intensity of the confrontations, the Umbrella Movement almost felt like a political carnival with a festive mood. Despite the shooting of tear gas on the first day of occupation and the sporadic violent altercations between people of contrasting views concerning the blockades and ugly scenes of police abuses, the Umbrella Movement was primarily a peaceful event. It did cause a major disruption of traffic as key routes on Hong Kong Island and Kowloon were blocked. The participants were mostly disciplined and restrained and were always aware of the changing mood of public opinion and prepared to change tactics accordingly. Debates, sharing and different forms of artistic expression of the political idealism appeared to the major activities within these commune-styled occupied sites. Nobody was seriously injured during the 79-day event, and there was no major confrontation between police and protesters after the first day of occupation. Even by the time when the police decided to clear up the sites and end the protest, there was no little resistance, and the occupation was ended in an orderly and uneventful manner.

This is a big contrast to the scenes in 1967. The colony witnessed an extended period of violence and turbulence during the so-called 1967 Riots. As seen in Table 13.1, more than 4,000 people were arrested, of which 2,077 were convicted and were imprisoned. The number of injuries was also double that of the Umbrella Movement figures, and there were unfortunately 51 deaths in 1967. For the generation living through the mayhem, one of the most vivid memories concerns the waves of bomb attacks. There were more than 9,000 bomb alerts during the confrontation. Although only less than a quarter of these cases were related to authentic bombs, the psychological strain and the disruption of normalcy inflicted were tremendous.

Nevertheless, there is a high degree of similarity in terms of state responses in both historical episodes. Firstly, the police force was fully mobilized as the bulwark against disturbances in both cases. On both occasions, the police force handled the situation with success and played a key role in containing the dislocation inflicted by the conflicts. It is in fact quite a surprise to see the colonial police somehow managed to survive the storm in 1967. To start with, the force was rotten with rampaging corruption and was held with low regard by the general public in the 1960s. "Good lads shall not join the Police" was a common saying among parents at that time that attested to the general negative view on the integrity of the force. Nevertheless, the force was well-prepared for the task. There was a major confrontation in 1956 when a local pro-Taiwanese force clashed with the leftist organizations in Tsuen Wan and Kowloon area. During

Table 13.1 Violence and resistance compared

Duration	1967 Riots* 7 months^	Umbrella Movement 2015# 79 days
Arrest	4,498	955
Injured	848	351
Death	51	0
Explosions	253	0

Source: Author's compilation.

Notes:
* Yep (2012: 1010).
# The data were provided by the Police Commissioner in his media briefing on 15th of December 2014. *Mingpao* 16 December 2014.
^ There is no official cut-off date for the conclusion of the riots that started in May 1967, but most violence and confrontation subsided by the end of the year.

the confrontation, 59 people were killed, and the inadequacy of the force in handling disturbance was fully exposed. Consequently, Police Training School was set up; its aim was to equip the force with the know-how to handle similar disturbances in the future. As a result, all members of the force were required to receive intensive training in crowd control and riot management, and there were also anti-riot companies in stand-by position at all times since then. The hard lesson of 1956 turned out to be a blessing in disguise. By the time disturbances reemerged in 1967, the police was thus in a much better position to contain the violence than in 1956. The force adopted a tolerant approach in the early weeks of the confrontation, but the mood soon changed when it realized that the protesters were prepared for a protracted campaign. The shooting at the border that led to the death of five policemen was the turning point. Then, the police reverted to a more aggressive approach of massive arrests of ring leaders, vigorous search of the premises of leftist organizations and showed less restraint in using violence in handling protesters. The handling was merciless and even brutal at times, yet it was effective as the anti-government campaign was severely disrupted, and general order was basically restored within by the end of 1967 (Yep, 2012). Its performance eventually earned the bestowment of the title of Royal Hong Kong Police from the Queen.

The challenge faced by the police in 2014 was a less violent, yet more complicated one. The Hong Kong Police itself has evolved into one of the most modernized and professional force in the world in the 21st century. The protesters' public announcement of the idea of "Occupying Central" two years in advance also allowed the police ample time to prepare for the ultimate showdown. As a result, a special task force was designated to the "Solar Peak operation" to plan for all possible contingencies. There was also a great spirit of self-restraint on the part of the protesters. "Peace and love" was the slogan of the campaign that was premised on the notion of civil disobedience; civility was also stressed as the essence of the struggle. And throughout the 79 days of occupations, most of the confrontations were short-lived and confined. In a way, this ironically handicapped the police's response. In the absence of excessive violence or looting by the protesters, there was little justification for standard anti-riot measures that entailed considerable degree of force and coercion. As a result, the police could only respond with a relatively low-key approach as well. With the exception of the confrontation on 28 September that was mostly triggered by the protesters' attempt to break into the premise of Central Government Office, tear gas was no longer deployed afterward. The police also decided not to make any arrest

of the leaders and organizers of the campaign and was confined to only take action against those who were involved in skirmishes or altercations with police in the street. Yet even with this flexible approach, the police failed to placate the protesters. Unlike the 1967 Riots, the reputation of police was severely damaged. In a way, the police is a victim of her own success. It had been seen as a civilized and professional team with a high degree of integrity in the eye of the local community over the last four decades after the cancer of corruption was believed to be removed from the Force in the 1970s. This long period of cordiality between the police and local community generated different expectations from both parties respectively. For the protesters or even the general public, they may have inflated the intensity of violence used by the police as they never expected the "unprecedented" measure of tear gas in crowd control. For members of the police force, they were obviously not prepared for the ridicule, insults and humiliation on political and moral grounds as they have been respected for their professionalism and discipline ever since. This mismatch in expectations causes frequent outbursts of emotion from both sides, and the police soon became the centre of the contention and grievance. Thus, despite the fact that there was no curfew imposed, no serious injury or death resulted and there was no sign of total collapse of civil order during the whole occupation period, public trust and respect for the police appeared to be severely tainted afterward.

"Lawfulness" as the justification of repression

While the use of violence or coercion could impose of a cost on the protesters, state's success in undermining the credibility or legitimacy of the challengers could help contain the spread or at least neutralize the general support for their campaign. Common to both occasions is the state's discourse on the imperative of law and order and the unlawfulness of the protesters' action.

A dominant narrative of the successful story of Hong Kong is its evolution from a fishing village into a meritocratic society and open economy built on the basis of the rule of law and the philosophy of *laissez-faire*. The British colonizers certainly take great pride in its "civilizing mission" in implanting the institutions of law and penal system of modelled on the British tradition. Its extension is praised as "the advance of rationality, humanitarian sentiment and social scientific research" (Jones and Vagg, 2007: 2) and entailed the termination of customary rules and traditional practices of the indigenous community e.g. the practice of concubinage and the slave-worker system of "mutsai", that were mostly irrational, unfair and inhumane in character. These "progressive" laws passed under colonial rule and were thus imperative to the maintenance of a peaceful, safe and stable society where diligent, entrepreneurial and responsible citizens could flourish. According to this logic, anyone determined to challenge and disobey the laws was not just a criminal but an enemy to the general interest of everyone in the territory and thus should be crushed with no mercy. This is exactly the colonial government did in handling the offenders during the 1967 Riots. And the authority's preference for a firm approach was further facilitated by the extraordinary powers inherent in the Emergency Regulations. The Peace Preservation Ordinance was introduced in response to the strikes and riots incited by the Second Opium War in 1856. It was then restructured as the Emergency Regulations in 1922. In short, the ordinance allows that "on any occasion which the Governor-in-Council may consider to be an occasion of emergency or public danger that he may make any regulations whatsoever which he may consider desirable in the public interest" (Yep, 2012: 1012). And during the 1967 Riots, the Regulations were reactivated and bestowed upon the authority a wide range of power including prosecution on the basis of secondary participation, trial without public proceedings and the right to deport and detain (Yep, 2012).

Between May 1967 and June 1968, a total of 2,077 persons were convicted, and most of the offenders were given jail sentence of more than 12 months. These firm and swift responses in the name of law and order certainly did contribute to the containment of disturbance and restoration of normalcy, but the administration of justice during this period was also criticized for its disrespect for the due process of law, disproportionality between offence and punishment and negligence for offenders' basic rights. Whether justice had been upheld during this trying period of colonial history is thus highly contentious.

The HKSAR Government deployed a similar tactic in undermining the moral appeal of the Umbrella Movement. The movement's "unlawfulness" has been the major line of attack against the protesters, and the financial impact and disruption of normalcy have been repeatedly stressed by government officials and pro-establishment figures. Yet the discursive battle is much more challenging than the one faced by the colonial administration in the 1960s. To start, the Occupy Movement is premised on the notion of civil disobedience. That is, the protesters did not dispute the unlawfulness of their actions. In fact many of the participants of the occupation even pronounced their willingness to face the legal consequence for violating laws on public order, and at least 75 people had reported themselves to the police for their "offence". Nevertheless, they believed their defiance against the laws was justified by the injustice inherent of the prevailing political order. The central government was the major culprit, according to this logic. The indictment against Beijing focused on its lack of commitment in honouring her promise of allowing universal suffrage in Hong Kong as depicted in the Sino-British Joint Declaration and the Basic Law. The controversial 8.31 decision by the Standing Committee of the National People's Congress (2014) on Hong Kong's constitutional development aroused further criticism against the centre . Not only was the decision attacked as another move by Beijing in suppressing democratization in Hong Kong, but it was also condemned as "unconstitutional". The controversy stemmed from that fact that National People's Congress had ruled in 2004 that, upon the request of the HKSARG, its Standing Committee should "make a determination on whether any amendment to the method of selection (for Chief Executive) may be made". According to the protesters' understanding, all the NPCSC can do is to approve or disprove the request, and the 8.31 decision obviously had contravened to the spirit of the ruling of its superior authority, the NPC, as the former entails not only a determination on the necessity of change in selection method but also a prescription on the method itself. This is "unconstitutional" as the Standing Committee of NPC has no right to violate the decision made by NPC, the protesters argued (*Singtao Daily*, 3 March 2015).

This line of contention had probably prompted further determination of the government and its supporters in winning the discursive debate on rule of law as the prestige and authority of the central government was now at stake. In addition to the reiteration by key government officials on the constitutional basis of the NPCSC Decision and the primacy of the Basic Law as the basis for any discussion on constitutional reform, pro-government groups also worked out a way to undermine the credibility of the Umbrella Movement. With the legal assistance provided by a pro-Beijing lawyer organization, 14 groups from the minibus, taxi and container truck trades applied for court injunctions to prohibit protesters from occupying the roads in Admiralty, Causeway Bay and Mong Kok. The requests were eventually granted by the High Court. The initial defiance of the protesters against the court order had helped sway public opinion against the Umbrella Movement as the local community has always been proud of the tradition of judicial independence and held the court in high esteem. Even the Hong Kong Bar Association that has always sided with the liberal and progressive-minded voiced its concern with the stance of disobedience and its corrosive effect on the rule of law (Hong Kong Bar Association, 2014).

Framing protest as "imported conspiracy"

A related discursive battle relates to the attribution of the cause of the confrontation. Both the colonial and SAR government subscribed to a common strategy of framing the disturbances as a product of intervention by external element. The appeals of such an approach are obvious. By attributing the popular uproar to external instigation, the authority could simply shift the blame to outside influence and divert the attention away from its own policy inadequacy and responsibility. Under this narrative, protesters were agents of hostile alien forces and were motivated by the agendas of their masters rather than a concern for local welfare. In 1967, the colonial government was in a good position to pursue this framing strategy. While it is debatable whether there was a clear instruction from the Central Party to the Communist organization in Hong Kong to launch a full-scale attack on the colonial government, the presence of Beijing in the operation of the leftist campaign was evident. The Ministry of Foreign Affairs of the PRC had constantly monitored developments in Hong Kong and exerted relentless pressure on London on behalf of the protesters in the colony. *Renmin Ribao*, the most authoritative mouth-piece of the party machinery also sustained regular rhetorical support for the campaign during the whole confrontation. The assistance also came in a more concrete form. The All-China Federation of Trade Unions had donated 20 million RMB yuan to the Hong Kong Federation of Trade Unions for the latter's efforts in mobilizing strikes and boycotts among its members. In addition, the propaganda strategy of the protesters did not really helped convince the local community of their genuine concern for indigenous issues. Despite their original contention on the issues of workers' rights and industrial relation, the campaign had soon become highly politicized and reorganized the struggle along anti-imperialist and anti-British lines. This was in fact a fatal mistake. It simply confirmed the colonial authority's narrative that the local leftists were nothing but thugs used by Communist China in disrupting law and order in Hong Kong. Worse still, the consequent perception of the non-indigenous character of the protests and association with radicalism in the mainland unleashed the worst fear of the local community: the prospect of Communist takeover of Hong Kong. For a migrant society like Hong Kong where a substantial portion of the population were driven away from the mainland out of fear of Communist rule and economic hardship, the concern was genuine. Bernacchi, a local councilor captured the public mood at the time and powerfully articulated the state of general anxiety in one of his speeches:

> For the first time we have to choose. For the first time we have all had to choose where our allegiance lies in such an emergency, and the vast majority of the people of Hong Kong have demonstrated that it lies in support of the conception of Hong Kong as a unit with a Government that does not support disturbances from either right or from left that are engineered from without. Basically, they have chosen to support law and order of the present Government of Hong Kong.
>
> *(Hong Kong Hansard, 1967: 326)*

In short, the Cold War context lent substantial credibility to the colonial government's narrative of the leftist campaign as a conspiracy from outside, and it had successfully helped discredit the protests and diverted attention from the cancer of rampaging corruption in the public sector and the vulnerability of the majority of the local population.

The HKSAR Government however did not enjoy similar success of her colonial predecessor in 2014. A similar discursive strategy in highlighting the association between the Umbrella

Movement and foreign influence was evident. Central to the official rhetoric is the involvement of the American government. Senior government officials have linked up the Occupy Movement with the Colour Revolutions in recent years and strongly hinted the presence of American government behind the campaign in Hong Kong (*Mingpao*, 31 October 2015). Jimmy Lai, a local media mogul who owns one of the best-selling newspapers in town was portrayed as the main conduit of American influence. It has been confirmed that Lai has been a generous patron for leading pro-democracy political parties including Democratic Party and Civic Party and figures like Anson Chan, and a total of more than 40 million HK dollars have been given to these parties and individuals over the years. Leung Chunying, the Chief Executive, also pinpointed the possibility of Lai being the major financial supporter for the Occupy Movement as he argued that there is "evidence" that may confirm the donation for the campaign in fact came from Lai. Lai's personal connection with senior figures in American politics including Paul Wolfowitz, the former Deputy Secretary for Defense, is regularly cited as proof of American involvement. Detailed accounts of the activities of the National Endowment for Democracy and the National Democratic Institute, the two organizations financially supported by the State Department and the American Congress in the territory, have also been presented as further indication of the foreign power's pursuit of its political agenda in Hong Kong (*Wenweipo*, 28 October 2014).

Nevertheless, the HKSAR Government appears to be less successful in establishing the foreign connection of the protesters when compared with its predecessor in the 1960s. The persuasiveness of the rhetoric has been undermined by several factors. Firstly, Hong Kong has transformed herself into a cosmopolitan metropolis over the last few decades, and local society has always taken great pride in its extensive connections with the global community, and with the strong presence of foreign government representatives in the territory, most social and business leaders simply regard exchanges with overseas officials or NGOs as part of the normal routine without much suspicion. Secondly, the so-called "evidence" produced by the government is flimsy in general and at best speculative. There is no undisputable proof of the financial and political relationship between Jimmy Lai and American government. Thirdly, the diverse backgrounds of the participants and supporters of the Umbrella Movement also undermine the validity of the conspiracy theory of protesters being foreign agents. While the participants of the 1967 Riots were mostly from schools, trade unions, media and social organizations with a clear affiliation to the leftists, various surveys have shown that participants of the confrontation in 2014 are from a much wider social spectrum. According to one study, most of the people involved in the occupation in Admiralty had university degrees, and clusters of professionals including university teachers, media workers, health professionals and lawyers have also voiced their public support for their cause (Cheng and Yuen, 2015; Lee, 2015). The so-called "Yellow Robbins" – sympathizers for the Umbrella Movement, have obviously established a very extensive social basis and cut across a wide range of sectors and interests. Most importantly, ring leaders of the Umbrella Movement have also been very cautious in distancing themselves from foreign influence. While they saw the importance of galvanizing the attention and support of international community, they are equally wary of the accusation of collusion with western governments and have been concerned with the attack along this line. For example, they took the initiative in titling themselves as Umbrella Movement, instead of Umbrella Revolution, a phrase preferred by western media. The term revolution obviously sounded too provocative and drawn unnecessary association with the taboo of the Colour Revolutions. In short, the HSAR Government did not gain much ground in this propaganda and the impact of the collusion argument is rather limited.

Autonomy of local state: agenda of the sovereign matters

Despite the many parallels in state responses between the two historical episodes mentioned above, there is one fundamental difference: the presence of the sovereign. The nature of Hong Kong as a local state implies that the space for maneuvering, calculations and viable options in crisis management were ultimately determined by the national government. The negotiation between the sovereign and metropolis Hong Kong is the key to understanding the logic of state repression.

Assertiveness of Governor Trench and London's pragmatism

Throughout the entire confrontation period, the colonial administration was in fact engaged on two fronts, not one. While she was preoccupied with the concerns of containing the leftists and restoring social order, she was also consumed by ceaseless debates and altercations within the British camp. The Governor, Sir David Trench, was determined to pursue his views on the best option to handle the crisis and was prepared to argue against the hesitation or even objection of his supervising unit, the Foreign and Commonwealth Office, whose position was in most cases determined more by the general strategic interests of the United Kingdom, than the immediate concern of the colony. For the Governor, it was imperative to maintain law and order in the territory not just because this was crucial for the preservation of the authority and dignity of the colonial administration; it was also important as he believed the disturbances were primarily an initiative of local communists and Beijing had no plan to deviate from her policy of maintaining status quo in Hong Kong. That is, Trench was convinced that Beijing had no desire to take back Hong Kong at this point, but if the leftists succeeded in making the colonial rule untenable, Beijing may be forced to resume her rule over the territory.

The exchanges were further complicated by the input of the British mission in Beijing. Situated right at the centre of the storm of the Cultural Revolution, the prudence of British diplomats stationed in the Chinese capital was understandable. They were not fully subscribed to the Governor's argument of China's restraint in handling the situation in Hong Kong. In fact, they believed that, in the age of extreme radicalism of Chinese politics, one could hardly gauge the disposition of the Chinese leadership on the basis of precedence and previous policy pronouncements. In general, they prescribed an approach of flexibility and restraint for the colonial administration in handling the situation and argued that firm measures in handling the leftists may be seen as provocation by Beijing and could further exacerbate the crisis. In addition, there was also a private concern behind this call for prudence. They could be an easy target if Beijing decided to show her disagreement with the action of the Hong Kong government. In fact, exit of British diplomats from China had been deliberately held by the Chinese government during the confrontation period. And when Red Guards wanted to make their anger with the colony's arrest the leftist journalists known in the summer of 1967, the office of the British Mission was attacked and diplomats were humiliated.

There were clear evidence of differences among the three parties, and despite the counterviews and reservations of the FCO superior or colleagues in Beijing, David Trench was not entirely swayed. He defended his firm approach vehemently and somehow managed to secure the endorsement of London on most occasions. There were several particularly noteworthy debates where the Governor prevailed. The first instance concerns London's contemplation of evacuation planning in Hong Kong. The rapid escalation of tension in Hong Kong prompted by Beijing's intervention had bought London to the full alert in the early weeks of confrontation in May 1967. As a preparation for a possible worst case scenario, London instructed Hong

Kong Government to initiate the process of evacuation planning and worked out the logistic for transferring personnel of key British interest out of the colony in case of emergency. Similar idea was adopted in the late 1940s during the civil war between the Nationalists and Communists in the mainland. Nevertheless, David Trench was wary of the possible consequence of this initiative on the authority of the colonial administration. For him, if any hint of this move was leaked out, there would be an immediate collapse of public confidence. The number of persons involved and the logistic coordination required simply made full confidentiality impossible, Trench argued. London was eventually settled with a more selective approach and the enthusiasm for the idea gradually faded out when the colonial government appeared to have the situation under control. Further debate could be seen over the colony's approach towards leftist newspapers. By the time the confrontation broke out in 1967, nine pro-Beijing newspapers were in operation in Hong Kong. Together they sold more than 400,000 copies daily that accounted for about a quarter of total daily circulation in the colony. These papers were major leverage for propaganda and mobilization of the protesters and were also fountains of anti-government messages and abuses against police and government officials. Trench was understandably inclined to take firm action against these papers. Officials in London were however ambivalent on this as it was hoped that the tension would eventually peter out and no drastic action was then necessary. British diplomats in Beijing nevertheless called for caution on this matter and recommended no drastic action should be taken unless all hope of compromise was exhausted. The Governor eventually managed to convince London that the confrontation was likely to be a protracted affairs and won the latter's endorsement for action against the leftist papers. In August 1967, five editors and publishers of three leftist papers were arrested and of which three were eventually jailed for three years. The papers concerned were also banned for six months (Yep, 2008, 2012).

The Governor certainly did not win all the battles. The ultimate dispute between Hong Kong and London was unleashed ironically when the confrontation was all over. The contention focused on the issue of confrontation prisoners. 2,077 were jailed during the disturbances as a result of Trench's insistence on the firm approach of law and order. Violence was by and large subsided after 1967, and FCO officials gradually began to see this issue with apprehension. There were two related issues that concerned London. Firstly, it is the detention of Anthony Grey, a British reporter of Reuters. Grey was the collateral damage of the colony's arrest of leftist journalists and was put on house arrest in Beijing since August 1967. Beijing had made strong hint that his freedom was linked to the fate of the confrontation prisoners jailed in Hong Kong. This concern was however dwarfed by the consideration of mending the relationship with the PRC. With the Chinese leadership gradually returned to sanity and saw the need of restoring diplomatic normalcy with the outside world, the British government was keen to explore option that could help facilitate the process, or to remove obstacles that may hinder progress. The enthusiasm of the FCO officials in pushing for an early conclusion of the issue of confrontation prisoners in Hong Kong was evident. Different arguments for early release were forwarded for the colonial government's consideration. Trench was obviously irritated by the growing pressure from London. The Governor saw this as a sign of weakness and believed that unprincipled remission of prisoners that were sentenced by the local courts through due process of law was a severe damage of the tradition of rule of law of the colony. Although he did concede to the pressure by revising the review process that in effect allowed a large number of prisoners released prematurely, he refused to give in on four "hardcore" prisoners who had either killed or seriously injured police officers or members of the public. This issue had become an irritant between London and Trench with the latter continuing to express his displeasure of London's effort "to get some benefits for London in China at the expense of Hong Kong" (Tsang, 1987). The feeling was obviously mutual. As one FCO official bluntly put, "the interests of Hong Kong and ourselves in this matter were

not entirely the same".[2] The issue eventually came to the conclusion with all concerned prisoners released with the arrival of a FCO man, Murray MacLehose, who arrived to replace Trench as the colonial governor in 1971. When the sovereign decided that a more fundamental interest was at stake, her concern would mostly prevail.

Hong Kong as a matter of national security and a proactive Beijing

The context for the HKSAR's handling of the Umbrella Movement is completely different. For the people of Hong Kong, Beijing is a sovereign of different genre. Unlike the British who were by and large passive, detached and indifferent to the colony, the new sovereign has been enthusiastic and proactive in engaging the local community. The British presence in the territory was however rather limited, when compared with Chinese establishment in Hong Kong after 1997. British merchants did dominate the local economic scene, with firms like Jardine Matheson, Swire, Hong Kong and Shanghai Bank exercising hegemonic control over the colony's economy until the rise of local tycoons in the 1980s. London was also constantly updated on Hong Kong development by reports by colonial governor, the Political Adviser and other senior colonial officials, summary by MPs and British officials who just completed their brief visits to Hong Kong, or regular assessment by the Special Branch of the colonial police. However, the extensive socioeconomic linkages between Hong Kong and the mainland after 1997 that could easily dwarf the level of economic exchange between the colony and the United Kingdom during the 150 years of British rule. Mainland companies are now contributing to more than half of the total asset value of the corporations listed in the Hangseng Index and Chinese players have been rapidly expanding their presence in financial (e.g. Bank of China), retailing (e.g. Chinese Merchants) and construction (e.g. China Construction) sectors and public utilities (e.g. CITIC Pacific Century) (Fong, 2014, 2017).

More importantly, there is an elaborated network of official presence of Chinese government in Hong Kong after 1997. There are three institutions of representation of the Chinese People's Government (CPG) in the HKSAR: 1) the CPG Liaison Office, 2) the People's Liberation Army Hong Kong Garrison and 3) the Office of Commissioner of Ministry of Foreign Affairs. The Liaison Office is of particular importance as it works closely with the State Council Office of Hong Kong and Macao Affairs, a specialized ministry-level body overseeing all matters related to the two SARs in Hong Kong and Macao. The Liaison Office is also a centre of patronage. It coordinates the appointment process of Hong Kong delegates to People's Congress and Political Consultative Conference at national and local levels. Together with the extensive network of mainland companies, one can easily sense the strong presence of tens of thousands of mainland agents in the territory ranging from government officials, managers of Chinese enterprises, trade and business representatives and military personnel in the territory. These are contact points for influence, exchange and pressure. These multi-layered connections provide Beijing unremitting supply of information, networks and leverages to muddle with the Special Administrative Region, if she sees the need to do so (Yep, 2010).

In short, Beijing simply enjoys unprecedented capacity to intervene into the local affairs of Hong Kong. And this is exactly what she is prepared to do so. Hong Kong's contribution to the modernization and marketization of China's economy is certainly a key motivation for Beijing's involvement in the territory. National pride is nevertheless, a prime concern. Beijing's interest or even anxiety in getting involved in Hong Kong affair is very much driven by her determination in proving to the world that there is life after British rule. After all, the resumption of exercise of sovereignty over Hong Kong is all about national dignity. This hidden sense of competitiveness vis-à-vis the British uncovers the tension between the Chinese leadership and the west. Despite

the end of Cold War and Deng's Open Door Policy, the Chinese leadership has never abandoned the siege mentality in her global positioning. The west, or more specifically, the United States is always seen as a competitor who takes pleasure in undermining the rise of China. Put into this perspective, the policy towards Hong Kong is never just about paternal love and support, but also a matter of control and defence given its vulnerability to western influence.

The schism in the understanding on issues like rule of law, liberty and democracy between mainland official and local population has fuelled the tension between the two. The Chinese leadership has come to the conclusion that the rising tension with the growing segment of the local population in recent years was primarily attributable to the latter's misunderstanding of the meaning of the notion of "One Country, Two Systems." Beijing thus felt obliged to "re-enlighten" the local community on the principles of autonomy and the essence of her policies towards Hong Kong. This mistake must be rectified not only because of the growing tension between Hong Kong and the mainland, but it is also a matter of national security, Beijing contends. The danger lies in the fact that the misguided disillusion with the central government has made the local community vulnerable to the influence of the demagoguery of western elements that have strong desire to demonize China. Chinese officials have repeatedly voiced their concerns with the display of colonial symbols and occurrence of anti-mainlanders protests in local scene; these are deciphered as expression of budding separatism in the territory. With all these concerns in mind, the constitutional reform in Hong Kong was no longer an issue of autonomy and political entitlement, it is now interpreted as a struggle for control over the SAR between the Central government and a local political movement that is manipulated and engineered by unfriendly force of the western camp. It is thus a matter of integrity of Chinese sovereignty over its territory. In short, Beijing was determined to eradicate the misguided understanding of the policy of "One Country, Two Systems" from the minds of Hong Kong people. In June 2014, the Information Office of State Council (2014) issued a lengthy document entitled "The Practice of the 'One Country Two Systems Policy in the Hong Kong Special Administrative Region" and launched one of the most elaborated and authoritative rebuttals against the "lopsided and confused" views among the Hong Kong people:

> As a unitary state, China's central government has comprehensive jurisdiction over all local administrative regions, including the HKSAR. The high degree of autonomy of HKSAR is not an inherent power, but one that comes solely from the authorization by the central leadership. The high degree of autonomy of the HKSAR is not full autonomy, nor a decentralized power. It is the power to run local affairs as authorized by the central leadership. The high degree of autonomy of HKSAR is subject to the level of the central level's authorization. There is no such thing called 'residual power' . . . The 'one country' is the premise and basis of the 'two systems,' and the 'two systems' is subordinate to and derived from 'one country'. But the 'two systems' are not on a par with each other.

The uneasiness is, nevertheless, mutual. While the Umbrella Movement was primarily triggered by the general disillusion with Beijing's intention of honouring her promises on democratization and high degree of autonomy for Hong Kong, the tension or even animosity between local community and the mainland also extended to the socioeconomic dimensions. It is true that business community would mostly see the steady inflow of capital, consumption power and personnel may imply opportunity, profits and impetus for economic growth, yet the raging integration with China's economy may also imply exponential expansion in demand on services, infrastructure and space. For many people, the economic gains offered by the rising volume of cross-border business are soon offset by growing crowdedness of street and public

transport, increased drainage on public services and growing competition for educational and career opportunities. Mainland visitors who spend billions on goods and services are castigated as "locusts", and the resentment against the mainlanders appear contagious with anti-mainlander demonstrations becoming more and more frequent. Central to these growing frustrations among the locals is the perceived indifference of the HKSAR Government. The various feeble attempts by the Government in minimizing the pressure of the integration process on daily life of the local residents fail to placate the general public. Public opinion remains unyielding on the view that the Government is not prepared to stand up for the interests of the local community against the reservation and objection of the mainland authorities. The allegation that the Chief Executive, Leung Chunying, was a Communist Party member has never been confirmed, yet the prevalence of this conspiracy theory attests to the general sentiment that he is just a puppet of the central authority devoid of the determination and will to pursue the local agenda. According to this logic, if the local government could no longer serve as leverage for local concern, it is justified to take up the cause with its own hands. Occupy Central is thus simply an explosion of this prevailing concern with local autonomy.

Under these circumstances, Beijing appeared to be highly motivated to take centre stage and engaged the protesters head on. Such a politicized view prompted Beijing into an aggressive and proactive stance towards the situation. In effect, Beijing had deprived the HKSAR Government of any space for flexibility in handling the crisis. The nature of the protest was deemed equivalent to the Colour Revolutions in the Baltics (BBC, 2014) and was therefore conceived as an act of subversion rather than a legitimate expression of political demands by Hong Kong citizens. The perimeters for deliberation and exchange on the constitutional reform were also predetermined by the 8.31 Decision of the NPCSC that allowed no chance for anyone distrusted by Beijing to stand as a candidate for the prospective Chief Executive election scheduled in 2017. The overarching tone of hostility and the preordained outcome of constitutional reform thus left the local administration no room for compromise and negotiation with the protesters. There remained narrow space for tactical adjustment and political cosmetic as the Hong Kong government has conceded to the students' demand for an unprecedented televised meeting on an equal footing. The police also learned a hard lesson from its early mistake of over-reaction and has shown more restraint in operation afterward. Mass arrests were avoided as far as possible and prosecution was mostly suspended in order not to incite further response from the protesters. Yet the non-negotiable nature of the 8.31 Decision was reiterated in government messages concerning the constitutional reform and thus made dialogue with the participants of Umbrella Movement, who demanded an open process of nomination and revocation of the decision, impossible.

Without access to the details of communication between the Chief Executive and the central government, it may be unfair to conclude that, unlike David Trench, C.Y. Leung has not tried to assert his dissenting views on the crisis and fought for an alternative approach in handling the situation. Yet, his public demeanour seems to suggest that the speculation that his priority is primarily compliance with the central line may not be too far off the mark (Leung 2014). With the occupation came to a conclusion and normalcy was resumed, Leung took the initiative and repeated the aggressive line on the danger of separatism in Hong Kong in his Policy Address Speech on 15 January 2015. He renewed the hostility with the young protesters by focusing his criticism of *Undergrad*, a magazine published by the Hong Kong University Students' Union:

> The 2014 February issue of "Undergrad", the official magazine of the Hong Kong University Students' Union, featured a cover story entitled "Hong Kong people deciding their own fate". In 2013, a book named "Hong Kong Nationalism" was published by "Undergrad". It advocates that Hong Kong should find a way to self-reliance and self-determination.

"Undergrad" and other students, including student leaders of the occupy movement, have misstated some facts. We must stay alert. We also ask political figures with close ties to the leaders of the student movement to advise them against putting forward such fallacies. The rule of law is the foundation of Hong Kong. The democratic development of Hong Kong must therefore be underpinned by the same. As we pursue democracy, we should act in accordance with the law, or Hong Kong will degenerate into anarchy.[3]

For C.Y. Leung, political loyalty appears to be the top priority. There is no sight of the end of the political conflict on the horizon. On midnight on Chinese New Year Day in 2016, another confrontation broke out. Hundreds of young protesters, with separatist groups playing a key role in the skirmish, marauded in the streets of Mong Kok and fought with police until the dawn. The frustration and tension unleashed by the Umbrella Movement lingered.

Conclusion

Despite the emotion and rage against police handling and abuses and the disruption of normal life during the Umbrella Movement, the confrontation in 2014 was an event proceeded with a high degree of self-restraint from both the government and the protesters. When compared with the draconian measures deployed by the authority and the high casualties suffered in the year of 1967, the Special Administrative Region Government appeared to have approached the crisis with great sensitivity to the responses of the international and local communities and succeeded in containing the escalation of tension and violence. State repression and protest mobilization is a matter of reciprocity, and the "civility" of the confrontation in 2014 could thus be attributed to civil society and statist arguments. On the one hand, the Umbrella Movement uncovers a greater maturity and vibrancy of civil society when compared with the 1967 Riots. Whereas the latter is primarily a full mobilization of leftist camp in the territory with the working class forming the core of the campaign, the former had appeal to a much wider audience and drew support from more diverse backgrounds. The Umbrella Movement is a more articulated business. While the 1967 Riots alienated the local community with its language of political fanaticism and leftist rhetoric of the Cultural Revolution, the Umbrella Movement is regarded as a genuine indigenous campaign addressing the collective anxiety of local society and is presented as a defense of Hong Kong identity against Communist intrusion. Its rapport with local community, emphasis on "peace and love" and the general perception of innocence attached to young students helped enhance the moral appeal of the protest and rendered violent suppression by the authority a very risky business.

State response can also be seen as something of a pathology. As Christian Davenport argues, the repertoire of repression is simply determined by the deficiency of political system (Davenport, 2007). For example, it is argued that democracy is least likely to resort to repressive measures as its responsive and open character has allowed more options for negotiation, bargaining and accommodation of the challengers. Whereas the low degree of public trust in authoritarian regime has deprived the political leaders under this system of most of these options. Protesters in these contrasting political orders also have different matrix of political calculus as well. In essence, protesters in democracy should enjoy a smaller cost of dissidence whereas the repercussion for their counterparts under authoritarian rule can be severe. This structural thesis points to the progression of the political order in Hong Kong over the last few decades. Despite the snail-paced democratization of the political system, the logic of accountability and transparency inherent in electoral politics has been, at least partially, submerged into the fabrics of the political order as a result of the introduction of elected seats in the legislature in the 1980s. More importantly, the

traditions of rule of law and press freedom are also consolidated as inalienable pillars accountable for the success story of Hong Kong. When compared with the colonial government, the post-1997 leaders are certainly more deprived in terms of leverage for suppressing political threat at their disposal.

Yet the comparative exercise here also highlights another important dimension of the statist account in explaining variation in state response towards protest: Hong Kong being a local state. As a subnational unit, Hong Kong never enjoys complete freedom in handling political challenge. And as seen in both cases, the sovereign's diagnosis of the situation, and most importantly the leeway she allowed for metropolis Hong Kong in handling the crisis, matters a lot. And here lies the root of the perpetual tension in the territory after 1997: the more proactive sovereign in Beijing who is anxious to find a solution for Hong Kong failing to see herself as the problem. The tiny island of Hong Kong has been cursed with the eternal quest for reconciliation between the constitutional subservience inherent of her metropolis status and her relentless economic vitality and social vibrancy. Either as a British colony or a Special Administrative Region under the Communist rule after 1997, the territory has been placed under a strait-jacket of constitutional constraints on her power of decision-making. Theoretically, the status as a colony implied the local administration was simply at the mercy of the British monarch and the latter could freely bestow its wishes upon the colony. Similarly, despite the promise of high degree of autonomy, Beijing's monopoly over the interpretation of the Basic Law and the unitary logic of central-local division of power under the People's Republic of China, preordain the political subordination of Hong Kong after the handover. Nevertheless, the asymmetrical constitutional template could hardly suppress the desire of the local community in making its voices heard. This tiny enclave has simply outgrown its political subsidiary status. Its strategic position in geopolitical terms and spectacular economic success have emboldened the local community to assert its views and its anxiety to pursue the local agenda has also been prompted by the growing sophistication of socioeconomic contour.

The long history of colonial rule is a clear testament to the fact that the local community has never restrained from pursuing its own socioeconomic concerns, displaying its cultural idiosyncrasy and persevering with its definition of the interest of Hong Kong. Central to these strategies is the tenacious refusal to accept that constitutional arrangement that the local administration is simply as an agent of the sovereign, but to consider it as a possible mean for pursuing local agenda, that may or may not be consistent with the concerns and calculation of the central authority. Through lobbying, collaboration, pressure or violent outburst, the Hong Kong community has been involving in a perpetual tug of war with the sovereign in securing the response and compliance of the local administration. In spite of the undemocratic nature of the colonial order, governors were never immune to the pressure of local society. The capability to secure a certain degree of autonomy from the centre, and thus room for maintaining a "right balance" between the concerns of the political superior and local community, held the key to effective governance. Beijing's resumption of sovereignty over Hong Kong in 1997 may have changed the form of contention yet the essence of the tension remains intact.

Yet the Chinese leaders find it difficult to understand the resistance and uneasiness of the local community towards her involvement in Hong Kong affairs. For Beijing, not only are these acts of engagement well-intended and beneficial for Hong Kong, but they are also very much in line with the British practices before 1997, according to her reading of the colonial order. The latter line of thinking is in fact the premise of the idea of "high degree of autonomy". The general principle is to preserve the aspects of autonomy enjoyed by the colonial administration and to include a number of extra concessions on top of the existing arrangements under British rule. For example, Beijing will not send officials to take over the administration of Hong Kong

directly, the HKSAR has been spared from the burden of financing the presence of PLA Garrison and a procedure of final adjudication has been created in the territory. The Hong Kong people should thus be grateful and contented with the new order given the extra concessions from the central government after 1997. Beijing's comprehension with the pre-1997 autonomy is unfortunately, misguided. A formal reading of the constitutional documents concerning the colonial order could easily portray an image of the Governor as a puppet of the British sovereign as the latter enjoying unlimited power in overriding the laws passed by the colonial legislature, vetoing the Governor's appointment and imposing Britain's wishes freely by a stroke of royal instruction. This is in fact correct according to the letters of Royal Instructions and the Letter Patent, the two defining constitutional documents for the colonial rule. The reality was however much more complicated. The tradition of imperial passivity pointed above had in fact led to a situation of informal devolution, a term used by Goodstadt (2005), under which allowed substantial leeway for governors in performing their duties as the Queen's agents. Even more importantly, as seen in the case of Trench, governors were prepared to pursue their own views and firmly defend their positions if necessary. Throughout the 150 years of colonial rule, one can find countless examples of governors negotiating with the British sovereign over the best strategy in handling British interest in Hong Kong. They did it by arguing with proof and evidence, delaying implementation, threatening with resignation or even cheating. The governors were driven not by the joy of being rebellious or self-righteousness; they realized it was imperative to be seen as a champion of local interest if they wanted to secure the support of local elites. The governors know that at critical junctures when important interests of local community were at stake e.g. devaluation of pound sterling, limitation on export quota of Hong Kong products and handling of major crisis of law and order, the perception of the Governor as a local held the key to effective governance. Unfortunately, Beijing appears to be incapable of realizing the existence of de facto autonomy under British rule, and this mismatch between perception and reality, I would argue, is the root of tension between Hong Kong and mainland after 1997.

Notes

1 Standing Committee of National People's Congress (2007), "Decisions of the Standing Committee of the National People's Committee on Issues Relating to the Methods Selecting the Chief Executive of the Hong Kong Special Administrative Region and for Forming the Legislative Council of the Hong Kong Special Administrative Region in the Year 2012 and Issues Relating to Universal Suffrage" (29 December 2007).
2 Hong Kong Public Records Office, HKRS 179–1–19 (Part 4), Wilford to Maddock, 12 December 1970.
3 Minutes of the Legislative Council, 15 January 2015.

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Theme 4

The changing social fabric

14
Growing socio-economic inequalities

Hon-Kwong Lui

Introduction

In Hong Kong, politicians and pressure groups always mix social, economic and political issues together. They talk about poverty and income inequality problems every now and then in order to win the support of lower-income groups. When the economy is booming, their focus is more on income inequality while their attention will shift to poverty during economic downturns. These discussions would be most intense during election years, Legislative Council and Chief Executive Elections in particular. In Hong Kong, the last District Council Election and Legislative Council Election were held in 2015 and 2016 and the term of office is four years. As for the Chief Executive Election, the term of office is five years, and the latest one would be held in 2017. Given such a political system and scheduling of elections, these explain why politicians raise poverty and income inequality issues every year.

Before the handover, however, the economy was prospering, and the then Hong Kong Government did not feel too much pressure to address the poverty problem. The stylized facts presented in Lui (2013) demonstrate that Hong Kong's economy was booming and looked promising before the historic handover in 1997. Unfortunately, in just two years, the economy experienced marked deterioration and the unemployment rate jumped from 2.2 per cent in 1997 to 4.7 per cent in 1998 and further surged to 6.2 per cent in 1999.

In view of the sluggish economy, the Mainland authority introduced a number of measures to boost the economy of Hong Kong, notably the Mainland "Individual Visit Scheme" implemented in July 2003 (Legislative Council Secretariat, 2014). Such a scheme proved to have significant positive effects on tourism industry and retailing. Hence, the economy picked up again with positive growth in the following years. A direct side effect of the large influx of Mainland tourists was the escalation of retail prices and the changing mix of retail shops and environments in selected regions, such as Sheung Shui, Causeway Bay etc. None of these changes were welcomed by most residents living in those districts while retailers enjoyed higher retail sales. Youngsters were among the most discontented with the Mainland tourists, of which created huge social tension between natives and Mainlanders. Since then Hong Kong has entered a new era of rapid social and political changes.

As a matter of fact, the rising income inequality problem can be traced back to many years before the handover. When Hong Kong was a colony of the United Kingdom, the income inequality situation worsened despite healthy economic growth. The Gini coefficient increased from 0.451 in 1981 to 0.518 in 1996 (Census and Statistics Department, 1993, 2007). However, such issues did not cause too much social tension as the general population as a whole did enjoy success from economic growth. After the handover, the income dispersion continued to widen while Hong Kong experienced economic recession for a few years. The Population Census results revealed that the Gini coefficient rose to 0.537 in 2011. It was widely speculated the dispersion continues to widen. At the same time, property prices escalated rapidly which makes Hong Kong's property market among the world's most unaffordable (Demographia, 2016). Rising income disparity coupled with property price escalation added fuel to social discontent, among youngsters in particular.

However, the 2016 Hong Kong Population By-Census was conducted from 30 June to 2 August 2016, and the official Gini coefficient should be available by late 2017 (Census and Statistics Department, 2016a). Not until the government releases the official Gini coefficient for 2016 could we be sure whether the income disparity is worsening or improving. However, the current government has introduced a number of measures to help the disadvantaged. For example, with the introduction of statutory minimum wage on 1 May 2011 (Labour Department, 2015) and other social welfare programmes, the government expects income inequality and poverty problems would be alleviated. Although some crude estimates have been compiled, the real impact of the statutory minimum wage on income inequality is yet to be confirmed. As for the poverty problem, official statistics show that post-intervention poverty rates were significantly lower than those of pre-intervention rates (Government of the HKSAR, 2015).

This chapter will study the changes in income distribution since the handover in general. As Lui (2013) suggests that the increasing number of one-person households is one of the major reasons that explains the widening income gap, this chapter will take a serious look of the changing composition of domestic households and its impact on income gap.

Before moving on to discuss the rising income inequality in Hong Kong, I would like to point out that there is a huge literature on income inequality, but there is no conclusive evidence to prove that inequality is good or bad (Becker, 2011). In a recent international comparative study published by the International Monetary Fund, Dabla-Norris et al. (2015) argue that income inequality may be a necessary evil as some degree of inequality provides the incentives for people to work harder and invest to move ahead in life. Nevertheless, rising income inequality and inequality of opportunity may cause serious concerns as it may entail high social costs. Nobel Prize–winning economist Professor Gary Becker (2011) argues that some types of economic inequality have great social value. He cited his experience in visiting several factories in Beijing with extreme equalitarian approach to compensation in 1981 and concludes that China's economic miracle was the direct results of allowing greater wage inequality to motivate greater productivity. Becker's discussion is not one sided. He also argues that the bad side is that many sufficiently able children were hurt by high inequality as their parents were not able to send them to good schools. d'Hombres et al. (2012) attempt to link the relationship between mobility and the impact of income inequality on society. For example, they argue that high income inequality with high perceived income mobility is positively related to the reported well-being of individuals. When people think they will eventually able to reach a high-level of income, they will be happier than those in countries with low mobility. Moreover, many researchers argue that high income inequality has a detrimental effect on criminal behaviours (d'Hombres et al., 2012).

Rising income inequality of the working population

Before the handover, Hong Kong's economy was mostly described as prosperous and promising by reporters (Lui, 2013). Although property prices were high, citizens were optimistic about Hong Kong's future. Shortly after the handover, the Asian financial tsunami hit the world by surprise and served as a wake-up call. Analysts suggest that one of the trigger events that led to the financial tsunami was the collapse of Thai baht on 2 July 1997. In Hong Kong, overnight interest rates at once jumped to 500 per cent in August 1998, which also marked the beginning of six consecutive years of deflation since the third quarter of 1998 (Lui, 2011).[1] In March 2013, Severe Acute Respiratory Syndrome (SARS) swept Hong Kong of which retailers and restaurants suffered the most. With the help of Mainland government, Hong Kong was able to bounce back swiftly. In 2005, the general price level recorded a year-on-year increase again (Lui, 2011).

Table 14.1 presents the nominal GDP per capita and median household income from 1997 to 2016. From the first column, we can see that the GDP per capita increased from HKD$ 211,592 in 1997 to HK$ 328,114 in 2015. In other words, the GDP per capita was increased by 55 per cent in nominal terms in the last 19 years. With the Asian Financial Crisis and SARS outbreak in mind, such an economic growth was quite good. However, not all households could enjoy the equal share of the fruit of the economic growth. During the same period, the median household

Table 14.1 Nominal GDP per capita and median household income

Year	GDP per capita	Median household income
1997	211,592	19,000
1998	199,898	17,800
1999	194,649	17,000
2000	200,675	18,000
2001	196,765	18,000
2002	192,367	16,500
2003	186,704	15,400
2004	194,140	15,600
2005	207,263	16,000
2006	219,240	17,000
2007	238,676	17,400
2008	245,406	18,500
2009	237,960	17,500
2010	252,887	18,300
2011	273,549	20,000
2012	284,720	20,800
2013	297,462	22,900
2014	311,835	23,700
2015	328,117	25,000
2016	N.A.	26,000

Note: All numbers are expressed in Hong Kong dollars at current market prices.

Source: Census and Statistics Department (2016b, 2016c). While GDP per capita statistics data are annual data, the median household income statistics are quarterly data, specifically the third quarter of each year.

income only raised from HK$19,000 to HK$25,000 which represents an increase of 37 per cent. By comparing the two growth rates, one may argue that an average household did enjoy two-thirds of the fruits of Hong Kong's economic success.

As the focus on this chapter is about income inequality, we should focus more on the changes in income distribution. Table 14.2 presents various measures of income distribution of the working population for the period from 1996 to 2011.[2] These statistics require detailed information of the working population which are usually collected through population census. Although we want to know the latest numbers that can reflect the situation in 2016, official statistics will not be available before the second half of 2017. With this data limitation, we can only study the trend from the handover up to 2011.

As Lui (2007, 2011) argues that various inequality indexes differ in their sensitivity to differences in different parts of the income distribution. Gini coefficient is more sensitive to income differences of the middle class than to those among both ends (Braun, 1988). For differences at the top and at the bottom of the income distribution, we should use the Theil index and Atkinson index, respectively. In other words, for those interested in the changes in income disparity among the middle class, they should study changes in the Gini coefficient. On the other hand, for those want to analyze the income inequality among the upper (or lower) class, they should focus on the changes in the Theil index (or Atkinson index). In order to take a full view of the variation in income disparity of the whole distribution, five widely used inequality measures are presented in Table 14.2, namely (1) the Gini coefficient, (2) the Theil index, (3) the Atkinson index, (4) the variance of log income and (5) the decile ratio (reflecting both the income gap between the median and the bottom 10% and the gap between the top income group with the median).

The first row of Table 14.2 reports the most widely used income inequality measure, the Gini coefficient. In theory, in a world of perfect equality, the Gini coefficient equals 0. In the opposite extreme, the Gini coefficient equals 1. In Hong Kong, the official Gini coefficient experienced a mild increase shortly after the handover but a higher increase after 2001. The coefficient stood at 0.483 in 1996 but increased to 0.509 in 2011. By international standards, Hong Kong's Gini coefficient remains at a quite high level in the last few decades which means main employment income was unevenly distributed in society. As suggested earlier, the Gini coefficient is sensitive to income differences of the middle class, and the rising index indicated the income inequality problem has worsened among the middle class.

From Table 14.2, the Theil index and Atkinson index also recorded an upward trend since the handover. While the Theil index increased from 0.390 to 0.413 during the reporting period, the Atkinson index changed from 0.278 to 0.322. These results point out the inequality problem

Table 14.2 Income distribution of the working population

	1996	2001	2006	2011
Gini coefficient (official)	0.483	0.488	0.500	0.509
Theil index	0.390	0.389	0.405	0.413
Atkinson index	0.278	0.293	0.308	0.322
Variance of log income	0.544	0.619	0.669	0.736
P_{50}/P_{10}	2.375	2.500	2.857	2.941
P_{90}/P_{50}	2.632	3.000	3.000	3.273

Sources: Official Gini coefficients are extracted from various population census reports, and other statistics are based on Lui (2013).

deteriorated in both the top and bottom parts of the distribution. Summarizing the changes in Gini coefficient, Theil index and Atkinson index, one can conclude that Hong Kong's rising inequality problems not just affected the middle class but also the rich and the poor.

Studying the variance of log main employment income statistics presented in Table 14.2 tells essentially the same story. The variance of log income increased from 0.544 in 1996 to 0.736 2011. The income inequality discussed above all point out that all parts of the distribution are on the rise, one might want to know which parts are rising faster? Most commentators are particularly concerned about the bottom part of the distribution rather than the upper portion. To answer this question, we can make use of the decile ratio analysis.

Suppose we arrange the main employment income of the working population in ascending order and divide the whole distribution into ten groups called deciles. Then P_{50} percentile denotes that half of the work force with income below that level, and P_{10} represents bottom 10 per cent of the working population. The income dispersion of the upper-income class and the lower-income class will be captured by the decile ratios P_{90}/P_{50} and P_{50}/P_{10} respectively. The higher the decile ratio, the wider the level of income dispersion. In the 15-year period after the handover, the decile ratio P_{90}/P_{50} recorded an increase of 24.4 per cent. Similarly, the income dispersion of the lower-income class has widened by 23.8 per cent as reflected in the increase in the decile ratio P_{50}/P_{10}. These results suggest that workers in middle-income group received higher income growth than those in the bottom cohort. However, the income of top earners rose even faster than that of middle class. In short, the upper-income group enjoyed the highest income growth rate whereas the bottom group experienced the slowest income growth. Hence the income gap between the top and bottom cohorts has enlarged substantially during the report period.

Rising household income disparity

While understanding the income disparity among the working population is important, it is equally important to understand the household income distribution. Lui (2013) suggests that one of the main reasons of the rising household income inequality is the increasing number of single person households. To begin with, we take a look of the changing household composition in the last two decades.

Figure 14.1 plots the percentage share of households by household size using third quarter data for the period from 1997 to 2016. From Figure 14.1, we can clearly see three lines are upward sloping while the other three are download sloping. In fact, there is a clear dividing line between the two groups. The first group with increasing percentage share consists of households with three or less members whereas the other group with decreasing trend comprises with households with four or more members. Such a trend is quite common among advanced economies. In the past 33 years, Hong Kong's fertility rate showed a declining trend and is among the lowest in the world (Census and Statistics Department, 2015). In 2016, the fertility rate in Singapore was estimated to be 0.82 children per woman, which is the lowest in the world, and Hong Kong ranked fourth with an estimated 1.19 children per woman (Statista, 2016). In recent years, there were many reported cases of Mainland mothers giving birth in Hong Kong in order to help their children to obtain the right of abode. Hence we observed a moderate uptick in fertility, but the total fertility rate has been consistently below the replacement level (Census and Statistics Department, 2015).[3]

Since the handover, the number of households increased from 1,924,100 in 1997 to 2,505,800, an increase of 30.2 per cent (Census and Statistics Department, 2016c). During the same period, the mid-year population estimates increased from 6,501,100 to 7,346,700,
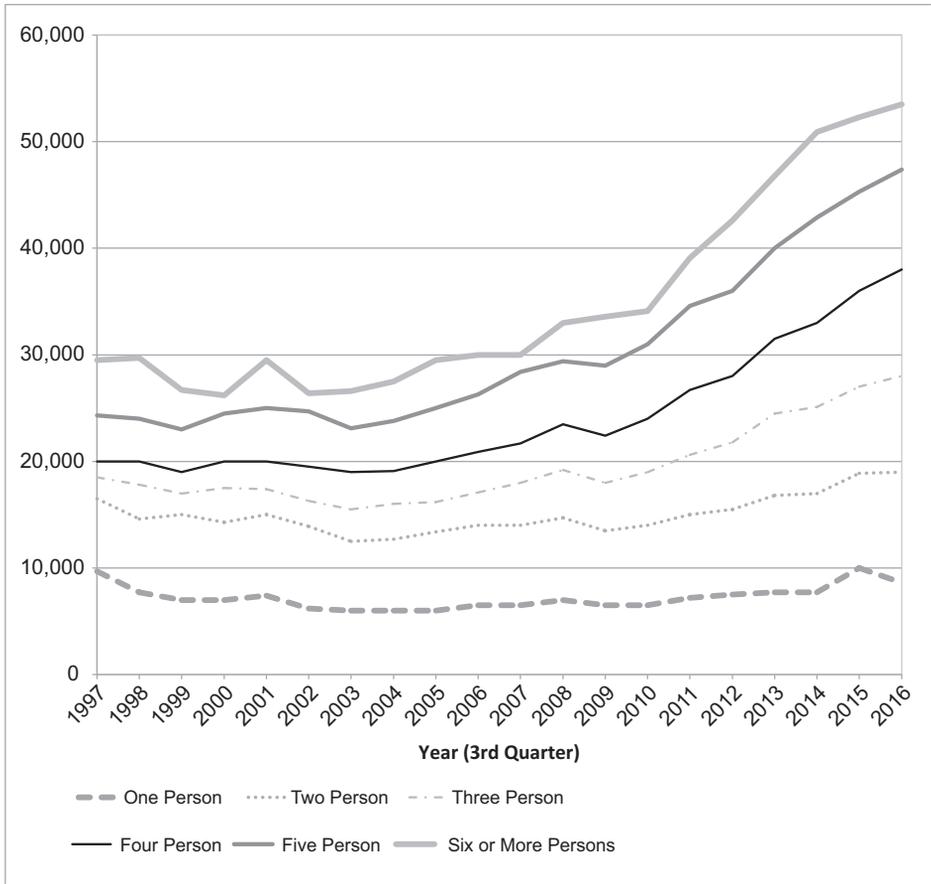
Figure 14.1   Percentage share by household size, 1997–2016

or an increase of 13.0 per cent (Census and Statistics Department, 1998, 2016d). These two sets of statistics tell us that the average household size must be shrinking significantly since China resume full sovereignty over Hong Kong. To resolve this puzzle, we will analyze the changes in household composition.

In the last 19 years, the percentage share of one-person, two-person and three-person households has increased by 4.4, 7.2 and 3.9 percentage points respectively. At the same time, the percentage share of four-person, five-person and six-person+ households experienced a decrease of 5.6, 6.0 and 4.0 percentage points respectively. In the third quarter of 1997, households with three or less members accounted for slightly over half, 53.1 per cent, of all households in Hong Kong. By the third quarter of 2016, the percentage share jumped to slightly over two-thirds, which stood at 68.7 per cent. The above findings are consistent with those of Lui (2013) who suggests the average household size decreased from 3.3 in 1996 to 2.9 in 2011. Such a change in household composition has important policy implications. For example, Hong Kong needs more living quarters to accommodate the increasing number of households, and the HKSAR government needs to consider appropriate mix of public rental housing units to match with the increasing changing demand of small living quarters.

Table 14.3 Median household income by household size, 1997–2016

Year	One person	Two persons	Three persons	Four persons	Five persons	Six or more persons	Overall
1997	9,700	16,500	18,500	20,000	24,300	29,500	19,000
1998	7,700	14,600	17,800	20,000	24,000	29,700	17,800
1999	7,000	15,000	17,000	19,000	23,000	26,700	17,000
2000	7,000	14,300	17,500	20,000	24,500	26,200	18,000
2001	7,400	15,000	17,400	20,000	25,000	29,500	18,000
2002	6,200	13,900	16,300	19,500	24,700	26,400	16,500
2003	6,000	12,500	15,500	19,000	23,100	26,600	15,400
2004	6,000	12,700	16,000	19,100	23,800	27,500	15,600
2005	6,000	13,400	16,200	20,000	25,000	29,500	16,000
2006	6,500	14,000	17,100	20,900	26,300	30,000	17,000
2007	6,500	14,000	18,000	21,700	28,400	30,000	17,400
2008	7,000	14,700	19,200	23,500	29,400	33,000	18,500
2009	6,500	13,500	18,000	22,400	29,000	33,600	17,500
2010	6,500	14,000	19,000	24,000	31,000	34,100	18,300
2011	7,200	15,000	20,600	26,700	34,600	39,100	20,000
2012	7,500	15,500	21,800	28,000	36,000	42,600	20,800
2013	7,700	16,800	24,500	31,500	40,000	46,800	22,900
2014	7,700	17,000	25,100	33,000	42,900	50,900	23,700
2015	10,000	18,900	27,000	36,000	45,300	52,300	25,000
2016	8,600	19,000	28,000	38,000	47,400	53,500	26,000

Note: All numbers are expressed in Hong Kong Dollars at current market prices and during the third quarter of each year.

Source: Census and Statistics Department (2016c).

Table 14.3 presents the median household income by household size over the period from 1997 to 2016. All numbers are refer to the third quarter of each year and are expressed in Hong Kong dollars at current market price. If we focus on the changes in median household income column by column, we can observe a general upward trend over the years. The last column shows that the overall median household increased by 36.8 per cent, i.e. from HK$19,000 to HK$26,000 over the reporting period. However, if we compare the changes column by column, those who are sensitive to number may notice that the rate of income growth varies considerably. For example, the median income of two-person household increased by 15.1 per cent from HK$16,500 in 1997 to HK$19,000 in 2016 while the median income of three-person households enjoyed an increase of 51.4 per cent during the same period. From Table 14.3, five-person households experienced the highest growth in median income of 95.1 per cent since the handover in 1997.

Instead of reading such a complicated table, we can take a look of Figure 14.2 for an overview. From Figure 14.2, we can see that the nominal income gap between different household size groups is widening substantially in the past 19 years. One striking feature we can learn from Figure 14.2 is that households with more members tend to enjoy higher growth rate in median income. The worst situation is that single-person households recorded a decrease in median household income in both real and nominal terms. This phenomenon is partly attributable to the
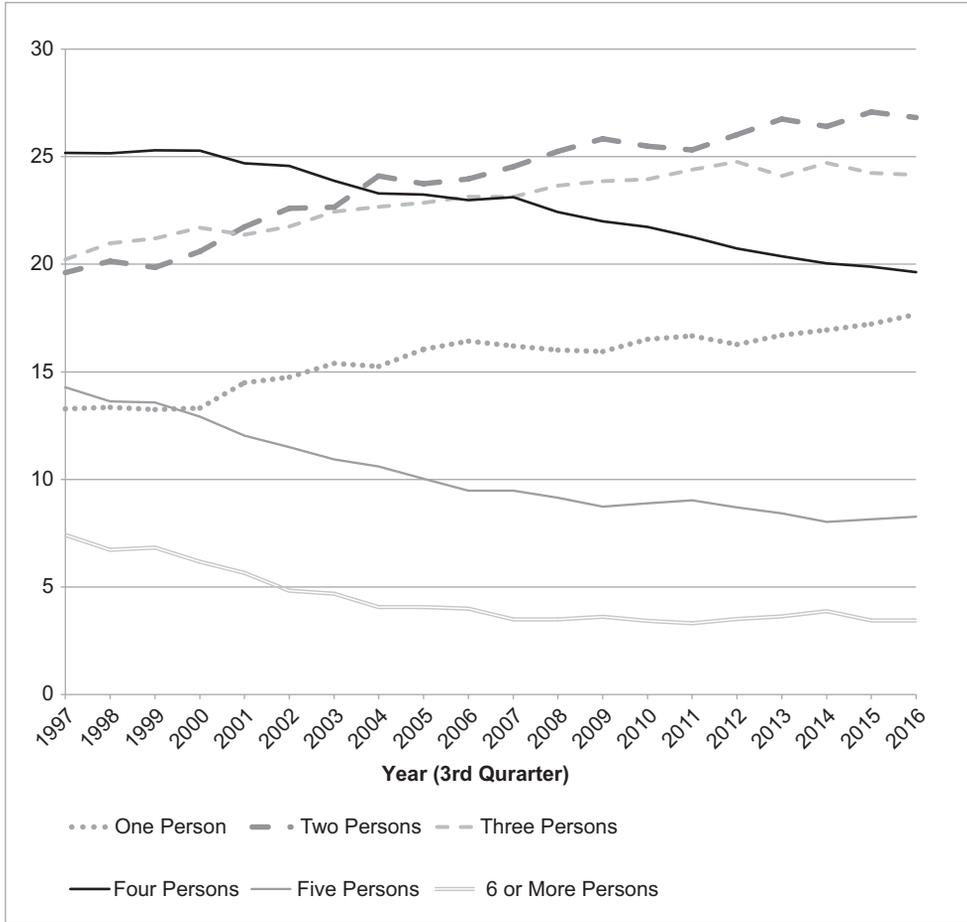
Figure 14.2 Median household income by household size, 1997–2016

fact that many single-person households are composed of one senior citizen who is not gainfully employed. Some of them solely rely on comprehensive social security assistance to support them.

Figure 14.2 suggests that the income inequality between different household size groups was increasing after the handover. However, we need a more scientific way to prove whether such a conjecture is correct. For formal proof, we can examine the numbers presented in Table 14.4, which presents the Gini coefficient by household size for the period from 1996 to 2011. Table 14.4 shows the income inequality worsened for some household size groups but improved for other groups. For single-person households, the Gini coefficient experienced a noticeable increase from 0.615 in 1996 to 0.641 in 2011. However, the changes in the Gini coefficients of other household sizes were quite mild. For households with three members, the Gini coefficient even recorded a decrease from 0.487 in 1996 to 0.458 in 2011. For households with four members, the Gini coefficient virtually unchanged in the post-handover period.

From Tables 14.3 and 14.4, we understand that there was increasing number of single-person households and that income inequality was the highest among different household size groups. A logical follow-up question one would ask is whether the changes in household composition

Table 14.4 Gini coefficient by household size

Household size	1996	2001	2006	2011
1	0.615	0.620	0.614	0.641
2	0.547	0.550	0.559	0.560
3	0.487	0.452	0.470	0.458
4	0.457	0.457	0.455	0.456
5+	0.482	0.512	0.514	0.501
Overall	0.518	0.525	0.533	0.537

Sources: Census and Statistics Department (2007, 2012).

Table 14.5 Variance of log household income by household size

Household size	1996	2001	2006	2011
1	1.4080	1.2638	1.1874	1.3553
2	1.1217	1.1010	1.0586	1.1254
3	0.5909	0.5852	0.6284	0.6300
4	0.5159	0.5392	0.5850	0.5793
5+	0.5593	0.6117	0.6595	0.6136
Overall	0.9077	0.9167	0.9429	1.0383

Source: Lui (2013).

Table 14.6 Decomposition of change in variance of log household income, 1996–2011

Component	Change in variance
Composition change	0.0181 (13.8%)
Between group	0.0456
Within group	−0.0275
Change in variance	0.1126 (86.2%)
Between group	0.0280
Within group	0.0846
Overall change	0.1307

Source: Lui (2013).

accounted for the bulk of increasing income inequality? Or was the increasing inequality within each household size group explaining the rising trend?

In order to answer this question, Lui (2013) employs a decomposition analysis of change in variance of log household income of the reporting period.[4] While Table 14.5 documents the variance of log household income by household size, Table 14.6 presents the results of the decomposition analysis. From Table 14.5, single-person households and two-person households had significantly higher variation in income than those of other groups. From Figure 14.1, we learn that the percentage share of single-person households and two-person households has increased in the post-handover period. Combining these two pieces of information, one may

expect income inequality to be widened. The decomposition analysis results presented in Table 14.6 confirmed that composition changes explained 13.8 per cent of the increase in variance of log income. In other words, even if we could keep the log variance unchanged within each household size group, we would still observe widened income dispersion.

This decomposition analysis is based on data for period from 1996 to 2011, and Figure 14.1 tells us that the percentage share of one-person and two-person households continued to increase, we should expect the income dispersion is also kept widening. As Lui (2013) points out, if these trends are not properly addressed, these could lead to serious social problems.

Conclusion and directions of future research

After the handover, Hong Kong managed to bounce back after being hard hit by Asian Financial Crisis (1998–1999) and Severe Acute Respiratory Syndrome (2001–2003). In the last 19 years, Hong Kong only experienced a negative GDP growth for 2 years, a record envied by many countries in the world. On the surface, the economy was doing quite well, but not all workers and households could benefit from the economic success. All income inequality measures presented in this chapter and by other researchers draw the same conclusion that income dispersion has widened continuously.

It is clear that Hong Kong has ever increasing number of single-person households and two-person households. The empirical evidence presented here also show that these two groups of households have the lowest growth in median income and the most uneven distribution of income when compared with households with three or more members. These socio-economic changes should be examined carefully by the HKSAR Government. As Hong Kong is facing an aging population, these changes have important policy implications. If not treated properly, it is highly likely that these issues could gradually evolve into a social time bomb.

Due to data limitations, part of the analysis presented this chapter is based on latest statistics up to the third quarter of 2016 whereas the remaining analysis is based on data up to year 2011. When the 2016 population by-census random sub-samples are made available to researchers (possibly by end of 2017), it is advisable to re-do the analysis in order to get a clearer picture of the current situation. Moreover, this chapter mainly focuses on the disparity of household income, and there are many income inequality-related aspects that deserve more discussion. For example, in May 2016, the Economic Analysis and Business Facilitation Unit (2016) of the Financial Secretary's Office released its report *2015 Study on Earnings Mobility*, which discusses the upward mobility of post-secondary graduates from 2001/02, 2006/07 and 2011/12. This report is the fourth report in this series of which the first report dated back to 2001, and its results were widely reported in the media and generated heated discussions. Social mobility is a very important issue that deserve special attention especially since the younger generation seems to be more vocal and active in social movements. If the HKSAR Government is able to guide them well, they will become engine for future socio-economic development. However, if the HKSAR Government fails to address their needs, who knows what they will do next?

Acknowledgements

Notes

1 Economists normally use GDP deflator as a measure of general price level, and "deflation" means a decline in GDP deflator.

2 Although I want to present the latest statistics related to Hong Kong after the handover, these inequality measures require a representative sample of the population for compilation. The only way to obtain such a sample in Hong Kong is to make use of the random sub-samples of the relevant population censuses or by-censuses provided by the Census and Statistics Department. Hence, researchers have to use 1996 population by-census sample as a proxy of the situation in 1997. Moreover, the latest 2016 random sub-sample is not available until the end of 2017.

3 "Replacement level refers to the number of children 1,000 women needs to produce for a population to replace itself. Each woman would produce an average of one daughter, who may be said to 'replace' her mother in the population. A total fertility rate of 2,100 per 1,000 women is considered to correspond to the replacement level, allowing for such factors as sex differential at birth and infant and childhood mortality." Census and Statistics Department (2015: FB2)

4 For details of the decomposition analysis method, please read Juhn et al. (1993) and Lui (2013).

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15

Ethnic minorities and ethnicity in Hong Kong

Paul O'Connor

Introduction

The subject of Hong Kong's ethnic minorities is often treated as a specialised and marginal topic in the territory. This chapter argues the contrary, that in exploring the subject of ethnic minorities one is able to more fully comprehend Hong Kong both past and present. Too few people know that the iconic Star Ferry is the legacy of an Indian Parsee baker (White, 1994: 22), or know that over 1,000 Indian soldiers were listed as casualties when protecting Hong Kong from the 1941 Japanese invasion (Harfield,1990: 445). A stroll around Hong Kong's Museum of History highlights the extent to which minority communities have been dismissed in popular narratives. Only a small plaque makes mention of the 'Non-Chinese Population' and contributes to a tendency to homogenise Hong Kong as a Chinese territory and deny its heterogeneous past and present.

The 2011 census reports a Hong Kong population of 7 million, of which 451,183 are non-Chinese ethnic minorities accounting for 6.4 per cent of the population. These ethnic minorities have become a prominent part of public debate with the introduction of the Racial Discrimination Ordinance (RDO) in 2008 and a series of education reforms that indicate a Hong Kong increasingly conscious and caring about its non-Chinese citizens. At the same time Hong Kong's Chinese population has been diversifying with hundreds of thousands of migrants from the Mainland settling in the city since 1997. While the Mainland has always been the major source of migrants to Hong Kong, the post-colonial period has brought with it new identity politics. These changes have prompted many people to reflect on who can be considered a 'Hong Konger': is it an identity found on Chineseness, language, culture, or birth? Ethnic minorities are not a new issue in the territory: they have existed as non-Chinese populations since the 1840s, yet concerns about the growing diversity of Hong Kong society often overlook this history. The present percentage of non-Chinese in the territory as of 2011 is similar to the population of 7 per cent recorded in 1876 (Formichi and O'Connor, 2015). Understanding the depth of the territory's cultural diversity is a component part of making sense of Hong Kong's changing social fabric.

My task in this chapter is to explain the position of ethnic minorities in Hong Kong, and as a result, I unravel the complex ethnic and cultural diversity of the territory. I argue that it is unhelpful for students to focus on ethnic minorities alone, a questionable and power-laden term,

and overlook professional and expatriate communities that reside in the territory and the rich diversity of Chinese culture that Hong Kong embodies as an inheritance from generations of emigrants and immigrants.

Ethnicity is a contested term in the social sciences that serves as a way address identity in a manner that notions of race and nation cannot. Race is a socially constructed concept that has been historically regarded as scientific fact. Race endures as a social referent because it relates to the ways in which people are categorised and treated because of physical characteristics. Nationality in its modern sense relates to the sovereignty of a nation state and the legal status of belonging (Cornell and Hartmann, 2007). It is common to associate a particular type or race of people with a nationality, for example think of whom we might imagine Japanese, Indian, and Swedish nationalities to look like? Ethnicity is relevant to both concepts as it relates to a mixture of identities that are both inherited, ascribed, and adopted. For example, take the case of one teenage Hong Kong resident who is phenotypically East Asian, of British nationality, with a first language of Afrikaans. Ethnicity serves as a way to discuss intersecting identities, it is 'an aspect of social relationship between persons who consider themselves as essentially distinctive from members of other groups of whom they are aware and with whom they enter into relationships' (Eriksen, 2010: 16–17). It is a label placed on others and at the same time an 'emic category of ascription' (Eriksen, 2010: 16). The emic is the insider's point of view and while an individual might appear to embody one racial identity, they may in fact identify ethnically in a more hybrid way. In the Hong Kong context this cannot be understated, when I first arrived in the territory I was surprised to hear a Hong Kong Chinese taxi driver swear at another driver in English and then turn to me and complain that the driver was a 'crazy China man' meaning that this man was from the Mainland and distinctly different to him. I was similarly surprised in a research interview when a teenage Pakistani girl told me that she identified as Chinese (O'Connor, 2012: 140). Ethnicity is relevant as it captures the interconnections between migration, race, nationality, religion, and language (See Yon, 2000; Song, 2003). By addressing not just ethnic minorities, but ethnicity in Hong Kong, we are able to move beyond static notions of race and nationality and construct a more diverse and interconnected picture of the territory. As such this chapter contributes to an established field of enquiry that recognises Hong Kong society as culturally hybrid (Chan, 2013).

The chapter is divided into three sections, the first of which explores an ethnic history prior to 1997. From the founding of the colony we explore a vibrant multi-ethnic port ruled by the British, an ethnic minority elite. The second section addresses the existing ethnic mix of the territory by focussing on the post-1997 period, exploring migration patterns, communities, and demographics. The third section concludes by way of a discussion that looks at how the importance of recognising difference is increasingly a central concern of discussions surrounding the Hong Kong identity and future self-determination. Here I argue that Hong Kong's ethnic minorities are manipulated and used not just for labour and profit but also in a volatile identity politics that both celebrates and denigrates them. I argue that a cogent Hong Kong identity and stable political future is more attainable with the inclusion of ethnic minorities in both policy and social practice, than in their continued marginalisation.

A history of ethnicity in Hong Kong

The historiography of Hong Kong is influenced by powerful cultural hegemonies, accordingly it is the European perspective that often dominates the narrative of the colony (Endacott, 1973; Welsh, 1997). A number of histories work to present more balanced accounts of the contributions of Chinese workers, merchants, and migrants to Hong Kong society (Tsai, 1993; Tsang,

2007). In both cases ethnic minorities, if addressed at all, are presented as marginal and part actors in a bigger story. However, the contribution of ethnic minorities has been vast and sustained. This highlights that Hong Kong's history is truly about convergence, mixture, and dispersal. Historian John Carroll states that the territory was originally settled by the hundred Yue tribes who were ethnically and phenotypically more closely related to 'Malays, Vietnamese, or Polynesians that to Han Chinese' (2007: 9).[1] He describes the early colonial days as ones of multicultural mix where British administrators, Indian soldiers, Portuguese merchants, Malay sailors, and Jewish Russian sex workers lived and coexisted with an eclectic group of local and migrant Chinese.

Hong Kong's South Asian population can be traced back to the mid-1800s where Indians performed important roles as soldiers, sailors, and traders. The hoisting of the Union Jack flag at possession point on January 1841 was witnessed by 2,700 Indian troops (Vaid, 1972: 15). A collection of works address this rich history (White, 1994; Plüss, 2005; Erni and Leung, 2014) and distinguish Indians as the typical and generic ethnic minority in Hong Kong. Carroll's discussion goes further and shows that early colonial society was similarly mixed in terms of Chinese ethnicity, providing opportunities for the outcast Tanka people, Eurasians, and other minority groups alike. This pattern is similarly noted by Tsai (1993: 39), who prefers to discuss difference in terms of class and linguistics but acknowledges that Hong Kong attracted migrant Chinese from 'marginal groups . . . willing to defy official orders and have dealings with foreigners.' This cultural mix must also be acknowledged in terms of the European populace, a demographic ethnic minority, but also a political and power elite. Most British enjoyed a standard of life and status in Hong Kong far above what they had at home. Indian soldiers and police officers enabled the British to largely avoid working-class roles and maintain an elite status in the eyes of the Chinese populace (Tsang, 2007: 64). Indians and Eurasians also became important linguistic intermediaries between Europeans and the Chinese, segregation was as a *de facto* class reality rather than an imposed rule. However, this changed in 1902 with the introduction of legislation that forbade Chinese and Eurasians to live in the affluent Peak district (Carroll, 2007: 74). While Carroll argues that these laws were bitterly resented, Tsang (2007: 66) by contrast suggests that the laws were flexible, and that most Chinese never paid attention to such legislation.

The early decades of the colony were witness to enormous growth, in the 14 years between 1841 and 1865 the Chinese population grew from 5,600 to 121,497 (Tsai, 1993: 19–22). At the same time, Hong Kong was a node on the emigration route with over 1 million migrants travelling to the United States alone from Hong Kong between 1855 and 1900 (Tsai, 1993: 24) growing to 6 million by 1939 (Sinn, 1995: 14). These movements amongst the Chinese population echo across the generations and contributed then, as they do now, to the deeper cultural diversity of the territory. Our portrait of ethnicity is aided by understanding that many families in present-day Hong Kong have historic transnational ties to North America, Australia, Indonesia, Malaysia, the UK, and many other countries. They are representative of a multiplicity of languages, religions, and migration routes.

The early Indian community of Hong Kong was similarly diverse including Hindu and Muslim soldiers, a collection of indentured labourers from Malaya, and Parsee sailors and merchants. Vaid states that in the late 19th and early 20th century Indian migrants to Hong Kong were either directly recruited by the colonial government, hired by a host of trading companies largely based in Bombay, or came independently as traders (1972: 17). As a result, many scholars have characterised the colonial Indian soldiers as transnational, seldom learning Cantonese and settling permanently in the territory. In contrast, many Indian merchants took local wives and integrated into the local community. Weiss (1991) highlights how these 'local Indians' became valuable to the colonial administration through their own hybridity. Possessing excellent language skills in both English and Cantonese they were attractive and valuable workers. The role of Indians

in colonial Hong Kong became associated with authority and power as large numbers were recruited into the police force. By 1909 a mere 12 per cent of police officers were European, while 49 per cent were Chinese and the remaining 39 per cent were Indian (Plüss, 2005: 162). This process of recruitment from the Indian subcontinent would continue until a final contingent was hired from Pakistan in 1961. Prior to this time, most Indian police officers were either Sikh or Muslim, and they all appear to have worn a standard uniform that included a turban regardless of their religious affiliation.[2]

An important point to consider regarding Indian soldiers, prison guards, and police in Hong Kong prior to WWII is that they were an ethnic minority population that was majority male. Their employment contracts barred them from taking local wives, and they were expected to return home at the end of their service. In modern-day Hong Kong one can make similar parallels to Foreign Domestic Helpers (FDH), now the largest proportion of non-Chinese in the territory, obstructed from settling and raising their own family in Hong Kong, and overwhelmingly female.

The occupation of Hong Kong by Japanese forces during WWII marks a moment where a number of changes began to take place. Firstly, Indian police officers were permitted to take local wives during this period, and following the liberation of the territory in 1946, there was a nascent Hong Kong identity that arguably connected some people across ethnic and class lines. The then Governor of the territory, Mark Young, was reportedly so impressed and moved by the spirit of Hong Kong people during the Japanese occupation that he began to discuss the possibility of the territory's independence, representative democracy, and the recognition of a Hong Kong identity. 'Young meant to create a sense of belonging and loyalty to Hong Kong among all its inhabitants, regardless of race, not least because he had the shadow of 1997 very much in mind' (Tsang, 1995: 122). Both the British and Chinese elites in Hong Kong were sceptical of Young's optimism, and he was replaced. Yet other transformations were taking place. Indian independence and the partition of Pakistan in 1947 meant that many of Hong Kong's Indian residents had to consider whether they would return home to a new nation or spend the rest of their lives in Hong Kong.

No longer able to call on Indian soldiers the British began to recruit Nepalese Gurkha soldiers who would lay the foundations for the prominent Nepali community that continues to exist in Hong Kong today. The first cohort of Gurkha troops stationed in Hong Kong arrived in 1900 to supress the Boxer rebellion (Rai, 2009: 80), and in the two decades prior to 1997, the territory had become their key training site accommodating 8,000 of the soldiers (Low, 2016). These troops were allowed to have their families present with them, and a generation of Nepalese children were born in Hong Kong prior to 1983 that were entitled to permanent Hong Kong residency. For the Nepalese, Hong Kong is a place of strategic importance in migration networks and a source of great pride in the service that the Gurkhas performed in the territory (Rai, 2009).

The partition of India in 1947 from East and West Pakistan led to large numbers of Hindus in the Sindh area migrating. During the 1950s Sindhi Indians settled in Hong Kong and were propelled by an entrepreneurial spirit, their networks of kith and kin were often instrumental in developing trade networks and establishing great wealth. Hong Kong's most well-known Sindhi family is the Harilelas, and White (1994: 123) notes that that amongst all Indians in the territory Sindhis are known both for their business acumen and charitable donations.

Further changes following WWII were connected to the growth of industry and wealth in Hong Kong. The accompanying social changes meant that Hong Kong men and women were increasingly pursuing middle-class careers and previous patterns of childcare were transformed by the 1970s. Local Amahs (maids or nannies), who would perform childcare duties and domestic chores, were becoming expensive and difficult to manage (Constable, 2007: 62). It was equally easy for them to gain employment in factory or secretarial work that delivered them with prestige

and independence. Hong Kong looked to the Philippines to supply inexpensive domestic work in the form of short-term migrant female labour. Between the mid-1970s and 2000, the number of Filipina FDH rose from just 2,000 to 150,000 (Sautman and Kneehans, 2002: 29).

One of the consequences of the rise in Filipina FDH, was that childcare was performed in English. For middle-class Hong Kong Chinese this was an added value, aiding children in becoming bilingual and navigating the cosmopolitan work opportunities of the territory. For middle-class ethnic minorities, that included whites and South Asians amongst others, these new patterns of domestic labour removed native Cantonese speakers from their homes and effectively curtailed the local language acquisition of a generation of locally born ethnic minorities (Kwok and Narain, 2003: 238). This has had significant consequences for the integration of locally born non-Chinese into Hong Kong society that echo in the present day. Most importantly the rise in the number of FDH is an acute demonstration of the transformation of gendered labour patterns and their social stratification.

A collection of historical works point to the diverse ethnic history of Hong Kong (White, 1994; Chu, 2005). The Japanese for example are often overlooked in this story, yet they were the second largest foreign community in the territory during the 1930s (Ng, 2005: 112). Thus, Hong Kong's ethnic minorities have historically been populations in flux. In the late 1970s and early 1980s Hong Kong saw an influx of Vietnamese refugees, further highlighting how the territory has frequently attracted homeless and vulnerable migrants seeking to find a new life (Chan and Loveridge, 1987). A constant feature of the colonial period that continues post-1997 is the diversity of ethnic minorities that pass through and settle in Hong Kong. Throughout they have made important contributions in terms of service, commerce, and cultural transmission. I will now address how the issue of ethnicity has transformed since Hong Kong has become a Special Administrative Region of the PRC.

Post-1997

In the post-colonial period a growing interest in ethnic minorities has emerged. This can be related to a rising awareness of racism and discrimination, reduced opportunities for ethnic minorities post-1997, and an acute reflection on the Hong Kong identity. Despite increased recognition of ethnic minorities within Hong Kong, large numbers remain distinctly marginalised in terms of employment, education, and rights. Firstly, the government uses the term 'ethnic minority' ambiguously. Prior to 1999 the government did not collect data on ethnic minorities only including ethnicity questions in census polling since 2001 (Lee and Law, 2016: 98). In census reporting ethnicity is used to refer to 'persons who reported themselves being of non-Chinese ethnicity' (Census and Statistics Department HKSAR, 2011: 2). This then is a term of self-identification that is inclusive of white expatriate professionals and foreign domestic workers alike. Yet in policymaking 'ethnic minorities' tends to be a term used to address nominally working-class, locally born South Asian populations (Baig, 2012). This tends to stigmatise these populations overlooking wealthy professionals within these groups and excluding foreign domestic workers, along with the nominally wealthier white, Japanese, and Korean communities.

Since 1997 Hong Kong's diversity has continued to grow, and the largest proportion of new migrants to the territory are from Mainland China who, by nature of the government's own classificatory system, are not regarded as ethnic minorities despite experiencing discrimination, cultural difference from the Hong Kong majority, and in many cases not speaking the dominant language of Cantonese. While, at the time, Chief Secretary for the Administration, Carrie Lam reported that the number of migrants from Mainland China settling in Hong Kong between 1997 and 2015 via the One Way Permit scheme was in excess of 830,000 (Li, 2015). This group

Table 15.1 Ethnicity and place of birth in Hong Kong as of 2011

Ethnicity	Population in Hong Kong	Born in Hong Kong	Born in Mainland China	Born elsewhere
Chinese	6,620,393	4,218,038	2,263,613	138,742
Indian	28 616	6 506	30	22 080
Japanese	12 580	705	91	11 784
Nepalese	16,518	6 531	18	9 969
Pakistani	18,042	6 974	14	11 054
White	55,236	12,042	2 274	40 920

Source: Adapted from Census and Statistic Department (2011: 18, 40) and www.census2011.gov.hk/xlsx/main-table/A120.xlsx.

accounts for over 10 per cent of the Hong Kong population, and if regarded as part of the ethnic minority data, they would contribute to a much more mixed and diverse representation of the territory's social composition. To complicate the understanding of ethnicity further, the issue of *minzu* used by the PRC has no bearing on ethnicity in Hong Kong. Thus the 56 ethnicities that are designated as national identities are not recognised in Hong Kong's ethnicity data, all of these ethnicities, by default of nationality, are registered as Chinese. Interestingly the ethnic diversity of Hong Kongers is elided in the PRC labelling of residents as Han *Minzu* by Mainland China, while also being popularly imagined as Western influenced and polluted Chinese (Gladney, 2004: 40). In recent years and certainly surrounding the political unrest of the 2014 Umbrella Movement, there have been various discussions on Hong Kong independence and identity, highlighting that, however problematic it may be to regard Hong Kongers as an ethnic group, there is wide recognition of a discrete Hong Kong culture and identity.

To further understand the ethnic diversity of Hong Kong people, reference to place of birth must be similarly acknowledged. The 2011 census highlights that 60.5 per cent of the population were locally born while 32.1 per cent were born either in Mainland China, Taiwan, or Macau. A total of 7.4 per cent of Hong Kongers were born elsewhere, of them 2 per cent are ethnically Chinese (Table 15.1).

By grouping Indians, Nepalese, and Pakistanis into a collective ethnic category as 'South Asian,' they combine to be the second largest group of locally born persons after the Chinese. A total of 39 per cent of all South Asians in the territory are locally born in contrast to just 22 per cent of white people. Of even greater significance is the fact that 45 per cent of Pakistanis in Hong Kong are of 19 years of age and younger, contrasted to only 9.3 per cent of Chinese (Census and Statistics Department HKSAR, 2011). Hong Kong's South Asian population is representative of a young cohort of individuals who have been born and raised in the territory. It is unsurprising that the education, employment, and discrimination of ethnic minorities have become a vocal concern of these young people, their parents, teachers, and NGOs during this period.

A further complexity that we encounter in describing the ethnic diversity of the territory is that of religion. For example, Muslims in Hong Kong account for 4 per cent of the total population (Hong Kong Yearbook, 2014), yet they are made up of a diverse collection of ethnicities including majority Indonesian foreign domestic workers, and both Pakistanis and Chinese in equal proportions, and a mix of others that include notable African, European, and East Asian populations. We shall come to see how intersectionality, the overlapping of social identities, is relevant to differences such as gender, sexuality, and religion, that are commonly overlooked in Hong Kong policy and how this further problematises the agency of minority communities.

In order to provide some coherence to the rather complex and interconnected story of ethnicity in post-colonial Hong Kong, let us begin with some of the most immediate issue that have dominated public debate regarding ethnic minorities since 1997. These include the introduction of the Racial Discrimination Ordinance in 2008, the rising number of foreign domestic workers, and efforts to make the Hong Kong public school system more inclusive and accountable to the needs of ethnic minority students.

Racial discrimination

The departing colonial government made late concessions to the issue of racial discrimination in the years before 1997. The introduction of the Bill of Rights Ordinance (BORO) in 1991 made racial discrimination an illegal act by public authorities but did not include legislation for the private sector (Sautman and Kneehans, 2002: 2). Further progress came from the Equal Opportunities Commission (EOC) that was established in 1996 with a view to promote diversity and work to implement policies against discrimination in regards to sex, disability, and race. Yet efforts to tackle inequality prior to 1997 were minor, and the colonial government largely muted the issue of racial discrimination. Its legacy of divide and rule placed South Asians in a liminal position between the British and the Chinese. Racism was rampant towards the Chinese reaching back to an era when they were required to have night passes between 1857 and 1897, their residential exclusion from the Peak between 1902 and 1946, and in preferential employment practices that provided lucrative contracts to non-locals that were still widely offered by the civil service after the BORO in the 1990s and continue to be offered in the private sector today (Sautman and Kneehans, 2002: 21–22). While discrimination was rife, Hong Kong never experienced the racial dispossession of African colonialism or the brutality that was meted out in India. Hong Kong was always a commercial enterprise, never a civilising mission. The Chinese, although deferent to the British, tended to also regard their culture and values above those of the Europeans (Sautman and Kneehans, 2002: 23).

The real fight for anti-racism legislation was pursued by the liminal Indians who became ever more sensitive of their precarity as the handover approached. Following the Joint Declaration in 1984, effectively 8,000 South Asian citizens in Hong Kong were to become stateless in 1997 (Sautman and Kneehans, 2002; Baig, 2012). A successful campaign was mounted to call for British citizenship for Hong Kong's then South Asian population. This moment was one that signalled the increasing development of ethnic minority politics and advocacy groups, yet it was an elite of wealthy Indians that pursued the issue. Racial discrimination had never been formally acknowledged in the territory yet reports of employment discrimination were prominent, and South Asians complained of blatant racism when seeking accommodation for rent. An increased social consciousness emerged while the fate of many ethnic minorities in the territory became economically and socially more marginal post-1997.

An analysis of mosque construction during the colonial period indicates how important South Asian Muslims were in the administration and how quickly they became peripheral post-1997 (Ho, 2001). Some minorities experience multiple deprivations such as Indian FDH who are members of an ethnic minority commonly employed by wealthy members of their own ethnicity. Some are prone to encounter many of the same prejudices as their employers. However, many are paid below the standard wage, they experience the same marginalisation as other FDH do, but at the same time they are also a minority group amongst other migrant workers who are in the majority from the Philippines and Indonesia. These women may also be religious minorities and experience further vulnerabilities such as sexual discrimination and harassment both within and outside their own ethnic community (Sautman and

Kneehans, 2002: 26). If discrimination was urgent for wealthy Indians, for working-class South Asians and FDH, it was long overdue by 1997.

Hong Kong's first Chief Executive Tung Chee-hwa argued in 2001 that, in light of the cosmopolitan history of the territory, racial discrimination was of little concern and should not require legislation (Sautman and Kneehans, 2002: 2). At the time, public sentiment appeared to be aligned with his comments, quite remarkably Hong Kongers had 'internalized the representations and values of their British colonizers' (Lee and Law, 2016: 103) and were similarly aloof to those marginalised by their colour, culture, and creed.

The long path to anti-racism legislation grew gradually out of this new social climate, the BORO, EOC and a host of NGOs such as Hong Kong against Racial Discrimination (HARD), Unison Hong Kong, and the Mission for Migrant Workers, all being significant. In 2004 the Hong Kong government set up the Committee on the Promotion of Racial Harmony (CPRH) to provide an advisory role on anti-racism legislation (Baig, 2012: 192). Legislation would not however be agreed upon until 2008, and then its introduction was widely seen as a piecemeal effort. Based on the UK's 1976 Race Discrimination Act, it overlooks issues of religious difference and exempts the government from any liability in employment practices, education policy, and immigration. The United Nations has repeatedly criticised the legislation because of its government exemption (Wong, 2008). The legislation has been enacted as a means to provide recourse to discriminatory practices, yet racism is not a criminal offence in Hong Kong.

With growing public awareness of racial discrimination a variety of prominent issues emerged following the introduction of the legislation. Most notably was the shooting of an unarmed homeless and mentally ill Nepalese man, Dil Bahadur Limbu, by police officers in 2009. The incident was followed by a public inquest in Cantonese which meant the family of the deceased were unable to fully understand the proceedings (O'Connor, 2012: 44). Local media reports of the incident included the headline 'Police Shot Savage' and in another case labelled the man generically as 'South Asian' (南亞), which highlights the way ethnic difference is treated in local media discourse (Erni and Leung, 2014: 54–55). The RDO is limited in its ability to tackle the various types of discrimination that people encounter in areas such as employment. In 2009 the EOC received 26 complaints under the RDO while they received 528 complaints under the Disability Discrimination Ordinance (DDO) (EOC, 2009). In 2015 there were 48 complaints under the RDO and 278 under the DDO (EOC, 2015). This is not to suggest that there is little racial discrimination, but a mixture of lack of knowledge and trust amongst ethnic minorities in the RDO. Some research suggests that ethnic minorities are well aware of discrimination and tolerate it in light of other freedoms that are available in Hong Kong (O'Connor, 2010).

Two further examples highlight the prominence of discrimination and the limits of the RDO, firstly the case of Mosque Street in the Central District of Hong Kong Island. This street is named 'Moluo Miuh Gai' (摩羅廟街) which translates as an archaic racial signifier for Muslim traders from Surat as 'Moors' that stretches back to 17th-century Macau (Smith and Van Dyke, 2004: 11). A prominent Chinese Imam in Hong Kong, Hajji Uthman Yang, has suggested that this is inappropriate and that the street should be renamed 'Qingzhensi Gai' (清真寺街) utilising the correct Chinese phrase for mosque. This he argues would be more inclusive of Hong Kong's multi-ethnic Muslim community (Baig and O'Connor, 2015). It is fair to say that the majority of South Asians in Hong Kong familiar with Cantonese would take offence at being referred to as Moluo (摩羅), and accordingly, they may not approve of a street name bearing this moniker (Kadison, 2009); however the RDO is powerless to confront this issue. Similarly the popular brand of toothpaste Darlie, which carries a logo of a black man with a bright white smile, altered its name from Darkie in 1990 when Colgate bought the company. However, the Chinese name was never changed and in Chinese it remains 'Black Man Toothpaste' (黑人牙膏). Social attitudes

to racial discrimination in Hong Kong are much more relaxed than in Europe and North America where the Chinese language branding of Darlie toothpaste would be controversial. My own investigation with the EOC over the branding of Darlie clarified how the RDO was not equipped to recognise implicit discrimination, and my enquiry had no grounds to be registered as a complaint. In this light the RDO has been a decisive step forward in the recognition of rights for ethnic minorities in the territory, but it is severely constrained in its ability to protect people from the everyday racism they experience and the structural and institutionalised discrimination that permeates Hong Kong society.

Foreign domestic helpers

One of the most unique features of Hong Kong's ethnic diversity is the presence of large numbers of women from the Philippines and Indonesia who have come to work in the territory as domestic helpers. In 2016 over 340,000 Foreign Domestic Helpers (FDH) were employed in Hong Kong. Their contracts deny them full residency and dictate that they must 'live in' their employer's home, and they are prevented from bringing their own families with them. Between the late 1970s and early 2000s Filipinas were the dominant group of FDH with Sri Lankan, Thai, Indian, and Indonesia women representing a minority of workers. The SARS pandemic of 2003 coincided with economic hardship in Indonesia and elicited a dramatic growth in the number of Indonesian FDH in Hong Kong. These women have been trained in Cantonese and regularly achieve a high degree of competence in the spoken language and represent a departure from Filipinas who typically speak English (Ho, 2015). Indonesian workers became an attractive option to an ever-growing middle-class population pressured by economic constraints and locally oriented to converse with their help in Cantonese. In my research I encountered opinions among employers that Filipinas were too savvy and informed of their rights, and that the Muslim culture of Indonesians produced pliant and subservient female workers. Following the SARS pandemic it became apparent that many Indonesian FDH were working for wages below the legal limit, were often denied their rest days, were frequently locked into debt, and were at risk through various stages of their training in Indonesia and employment in Hong Kong of physical and sexual abuse (Sim, 2009; Constable, 2014). A further complication in the everyday lives of Indonesian FDH is the pressure that their employers may place on them to eat food with the family that is not halal. The prominence of pork in Chinese cuisine presents a challenging cultural barrier for the observant Muslim worker. Indeed some employment agencies for FDH advertise workers with their photos, alongside information on their religion and their willingness to eat pork. The presence of Indonesian FDH in Hong Kong has been one of the most influential factors in developing a local recognition of Islamic belief and practice in Hong Kong despite the long history of South Asian and Chinese Muslims in the territory (O'Connor, 2012).

In January of 2014 the case of Erwiana Sulistyaningsih, an Indonesian FDH who was subjected to sustained abuse by her employer for over 8 months, made both local and international headlines. Erwiana was severely beaten, forced to sleep on the floor, required to work for 21 hours a day, and denied rests days. Her employer Law Wan-tung was sentenced in December 2014 to 6 years imprisonment on 18 charges of abuse (Siu, 2016). The Erwiana case highlighted the pressures on an ever-increasing community of precarious ethnic minority migrant worker women in Hong Kong. The Hong Kong government has faced repeated criticism regarding the 2-week rule, which stipulates that FDH must leave the territory within 14 days of the termination of their employment, the absence of set working hours, the 'live in' rule, and exploitation of workers by recruitment agencies. To compound these issues further, Constable (2007) has argued that FDH in Hong Kong are a modern re-articulation of the Mui Tsai 妹仔 (Little

Sister) quasi-slavery domestic worker traditions practiced by wealthy Chinese families in Hong Kong, Singapore, and Macau up until the early 20th century. A further point to consider is how both Filipinas and Indonesians have become synonymous with foreign domestic work in Hong Kong, such is the strength of the association that many Filipinos and Indonesians who are not FDH will encounter challenges in constructing another identity in the territory (Jayawickrama, 2016). One Chinese Muslim highlighted this by explaining that whenever she travels around the city wearing a headscarf she is immediately treated and spoken to as an FDH (O'Connor, 2012: 143). The imagining of FDH in Hong Kong is one where ethnicity, work, and status are fused and reified as a powerful community identity. Problematically these women are understood as domestic workers but only in service to Hong Kong households, their roles as carers, mothers, cooks, and cleaners are transposed form their own communities into the lives of Hong Kong families. Finally, Constable (2014) highlights the absurdity of the FDH process in Hong Kong, which targets young women as workers, yet denies them the opportunity to have, raise, and maintain their own families. Those FDH who do become pregnant in Hong Kong face the very real prospect of the termination of their employment (for which they have little grounds to protest), obstacles in remaining with the child's father, and the dizzying complexity of organising childcare and education for their own children.

Education

It is in terms of education that the hopes for the future of Hong Kong society come to rest. For ethnic minority populations, the issue of education is particularly prominent because of a host of changes in the local education system post-1997 and a wholesale focus on tri-lingual competence for international competitiveness. One of the largest areas of scholarly work on ethnic minorities has been in the realm of language and education (Pannu,1998; Carmichael, 2009; Kennedy, 2011; Kennedy and Hue, 2011; Chee, 2015; Gu, 2015). The move of many schools to Chinese language medium of instruction post-1997 highlighted more than any other issue the marginal and overlooked status of locally born working-class ethnic minorities. Non-Chinese speakers were streamed in two major directions, firstly into international schools or ESF (English Schools Foundation) education that has traditionally equipped the children of mobile expatriate parents with the skills to re-enter the education system in their native country or in similarly global cities. These schools are typically expensive: the ESF system for example charges annual school fees in excess of HK$100,000 a year (ESF, 2016). Secondly, up until 2004 ethnic minorities were directed towards government, and government-subsidised English medium schools that catered to working-class ethnic minority students. Effectively they were asked not to compete with Chinese-speaking students in the same system, and by default, they attended segregated schools, and their job opportunities were dramatically curtailed as the territory oriented ever more to China and Chinese language skills. A report in the *South China Morning Post* in May of 2016 highlights that only one in five job adverts in Hong Kong caters to non-Chinese speakers or readers (Zhao, 2016). There is no comparable example of a school system that obstructs locally born minorities and new migrants from learning the dominant language.

The education policy was adapted in 2004 (Loper, 2012) to allow non-Chinese speakers to apply to the school of their choice through the central allocation system. However, as schools are independently allowed to develop their own acceptance criteria and are not required to have a curriculum to aid non-Chinese speaking students, reform efforts have been piecemeal. The economic and linguistic barriers posed to ethnic minority parents combine on this issue of education to present a considerable obstacle. For example, even though education is a legal requirement for children aged 6 and over, kindergarten education, between the ages of 2 and 6, is a key

moment where children develop their foundation in spoken Cantonese and written Chinese. The obstacles for ethnic minority families intersect and often reinforce each other. Research suggests that over 50 per cent of Pakistani families in Hong Kong are living in poverty and that of Hong Kong's working poor 63 per cent are South East and South Asian in contrast to 41 per cent of the Hong Kong population at large (Kapai, 2015). The government provides a Pre-primary Education Voucher Scheme (PEVS) for families to afford kindergarten education; however, many kindergartens do not accept the PEVS, and of those that do, 75 per cent provide school notices only in Chinese making it difficult for non-Chinese speaking parents to get information about access to the schools (Unison, 2015). In research from the NGO Unison, it was found that 63 per cent of the 239 kindergartens they surveyed performed interviews for prospective candidates in Cantonese only, when accounting for institutions that accepted PEVS, this total rose to 71 per cent (Unison, 2015). This highlights not only the challenges posed to ethnic minority students at the very first hurdle in their education, but also that the mechanisms that can help ethnic minority families such as the PEVS scheme, can be rendered inaccessible by the procedures of individual kindergartens. Similarly, the increased access supposedly provided by policy changes in 2004, have been hindered by the fact schools are free to set their own admission policies and interview solely in Cantonese. In short, schools have no obligation to accept ethnic minority students. As Kapai (2015) notes, there remains an overrepresentation of ethnic minority students in select schools that were between 1997 and 2004 the only institutions where they could apply other than expensive private international schools and the ESF. Schools may not necessarily be breaking the rules of the RDO, yet the lack of legislation and multicultural policies and the cultural gulf between teachers, parents, and students creates and sustains the marginalisation of ethnic minority students (Kennedy and Hue, 2011). To further compound these issues, once students have gained access to a school, their individual and special learning needs are typically overlooked and can result in large numbers exiting the school system (Ngo, 2015).

Of further interest in the education of ethnic minorities is a growing trend of white families to choose to educate their children in local Cantonese-speaking schools. While hundreds of families are estimated to be doing this across Hong Kong, only a minority of white children go on to Cantonese-speaking primary schools. Often the motivation is economic, international schools that cater to white expatriates are increasingly expensive, and the majority of students that attend these schools are not local Hong Kong Chinese pursuing an English language and cosmopolitan education. Alternatively, many white parents are enrolling their children in 'local schools' so their children can access what they perceive to be an authentic international education, equipping their children with an immersion in the Cantonese language and local Hong Kong culture. Invariably these parents encounter challenges in navigating the local school system despite in many cases being wealthier, and having alternative options, that many other ethnic minority families do not have (Groves and O'Connor, 2017). This pattern similarly highlights transformations in wealth, status, and ethnicity in the postcolonial period. White families are no longer the wealthiest cohort of residents in Hong Kong though they continue to receive social privileges as a result of their ethnic identity. It has also become increasingly difficult for locally born white residents to compete in the Hong Kong job market without language skills in Cantonese or Putonghua, and as a result, they experience forms of social marginalisation that often segregate them from the broader Hong Kong Chinese-speaking populace (Leonard, 2010). In the post-colonial period, locally oriented white families and wealthy transnational English-speaking communities encounter forms of marginalisation as a result of the education system similar though not as acute as working–class South Asian and South East Asian communities.

This chapter serves as a series of signposts to the key issues relating to ethnicity and ethnic minorities in Hong Kong. This overview in no way provides a comprehensive account of all of

the intersecting issues. For instance, the ethnic minority population of Hong presently stands at 6.4 per cent yet the percentage of ethnic minorities under custody in Hong Kong's prison system stands at 18 per cent (data provided by Correctional Services 2016 on request). They are thus three times overrepresented in the correctional system, which is a clear issue of concern. This is a topic that as yet receives little attention. Not represented in the census data on ethnic minorities are the more than 9000 asylum seekers living in Hong Kong while their cases are reviewed by the UNHCR (UNHCR, 2015). Many of these asylum seekers come from South Asian and African countries.

Adding to the diversity of Hong Kong in recent years have been growing numbers of African traders, some of whom have settled locally marrying Chinese, others have moved into the Mainland developing successful business partnerships with Chinese traders. Following the 9/11 attacks of 2001 many countries tightened their immigration policies; however Hong Kong continued to provide visa-free travel to many African nations. Merchants and entrepreneurs from Africa converged on the notorious Chungking Mansions building in Nathan Road that provides cheap accommodation for travellers and a host of South Asian businesses. While previously the building was regarded as a dangerous place by many Hong Kong Chinese, associated with dark skinned 'others,' it has increasingly become celebrated amongst young Chinese as site of Hong Kong's diversity (Mathews, 2011: 197). Chunking Mansions thus presents a microcosm of Hong Kong a deeply frenetic and globalised locale (Huang, 2004). Mathews writes of an evening spent in the building where he, an American, conversed with a Cameroonian and Bangladeshi in Japanese, a language that they all shared through their own migrant histories (2011: 96–97). Such insights illuminate Hong Kong's ethnic minorities as a continuing feature of the territory's localised diversity that informs much about the Hong Kong identity past and present.

Conclusion

My concluding comments reflect on the situation in 2016: how are ethnic minorities currently understood and represented, and how their position is co-opted as part of a larger politics of identity in Hong Kong? I assert once more that a focus on ethnic minorities is a component part of understanding Hong Kong, and in these final paragraphs, I argue that this has been manifest in the examples of the Umbrella Movement in 2014, and discussions regarding refugees in 2016. The conclusion is that Hong Kong has always used its minority communities to further the interests of the broader Hong Kong population. This can be understood in the historic examples of Indian soldiers, and the contemporary practice of South East Asian FDH. While these are practical examples, there are also political examples. The subject of ethnic minorities, I argue, has been used in recent years to further the opposed political agendas of localism and China patriotism.

Following the SARS pandemic of 2003, the sharp downturn in the economy came as an abrupt shock to the middle class, and over 500,000 marched in protests of moves to constrain free speech and disapproval of the government (Lui, 2005: 280). In the years since, Hong Kongers have been propelled to protest and call for democracy annually on the 1st of July, the anniversary of the 1997 handover. Protests on the anniversary of the Tiananmen Square crackdown on 4 June 1989 continue to be held, as have protests about national education (in 2012), pregnant Mainland women coming to give birth in Hong Kong (so-called 'birth tourists' or 'double negative births' also in 2012), parallel trading (between 2012 and 2015), and even in response to security procedures at a Dolce and Gabbana store (during 2012). These and many more protests are all connected to a desire for self-determination and have seen the vilification, harassment, and humiliation of Mainland visitors and residents in Hong Kong (Young, 2014). At this time ethnic minorities in Hong Kong were regarded in increasingly favourable terms,

and the territory was reported as becoming more accepting of difference (Lam, 2014). Yet racism was simply recast towards Mainland Chinese, and ethnic minorities, who were still largely overlooked in policy revisions, were presented as an example of Hong Kong's inclusiveness and difference from the Mainland.

This was most apparent in the Umbrella Movement between September and December 2014. In the run up to the protests that occupied key sites of the city, ethnic minorities were overlooked in much of the pro-democracy discussions that took a largely parochial position and were reproduced almost solely in Chinese language media. Only after the occupation of Admiralty began, and English language media coverage followed, did ethnic minority groups activate to become involved. Baig (2016) argues that pro-China political parties such as the Democratic Alliance for the Betterment of Hong Kong (DAB) have been more successful in including and advocating for ethnic minorities than pro-democracy groups. However during the Umbrella Movement the participation of ethnic minorities in protests was again presented as a positive signifier of the inclusiveness of a local Hong Kong identity and community spirit (Iyengarish, 2014; Cheong, 2016).

Following the Umbrella Movement ethnic minorities have continued to be largely overlooked and dismissed by both the democratic movement that has become increasingly inward looking, and the growing xenophobia of the DAB. In 2016 local media and political parties have attacked South Asian minorities as criminal elements and mobilised to vilify a minority of asylum seekers as a scourge sapping Hong Kong's resources (Chow, 2016). Contrasting arguments have highlighted that calls to imprison vulnerable asylum seekers who at the largest estimates account for 11,000 people, entirely ignore the social impacts of the more than 50,000 Mainland migrants that enter Hong Kong each year (Read, 2016). A racist agenda permeates the dialogue, vilifying either Mainland Chinese or ethnic minorities, and in some extreme positions both. What is absent is a more cohesive and inclusive recognition that ethnic minorities are subject to the same economic vicissitudes and volatilities of the global neo-liberal market place.

In both scenarios ethnic minorities are used and manipulated in a politics of representation. Ethnic minorities are either a token of Hong Kong's cosmopolitanism and harmonious multiculturalism, or they are a criminal and foreign threat. Both positions serve to further political agendas of localism or national patriotism and both distract from the social realities. Similarly policy concessions that seek to offer redress too frequently become examples of positive discouragement as we see with regards to the RDO legislation and PEVS scheme. In no example is Hong Kong's blatant use of ethnic minorities more apparent than with regards to FDH and the case of the 'live in' and 'two-week' rule. The interests of ethnic minorities are not a niche concern; they are part and parcel of the same politics in which all Hong Kongers are entwined. They include concerns about self-determination, rights to the city, a good education, and the preservation of the territory's prosperity.

My argument is that, despite the longstanding presence and contribution of various ethnic groups in the makeup of Hong Kong, their inclusion and recognition in society remains marginal and at the mercy of a capricious parochial politics. Ironically a true embracing of ethnic minorities in policy and everyday affairs holds the greatest promise of asserting a distinct and robust local Hong Kong identity that can continue to align with Mainland political interests, yet preserve the legacy of Hong Kong's unique historic cultural and political hybridity.

Notes

1 See Chau (1993) also.
2 For more details, refer to an article in the *China Mail*, 12 April 1929, 'Liquors in Court', which appears to describe a Muslim police officer and an incident with his turban, and also refer to Harfield (1990) for further details of Indian solider uniforms in Hong Kong that had turbans.

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16

Mainland migrants in Hong Kong

Eric Fong, Jenny X. Li, and Carew C.S. Chan

Introduction

Hong Kong is home to many migrants from Mainland China. According to the 2011 Hong Kong Population Census, individuals born in Mainland China, Taiwan, or Macao comprised 32.1 per cent of the city's total population (Census and Statistics Department, 2012).[1] These migrants came to Hong Kong at different times, and most of them for political reasons until recent years. Over the course of decades, this group of migrants became the major source of population growth and the backbone of the labour force in Hong Kong.

Prior to 1997, the integration of migrants from China (perhaps with the exception of the mid-1970s when there was a drastic influx of migrants from the other side of the border) was not an issue of public discourse. We argue that this was largely because most of the earlier immigrants had relatives and/or close friends who had already settled in Hong Kong, and therefore many people in Hong Kong understood the difficulties encountered by the new immigrants. These relatives and friends often served as a bridge to help the new migrants integrate into the labour market, learn about local life and customs, and extend their social ties. Indeed, a very large portion of Hong Kong's residents before 1980 had a migrant background. That experience facilitated empathy toward other migrants. With the rapid growth of the Hong Kong economy from the 1970s to 1990s, migrants in the early post-war decades were given many job opportunities, and many achieved upward mobility. They believed that they were contributing to the economic success of Hong Kong, and gradually came to identify strongly with Hong Kong as their home. Most of them eventually integrated fully into Hong Kong society.

After 1997, there was a visible presence of Mainland Chinese in the domains of political and social debates in Hong Kong. Migrants from China, especially those who had limited connections with local residents found integration into Hong Kong society difficult. Changes in labour market conditions since the mid-2000s have further facilitated a perception of migrants as an economic threat. Concomitantly, the heated discussion evolving around an increasingly strong local identity and a negative sentiment toward recent migrants from China make the group boundary difficult for migrants to cross.

In the following discussion, we elaborate on these arguments and show how developments in immigration policies have combined with various factors to create such a situation in post-1997 Hong Kong.

Immigration from the Mainland

Before 1945

The influxes of Chinese migrants from the Mainland to Hong Kong before 1945 were largely outcomes of major political and social events in the former. Despite the fact that Hong Kong became a British colony after the First Opium War, Chinese people were allowed to travel freely to the colony (Lam and Liu, 1998). Many, pushed by the poor economic conditions in their hometowns and/or political turmoil in China's macro socio-political environment, moved to Hong Kong from nearby places in Guangdong province such as Teochow, Meihsien (now Meixian), and Huizhou (Ting, 1997) to look for job opportunities.

Like migrant workers elsewhere, most of these migrants from the Mainland were men. According to population records in 1845, Hong Kong's estimated total population was composed of 23,817 persons, with more than 80 per cent of them belonging to male adults and 12 per cent and 7.3 per cent women and children respectively (Wong, 1997). Given the easy movement across the border, and since most of them did manual labour in very rough working environments, these migrants usually left behind their families on the Mainland (Lam and Liu, 1998). The sex ratio of the population became more balanced later when more migrants brought their family members to settle in Hong Kong (Wong, 1997).

A new wave of migrants from China settled in Hong Kong from the early 1900s to the early 1930s (Carroll, 2013). This wave of immigration reflected social and political instability as well as a deterioration of the economic conditions in the Mainland. This was the period of time when China suffered from chaos created by the warlords. And when the Sino-Japanese broke out, more migrants from the Mainland came to Hong Kong. This inflow of migrants was halted when Hong Kong also fell into the hands of the Japanese in 1941 (Carroll, 2013).

Social and political instability in the Mainland before 1941 provided Hong Kong with migrants of a more diverse background. On the top of those who came to look for jobs in manual labour, gradually there witnessed more migrants with background in business moving to Hong Kong to look for a more stable business environment (Wong, 1988). The population of Hong Kong grew from 368,986 in 1901 to 1,639,000 in 1941, according to the census taken at that time (cited in Liu, 2009: 200). These business migrants were able to form their networks for collaboration and information sharing. Their influence increased as their role in Hong Kong's economy grew in significance (Wong, 1988). According to Carroll (2013), two major events provided Chinese businessmen with the opportunity to further enhance their social and economic influence in Hong Kong. First, many large European firms re-focused on the European market and became less engaged with Asian markets during World War I. This situation created a vacuum that Chinese business could fill in. Second was the completion of the Kowloon-Canton Railway in 1910, which connected the Mainland with the colony, and this enhanced the role of Hong Kong as an entrepôt. This brought more business opportunities to Hong Kong from China and elsewhere in Southeast Asia.

The Japanese invasion of China gradually spread to Hong Kong, and the colonial government surrendered on Christmas Day of 1941. Because of the fall of Hong Kong, many Chinese people living in the colony, including businessmen, returned to their hometowns on the Mainland. When the war came to an end, the flow of people reversed, an average of almost 100,000 Chinese civilians returned to Hong Kong every month (Hong Kong Yearbook, 2015). Their numbers were enormous, swelling the island's population from 600,000 to 1.8 million between the summer of 1945 and the end of 1947 (Kagda and Kph, 2009). The returned migrants did not necessarily have a firm decision of staying in Hong Kong for good. Meanwhile, some were

new to Hong Kong. For those who were returnees, they faced few barriers to resettlement as they were already familiar with the colony (Ho et al., 1991).

1945–1978

Rivalry between the Nationalist and the Communist Party during the Chinese Civil War and subsequently the change in the political regime in 1949 pushed many Chinese to seek refuge in Hong Kong (Li, 1997). Facing an unknown political future, many chose to move to nearby Hong Kong. The population of Hong Kong underwent massive growth during this period (Smart and Peng, 2008). It increased drastically from 0.6 million to 2 million between 1945 and 1948 (Census and Statistics Department, 1969). The population continued to expand rapidly as 1 million Mainland migrants moved to Hong Kong in 1949, and 0.75 million in the first season of 1950 (Yamagishi, 2009). With such a vast number of refugees arriving, the Hong Kong government began to implement migration controls in 1950 (Li, 1997).

The majority of refugees arriving during this period were people from nearby provinces. These inbound migrants also included a number of Shanghai industrialists, though emigration from the Lower Yangzi region to Hong Kong had been uncommon prior to the World War II (Wong, 1988). With the social networks transplanted from Shanghai and the know-how they had brought with them to Hong Kong, these refugees played an important role in promoting the development of a strong manufacturing-based economy in the colony in following decades (Smart and Peng, 2008; Wong, 1988). Many migrants coming from different parts of China developed social networks and organizations according to their native places at the levels of village, town, county, and province for the purpose of cultivating mutual support in the new living environment.

In the 1950s, immigration from Mainland China fluctuated, largely in response to changes in the political situation across the border (Wong et al., 2008). Some migrants did return to China when the civil war ended and conditions allowed (Li, 1997). However, very soon another wave of migration was triggered by political campaigns in the Mainland. Government statistics (Census and Statistics Department, 1969) suggested that a population increase of about 3 per cent per year between 1952 and 1955. In real numbers, Hong Kong's population grew from 600,000 in 1945 to 2.2 million in the mid-1950s (Ho et al., 1991). In the following years, when political campaigns like the Hundred Flowers Campaign (1956–1957), Anti-Rightist Campaign (1957–1958), and the Great Leap Forward (1958–1961) were launched, there recorded an increase in immigration by about 2 per cent per year (Census and Statistics Department, 1969).

The rapid growth of immigrants was matched by the expanding demand for labour in an economy undergoing drastic industrial development in the early post-war decades. This partially explained why the colonial government was not too eager to curb illegal immigration. Political instability in China and plentiful employment opportunities in Hong Kong became perfectly matched push-and-pull factors to sustain a high level of immigration from the Mainland for an extended period of time.

As noted earlier, between 1960 and 1965, the large influx of migrants from China continued. During the period of the Great Leap Forward, when China suffered from three years of famine, many saw illegally entering Hong Kong as a way for survival. Government statistics for 1962 and 1963 showed that the migrant population grew by 2.7 per cent and 2 per cent respectively (Census and Statistics Department, 1969). Between 1966 and 1974, the Cultural Revolution was probably the major factor that drove tens of thousands to leave China and fled to Hong Kong to escape from the economic and social turmoil (Yamagishi, 2009). In 1972 alone, 20,355 Mainland migrants arrived in Hong Kong (Li, 1997; Miners, 1975). In an attempt to halt this exodus, the Hong Kong Government introduced in 1974 the Touch Base Policy (Yamagishi, 2009;

Miners, 1975) that denied refuge to any migrant who failed to reach the urban area (Li, 1997). Illegal arrivals who failed to reach the city would be arrested and immediately repatriated back to China. But for those who were able to get to the urban areas, i.e., able to "touch base", they were allowed to stay (Chiu et al., 2005; Lam and Liu, 1998). They would be allowed to stay and work in Hong Kong. After residing for seven years, then they would be eligible to apply for permanent residence (Lam and Liu, 1998, 2002).

Hong Kong experienced rapid economic growth and development in the early post-war decades, and it benefited from a steady labour supply as there were plenty immigrants from the Mainland in that period (Li, 1997; Mathews et al., 2008). Many of these refugees and migrants sought assistance from family members and relatives already settled in the colony. For example, Chan (1992) mentioned that a large number of young people from Guangdong province settled in Hong Kong because of the Touch Base Policy. These Mainland Chinese came to Hong Kong with legal visas to join their kin (Wong et al., 2008). In 1980, the number of people who entered Hong Kong legally because of family reunion was 55,452, and the majority of them were from Mainland China, and they stayed (Wong et al., 2008).

In addition to support provided by relatives and friends mentioned earlier, the repeated waves of migration from China allowed the migrants to seek mutual support by organizing among themselves in terms of establishing native place organizations (Wong, 1998). These organizations reinforced the strengths of social ties, provided financial help when necessary, and facilitated the sharing of job market information. The economic integration of these migrants was rather smooth because their relatives and friends were usually able to offer some forms of assistance, like helping them find jobs. Given that most jobs, especially those in the manufacturing sector, were low-skill, most migrants found employment quickly (Wong, 1998). Social integration was relatively easy, as most of them had local relatives and friends who had arrived a few years earlier (Wong, 1998). Social networks among the migrants, sometimes working through native place organizations, provided both economic and social support

1978 to 1997

Following China's economic reform and the implementation of the open-door policy in 1978, the country's social and political controls were relaxed, and mobility was less restricted (Lam and Liu, 2002). The repercussion was a massive wave of illegal immigration to Hong Kong between 1979 and 1980, which increased the population by about 7 per cent in two years (Lam and Liu, 1998). The influx peaked in 1980, when it was estimated that 55, 452 migrants arrived, many of whom later became permanent residents (Lam and Liu, 2002).

Immigration from China from the post-war period until 1980 provided a steady supply of labour that facilitated the development of Hong Kong as an industrial economy (Skeldon, 1995). However, the large wave of unskilled migrants that entered Hong Kong illegally within the short period in the late 1970s adversely affected employment and wages in Hong Kong then (Lam and Liu, 1998). According to Lam and Liu (1998), this massive wave of illegal immigration accelerated population growth at a pace of 5 per cent per annum. It imposed a financial burden on the Hong Kong government, which had originally planned for the development of welfare and infrastructure on the projection that the population would grow by only 2 per cent per year (Lam and Liu, 1998). Because of the stress on Hong Kong's newly achieved economic prosperity and the threat to stability caused by illegal immigration, the Touch Base Policy was ultimately deemed unfeasible in October 1980 (Lam and Liu, 1998).

With the abolition of the Touch Base Policy and a tightening of border control, there was a significant decrease in the number of Mainland migrants to Hong Kong. Only legal entrants with

exit permits issued by the Chinese government could acquire the right to settle in Hong Kong (Chiu, 2006). Priority was given to those with relatives in Hong Kong. Family reunion remained the most common form of immigration during this period (Lam and Liu, 2002). While the tight border restrictions after 1980 ameliorated the problem of illegal immigration, they also eradicated Hong Kong's largest source of labour (Skeldon, 1995). To combat labour shortages, the Hong Kong government devised a scheme for attracting overseas talent from 1989 to 1992. Of the annual quota of 3,000 workers per year, more than 90 per cent came from Mainland China (Chan and Chan, 2013). In March 1994, a scheme for importing an annual quota of 1,000 Mainland professional and skilled workers was implemented (Chiu, 2006).

Although the migrants who arrived legally after 1986 tended to be more educated than the pre-1981 cohort of illegal migrants, the earnings gap between Mainland migrants and native-born was widened from 11.3 per cent in 1981 to 25.5 per cent a decade later (Lam and Liu, 2002: 86). The labour force participation rate for migrants also declined considerably, due to the fact that a significant portion of these migrants were economically inactive children and married women who came to join their families (Lam and Liu, 1998). The widening earnings gap was attributed to not only the demographic characteristics of migrants, but also a series of institutional changes. First, many Mainland migrants were disadvantaged in their search for employment in the service sector because their educational credentials from Mainland China were not transferable, or because they lacked proficiency in English or Cantonese (Chiu et al., 2005). Second, the economic restructuring that took place in Hong Kong in the 1980s had particularly negative effects on the adaptation of migrants, who had been the backbone of the manufacturing sector (Chiu et al., 2005). Third, the education levels of the native-born had improved substantially since the 1970s (Lam and Liu, 1998, 2002). There was a shift in the dynamics of competition in the labour market. Finally, the development of a Hong Kong identity, which changed previously receptive attitudes toward new migrants, contributed to the disadvantaged position of Mainland migrants in the labour market (Chiu et al., 2005; Ku, 2004).

Nonetheless, it should be noted that this was also an important period for the full integration of migrants from China to Hong Kong. With more opportunities created by economic growth in Hong Kong, migrants had ample time to integrate into the new society without much competition. They also felt that they made significant contributions to the Hong Kong economy as their job advancement correlated to the growth of the economy. At the same time, their Hong Kong identity was reinforced further by the fast growing entertainment industry with movies, TV series, and popular songs depicting life in Hong Kong (Ma and Tsang, 2010). Many early migrants from China gradually embraced a Hong Kong identity, and they were integrated fully into almost all aspects of Hong Kong society.

After 1997

After the return to China in 1997, Hong Kong rapidly developed social and economic ties with Mainland China. Full-scale immigration from China to Hong Kong has developed a need to accommodate the demands of new residents with different social and economic backgrounds. Subsequently, the Hong Kong government initiated a number of programmes to encourage individuals with human or financial capital to immigrate to Hong Kong. At the same time, the growing influence of China in Hong Kong has faced growing resistance from local Hong Kong residents since 2010. Migrants from China have become a major target for expression of this resistance. In the following sections, we outline some major programmes and describe how migrants arriving in Hong Kong through these new programmes have affected local society and the views of local residents.

One-Way Permit (OWP) scheme

Since the handover in 1997, OWP admissions have been the main source of population growth in Hong Kong (Bacon-Shone et al., 2008). The Task Force on Population Policy (2003) found that between 1997 and 2001, newly arrived Mainland migrants under the OWP Scheme comprised approximately 93 per cent of population growth in Hong Kong. From 1997 to 2014, a total of 879,000 OWP Mainland migrants settled in Hong Kong (Legislative Council, 2015). Nearly all OWP migrants in the past two decades have been spouses or children, with parents and other relatives accounting for only 2 per cent (Bacon-Shone et al., 2008).

The number of OWP holders has persistently fallen below the quota since 2006, with the exception of 2012 (Immigration Department, 2016). The 2007 shortfall indicated a shrinking pool of migrant candidates, as cross-border births to Mainland mothers and Hong Kong fathers were becoming more commonplace (Bacon-Shone et al., 2008). Children of Mainland mothers and Hong Kong fathers born in the SAR, who previously made up a large portion of the quota, would automatically acquire permanent residence status at birth and thus do not require OWP (Bacon-Shone et al., 2008). It is also worth noting that not all OWP arrivals from the Mainland remain in Hong Kong until they are eligible for permanent residency. Between 1994 and 2001, nearly 27 per cent returned to the Mainland or emigrated elsewhere (Task Force on Population Policy, 2003).

Since the OWP scheme was implemented to promote family reunion, it imposes no requirements or controls regarding the education or skill levels of applicants (Task Force on Population Policy, 2003). It is also age- and gender-specific, meaning that the majority are dependent spouses and children of Hong Kong permanent residents. Women constitute 70 per cent of adult OWP holders (Ngo and Ngai, 2009; Wong, 2008), of which the majority are housewives (Task Force on Population Policy, 2003). In other words, the policy disproportionately admitted a gendered migrant population.

The policy also admitted a disproportionate number of low-skill migrants. The Task Force on Population Policy Reported (2003) that the majority of adult OWP holders who arrived recently had junior secondary education or less and minimal work experience. The majority of males were employed in low-skill occupations. Limited acquisition of additional human capital after settling in Hong Kong contributed further to long-term disadvantages in the labour market. The labour force participation rate for OWP migrants in 2003 was 44.2 per cent, i.e., nearly 20 per cent lower than for the overall population. Approximately 30.7 per cent were concentrated in the service sector and 34.9 per cent in elementary occupations. In 2003, the median monthly income for the OWP group was $6,000, compared to $10,000 for the working population as a whole (Task Force on Population Policy, 2003). Thus, it is not surprising to find that nearly 80 per cent of OWP arrivals reported difficulties in adapting to the host society. Around 30 per cent reported poor living conditions, about 10 per cent complained of differences in the provision of services and amenities, but over half expressed frustration over employment prospects (Bacon-Shone et al., 2008).

At present, most OWP children are under the age of 15 (over 60 per cent), single (over 90 per cent), and not yet working (over 90 per cent). For adult children who are already working, age of arrival is key to labour market integration (Bacon-Shone et al., 2008). Those who obtained their education on the Mainland are at a disadvantage in the Hong Kong labour market, whereas those educated in Hong Kong since primary school are fully competitive (Bacon-Shone et al., 2008).

A more recent report on the OWP Scheme paints a more optimistic picture (Bacon-Shone et al., 2008). Since 2000, the median age of spouses has been 30, with over 85 per cent having completed secondary education. The proportion of spouses working prior to arrival has slowly

increased from a low of 11.1 per cent in 2000 to over 30 per cent in recent years. This changing profile suggests that the problem of elderly, poorly educated, financially dependent migrants has slightly improved (Bacon-Shone et al., 2008).

The OWP has been a controversial policy. There remains the question of whether the resulting influx of migrants has overburdened welfare and education services, adversely affected the availability of housing, and contributed to unemployment in Hong Kong. Because many children of migrants who arrived for family reunion through this scheme were born in China, and many local Hong Kong residents married in China, the situation led the Hong Kong Court of Final Appeal to rule in 1999 that the children of parents who have the right of abode in Hong Kong also have the right of abode, whether or not their parents were permanent residents in Hong Kong at the time of their birth. It was estimated that over 300,000 individuals in Mainland China would benefit from this ruling. Local discussions voiced concerns that the economy would be seriously affected and that the group would take a large portion of welfare benefits. The concerns of local residents were so serious that the Hong Kong government asked the Standing Committee of the National People's Congress to re-interpret the Basic Law of Hong Kong. Consequently, the court decision was overturned. The independence of Hong Kong's judiciary was at stake due to this incident. In 2013, the Court of Final Appeal ruled that it was unconstitutional to decline applications for Comprehensive Social Security Assistance from new migrants (mainly from Mainland Chinese) who had lived in Hong Kong for less than seven years. This ruling upset many people and caused major public debate and protest. The main argument held by many was that new migrants should not receive welfare benefits from Hong Kong without having made any contribution to the economy or society. They worried that the ruling could overburden the social welfare system.

In the same year, it was found by local parents, especially those living in the northern part of the New Territories of Hong Kong, which is next to the border with China, that many children with right of abode in Hong Kong were attending local schools. These were cross-border school children with one parent or both parents holding Hong Kong resident status but having chosen to live in the Mainland, or those with both parents not holding Hong Kong resident status despite having been born in Hong Kong. Parents complained that there was limited space left for their children who lived in Hong Kong to enroll.

These controversies have had considerable influence on the views that Hong Kong residents have towards migrants from China. According to a recent study conducted in 2013, over 60 per cent of local residents strongly agreed or agreed that recent immigration was affecting educational opportunities for local residents, increasing traffic congestion, and consuming social assistance. As the discussion was widespread, the negative view of migrants from China was gradually embedded in people's minds. It paved the way for more extreme views.

Contrary to popular belief, the overall impact of OWP arrivals on Comprehensive Social Security Assistance (CSSA) has been minimal. Bacon-Shone et al. (2008) noted that the percentage of CSSA recipients among the 2006 OWP arrivals was estimated to be around 3 per cent. Unless they have special needs, recent arrivals from the Mainland are ineligible for CSSA. The restrictions on eligibility for social welfare were also reflected in the small proportion (0.31 per cent) of Mainland migrants who had arrived within the last 12 months and were receiving social assistance. Thus, the short-term costs (i.e., over the course of one year following arrival) accruing from CSSA are small for recent migrants (Bacon-Shone et al., 2008). Similarly, OWP arrivals have had a relatively mild impact on the public housing system, as only a little over 10 per cent of Public Rental Housing households have members who are recent migrants. Most spouses are reported to be living with their Hong Kong resident family members, who already have access to public housing (Bacon-Shone et al., 2008).

Mainland talents admission scheme

In order to meet local manpower needs, especially the demand for high-quality workers, and enhance Hong Kong's competitiveness in a globalized market, the government launched several schemes, beginning in 1994, aiming at encouraging highly qualified Mainland professionals to settle in Hong Kong (Immigration Department, 2012). There are currently three major talent admission schemes devoted to this purpose: the Admission Scheme for Mainland Talents and Professionals (ASMTP), Quality Migrant Admission Scheme (QMAS), and Immigration Arrangements for Non-local Graduates (IANG).

In 1999, two years following the handover, the HKSAR government launched the Admission of Talents Scheme (ATS) (Chief Executive's Commission on Innovation and Technology, 1999). This programme targeted mainly outstanding Mainland PhD holders in specific industries (Jiang, 2002). Immigration restrictions were relaxed so as to remove any barriers posed by the quota system or preventing family members of successful applicants from immigrating (Ngok, 2004). After seven years of continuous residence in Hong Kong, these migrants and their families could apply to become permanent residents. However, the ATS did not achieve the desired results (Jiang, 2002), as there were only 364 successful applicants during the period 2001 to 2002 (Immigration Department, 2003).

In 2000, the HKSAR government introduced another immigration programme called the Admission of Mainland Professionals Scheme (AMPS). Unlike the ATS, the quota-free AMPS required that candidates possess only a Bachelor's degree to qualify. This programme was restricted, however, to Mainland professionals from innovative and technology-related industries, mainly IT and finance (Jiang, 2002). According to Jiang (2002), AMPS showed that the government wanted to recruit the kind of talent that could operate business in technology industries as opposed to working in innovation or research. Ultimately, because of the rather narrow restrictions on applicants' occupations, only 453 professionals came to Hong Kong through this scheme from 2001 to 2002. Both ATS and AMPS were cancelled in July, 2003. They were replaced by the Admission Scheme for Mainland Talents and Professionals (ASMTP) (Security Bureau, 2003a).

Since 2003, the ASMTP has been an important programme to help and encourage highly qualified Mainlanders to stay in Hong Kong to live and work. According to the Director of Immigration, Mr. Chan Kwok-ki, ASMTP was an immigration policy to tighten economic cooperation with Mainland China at the time of the outbreak of Severe Acute Respiratory Syndrome (SARS) in 2003 (Chinese General Chamber of Commerce, 2011). Under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), the HKSAR Government was given an opportunity to implement ASMTP so local firms could benefit from "the expertise and experience of quality personnel from all fields in the Mainland to help expand Hong Kong companies' business horizons and operations in the Mainland" (Security Bureau, 2003b). ASMTP is quota-free and is not sector-specific (Immigration Department, 2012). Moreover, talented Chinese from the Mainland who "possess special skills, knowledge or experience of value to and not readily available in the HKSAR may apply to come to work under the ASMTP" (Immigration Department, 2012). There are additional enhancement measures: the initial stay of successful applicants under ASMTP has been relaxed "from one year to two years on employment condition, or in accordance with the duration of the employment contract, whichever is shorter" (Immigration Department, 2015). The Rules about extensions of stay have also been relaxed, "from 2–2–3 years to 3–3 years, or in accordance with the duration of the employment contract, whichever is shorter" (Immigration Department, 2015). Furthermore, top-tier ASMTP entrants "can be granted a 6-year extension of stay on time limitation only without other conditions of stay if they meet the relevant eligibility criteria" (Immigration Department, 2015).

According to official statistics from the Immigration Department of the HKSAR Government, ASMTP has been a popular immigration scheme for Mainland professionals. In 2015, there were 11,034 applicants, and 9,229 of them came to Hong Kong successfully through ASMTP. These entrants contribute mainly to the fields of academic research and education, arts and culture, financial services, and commerce and trade (Finance Committee of the Legislative Council, 2016).

Quality Migrant Admission Scheme (QMAS)

The Quality Migrant Admission Scheme (QMAS) is the another immigration scheme designed to attract highly skilled or talented persons to settle in Hong Kong in order to enhance Hong Kong's economic competitiveness (Immigration Department, 2015). It is open to professionals around the world, including those from the Mainland. The QMAS is a quota-based entrance scheme with two points-based tests: the General Points Test and the Achievement-based Points Test (Immigration Department, 2015). The General Points Test (GPT) includes age, academic/professional qualifications, work experience, language proficiency, and family background (Immigration Department, 2015). The Achievement-based Points Test (APT) indicates whether the applicant has an exceptional talent or skill or any outstanding achievements (Immigration Department, 2015). Applications that fail to score points in the APT will be refused immediately. However, it should be noted that successful applicants are not required to have an offer of local employment before entering Hong Kong for settlement, and they can bring their spouses and unmarried dependent children under the age of 18 to Hong Kong under this scheme (Immigration Department, 2015).

According to government information, not many people have settled in Hong Kong through QMAS. Although the annual quota is 1,000, there are only 300–400 successful cases each year. Thus, the Immigration Department has launched some enhancement measures, which include: (1) relaxing requirements regarding duration of stay, (2) relaxing requirements for eligible top-tier GPT entrants' duration of stay, (3) granting APT entrants eight years of stay upon entry, and (4) bonus points for outstanding academic background and international work experience under GPT (Immigration Department, 2015).

In the year 2014–15, there were 315 successful entrants from Mainland China, which comprised 88.5 per cent of the total number of QMAS applicants. QMAS recruits are mainly professionals from the financial services, commerce and trade, academic research and education, and engineering and construction sectors (Finance Committee of the Legislative Council, 2016).

Immigration Arrangements for Non-local Graduates (IANG)

Immigration Arrangements for Non-local Graduates (IANG) is also a common immigration scheme for Mainlanders to settle in Hong Kong. It is designed for non-local graduates to stay in Hong Kong for one year to seek job opportunities (Immigration Department, 2015). Three key requirements of IANG are: (1) that the applicant has obtained an undergraduate or higher qualification at a full-time locally accredited programme in Hong Kong, (2) that a job offer is not required upon entry (for new graduates), and (3) that the applicant takes a job that is commensurate with the degree level and is remunerated at the market rate (Immigration Department, 2015).

Government statistics indicate that IANG is a popular channel for students from Mainland China to work and settle in Hong Kong. In 2015, there were 10,269 entrants under IANG: more than 90 per cent of them were from Mainland China, and the number of applications was double the number in 2010 (Finance Committee of the Legislative Council, 2016). Although there are no specific occupation restrictions under IANG, the industrial sectors that these

graduates tend to join, like applicants under QMAS, are financial services, commerce and trade, academic research and education, engineering and construction (Finance Committee of the Legislative Council, 2016).

All these schemes help companies in Hong Kong, especially those wanting to extend or maintain their market share in the Chinese market (Immigration Department, 2015). Employees from Mainland China understand the culture and working environment of that market better than employees from Hong Kong. Thus, it is easier for them to develop social and business ties with the Mainland. ASMTP and QMAS have been successful in attracting Mainland talent with special skills, such as the national silver medalists in 2002 and 2003, renowned ice dancers Qi Jia and Sun Xu.

However, unlike earlier generations of migrants from China, many of these talented individuals encounter difficulty in integrating despite their resourcefulness in terms of human capital. There are several reasons for this situation. First, due to the heavy demands of work, they have less time to meet new friends outside the workplace and become involved in local social activities (Chan, 2008). Second, most of them do not have relatives in Hong Kong (Chan, 2008). Unlike previous generations, they not have easy access to local networks that could help them connect to local residents and understand local culture. Though they may have strong professional network at work, their networks with local residents are limited. Third, in recent years a culture has emerged in Hong Kong that emphasizes localism and has combined with negative sentiments towards the Mainland to create a strong group boundary that keeps the new migrants at a distance from the local community (Chan, 2008). In some cases, migrants from the Mainland encounter discrimination in their daily lives as negative feelings about China are directed at them. Because they speak Cantonese with an accent and may possess a different demeanour, they become targets of discrimination (Chan, 2008).

The growing number of highly skilled migrants from China has led many local residents to fear for their job security and economic prospects. According to a study conducted in 2013, over 60 per cent of local residents considered their job opportunities to be at risk because of the inflow of migrants from China (HKFYG Youth I.D.E.A.S., 2016). Such insecurity has grown, and some people feel that the values that distinguish Hong Kong from the Mainland have been blurred. These feelings are compounded by the current Hong Kong government's alignment with the narratives put forward by the government of Mainland China, which has fuelled even more negative sentiment toward Mainland Chinese migrants.

Investment migrants from Mainland China

Another group welcomed by the HKSAR Government consists of wealthy migrants who are willing to invest large sums of money in Hong Kong. The Capital Investment Entrant Scheme was introduced in 2003 (Wong et al., 2008). Like other major migrant receiving countries, Hong Kong is attempting to attract migrants with substantial capital. Such schemes attract individuals with experience in running businesses who will support the economy and may generate jobs. Individuals who are age 18 or older, with net equity of HK$6.5 million for at least two years, are eligible to apply (Legislative Council, 2010; Legislative Council Panel on Security, 2010). Successful applicants are not required to run a business; investment only is also allowed (Legislative Council Panel on Security, 2010). Moreover, the HK$6.5 million investment in Hong Kong should be related to real estate or finance (Legislative Council, 2010; Legislative Council Panel on Security, 2010). The scheme was relaxed in 2007 to allow spouses and unmarried dependent children of successful applicants from the Mainland to apply for residence status in Hong Kong (Immigration Department, 2008). This accommodation was introduced to increase the competitiveness of the scheme in comparison to migrant investment categories in other countries.

The scheme has been successful in attracting migrants with strong business background and considerable assets. It began to accept applications in October 2003, and there were 150 applicants in the first three months. From 2004 to 2009, the number of applicants jumped from 465 to 3,391 (Hong, 2010). At the same time, successful applications increased from 19 in the first three months of the programme to 2,606 in 2009 (Hong, 2010).

Given the geographic proximity and the historical and political ties between Hong Kong and Mainland China, it is not surprising that the majority of applicants have Mainland background. By 2010, about 78 per cent of all applicants (12,531) were persons with Mainland background who held foreign permanent residence elsewhere (Immigration Department, 2010). About 80 per cent of successful applicants were from the same group (Immigration Department, 2010).

Before 2010, considerable portion of investments by migrants in this scheme were in real estate. According to government records, about 32 per cent of total investment until 2010 was related to real estate (Hong, 2010). The investment value was about HK$1,897 million (Legislative Council, 2010). The investment category attracted a group of migrants from China with considerable wealth. Although they were relatively few in number, their investment in Hong Kong was substantial. Given the small number and low profile of the group, the socio-economic and demographic background of these migrants remains virtually unknown, and their adaptation to Hong Kong is not documented. To the best of our knowledge, no study has collected information about this group.

In October 2010, the government completed a full evaluation of the programme and decided to make major changes (Legislative Council, 2010). First, the required investment amount was raised from HK$6.5 million to HK$10 million, because it was lower than the amount required by similar programmes elsewhere (Immigration Department, 2015). There was no concern that the raise would decrease the number of applications, as applications had been increasing steadily over the years (Legislative Council, 2010). Second, real estate investment would no longer be accepted for the investment requirement. Successful applicants had already invested substantially in residential properties, and there was concern that the public perceived those investments as contributing to rising housing costs (Legislative Council, 2010).

Without doubt, the Capital Investment Entrant Scheme attracted considerable investment. Although reports suggest that some applicants, such as well-known figures in the media, did not stay in Hong Kong after fulfilling the requirements to obtain status, the programme drastically changed perceptions of migrants from the Mainland. First, the programmes consolidated the perception that migrants from the Mainland can be very wealthy, and wiped away the conventional image of Mainland migrants arriving in Hong Kong with no financial resources. Second, it generated negative opinions about migrants from China, who were perceived to be competing with local residents for limited resources, especially pushing up the value of housing that was already in short supply in Hong Kong. Such perceptions paved the way for opposition to immigration from Mainland China. Finally, given limited information about the migrant group, and wide publicity about a few well-known applicants who did not stay in Hong Kong after obtaining legal residential status through the programme, there was an image of wealthy migrants taking advantage of the programme without any intention of integrating into Hong Kong society. In short, opening the door to attract individuals with financial resources from the Mainland may result in short-term economic gain for Hong Kong, but the long-term consequences are detrimental.

Conclusion

Hong Kong is a migrant city. Even before it was ceded to the British government from the Qing Dynasty, the major component of its population growth was from Mainland migrants. Since then, until the 1970s, migrants from China arrived in Hong Kong largely to escape political and

economic turmoil in China. Their economic integration was rapid, largely because most residents of Hong Kong at that time were also migrants from China without a strong local identity. Their experiences were similar, and it was common for them to help one another. In addition, most of these refugees had close friends or relatives in Hong Kong, so it was easy for them to establish social networks and integrate into Hong Kong society. Given rapid economic development, job opportunities were available. Many individuals gradually moved up the social ladder and began to consider Hong Kong as their home. In the 1980s and before 1997, fewer migrants arrived in Hong Kong. There was time for the earlier migrants to integrate.

After 1997, Hong Kong gradually integrated into all aspects of the larger Mainland Chinese society. The government implemented a number of programmes to facilitate the immigration of Mainland Chinese of all backgrounds to Hong Kong. However, these recent migrants have had difficulty in integrating. First, a large proportion of them are low-skilled migrants and females who arrived through the family reunification scheme. They lack the human capital and social networks that would help them compete in the Hong Kong economy. Second, even migrants with high levels of education and skill who were recruited through various programmes often face language barriers and do not have local social networks to help them integrate into Hong Kong society. Compounded by the growth of local identity and growing anti-Chinese sentiments, distinctive boundaries between recent migrants and local residents have emerged.

Without doubt, negative sentiment towards migrants from the Mainland has increased over the years. The change from complete integration to an antagonistic relationship between the two groups (i.e., migrants and local-born residents) has been rapid. No one has a crystal ball to foresee what lies ahead. However, it is certain that developments in the near future will not be favourable.

Note

1 This category covers individuals born in Mainland China, Macao, and Taiwan. But it is reasonable to assume most of them came from Mainland China.

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17

Youth and the changing opportunity structure

Chung Yan Ip

Introduction

Youth in Hong Kong has been under intensive media spotlight over the past decade, from the protests against the construction of the high-speed railway between Hong Kong and the Mainland in 2009, the continuing resistance against the development of North East New Territories New Development Area since 2011, the opposition against the implementation of a national education curriculum in 2012, their leading role in the Occupy Movement in 2014, to the significant increase in young voter turnout in the 2016 Legislative Council Election.[1] Radical behaviour in these social movements and active participation in the political domain among the youth population have been attributed to their lack of chances for upward mobility (*South China Morning Post*, 2009). Although no association between their increasing radicalism and blocked social mobility has been found (Li and Chiu, 2014), results from various social surveys conclude the worse-off labour market situations of young adults in present-day Hong Kong (e.g. Chiu and Ip, 2014). Accordingly, policy recommendations have been put forward to facilitate social mobility through obtaining gainful employment among our young generation. In brief, these recommendations include the provision of more publicly subsidized undergraduate places, the revival of the value of vocational education, the upgrading of occupational structures and the diversification of the economic structure (e.g. Bauhinia Foundation Research Centre, 2014).

A main thrust derived from the empirical findings and the policy suggestions for the education and career development of young people presented above is to provide our young generation with sufficient and genuine opportunities against the backdrop of dramatic socio–economic changes in Hong Kong and the global economic environment over the past few decades. Indeed, difficulties in school-to-work transition have been prevalent in many advanced economies (e.g. Danziger and Ratner, 2010; Gregg et al., 2014; OECD, 2014; Russell and O'Connell, 2001; Shavit and Muller, 1998; Thompson, 2014). What is specific in Hong Kong is that massive expansion of post-secondary and university education, slow increase in middle-class occupations, and rapid de-industrialization within a relatively short period of time have contributed to economic instability among youth with all education levels in recent periods.

In higher education, the call of Chief Executive to increase youth enrollment in post-secondary education in the early 2000s has boosted the availability of sub-degree programmes. The number

of students enrolled in full-time accredited self-financing sub-degree programmes, including associate degrees and higher diplomas, increased by more than four-fold from 8,895 in the 2001/02 academic year to 51,796 in 2011/12. Meanwhile, student enrollment in government-funded full-time undergraduate programmes rose by 20 per cent from 44,796 to 56,921 during the same period. However, unlike other places, in Hong Kong, the rising proportion of youth and young adults with post-secondary and tertiary education has, to a large extent, outpaced the level of occupational upgrading. Between 2001 and 2011, in the top end of the occupation hierarchy, while the number of managers and administrators remained at the level of 350,000, that of professionals rose from 182,850 and 231,371. A more impressive growth was found in associate professionals, from 499,485 in 2001 to 694,603 in 2011. Apparently, although the increasing number of high-level occupations could, in theory, absorb the young sub-degree and degree holders, the growth rate of young people with higher education attainment far exceeded that of middle-class jobs in the past decade.

Process of de-industrialization mirrors the sectoral affiliation of the entire workforce. The fall of employment in manufacturing and the rapid expansion of tertiary sector between 1980s and 2000s represent a major development of Hong Kong's economic structure. Specifically, based on data from population censuses, between 1981 and 1991, those engaged in manufacturing fell from 41.3 per cent of the total workforce to 28.2 per cent and then further to 12.3 per cent in 2001 and 4.0 per cent in 2011 (cited from Lui, 2003, 2015). The corresponding figures in whole-sale and retail, import and export trades and restaurants and hotels (commerce) were 19.2 per cent, 22.5 per cent, 26.2 per cent and 30.6 per cent. The largest gain of employment is recorded in financing, insurance, real estate and business services (business), with an increase from 4.8 per cent in 1981 to 19.2 per cent in 2011. It should be pointed out that the transformation from an industrial colony to a world financial centre and a regional business hub with such a short period of time has brought implications to both income distribution and income inequality. As presented by Chiu and Lui (2004), while business sector delivers the highest employment earnings across sector groups, the commerce sector generally offers the lowest level of average wages. In terms of inter-sector income inequality, a growing trend has been observed for both business and commerce sectors between 1991 and 2001, and the income gap within the manufacturing sector showed rather little change. Hence, Chiu and Lui argue that the sectoral shift has contributed to an overall polarization with an increasing income gap between top and bottom earners observed in the growing sectors during the recent period.

The remainder of this chapter is structured as follows. First, based on official statistics, a profile of youth in Hong Kong and its changes will be briefly presented. Second, a review of recent studies on youth, labour market outcomes and social mobility in Hong Kong will be discussed. Accordingly, by using sample data of 1991 and 2011 population censuses, we shall not only focus on the middle-class occupation attainment of young working adults but also highlight the growing differences in earnings between sectors. Based on these results, we argue that polarization might emerge as the gap in labour market outcomes widens among individuals across life stages.

Profile of youth in Hong Kong, 1991–2016

Tables 17.1 and 17.2 show some of the characteristics of the youth population in Hong Kong between the 1990s and 2010s.[2] First, the proportion of youth in the entire population continued to fall, and in 2011, 12.6 per cent of the Hong Kong population aged between 15 and 24. Second, as pointed out above, there has been a massive expansion of higher education in Hong Kong since the early 1990s, and young people are the main beneficiaries of this phenomenon. The proportion

Table 17.1 Youth (age 15–24) in Hong Kong: changes between 1991 and 2011 (%)

	1991	1996	2001	2006	2011
Population	14.8	13.6	13.6	13.2	12.6
Education attainment (highest level attended)					
Tertiary/post-secondary	13.7	18.5	19.3	31.3	39.3
Degree	4.8	11.4	14.4	16.8	20.5
High-level occupation	16.0	19.5	21.4	21.4	22.9

Sources: Census and Statistics Department (various years).

Table 17.2 Youth unemployment rate by age (Quarter 2) (%)

	1991	1996	2001	2006	2011	2016
Age 15–19	8.3	11.9	21.4	26.9	19.0	16.9
Age 20–24	3.2	5.2	6.5	7.9	9.2	9.1
Age 25–29	2.6	2.8	3.9	3.8	3.8	3.9
Age 30–34	1.5	2.2	3.3	3.5	2.6	2.4
Age 15 and over	2.1	2.9	4.5	5.0	3.7	3.5

Sources: Census and Statistics Department (various years).

of youth attaining tertiary or post-secondary education increased by two-fold between 1991 and 2011, and those receiving university degrees rose more dramatically from 4.8 per cent to 20.5 per cent during the same period. Correspondingly and nevertheless, the rate of growth in being managers and administrators, professionals and associate professionals was less remarkable, and the percentage of those in high-level occupations increase from 16.0 per cent in 1991 to 22.9 per cent in 2011. It can be seen that acquisition of tertiary education could not secure one a high-level position in the occupational structure anymore since the mid-2000s. A further point to note is that, on the one hand, the unemployment rate for those aged 15–24 is always higher than the overall figure (Table 17.2). On the other hand, the employment prospects for this group of youth haves become worse as their chances of being hired are far lower in recent years. To a certain extent, link between level of education attainment and labour market prospects might be less close.

Youth and social mobility in Hong Kong: a review

In Hong Kong, social mobility studies started to emerge in the late 1960s though pictures drawn from representative and territory-wide surveys were obtained only in the early 1990s (Wong, 2002). Furthermore, owing to a rather small sample size and the use of cross–sectional and ret-rospective surveys, detailed investigation into the social mobility of youth or any other specific sub-groups across life stages is not very feasible. Indeed, instead of examining the social mobility or intergenerational mobility between individuals and their parents, recent studies on youth and social mobility in Hong Kong mostly focus on employment earnings. In the following, we shall review previous research on youth and labour market outcomes which are based on analyses with population-based data. Stylized facts from these studies will then be highlighted, and gaps in existing research will be identified which drive our secondary data analyses in the next section.

The latter endeavour is to fill in the blanks of what has not been discussed concerning the effect of changing opportunity structure and blocked social mobility on labour market outcomes and economic prospects of present-day Hong Kong youth.

Decline in real earnings and earnings growth across birth cohorts

Using data from General Household Survey between 1993 and 2013, the New Century Forum (2015) compared the earnings attainment of university graduates across six birth cohorts, born between 1964 and 1993. It was found that real employment earnings and their rates of increase fell across birth cohorts. First, university graduates from the most recent birth cohort gained the lowest level of real earnings at labour market entry when compared with those from earlier cohorts. Specifically, at age 20–24, while degree holders born in 1969–1973 earned HK$13,158, the corresponding figure of those from the 1989–1993 birth cohort was HK$10,860 (at the 2009/2010 price level) (the top panel, Table 17.3). Second, the rate of increase in earnings between age 20–24 and age 25–29 has dropped across birth cohorts: from 45.6 per cent for the 1969–1973 cohort, 34.3 per cent for the 1974–1978 cohort, 37.6 per cent for the 1979–1983 cohort, to 25.6 per cent for the 1984–1988 cohort (the middle panel, Table 17.3). It should be noted that, from age 20–24 to age 30–34, earnings growth also decreased across cohorts: from 112 per cent for the 1969–1973 birth cohort, 105 per cent for the 1974–1978 cohort, to 95 per cent for the 1979–1983 cohort (the bottom panel, Table 17.3). From the above, it can be seen that, compared with their counterparts in earlier cohorts, not only did young degree holders from the most recent cohort earn less in real terms, but they also suffered from a slower growth in earnings mobility when they were at the first decade of their working career.

Table 17.3 Employment earnings and their growth rates among university graduates by birth cohort

Birth cohort	1969–1973	1974–1978	1979–1983	1984–1988	1989–1993
Employment earnings at age 20–24 (at the 2009/2010 price level)					
All individuals	HK$13,158	HK$12,452	HK$11,148	HK$11,759	HK$10,860
Individuals with earnings in the top decile	HK$22,368	HK$20,115	HK$20,067	HK$20,450	HK$18,245
Individuals with earnings in the bottom decile	HK$9,211	HK$8,621	HK$7,246	HK$8,078	HK$7,819
Growth rate from age 20–24 to age 25–29					
All individuals	45.6%	34.3%	37.6%	25.6%	–
Individuals with earnings in the top decile	50.0%	66.2%	53.0%	45.5%	–
Individuals with earnings in the bottom decile	14.4%	16.4%	41.1%	18.3%	–
Growth rate from age 20–24 to age 30–34					
All Individuals	112%	105%	95%	–	–
Individuals with earnings in the top decile	129%	154%	116%	–	–
Individuals with earnings in the bottom decile	45.2%	42.3%	61.9%	–	–

Source: Reproduced and calculated from New Century Forum (2015: Tables 6–8).

To examine the labour market outcomes of the top and bottom earners, the research team focused on the earnings attainment of those in the top 10 per cent of the income distribution and those in the bottom 10 per cent. Unsurprisingly, there was always an earnings gap between university graduates at both ends of the earnings spectrum. A rather striking fact is that, although top and bottom earners experienced an increase in earnings when they stayed longer in the labour market, the rate of growth biased favourably towards the top earners: between age 20–24 and 25–29, while top earners gained around 40–60 per cent of growth, their counterparts in the bottom generally obtained 10–20 per cent of increase[3] (the middle panel of Table 17.3).

The gap of growth further widened between these two groups of earners from age 20–24 to age 30–34: the corresponding growth rates were more than 100 per cent and around 50 per cent for top and bottom earners (the bottom panel of Table 17.3). Apparently, there has been a polarization of employment earnings between top and bottom earners across life stages. Nonetheless, it should be pointed out that the current observation presents an aggregate picture only and thus does not account for the mobility of individual young adults along the ladder of earnings. It is plausible that individuals could have their employment earnings improved or deteriorated across the early part their lives. Thus, the extent of polarization of earnings experienced by individuals is highly dependent on the degree of social fluidity which individuals could climb up and down along the ladder of earnings.

The economic predicaments of sub-degree holders

Instead of investigating labour market returns of degree holders only, the Hong Kong Council of Social Service (2016) examined the education effect on employment earnings among youth aged 20–34 by using data from the General Household Survey 2014. Differences between sub-age groups were also illustrated. It reported that, first, over half of the young working adults earned less than the median level of employment earnings.[4] Second, less educated individuals earned less than those who were more educated. Also, by staying in the labour market longer, compared with the less educated, employment earnings grew faster for their more educated counterparts. Specifically, at the age of 20–24, 3.8 per cent of degree holders earned at least HK$30,000, and the figure rose to 42.3 per cent for their older counterparts aged 30–34. The corresponding figures were 0 per cent and 6.3 per cent for sub-degree holders and 0 per cent and 3.1 per cent for those with secondary level of education. Third, over one-third of sub-degree holders aged 30–34 could not make an average earnings. As such, the researchers highlighted the potentially long-term labour market disadvantages experienced by sub-degree holders.

Indeed, the earnings disadvantage faced by sub-degree holders was also pointed out by Chiu and Ip (2015). Their analyses with data from the 2011 Population Census show that, between age 20 and 29, while young degree holders obtained 29 per cent more than the overall median income, sub-degree holders and those with matriculation level of education earned 75 per cent of the aver-age earnings and the corresponding figure was 71 per cent for those with secondary or below level of education. Thus, Chiu and Ip conclude that, in terms of employment earnings, in present-day Hong Kong, those with matriculation level and sub-degree qualifications were almost no different from those with secondary level of education. Compared with their older counterparts, the labour market disadvantages encountered by sub-degree holders have been a rather recent phenomenon as a clear education gradient in employment earnings disappeared in 2011.

Economic restructuring and sectoral differences in earnings

As well as studying the education differences in earnings, the Bauhinia Foundation Research Centre (2014) looks into the effect of economic restructuring on labour market returns of working

youth aged 15–24. On the one hand, its observation about the education effect on employment earnings is no different from the conclusion made in other similar studies by pointing out a declining income growth of university graduates and a surplus of sub-degree holders in both 2018 and 2022 based on the manpower supply and requirement projections. On the other hand, this study shows a rather optimistic picture concerning the change in economic structure and it impacts on the earnings prospect of working youth.

Specifically, first, industrial restructuring has led to a contraction of manufacturing sector and an expansion of wholesale, retail, import and export trades; the hotel and restaurant sector (commerce); the finance, insurance, real estate and business service sector (business); and the community, social and personal service sector (community). Analyzed by earnings return, while business sector and community sector created an increasing and a larger share of high-paid jobs, a very small proportion of jobs in commerce sector gave a higher earnings return. Second, given that a larger share of prime age working adults engaging in high-paid jobs in the business sector and the community sector and a smaller share of them in low-paid jobs in the commerce sector, the researchers optimistically claim that, by following the footsteps of their older counterparts, the employment earnings of youth would improve, and a larger proportion of them would leave low-paid sectors and enter high-paid ones when they stay longer in the labour market.

Middle-class jobs and mismatched aspirations of university graduates

It should be noted that the studies reviewed above examine employment earnings of young working adults. Amongst other analyses, Wu (2010) investigates cohort difference in occupation attainment and argues that improved education among young adults from the most recent birth cohort (born between 1984 and 1988) did not necessarily lead to better job opportunities. Although an increasing proportion of young people attained high-level occupations (including managerial, professional and associate professional ones) over the 1980s and early 1990s due to the occupational upgrading, the rising trend has stagnated since the early 2000s. Cross-cohort comparison further reveals that, despite the substantial expansion in tertiary education and a more educated workforce among the post-1980s generation than in the older generations (those born in the 1970s, 1960s and before), the percentage of those who started their first jobs as managers, professionals or associate professionals is no higher for the post-1980s generation than their counterparts in earlier birth cohorts. This evidence is also applicable to degree holders: even with university degrees, a falling proportion of those in the 1980s birth cohort attained high-level occupation as their first jobs.

Although Wu claims that there is no evidence of decreasing chances of upward mobility encountered by our young generation, stagnation in the growth of professional or managerial jobs has led to social congestion at the top with more educated young working adults facing mismatched aspirations in the working lives in Hong Kong today. As pointed out, perception of adequacy of social mobility and of income inequality are found to have negative impacts on life satisfaction (Wong et al., 2006; Cheung and Leung, 2007).

Youth and labour market outcomes: stylized facts and research gaps

Based on the review of the recent studies afore-mentioned, stylized facts on youth and labour market outcomes could be summarized as follows:

1   A fall in real earnings among recent labour market entrants has been witnessed though university graduates continue to enjoy a wage premium.

2   Less educated youth experiences much lower wage progression at least over the early part of their working lives than their more educated counterparts.
3   In terms of employment earnings, compared to a decade ago, sub-degree holders nowadays are little, if any, different from those with secondary level of education.
4   Individuals, including degree holders, from recent birth cohorts are less likely to enter professional or managerial jobs owing to the stagnation of growth in middle-class occupations.

Nevertheless, controversies still remain concerning the earnings and career progression of young working adults. While optimists believe that there is no sign of blocked social mobility and it is a matter of time for them to move upward, pessimists highlight a scarring effect and a widening gap in education effect across working lives. Also, although the effect of economic restructuring on wage polarization across sectors has been discussed, impacts of a skewed or biased economic structure on young working adults are not yet specified (Chiu and Lui, 2004).

Worsening labour market outcomes and changing opportunity structure

Given that young adults are more vulnerable because of their lack of working experience and are a main disgruntled group under intensive social and policy attention, using sample data from the 1991 and 2011 Population Censuses, in this section, we shall focus on middle-class occupation attainment and the sectoral differences in earnings of young working adults, defined as those aged between 20 and 34. As well as comparing labour market outcomes of these young adults with the entire working population, contrasts between those with different education levels, with a specific focus on degree holders, will be illustrated. We shall also attempt to examine the changes between 1991 and 2011. As mentioned, most previous studies on social mobility and employment situations of youth looked at employment earnings only. However, we argue that occupation and its embedded employment relations predict life chances and later labour market outcomes of individuals better than employment earnings (Goldthorpe, 2000; Goldthorpe and McKnight, 2007). The following analyses, as such, will fill the existing gap concerning the effect of occupation attainment on social mobility of young working adults and its change over time in Hong Kong. In the same vein, although previous research and commonsensical perception acknowledge the increasing inequality in labour market returns between industry sectors, no systematic study has been conducted so far to specify this effect on young working adults. We shall therefore investigate if there has been a growing sectoral difference in earnings among young adults and compare the sectoral distribution between them in terms of education attainment.

Decreasing middle-class occupation attainment

It is well documented that there has been an occupational upgrading in Hong Kong in the 1980s and 1990s. Accordingly, as the young generation is the main beneficiary of the expansion of higher education, they should have benefitted from the growing number of professional and managerial jobs. Nevertheless, a caveat is that, while the growth in managers and administrators and professionals stagnated since the mid-1990s, only an increase in associate professionals was observed between 1991 and 2011 (Census and Statistics Department, 2002a, 2012). This observation is applicable to both the entire workforce and the youth population (Census and Statistics Department, 2002b, 2013). Our analyses of those aged 20–34 also show that, in 1991, the proportion of these young working adults in managers and administrators, professionals and associate

professionals were 6.9 per cent, 4.7 per cent and 14.3 per cent. The corresponding percentages in 2011 were 7.3 per cent, 9.3 per cent and 26.6 per cent.

Although these two sets of figures reveal that there has been an increase in middle-class occupation attainment among young adults over the past two decades, most of the growth occurred in the associate professional jobs which are regarded as lower middle-class jobs. A striking fact is that, during the observed period, whereas the share of youth with sub-degree tertiary education increased by four-fold (from 7.6 per cent to 38.6 per cent), that of young degree holders doubled (from 9.2 per cent to 18.1 per cent). It can be seen that occupational upgrading or the level of increase in middle-class jobs far lagged behind the growth in higher education. This poses more negative impacts on young working adults who are recent labour market entrants with less working experience and no bargaining power.

As mentioned, a key highlight in the previous studies is about the smaller chance of young degree holders in present-day Hong Kong to obtain middle-class occupations (e.g. Chiu and Ip, 2015). Results from our analyses also show a similar picture. While more than four-fifths of university graduates (84.0 per cent) were in middle-class jobs in 1991, the corresponding figure dropped to three-quarters (75.4 per cent) in 2011 (Table 17.4). In contrast, there was a growing proportion of young degree holders in clerical, services and shop sales occupations between 1991 and 2011. Furthermore, to differentiate between jobs in upper and lower middle classes, it is found that the proportion of young degree holders in the upper echelon of the middle class decreased from three-fifths (61.4 per cent) to two-fifths (39.1 per cent) over these two decades. In other words, in 2011, young university graduates were more likely to land on lower middle-class jobs with less favourable employment conditions.

In the literature as well as among commentators, there has been a controversy over the mobility of youth to improve their employment outcomes over their working lives. Specifically, those who are optimistic argue that it is just a matter of time; young working adults in general and fresh

Table 17.4 Occupation and earnings attainment by education among those aged 20–34, 1991 and 2011

		1991				2011			
		Secondary or below	*Sub-degree*	*Degree or above*	*Overall*	*Secondary or below*	*Sub-degree*	*Degree or above*	*Overall*
Upper middle class	**Managers and administrators**	5.3%	9.7%	21.8%	6.9%	2.0%	3.3%	15.2%	7.3%
	Professionals	0.6%	12.3%	39.6%	4.7%	0.0%	0.2%	23.9%	9.3%
Lower middle class	**Associate professionals**	10.6%	41.6%	22.6%	14.4%	13.5%	37.1%	36.3%	26.6%
Non-middle class	**Clerks**	26.1%	20.7%	6.7%	24.2%	28.9%	33.9%	16.0%	24.8%
	Service and shop sales	16.4%	5.7%	6.7%	14.7%	31.7%	16.7%	7.0%	19.5%
	Others	41.0%	9.9%	2.6%	35.2%	23.8%	8.9%	1.6%	12.6%
	Income ratio	0.91	1.45	2.18	1.00	0.76	0.84	1.44	0.96

Note: *Median incomes of the entire paid population aged 20–59 in 1991 and 2011 were HK$5,500 and HK$12,500 respectively.

Source: Census and Statistics Department (various years).

graduates from university in particular would be able to move upward the occupation ladder and obtain better jobs when they acquire more related skills and accumulate more working experiences. The occupation distribution of young degree holders by three sub-age groups in 1991 and 2011 is shown in Table 17.5. A change in percentage between these two time points is also displayed. Few points could be drawn from this table. First, disaggregated by sub-age groups, in both 1991 and 2011, there was an increase in the share of young degree holders entering upper middle-class occupation and leaving non-middle-class jobs across the three 5-year parts of the early working lives. Second, while there was a falling proportion of young university graduates in lower middle-class positions across three sub-age groups in 1991, the picture in 2011 was less clear with a rise in proportion of associate professionals between age 20–24 and age 25–29 and then a fall between age 25–29 and age 30–34. In other words, more young university graduates nowadays still struggle to get into lower middle-class positions until their late 20s and then start to settle down in professional and managerial jobs in the age of 30s.

Third, the latter observation further reflects in the figures concerning the change between 1991 and 2011. Across all three sub-age groups, compared with their counterparts in 1991, while a smaller share of young degree holders in 2011 attained upper middle-class jobs, a larger proportion got lower middle-class ones. A further point to be noted is that, by looking at the exact points of change, over the observed period between 1991 and 2011, the gaps did not improve or show any sign of narrowing across sub-age groups. Hence, although a rise of young degree holders entered upper middle-class occupation when they stayed longer in the labour market in 2011, the extent of upward mobility until the age of mid-30s was no way comparable to that of their counterparts of 1991. More young university graduates in 2011 could only attain lower middle-class jobs which offer far less labour market returns and less advantaged life chances. In brief, our analyses here show a less optimistic picture by revealing that half of the degree holders in 2011 were excluded from being upper middle class at the prime working age between 30 and 34.

Growing sectoral differences in earnings

Similar to other neighbouring cities and regions, Hong Kong has experienced an economic restructuring, transforming from an industrial-based economy to a financial and service hub since the late 1980s. What is specific to Hong Kong is that the rate of this change far exceeded that of other places. According to the official statistics, in terms of the working population, while the manufacturing sector shrunk from 41.3 per cent in 1981 to 28.9 per cent in 1991 and 4.0 per cent in 2011, the wholesale and retail, import and export trades and restaurants and hotels (commerce) increased from 19.2 per cent to 30.6 per cent between 1981 and 2011. Financing, insurance, real estate and business services (business) grew from 4.8 per cent to 19.2 per cent, and community, social and personal services (community) rose from 15.6 per cent to 25.5 per cent (cited from Lui, 2003, 2015). Our analyses reveal a similar trend for those aged 20–34. An interesting point is that, in both 1991 and 2011, compared with the overall picture, a larger share of young working adults engaged in financing and other business services.

To examine the growing inequality in employment earnings between sectors and its specific effect on our young generation now, we shall first look at the overall picture of 1991 and 2011 (the left panel of Table 17.6). In 1991, except manufacturing, all other sectors delivered at least the median level of earnings. Twenty years later, only those in business sector and community sector offered a more than average level of salary and the former gave the highest pay on average at the income ratio of 1.20.

To specify the effect of service-driven economy on young working adults and its implications, a disaggregated sectoral distribution of these individuals by education attainment is shown in

Table 17.5 Occupation attainment of degree holders aged 20–34, 1991 and 2011

		Age 20–24			Age 25–29			Age 30–34		
		1991	2011	Percentage point change (1991–2011)	1991	2011	Percentage point change (1991–2011)	1991	2011	Percentage point change (1991–2011)
Upper middle class	Managers and administrators	7.5%	3.9%	–3.6	19.5%	12.2%	–7.3	30.9%	23.6%	–7.3
	Professionals	29.4%	13.1%	–16.3	41.4%	25.4%	–16.0	42.2%	27.4%	–14.8
Lower middle class	Associate professionals	27.6%	37.5%	9.9	25.1%	38.1%	13.0	17.5%	33.8%	16.3
Non-middle class	Clerks	10.1%	29.6%	19.5	6.9%	16.6%	9.7	5.0%	9.1%	4.1
	Service and shop sales	23.2%	13.6%	–9.6	4.0%	6.1%	2.1	2.1%	4.9%	2.8
	Others	2.2%	2.3%	0.1	3.1%	1.6%	–1.5	2.3%	1.3%	–1.0

Sources: Census and Statistics Department (various years).

Chung Yan Ip

Table 17.6 Income ratio of individuals aged 20–34 by industry, 1991 and 2011

	All aged 20–34		Degree holders aged 20–34	
	1991	2011	1991	2011
Manufacturing	0.91	0.92	1.82	1.32
Construction	1.09	0.88	2.18	1.36
Wholesale, retail & import/export trades, restaurants & hotels	1.00	0.80	1.82	1.20
Transport, storage and communication	1.00	0.80	2.27	1.20
Financing, insurance, real estate & business services	1.18	1.20	2.27	1.60
Community, social and personal services	1.27	1.04	2.18	1.56
Others	1.09	1.04	2.28	1.60

Note: *Median income of the entire paid population aged 20–59 in 1991 and 2011 were HK$5,500 and HK$12,500 respectively.

Sources: Census and Statistics Department (various years).

Table 17.7 Industry by education among those aged 20–34, 1991 and 2011

	1991				2011			
	Secondary or below	Sub-degree	Degree or above	Overall	Secondary or below	Sub-degree	Degree or above	Overall
Manufacturing	29.7%	19.7%	14.5%	27.6%	4.4%	4.2%	3.8%	4.1%
Construction	7.1%	4.6%	3.2%	6.6%	7.6%	6.1%	3.3%	5.7%
Wholesale, retail & import/export trades, restaurants & hotels	24.2%	14.1%	13.2%	22.4%	45.0%	32.2%	19.9%	33.0%
Transport, storage and communication	11.2%	6.4%	5.8%	10.3%	14.4%	10.4%	6.9%	10.8%
Financing, insurance, real estate & business services	11.7%	22.4%	28.2%	14.0%	11.1%	21.2%	36.4%	22.7%
Community, social and personal services	15.0%	31.6%	34.3%	17.9%	17.1%	25.4%	29.3%	23.3%
Others	1.1%	1.2%	0.8%	1.1%	0.3%	0.6%	0.5%	0.4%

Sources: Census and Statistics Department (various years).

Table 17.7. Focusing on the results of 2011, a clear education gradient in sectors is found with young degree holders were more likely to engage in business sector and community sector on the one hand, and a smaller proportion of them were in the commerce, construction and transport, storage and communication sectors on the other. Since the business sector and community sector offer higher than average salaries and the commerce, construction and transport, storage and communication sectors offer less than average earnings, the sectoral differences in pay combine with the education-sector gradient which further widened the pay gap between less and more educated young adults.

It should also be noted that, the business sector and community sector were the only sectors offering a higher than average earnings in 2011. It can be seen that a growing polarization occurred over the period between 1991 and 2011 with young degree holders engaging in these two sectors in 2011 becoming the sole winner. The latter point is further substantiated by the fact that, compared with the picture of 20 years ago, in 2011, the income gap between sectors for young university graduates was larger (the right panel of Table 17.6) with those in business sector and community sector obtained a far higher level of average pay.

An implication of the observations shown above is that, first, if the current economic structure stays unchanged with high-paying sectors continuing to offer mostly good jobs and the low-paying one providing mainly bad jobs, the less educated will be trapped in low-paid sectors suffering the most. Also, unlike their counterparts in 1991, the growing proportion of sub-degree holders in 2011 and in near future would be less likely to enter high-paying sectors. Second, so far, we have no data to examine the extent of fluidity between sectors among the entire working population in general and young working adults in particular. A picture of widening wage inequality among young adults and among degree holders would intensify if mobility between sectors is not common.

Summary and conclusion

Since the Asian Financial Crisis in the late 1990s, stagnation of the local economy, in terms of the availability of high-level occupations and the development of high value-added sectors, has become a growing concern in every level of Hong Kong society, from the government to business and political leaders, from the middle class to the grassroots. Despite being the main beneficiary of the massive expansion of higher education during the same period, the changing opportunity structure with "limited room at the top" witnessed in the past decades affects recent labour market entrants and young working adults more directly. Three macro trends have emerged since the 1990s, namely the irreversible increase in the number of sub-degree and degree holders, the slow growth in good jobs and the rising inequality in earnings attainments between business and other sectors, pose enormous challenges to our young generation as conventional patterns of occupation and earnings attainments experienced by their older peers before the 1990s have disappeared.

Existing studies on the education and labour market outcomes of the young generation confirm the drop in employment earnings across-the-board with sub-degree holders being of little different from those with secondary level of education. In local society, this rather pessimistic picture co-exists with the belief that the young generation would climb up the occupational ladder and enter high-paying sectors later in their working lives. Using sample data from the 1991 and 2011 Population Censuses, in this chapter, we compared and contrasted the middle-class job attainment and the sectoral difference in earnings in terms of education level and sub-age groups among those aged 20–34. Based on Goldthorpe's theory of employment relations (2000), we argue that occupation attainment, rather than employment earnings, better predicts one's life chances in general and later labour market outcomes in particular. In addition, by highlighting the growing sectoral differences in pay, we examine the extent of earnings inequality experienced by young adults between different levels of education and among degree holders. In the following, we shall summarize the findings and arguments on youth and the changing opportunity structure and discuss the future directions of related research on Hong Kong youth.

As argued by Gangl (2002), the expected effects of educational expansion and occupational upgrading are offsetting, so that observable net changes in occupational attainment are a question of the relative development along both dimensions. Unlike Europe, occupational upgrading in

Hong Kong has far lagged behind the opportunities of receiving tertiary education since the late 1990s. Hence, in terms of middle-class occupational attainment, young working adults in 2011 were less likely to obtain middle-class positions than those 10 years ago. Their progression to upper middle class was slower, and a higher proportion of degree holders could only attain jobs in the lower echelons of the middle class. In 2011, those without university degrees had little hope to be in professional or managerial positions when they were in their early or mid-30s. Also, growing sectoral differences in earnings have been found to be biased favourably towards financing, insurance, real estate and business services (business) over the past decade. Combined with the rising educational effect on sectoral affiliation among working youth, an increase in overall inequality has been observed with degree holders in the business sector becoming the winner in the 2010s. Non-degree holders are unable to benefit from the expansion of this high-paying sector but suffer from slower growth in earnings throughout their lives. Further polarization in terms of educational attainment and sectoral affiliation would result across the lifetime of individuals in the context of Hong Kong.

From the above, it can be seen that the changing opportunity structure adversely affects the labour market situations of our young generation across all levels of education attainment. In brief, a rather pessimistic picture with growing polarization will emerge. In terms of occupation and earnings attainment, a growing gap will occur between those in upper middle-class occupations and their counterparts in the non-middle-class ones when they stay longer in the labour market. In fact, the worsening early career outcomes of non-degree holders in particular have also occurred in other parts of the world. What is specific to Hong Kong is that the widespread availability of sub-degree programmes and the enormous growth of sub-degree holders have been a rather new phenomenon. A number of research studies have confirmed the economic predicaments faced by recent labour market entrants with sub-degree education. Panel study becomes valuable as the career progression of the same individuals over their life courses could then be traced. Given that many of the graduates of sub-degree programmes continue to pursue degree studies, inter-group comparison could be conducted to examine if labour market outcomes are different between young adults with different levels and types of university degree education. Findings from the latter research not only enhance our knowledge about sub-degree education in the local context in terms of its value on lifetime earnings and occupational attainments of individuals, but also provide concrete evidence for the strategic development of sub-degree programmes in Hong Kong.

Young university graduates in Hong Kong are not immune from the changes in the local economy. Compared with their older peers in the early 1990s, although those who entered the labour market recently have a lower level of relative earnings, a growing sectoral difference in pay have been observed with young degree holders in financing, insurance, real estate and business services obtaining a higher level of salary and a faster rate of earnings growth. On the contrary, university graduates in wholesale and retail, import and export trades and restaurants and hotels, where expansion in employment has also been recorded, earned the least. We argue that the sectoral inequality in wages experienced by degree holders over their lives is highly dependent on the extent of mobility between sectors. Inter-sectoral shift in jobs among young adults with different levels of education could be investigated to determine if a widening gap in earnings would occur during the course of career progression as a result of lack of job mobility between sectors.

The degree of sectoral shifts among individuals might also be dependent on the field of studies. In Hong Kong, so far no research on the wage effect of college majors/subjects has been conducted, let alone the matching between college subjects and fields of work in employment career (cf. Britton et al., 2016). As suggested in the United States, while engineering major has the highest college premium at 125 per cent, psychology and social work majors are at the bottom

with 40 per cent of premium (James, 2012). Similar studies in Hong Kong could allow us to have a more in-depth understanding of the impact of changing opportunity structure on the labour market outcome and the chance of upward social mobility of youth in present-day Hong Kong.

Notes

1 Between the 2012 and 2016 Legislative Council Elections in Hong Kong, the overall turnout rate increased from 53 per cent to 58 per cent (Cheung et al., 2016). While the turnout rate of those aged 18–20 soared 16 percentage points, the corresponding figures of those aged 21–35 was around 10 percentage points (Lam, 2017). The growth for older age groups was 2–5 percentage points.
2 Since youth is officially defined as those aged between 15 and 24 in Hong Kong, data shown in Table 17.1 refer to the characteristics of those in this age range.
3 The growth rate from age 20–24 to age 25–29 for the 1979–1983 birth cohort is 41.1 per cent.
4 The median earnings of those who worked at least 35 hours a week in 2014 was HK$14,700.

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18

Hong Kong's middle class after 1997

Chung Yan Ip and Tai-lok Lui

Introduction

This chapter is an attempt to examine the changing character and outlook of Hong Kong's middle class after 1997. Economic downturn and the resultant changes in employment structure since the Asian Financial Crisis in the late 1990s have given rise to heated debates over a reduction in size and even the disappearance of the middle class in Japan and other East Asian newly industrialized economies (see, for example, Lui, 2014a; Miura, 2006; Ohmae, 2006). It has been suggested that the financial crisis had a negative impact on the development and growth of the middle class. Some observers had even put forward a stronger thesis pointing to the so-called "death" of the middle class and the emergence of an M-shaped society (i.e., a polarized socio-economic structure with a decrease of those in the middle). Instead of continuing rapid economic growth and expanding the opportunity for upward social mobility, there witnessed a change in the opportunity structure. Downwardly mobile societies are in the process of formation. Compared to other Asian economies, Hong Kong seemed to have demonstrated a higher level of resilience when the region was seriously troubled by the financial crisis. However, with a growing emphasis on cost-cutting, organizational flexibility, and corporate de-layering, it is observed that the middle class in Hong Kong has found life to be never quite the same after the economic downturn. In the face of changing economic fortunes and way of life, a sense of anxiety and uneasiness has grown among Hong Kong's middle class (Lui, 2014b). Drawing upon existing studies, particularly official statistics and secondary data from relevant social mobility surveys, this chapter attempts not only to evaluate the theses of a disappearing and/or shrinking middle class in Hong Kong, but also to look at the impacts socio-economic changes on this social class after 1997.

By the middle class, from a Weberian perspective, we refer primarily to those professional, administrative, and managerial salaried employees working in various sectors of the Hong Kong economy, whose market situations and work situations keep them distinct from other employees (such as routine non-manual workers, technicians and supervisors). As highlighted by Goldthorpe (2000), employment relationships of the middle class are regulated by a "service relationship", where these employees are required to exercise their delegated authority and/or specialized

knowledge and expertise in the interests of their employing organizations. In return, middle-class employees are given "compensation",

> which takes the form not only of reward for work done, through a salary or various perquisites, but also comprises important prospective elements – for example, salary increments on an established scale, assurances of security both in employment and through, pension rights, after retirement, and, above all, well-defined career opportunities.
>
> *(Erikson and Goldthorpe, 1992: 41)*

Work experience, expertise, and other relevant knowledge possessed by these middle-class employees are highly valued by their employing organizations. Emphasis is placed on developing a long-term commitment in this service relationship and security and progression are crucial characteristics of the middle-class careers. It is worthwhile to note that, compared to a Marxist class schema developed by Wright (1985), Goldthorpe's class scheme is found to be more relevant to capturing the dynamics of the structuring of social class in contemporary Hong Kong (Lui and Wong, 1994). Nevertheless, given the limitations of secondary data available from population census and relevant social mobility surveys, here we cannot simply follow Goldthorpe's classification in our data analysis. In the following discussion, without significantly departing from the operationalization of a Weberian notion of social class, the "middle class" refers to those in the occupations of managers and administrators, professionals and associate professionals as categorized in the official statistics. Also, the terms "middle class", "the new middle class", and "the service class" are used interchangeably here.

In the following sections, first, we shall give historical background on the rise of the middle class in the 1970s and 1980s. This context is important to our understanding of Hong Kong's middle class and its symbolic significance – the realization of the so-called "Hong Kong Dream" – in local society. It is largely because of this preoccupation with the "Hong Kong Dream" and "Middle-Class Dream" shared by the general public in Hong Kong that generates fear over the shrinkage of the middle class and the disappearance of chances for upward mobility. Second, we shall describe the impacts of the Asian Financial Crisis on the local labour market structure, property ownership, and the psychology of the middle class in Hong Kong. We argue that these changes pose long-term effects on the outlook of Hong Kong's middle class and their perceptions of the opportunity structure and the question of social mobility. Drawing on findings from social mobility studies conducted between the late 1980s and mid-2000s in Hong Kong as well as data available from official statistics, we shall discuss whether the perception of a major shift in the opportunity structure and the disappearance of the middle class is grounded.[1] Emerging divisions within the middle class will then be identified and illustrated. Finally, given the consolidation of the social structure after an extended period of rapid growth and development and the emergence of "second-generation middle class" and "second echelon middle class", the chapter rounds up its discussion by examining the proposition of growing significance of education credentials on middle-class attainment in contemporary Hong Kong.

Hong Kong's middle class before 1997

The rise of the middle class and its characteristics

Similar to other East Asian economies, the emergence of the middle class in contemporary Hong Kong is largely an outcome of the structural transformation of the local economy and the concomitant reshaping of the social structure in the post-war decades. Table 18.1 shows the changes

Table 18.1 Distribution of working persons according to industries, 1961–2011 (%)

Industry	1961	1971	1981	1991	2001	2011
Manufacturing	43.0	47.0	41.3	28.2	12.3	4.8
Construction	4.9	5.4	7.7	6.9	7.6	7.8
Wholesale, retail and import/export trades, restaurants and hotels	14.4	16.2	19.2	22.5	26.2	30.1
Transport, storage, and communication	7.3	7.4	7.5	9.8	11.3	10.6
Financing, insurance, real estate, and business services	1.6	2.7	4.8	10.6	16.1	17.5
Community, social, and personal services	18.3[a]	15.0[a]	15.6	19.9	25.5	28.6
Others	10.5	6.3	3.9	2.1	1.0	0.7

Sources: Census and Statistics Department (1982: 138; 1993: 95; 2001: 55; 2011: 60).

Notes: [a]In 1961 and 1971, the category used in the census reports was "service".

Table 18.2 Changes in the occupational structure, 1961–2011 (%)

Occupation	1961	1971	1981	1991	Occupation	1991	2001	2011
Administrative and managerial workers	3.1	2.4	2.7	5.1	Managers and administrators	9.2	10.7	10.1
Professional, technical, and related workers	5.1	5.2	6.0	8.7	Professionals	3.7	5.5	6.5
					Associate professionals	10.3	15.3	19.6
Clerical and related workers	5.8	8.3	12.2	18.6	Clerks	15.9	16.3	15.6
Sales workers	13.7	10.6	10.3	11.5	Service workers and shop sales workers	13.2	15.0	16.2
Service workers	15.1	14.8	15.6	18.7	Craft and related workers	14.7	9.9	7.4
Production and related workers, transport equipment operators and labourers	48.7	52.3	50.4	36.2	Plant and machine operators and assemblers	13.5	7.3	5.0
Agricultural workers and fishermen	7.4	3.8	2.1	0.9	Elementary occupations	18.5	19.5	19.5
Others	1.1	2.6	0.7	0.3	Others	1.0	0.3	0.1

Sources: Census and Statistics Department (1982: 34; 1993: 94; 2001: 54; 2011: 56).

in the economic structure in the period from 1961 to 2011. It is clear that Hong Kong has gone through the development from a trading port in the 1940s and early 1950s to an industrial colony (1960s and 1970s) and then to a world financial centre and a regional business hub (1980s and 1990s) within a short period of time. The rise and fall of employment in manufacturing and the rapid expansion of the tertiary sector in the 1980s and 1990s best sum up the story of Hong Kong's economic development. Concomitant to transformations in the structure of the economy, there were also significant changes in the occupational structure of Hong Kong society (Table 18.2). It is observed that the 1970s and 1980s, when Hong Kong began to develop its financial and other tertiary activities, were periods wherein we see the rapid growth of new openings in the social

structure, particularly middle-class and non-manual positions. With the colonial government's increase in its spending on welfare, health care, higher education, and public housing, together with the transformation of Hong Kong's economy into a financial centre and business hub, a new generation of middle-class managers, technicians, accountants, social workers, doctors, lawyers, professors, and administrators was created. As a result of such rapid socio-economic development, the class structure of Hong Kong underwent major changes, creating new openings in middle-class positions and providing more room at the top for upward mobility. It is against this backdrop that discussion of the middle class in Hong Kong emerged in the 1980s.

As a consequence of such changes in the economic and occupational structures and the provision of more room at the top for upward mobility, the basis of recruitment to the middle-class positions was remarkably wide. The findings of the "1992 Hong Kong Middle Class Study" (1992 Survey, hereafter) show that the inflow rate of the middle class was 0.83, suggesting that most of the middle-class managers, administrators, and professionals came from other class origins and only about 17 per cent were self-recruited (i.e. coming from middle-class origins). Such a high inflow rate illustrates the impacts of compressed socio-economic development on the changing class structure of Hong Kong – the creation of new openings brought about by tremendous economic growth provided opportunities for people of more humble origins to move into middle-class positions. As a result, Hong Kong's middle class in the 1980s was largely a "first-generation" middle class. That is, few middle-class professionals, administrators, and managers came from middle-class families. This first-generation experience has its effects on the middle class's demographic and cultural identity. Unlike other advanced industrial societies where the middle class has become identifiable as a collectivity through the inter-generational reproduction of their class position, Hong Kong's middle class was still looking for its class identity and culture. While the emerging middle class was enjoying a newly found affluent lifestyle, there was little indication of a solid class identity and culture among them in the 1980s.

But soon, signs of the early stages of middle-class formation in Hong Kong was found in the results of the 1992 Survey (Lui and Wong, 1994). First, cross-class marriages and friendships were less common than expected among this first-generation middle class. Second, although there were opportunities for people to attain personal success by petty entrepreneurship in the manufacturing and service sectors, more people moved up the social ladder through education channel. About half of the middle-class respondents in the survey received college or graduate level education, and those who were younger were more likely to attain a tertiary level of education. Thus, increasingly, education has become the main, formalized channel for upward mobility to the middle class. In short, despite the wide basis of recruitment and the diversity in their social origins, the middle class has slowly developed a class-based identity through their common life experience and career paths in the course of attaining their class positions through professional training and credentialism. It is reasonable to believe that a higher degree of homogeneity in their social and cultural outlooks could be expected in the following decade.

The symbolic significance of the middle class in contemporary Hong Kong society

> In the eyes of the general public, the middle class is perceived to be the embodiment of values and ideals pursued in a modern society. It represents an open society where individuals could improve their social status based on hard work. Instead of being dependent on family background and network, the middle class is composed of successful individuals who embrace ideas of openness, progressiveness and freedom.
>
> *(Lui and Wong, 2003: 1)*

The above quote summarizes the symbolic significance of the middle class in contemporary Hong Kong. As mentioned earlier, the rise of the middle class in Hong Kong in the 1970s was an integral part of the capitalist development experience in the post-war era. Against this back-drop, Hong Kong is widely accepted as an open society with abundant opportunities for social mobility. In the eyes of local people, middle-class professionals, administrators, and managers are successful people who are able to capitalize on new opportunities open to them in the process of economic development. They are seen as the personification of the ideological construct of the "Hong Kong experience" – their economic advancement is the result of individual effort, hard work, and perseverance. This "Hong Kong experience" is not only about the notion of success through personal efforts, but also buttressed in the concept of competitive individualism. As evidenced in the survey findings, most respondents in the 1992 Survey, irrespective of their class positions, believed in the importance of self-efforts and further endorsed the idea of equality of opportunities rather than outcomes and that the capable deserving to earn more. Success, at least in the minds of local people, is determined by free competition. On the whole, the ideology of opportunity and mobility is widely accepted.

Because of rapid economic development and the resultant improvements in livelihood, this ideology of the "Hong Kong experience" is well received as a dream that may come true. This dream or ethos was well reflected in the 1992 Survey with the majority of the respondents believing that society is open enough to allow for advancement endeavours through individual effort. As put by Wong (2006: 389) in his discussion of Hirschman and Rothschild's notion of a "tunnel effect",

> Hong Kong's spectacular economic development in the 1960s and 1970s seemed to bring about social advancement for many without a serious opposite and downward effect on others. Prosperity and growth generated a benign external environment, inducing optimism that one's turn to move ahead was to come soon.

Under such circumstances, middle-class professionals, administrators, and managers were able to pursue their economic interests without encountering hostile reactions from other classes. In short, it is fair to say that, until the mid-1990s, local society was filled with an optimistic atmo-sphere for the pursuit of "Hong Kong experience", "Hong Kong Dream", or "Middle Class Dream". Middle class was the standard-bearer of these ideals.

It is fair to say that, middle-class administrators, professionals, and managers in Hong Kong symbolize the existence of an open society. The middle class has prospered in a stable laissez-faire economy where competition determines one's fate. For those who have moved to their present middle-class positions through the competition for academic qualifications, the elitist education system has worked to their advantage. For those who have moved along the non-credential path, opportunities have been made available by the rapid structural changes of the economy. Success, at least in the mind of local people, is determined by free competition. In other words, Hong Kong's middle class represents an achieved status, as opposed to an ascribed one, which echoes the emphasis of meritocracy in the post-war Hong Kong. Thus, the middle class in Hong Kong was able to win public recognition, without strong opposition from other social classes. Indeed, it emerged in a friendly environment wherein neither the privileged class at the top nor the mass at the bottom saw it as a threat. Generated by growth and prosperity, this rather amicable inter-class relation is indeed contrary to the experiences of inter-war Europe and many contemporary developing countries where the formation of the middle class was an outcome of class struggles. Perhaps, as a result of this social environment in Hong Kong that facilitated the rise of young professionals, managers, and administrators, Hong Kong's middle class was long characterized

by having confidence and self-assurance. The question is: have socio-economic changes since 1997 disrupted the formation of Hong Kong's class structure and reshaped the psychology of its middle class?

"Middle-class dream" shattered?

In Hong Kong, structural transformation in the 1970s and 1980s created "room at the top" and middle-class positions. This cohort of professionals, managers, and administrators was were "first-generation" middle class who climbed the social ladder from a diverse social and family background. During this high-growth period, local society was characterized by optimism, with a lot of people believing that chances for upward mobility were available for every one through self-effort. And the success of middle-class professionals, managers, and administrators was taken as real life examples of attaining success by means of hard work. Against this backdrop, the Hong Kong middle class and the whole society were largely unprepared for the sudden downturn in the economy in the late 1990s. In this section, we shall describe the impacts of the Asian Financial Crisis on the economic lives and psychology of Hong Kong's middle class.

Changing economic fortunes

The earlier round of economic restructuring in the mid-1980s featured the process of industrial relocation through which manufacturing plants moved to the Pearl River Delta, and this resulted in massive job loss for the less educated industrial workers, the middle class was largely unaffected. But the Asian Financial Crisis in 1997 was different. It not only brought about an unprecedented rise in unemployment but also led to a disruption of middle-class careers and middle-class ways of life. The overall unemployment rate rose from 2.2 per cent in 1997 to a record high of 7.9 per cent in 2003.[2] With cyclical fluctuations, it then fell gradually to around 3.5 per cent in the 2010s. Although middle-class employees suffered lower risk of job loss, due to company closures and corporate restructuring, a rising trend in the unemployment rate of managers and administrators, professionals and associate professionals was observed. In the second quarter of 1997, 9,300 middle-class employees were unemployed, and the figure grew five-fold to 42,000 six years later in 2003.[3] Indeed, to cope with the volatile global economic environment, downsizing and de-layering became main strategies for cost reduction in the private sector as well as public bodies in Hong Kong. Thus, corporate restructuring has significantly reshaped the career structure and expectations of the middle class. Few middle-class professionals, managers, and administrators now believe that they will be able to pursue a long-term and uninterrupted career in the same organization or in the same business from the start to the end of their career. They are now very conscious that such expectations are unrealistic and that job stability and a steady career path are exceptional rather than being the norm. In short, the middle class is facing a rapidly changing socio-economic environment that is eroding expectations for steady and stable careers. Indeed, the kinds of career changes encountered by the middle class are not simply an outcome of temporary measures to deal with a short-term economic recession. It is about longer-term changes in employment practice, job security, and career prospects. Indeed, the Asian Financial Crisis marked a new page in the overall opportunity and employment structure in Hong Kong and many places within the region. The concept of a middle-class career has changed drastically.

Figure 18.1 shows the changes of three types of fringe benefits entitled by managerial and professional employees (excluding top management) between 1986 and 2015. It is observed that the year of 2000 or 2001 was a turning point. First, there has been a significant drop in managerial and professional employees receiving housing benefits or guaranteed year-end pay
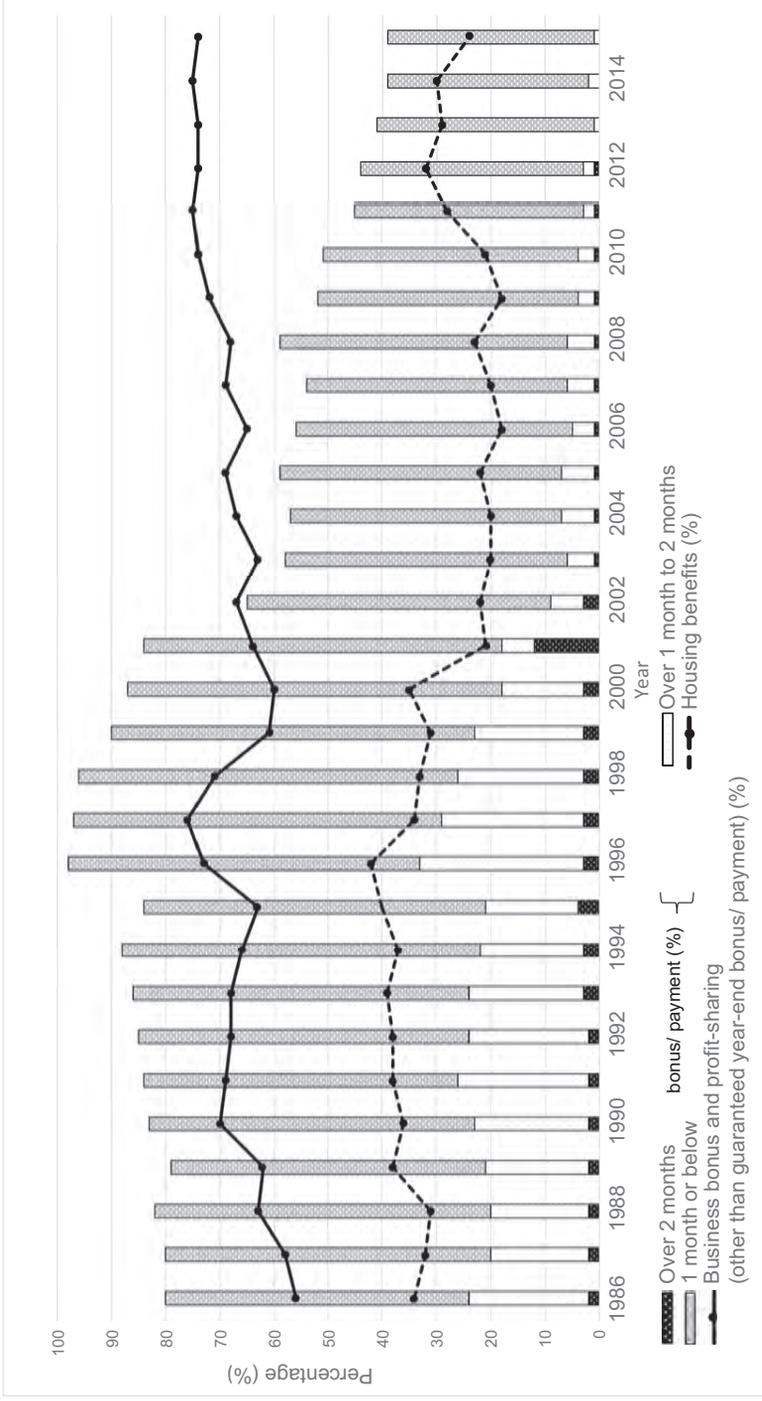
Figure 18.1 Fringe benefits obtained by middle-level managerial and professional employees, 1986–2015

Source: Census and Statistics Department (1986–2015).

or bonus. Second, there has been an increase in the proportion of these middle-class employees having non-guaranteed business bonus and profit-sharing packages. Apparently, there is a drop in the employers' commitment to their middle-level managerial and professional employees in terms of the provision of guaranteed and fixed benefits. Instead, a variable level of bonus and other monetary rewards is given which allow some degree of flexibility on the side of employers for coping with a volatile market. In sum, while the deterioration in the situation of middle-class managers and professionals in the labour market should not be overstated (as the overall propensity of losing their jobs is still lower than those in other occupations), it is fair to say that the security and stability of employment that the middle class has long enjoyed are giving way to competition and flexibility.

Of course, it is true to say that the middle class is most likely to bounce back and to benefit from an economic recovery when the business environment improves. Economic confidence has improved in recent years as evidenced by a booming property market. Few observers would deny the impact of a recovering economy on the way the middle class perceives the business environment. However, it is also important to recognize there is no sign of the middle class regaining its previous optimism, despite the business atmosphere improving. Economic restructuring has significantly reshaped the career structure and expectations of the middle class. As argued, it is not simply a slight hiccup of cyclical economic adjustments. Its impacts are best felt in major labour market restructuring process, cutting employment in the short term and changing the practice of hiring and deployment of labour in the longer term. The middle class has found life to be never quite the same after the economic downturn. Furthermore, changes in employment practice, particularly revisions of the terms of employment of new entrants to middle-class jobs, have had a dampening effect on the younger generation of professionals, managers, and administrators. They fear that their future careers and the material gain from their jobs will never be able to match the standard that was once enjoyed by the ordinary middle-class people of their parents' generation. In sum, changes in the employment conditions for professional, managerial, and administrative employees, no doubt, have touched the nerves of the middle class. They have caused some disturbances to the pursuit of middle-class careers. The expectations of long-term career development through internal promotion, and the achievement of a higher job status through accumulation of work experience and professional recognition, can now be left unfulfilled. The Hong Kong middle class, which has risen to its present position in the environment of rapid economic growth, now finds these recent abrupt changes difficult to swallow.

The "negative asset" issue

However, what had really shattered the so-called middle-class dream in Hong Kong was the plunge in property prices after the Asian Financial Crisis. The case of Amy Chow (reported in Spaeth et al., 1998: 16) largely summarizes the situation of the property-owning middle class in Hong Kong after the dramatic economic downturn since the late 1997:

> Not long ago, Amy Chow was living what could easily be called the Hong Kong Dream. She had a spouse, a well-paying job as a hospital administrator, designer clothes, a pedigreed pet and not one apartment but two – a fitting status symbol in real estate crazy Hong Kong. Today, that dream is looking scary. "My life is not ruined," says Chow, 27, "but I'm not far from it."
>
> Chow's problems are those flats, her former source of pride. Hong Kong has driven up interest rates to defend its currency from speculative attack. The currency has held, but the property and stock markets are way down. Before the government intervened last Friday

by buying shares, the Hang Seng Index hit a five-year low of 6,600. Potential sellers now face big losses, and those who borrowed to finance their flats find themselves paying hefty mortgages on property worth about 35% less than a year ago. Chow was hit with a double whammy: she had been planning to unload the old apartment to make the payments on her new place. "My disposable income is now zero," she says. "We are absolutely in hell".

Many middle-class property owners suffered seriously from the downturn in property prices since October 1997 (see Lui and Wong, 2003). It is not that difficult to understand why middle class has been attracted to investment in domestic property – the average price of private domestic property at its peak in the third quarter of 1997 was 4.33 times the price in 1989. The financial returns on property investment were enormous. Some invested in property for the purpose of hedging against inflation. Others saw this as a way of making good money fast. The result is that a significant proportion of the middle class was deeply involved in the property market. A sudden drop in property price by 39.3 per cent forced a lot of middle-class families (purchasing their properties at the highest price) into a situation of holding negative assets. Worse still, because of the plunge in property prices (which made bankers change their assessment of the property and become more cautious in lending), many had difficulties in completing their mortgages. Some saw their savings taken away because they were unable to finance their projects. Some survived by securing loans from their families and relatives:

> My husband and I belonged to the strata of middle management. We enjoyed a reasonably comfortable life. Last year we used all our savings to purchase a flat in the Ho King Wan estate, mainly as a part of our long-term retirement plan. The financial crisis turned our property into a negative asset. Those days were like nightmares coming true. We stretched our minds to think of a way to deal with our problem. We finally decided to put aside our dignity and to borrow money from my family as well my husband's in order to finance our mortgage. We even terminated our monthly contributions to our son's educational funds. Recently, my husband reluctantly signed an agreement to a salary cut in order to avoid being laid off by his boss.
>
> *(Hong Kong Economic Times, November 12, 1998, in Lui and Wong, 2003: 108)*

In sum, the middle class was badly hit by the downturn of the Hong Kong economy. They began to see that macro restructuring in the socioeconomic environment was changing the stable, secure, and well-paid careers they had long enjoyed. Mid-career redundancy and salary cuts were found threatening. But the real blow came when they suffered an enormous loss in their investments, particularly those in the property market. The middle class was frustrated facing the change in the middle-class career structure and the loss in their property and savings.

Changing psychology: anxiety and uneasiness

As repeatedly mentioned above, the changing macro-economic environment brought about by the Asian Financial Crisis in the late 1990s has given rise to a growing sense of anxiety and uneasiness among the middle class in Hong Kong. Based on the "Survey on Social Mobility and Life Chances in Hong Kong 2006" (hereafter the 2006 Survey), Lui (2014b) reports the state of mind of Hong Kong's middle class after the turbulent economic environment. First, he finds that more than 70 per cent of manual labourers (70.8 per cent) found it difficult or very difficult to find a comparable job if they faced displacement or redundancy. The corresponding figure of the middle class was around 40 per cent (42.7 per cent–45.6 per cent). In the same vein, while

around 30 per cent of the middle class (29.4 per cent–33.1 per cent) expressed worries about a decline in their living standards in the coming years, two-thirds of the semi- and unskilled labourers (66.4 per cent) reported so. Also, seeing the recent changes in employment practices due to the economic restructuring, less than half of the middle-class respondents (35.8–46.6 per cent) felt concerned about their quality of life after retirement and the corresponding figure rose to over two-thirds for their working-class counterparts (71.5 per cent). Apparently, compared to the lower classes, the middle class were less anxious and insecure in the aftermath of the Asian Financial Crisis.

Yet, compared with those in the upper middle class (16.3 per cent), the lower middle class (29.9 per cent) significantly showed more worries about losing what they had earned and worked for. The respective figure of the working class was 39.7 per cent. Furthermore, when respondents in 2006 Survey were asked whether they would agree to the statement: "It is more important to retain what has been achieved than to reach out and get more", which was intended to probe the respondents' sense of uncertainty (so that they would emphasize the importance of keeping what they have already possessed), differences were found within the middle class. About one-third of upper middle-class respondents (32.9 per cent) expressed a willingness to strive to get more and were least likely to emphasize the need to retain what was already in hand. On the contrary, respondents from the lower middle class was found to be more nervous and cautious as a significant proportion (59.1 per cent) felt the need to hold on what they had already obtained, which indicates that they were increasingly under pressure with growing sense of anxiety and uneasiness. This contrast between the upper and lower middle class is telling in the sense that the upper middle class remained to be most capable of protecting itself from changes in career paths and prospects arising from the changes effected since 1997 and expressed more confidence in its ability to control the various matters affecting everyday life.

It can be seen that there emerged signs of growing anxiety among the lower middle class, and this might indicate a growing competition for career advancement and barrier to social mobility in real life. Interestingly, both the upper and lower middle classes were most critical of the belief in equal opportunity for success (38.9 per cent and 28.5 per cent disagreed with the statement, respectively). The corresponding figure of the overall picture was 24.4 per cent, which means that those who were more likely to believe in the dream of lower barriers to success in Hong Kong were found among lower classes. Meanwhile, compared with the working-class respondents (22.8 per cent), a higher proportion of upper and lower middle classes (37.2 per cent and 41.7 per cent respectively) felt more pessimistic in terms of the prospects for career development in the next generation. According to Lui (2014b), these results could be described as a kind of informed pessimism which the Hong Kong's middle class was informed about the harsh reality of growing competition for a limited number of top positions in Hong Kong. It no longer espouses the dream of social mobility uncritically. Despite the fact that middle-class professionals, managers, and administrators benefited enormously from Hong Kong's economic growth and development in the past decades, and despite serving as symbols of social openness, they are beginning to reassess the promises of Hong Kong as a land of opportunity. Our observations suggest that the middle class is still resourceful enough to protect itself from the turbulence of the changing economic environment. Compared to other social classes, respondents from upper and lower middle classes continue to express confidence in their ability to maintain their living standards despite the uncertainty and instability brought by economic restructuring. Yet that said, it is equally interesting to observe that the middle class's sense of uneasiness seems to be growing. Its reassessment of Hong Kong as a land of opportunity and the next generation's career prospects indicates that there is a growing sense of skepticism within the middle class.

This "amalgam of dread and confidence" (Lewis and Maude, 1949: 73) or a mix of pessimism and optimism is believed to be a central feature of the middle-class perspective. As was succinctly summed up by Lewis and Maude (1949: 273),

> The attitude of the middle classes towards the future is much what the attitude of the individual middle class breadwinner always is: an amalgam of dread and confidence. Dread of losing his security; refusal to believe that what happens to others could ever happen to him. Middle class opinion, similarly, views the progressive impoverishment of the middle classes with deep misgivings, yet cannot believe that the class which contains the brains and the leaders of the nation can be wholly destroyed. Both feelings arise from valid experiences.

Towards an M-shaped society?

Owing to the Asian Financial Crisis in 1997, the worsening of economic conditions in labour market and in property investment has led to growing anxiety and uneasiness among the middle class in Hong Kong. Similar to other East Asian economies which featured rapid economic development and the rise of middle class in the 1980s and 1990s, the turbulence witnessed in the global and local economies in the late 1990s raised doubts about the prospects of maintaining economic growth and thus the possibility of further creating "room at the top" for upward social mobility. More specifically, in Hong Kong, instead of a cyclical adjustment, the structural changes in middle-class careers, as shown above, have generated discussions and debates about the arrival of the so-called M-shaped society (Ohmae, 2006) or a downwardly mobile society (Miura, 2006). In this section, we shall examine the changing class structure and the pattern of social mobility in contemporary Hong Kong and discuss whether the assertion of a disappearance of the middle class is empirically grounded. As we shall see in the following discussion, it seems premature to conclude that there has been a reduction in the size of the middle class from both longitudinal and cross-national perspectives. We further argue that the question is not really about the drying up of opportunities for mobility and/or a disappearance of the middle class, it is about an emerging cleavage within the middle class which leads to new forms of social inequality or unevenness in the distribution of opportunities.

The disappearance of the middle class

Table 18.3 summarizes the class maps of Hong Kong based upon three surveys, carried out in 1989, 1992, and 2006 respectively. All the three surveys adopted a classification informed by the Nuffield scheme (Goldthorpe, 1987). A first glimpse suggests that changes in the class structure

Table 18.3 Class maps of Hong Kong, 1989, 1992 and 2006 (%)

7-folded class	Brief description	1989	1992	2006	3-folded class
I	Upper service class	8.6	10.0	7.5	Service class
II	Lower service class	11.3	10.5	13.4	(middle class)
III	Routine non-manual employees	9.5	24.9	16.9	Intermediate
IVa	Small employers	14.0	11.5	3.1	class
IVb	Petty bourgeoisie			8.2	
V	Technicians and supervisors	15.9	7.3	20.4	
VI + VII	Manual workers	40.6	35.7	30.7	Working class
(N)		(943)	(590)	(1157)	

Sources: Lui (2011a: 70).

Table 18.4 Changes in middle-class occupations in Hong Kong, Singapore, Taiwan, England and Wales, and the United Kingdom from 1991 to mid-2010s (%)

Occupation	Hong Kong		Singapore (resident population only)		Taiwan		England & Wales	United Kingdom
	1991	2016 Q2	June 1991	June 2015	1991	June 2016	1991	2016 Q1
Managers and administrators	9.2	11.3	4.8	12.2	4.8	3.4	16.1	10.5
Professionals	3.7	7.3	6.0	18.3	5.1	12.3	8.7	20.1
Associate professionals	10.3	19.5	12.0	20.0	12.1	18.0	8.7	13.9
Middle class (in the employed population)	*23.2*	*38.1*	*22.8*	*50.5*	*22.0*	*33.7*	*33.5*	*44.5*

Sources: Census and Statistics Department (1993: 94; 2016: 63–66); Singapore, unpublished data from Manpower Research and Statistics Department, Ministry of Manpower, Singapore; Taiwan: (a) 1991 data from http://statdb. dgbas.gov.tw/pxweb/Dialog/varval.asp?ma=LM0104A1A&ti=Employed%20Persons%20by%20Occupation%20 (5th%20revised,%201978-2010)-Annual&path=../PXfileE/LaborForce/&lang=1&strList=L and (b) 2016 data from http://eng.stat.gov.tw/ct.asp?xItem=15761&ctNode=1609&mp=5; England and Wales and United Kingdom, unpublished data from Office from National Statistics.

are slow – perhaps slower than in most people's expectation. The proportion of the middle class remains roughly one-fifth of the sample. Contrary to the belief about a decrease in the size of the middle class, economic restructuring since the late 1990s has not brought about the disappearance of the middle class in Hong Kong. Also, a look at the changing distribution of higher-level occupations (that is, managers and administrators, professionals and associate professionals)[4] in official statistics in Hong Kong, Singapore, Taiwan, England and Wales, and United Kingdom between 1991 and the mid-2010s further confirm that a rising proportion of middle-class occupations have been recorded in all these societies (Table 18.4). To a large extent, Hong Kong's middle class is still alive.

The confirmation of the existence of the middle class is only a partial response to the hypotheses of a major change in the class structure and a shrinking middle class. Here we shall also look at empirical evidence concerning the extent of social mobility in general and upward mobility in particular in order to examine the suggestion that there emerges a downwardly mobile society. In the 2006 Survey, while there was 32.5 per cent upward mobility between fathers and sons, downward mobility was 24.6 per cent, and 42.9 per cent belonging to either immobility or lateral mobility. The corresponding figures in 1989 Survey were 44.4 per cent, 18.6 per cent, and 37.1 per cent.[5] It can be seen that more incidents of upward social mobility and fewer downward mobility are observed between 1989 and 2006. In the 2006 Survey, results from inter-cohort difference reveal that, compared to their counterparts born before 1966, respondents born in or after 1966 seem to be able to enter into positions brought about by the development of a post-industrial economy, with a higher portion of service-class positions and the intermediate class, and a low percentage of working-class positions. Instead of social closure, chances of upward mobility still exist in contemporary Hong Kong.

To capture the extent of inter-generation social mobility or class inheritance, we shall look at the inflow and outflow rates of the 2006 Survey.[6] Generally speaking, the extent of

self-recruitment is reasonably low across all classes. Regarding the inflow into service-class positions, class origins are rather diverse, with only 7.7 per cent of them coming from the same class origin. The extent of elite self-recruitment (22.4 per cent in 1989) has been significantly reduced. Concerning outflows, only 23.0 per cent of those of service-class origins are able to retain their children in the same class. Meanwhile, some 18.4 per cent of those with a working-class background are able to travel as far as reaching service-class destinations. Compared with the findings of the 1989 Survey, with the exception of those coming from Class IV (i.e., small employers and the self-employed), most people have actually done better in 2006 (in terms of the outflow percentages to the service class). In other words, people in Hong Kong are still able to find the opportunity of social advancement. Many middle-class respondents are "first-generation middle class", and many were able to enter middle-class positions by doing well in the education system. Also, in the 2006 Survey, although those in the younger generation (born in 1966 and after) are more likely to experience a stronger class inheritance (25.8 per cent of respondents with service-class origins were able to stay in the same class) but, at the same time, those who were brought up in working-class families have done better than those of an earlier generation (born before 1966) to leave their class origins and to reach the service class and Class III (i.e., routine non-manual employees). Among the younger generation, less than one-tenth (9.7 per cent) of those coming from the middle class end up in working-class positions. They are less likely to experience long-range downward mobility than those of the older generation.

Overall, the above analyses show that the thesis of the disappearance of the middle class is not supported. Nor are there signs of growing closure blocking people from moving ahead. Indeed, against the backdrop of the slower growth in middle-class positions since the mid-1990s and early 2000s, it is rather unexpected to see an increase in incidents of upward mobility. Nevertheless, results from more in-depth analyses reveal that, in both 1989 and 2006, experiences of upward mobility were limited to short-range mobility. While it is still difficult for those from working-class background to climb to middle-class occupations, children of the middle class who experience "social downgrading" to working-class positions are equally uncommon (Lui, 2011b, 2014a).

A split middle class

It is true to say that many people are worried about Hong Kong's economic prospects and the implications of such changes in the economic environment for social mobility. But to follow our discussion in the above section, we would argue that, instead of a disappearance of the middle class and the drying up of opportunities for upward mobility, the source of their worries seem to lie elsewhere. First, it is observed that, despite growth in the overall size of the economically active population, the number of people engaged in managerial and administrative occupations rose from 249,247 in 1991 to 369,323 in 1996 and then dropped to 359,717 in 2011 (a drop of 2.6 per cent between 1996 and 2011). Meanwhile, the number of those in professional occupations continuously rose from 151,591 in 1996 to 231,371 in 2011 (an increase of 52.6 per cent). The above statistics alert us to the fact that even people in middle-class positions are beginning to experience the impacts of economic unevenness. Whereas there has been a reduction, or at least no growth, in the number of people engaged in managerial and administrative jobs, probably because of downsizing and organizational de-layering, professionals are still enjoying relatively secure employment and continuous growth in job openings. Such divergence in career prospects points to an important fact of life in an environment of economic restructuring, namely that a continuous expansion of opportunities in middle-class positions because of economic

development can no longer be taken for granted; at least, it is not necessarily applicable to all middle-class employees irrespective of their positions, jobs, and industries. As a result of organizational de-layering, management posts are likely to be reduced and the job ladder structured according to the principle of seniority (within the internal labour market of big corporations and/or the government) has been trimmed or even truncated.

Second, unlike the socio-economic landscape in the 1970s and 1980s, when economic growth could loosen the social structure and generate mobility opportunities for people of humble origins (thus promoting the belief that Hong Kong was a "land of opportunities" for everyone who worked hard for personal success), nowadays economic unevenness has become a key feature in the changing socio-economic structure. This is reflected in the distribution of managers, professionals and associate professionals by major industry. The number of managers, professionals and associate professionals in finance, insurance, real estate, and business services rose from 127,438 persons in 1991 to 391,734 in 2011 (an increase of 207.4 per cent).[7] The pattern of growth varies according to industry: −49.4 per cent in manufacturing; 208.1 per cent in construction; 140.0 per cent in wholesale, retail and import/export; 144.6 per cent in transport, storage and communications; and 95.6 per cent in community, social and personal services. In other words, compared with other industries, finance, insurance, real estate, and business services have experienced a bigger expansion of managerial and professional positions. In 2011, the largest share (30.8 per cent) of managers, professionals, and associate professionals were found working in finance, insurance, real estate, and business services. The corresponding figures were 5.3 per cent in manufacturing; 5.6 per cent in construction; 25.2 per cent in wholesale, retail, and import/export; 6.3 per cent in transport, storage, and communications; and 26.1 per cent in community, social, and personal services.

Differences in employment conditions by industry are also evident in terms of real salary growth. Figures 18.2a and 18.2b show the Real Salary Index (A) and Real Salary Index (B) by major economic sectors for middle-level managerial and professional employees in 1995–2015.[8] The Real Salary Index (A) shows changes in real salary rates of the middle-level managerial and professional employees surveyed by the Census and Statistics Department, covering salary changes for new recruits, the newly promoted, and those who stayed in the same occupation in the same company in the period of survey. The Real Salary Index (B), only covering salary changes for those who remain in the same occupation and company in two successive years, "accounting for salary changes due to general increment, meritorious increase and gain in seniority" (Census and Statistics Department, 2007). For our purposes here, Figures 18.2a and 18.2b show that, in both measures, with the exception of building, construction, and related trades which employed a small percentage of middle-class labour force, those working in financial institutions and insurance fare relatively better than others. They have been able to secure higher economic returns from their work, and the income difference gap between them and the others has been widened since 2002.

So far we have discussed sectoral differences in terms of salary movements and career prospects (in terms of growth of occupational positions), and it is observed that internal divisions among the middle-class professionals, managers, and administrators, primarily drawn along the lines of industry or economic sector, are becoming significant. A further point to note is that, as noted earlier, facing an increasingly uncertain future, although those in upper middle-class positions were more confident in surviving under the environment of economic turbulence, the lower middle class was found to suffer from a higher level of anxiety and uneasiness. Also, in terms of their perceptions of class interests and conflict between employers and employees, the lower middle class was drifting away from the upper middle class (Lui, 2005). Although it may sound simplistic to say that a person's perceptions and attitudes are shaped by his/her position in the
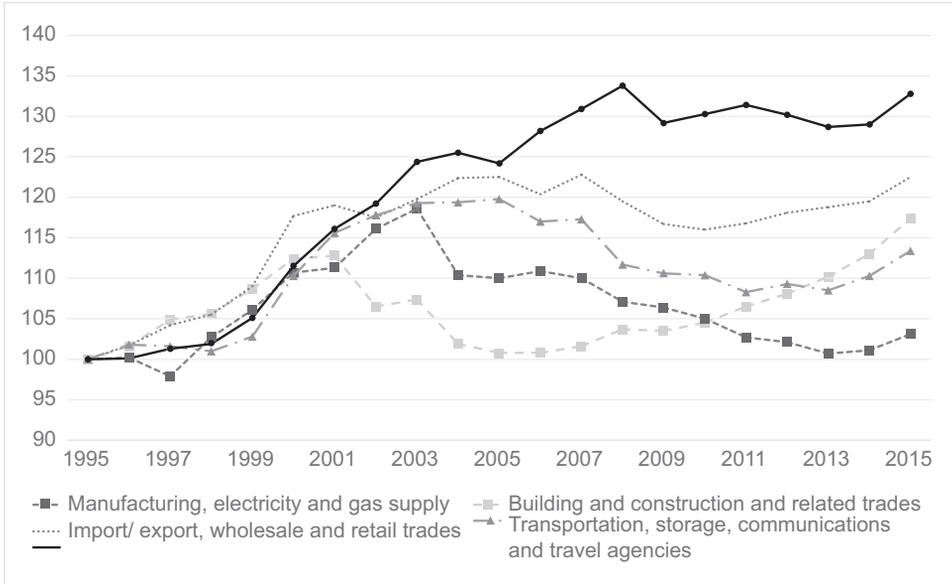
Figure 18.2a   Real Salary Index (A) for middle-level managerial and professional employees by selected industry section, 1995–2015

Note: June 1995 = 100.

Source: (1) Census and Statistics Department (1998: Table 3); (2) Census and Statistics Department (2007: Table 3); (3) Table 025: Real Salary Indices (A) for Middle-Level Managerial and Professional Employees Analysed by Selected Industry Section (last revision date: 27 October 2017) downloaded from website of Hong Kong Census and Statistics Department.
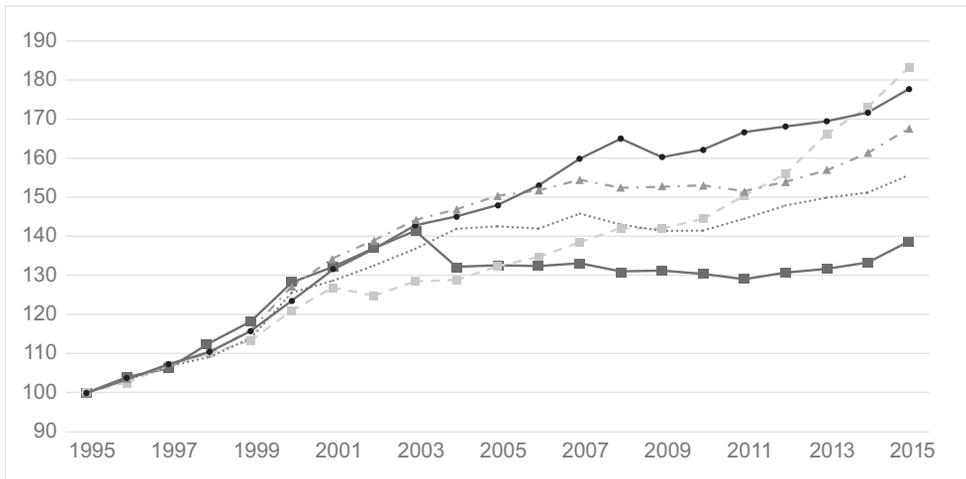
Figure 18.2b   Real Salary Index (B) for middle-level managerial and professional employees by selected industry section, 1995–2015

Note: June 1995 = 100.

Source: (1) Census and Statistics Department (1998: Table 4); (2) Census and Statistics Department (2007: Table 4); (3) Table 027: Real Salary Indices (B) for Middle-Level Managerial and Professional Employees Analysed by Selected Industry Section (last revision date: 27 October 2017) downloaded from website of Hong Kong Census and Statistics Department.

broader environment, our survey findings tentatively support a hypothesis of the emergence of a radicalized lower middle class. Differences within the middle class are growing. In contrast to the upper middle class, which continues to be self-assured, the lower middle class is anxious, uneasy, and restless. They are losing their confidence in their ability to protect themselves from an increasingly turbulent environment. Those of the lower middle class have a very realistic view of their opportunities for success and seem to be moving in the direction of adopting a more confrontational and radical view of society. A growing trend of associate professionals and its expansion in the overall working population as shown in Table 18.2 might indicate an emergence of a radicalized lower middle class. The lack of control in the volatile labour market conditions and the more pessimistic attitude towards career prospects may create a segment of the middle class that would more vocal and eager to express their demands.

The existence of internal diversity is probably one of the characteristics of the middle class. In this regard, the formation of another fault line is hardly something new for discussion. But it is important to recognize that the emerging cleavage we have just highlighted does undermine the belief, quite widely shared by many middle-class professionals, managers, and administrators, that economic growth as such would be able to ease social tensions of different sources. The changing environment reminds the middle class of the significance of the social dimensions of economic development – the question is not just about how to secure economic growth but also about how the benefits are to be distributed. Increasingly, it is crucial to identify the interests and outlooks of different segments of the middle class.

Concluding remarks: a note on class reproduction

We started our discussion with the emergence of the "first-generation" middle class in the post-war decades. But as time passes, Hong Kong society has arrived at a stage of development wherein more and more of those belonging to the first cohort of the local middle class have become parents. The question of class reproduction, how the middle class is able to protect their children by providing them with the support to stay in the same class position, gradually becomes an issue of concern. Here in this section, we shall address the question concerning the attainment of middle-class positions in the new socio-economic environment.

As pointed out in earlier discussion, the rise of the middle class in Hong Kong is, to a large extent, an outcome of rapid economic growth and drastic changes in the social structure. The expansion of professional, managerial, and administrative positions created new openings for individuals from different social backgrounds to become members of the middle class. This middle class was mostly first-generation, and they climbed up the social ladder via education as well as other socio-economic channels. Nonetheless, the pace of socio-economic growth and development has slowed down since the late 1990s. "Room at the top" has not disappeared, but the growth rate has slowed down. There are still opportunities for people to be socially mobile and become first-generation middle class. Yet increasingly, a lot of the new openings are mainly confined to lower middle-class positions (e.g., those in associate professions).

We have suggested that, in Hong Kong, the fear of the disappearance or shrinkage of the middle class is not supported by empirical evidence, and it is largely an outcome of a certain subjective perception of the changing environment rather than a reflection of major changes in the opportunity structure. It is, at least partially, a psychological reaction to the intensification of competition for middle-class positions. Despite all the changes to the conventional middle-class career structure and the shock created by the drastic drop in property prices (and thus many middle-class families were badly hit by the possession of "negative assets") in the late 1990s, many people continue to embrace the dream of becoming middle class through their own hard work. While 74.0 per cent

of the respondents agreed or strongly agreed with the statement "Talent and effort bring about personal success in Hong Kong" in the 1989 Survey, a similar level of agreement (72.6 per cent of the respondents) with "Hong Kong is a place for competent people" (Ip et al., 2013) was found in the 2007 Survey. It is thus unsurprising to see that an overwhelming majority of respondents (90.7 per cent) in the 2004 Survey gave a positive answer to the statement "The best way to deal with changes in the economic environment is to enhance one's own competitiveness" (Lui, 2005).

In the same survey conducted in 2004, more than one-third of the respondents believed in the value of academic qualifications in helping them deal with the pressures of wage cuts and redundancies in a changing labour market. Among those respondents who belonged to the middle class, their faith in academic qualifications was even stronger. This probably helps to explain why in Hong Kong there is always a strong drive for attaining a higher level of education, irrespective of the socio-economic and cultural background of the people concerned. At the same time, the structure of Hong Kong's economy has shifted towards a service economy (also see Chapter 17 in this volume). It has been found that route to middle-class positions has become more formalized over the past decade in which education has come to constitute the main institutionalized channel of upward mobility (Lui, 2014a). Competition for middle-class positions becomes closely connected to the competition for credentials.

It is against this backdrop that the question of class reproduction becomes an issue of concern (Hsiao, 2006). The first-generation middle class is very conscious about how to protecting their children from falling to positions of routine non-manual workers and the working class (Lui, 2006, 2009, 2011b). As a matter of fact, results from the 2006 Survey reveal that those in the service class, who were informed of changes in managerial and professional labour market conditions, were less optimistic in the opportunities available for the younger generation with less than two-fifth agreed or strongly agreed that the next generation has better prospects for career development (while the corresponding figure of the other classes was around one-half). This pushes the middle class to become very strategic in preparing their children to become future middle class. As a result, education has become the main arena for the competition for middle-class positions.

Being well informed of managerial and professional labour market conditions and able to afford to support their children, middle-class parents work very hard to find the suitable means (such as cultivating their children's interests in music and culture) and the effective channels (such as sending their children to prestigious schools) in order to prepare and assist their children in attaining success (Lui and Wong, 1994; Lui, 2014a). Accordingly and inevitably, family resources come into play and become a key factor in shaping the attainment middle-class position in contemporary Hong Kong.

Existing survey data do not really allow us to look into the process of class reproduction in depth. But they do offer some pertinent observations on this issue. Focusing on the changing effect of family resources on receiving local university education between 2001 and 2011, Ip (2014) reports that, while the effect of parental income decreased over time, that of parental education increased. This alerts us to the fact that class reproduction is always a complex and subtle process that, parents' cultural and social capital often makes a difference. This is particularly so when the competition for education attainment and credentials intensifies. Nowadays, middle-class parents' expectations and efforts are no longer just about making sure that their children would obtain a university degree or a professional qualification. Increasingly, these parents' strategic actions would focus on life coaching, networking for highly regarded internship opportunity, and assisting their children in receiving higher education in the most prestigious university. One of the outcomes of this trend of development is that a rising proportion of survey respondents subjectively acknowledge the importance of family background in determining one's success. Whereas nearly two-third of the respondents in the 1989 Survey disagreed or strongly disagreed with the statement "In

Hong Kong, the chance of career success of a child in a working-class family is no different from his or her counterpart with a parent as business administrator" (65.1 per cent), three-quarters of respondents in the 2007 Survey agreed or strongly agreed with "in Hong Kong, kids from rich families are easier to succeed" (74.5 per cent) (Ip et al., 2013). It seems that people are aware that the competition for middle-class positions is no longer played out on a level playing field. Class matters. And this has becomes a new challenge to post-1997 Hong Kong.

Notes

1 The social mobility studies we use in this chapter are territory-wide representative household surveys via face-to-face interviewing. These five studies are: (1) "A Benchmark Study of Social Mobility in Hong Kong 1989", (2) "1992 Hong Kong Middle Class Study", (3) "2004 Social Indicators Survey", (4) Survey on Social Mobility and Life Chances in Hong Kong 2006", and (5) "Survey on Social Inequality and Mobility in Hong Kong 2007". It should be noted that the 1989 Survey did not include female respondents.

2 Official unemployment figures are available from www.censtatd.gov.hk/hkstat/sub/sp200.jsp?tableID=014&ID=0&productType=8.

3 These are unpublished figures provided by the office of General Household Survey, Census and Statistics Department.

4 Classification systems of occupation change over time, and different governments use different systems. Thus, the figures presented in Table 18.4 might not be comparable across time and place. That said, they give us some ideas about changes in occupation structure in general and in middle-class occupations in particular.

5 Whereas upward mobility refers to movements into the service class, downward mobility is any movements into a lower class position in the next generation. While immobility suggests staying in the same in class position between the two generations, lateral mobility is movements from one class to another that can hardly be taken as an advantageous or disadvantageous change.

6 Inflow and outflow mobility rates in the 2006 and 1989 Survey could be found in Tables 3.6–3.10 of Lui (2014a).

7 Statistics presented here come from published and unpublished data obtained from the Census and Statistics Department.

8 Changes in classifying industries were made by the Hong Kong Census and Statistics Department in 2004. While data presented in Figures 2a and 2b for the period between 1995 and 2003 are based on the Hong Kong Standard Industrial Classification (HSIC) Version 1.1, those for the period from 2004 to 2015 are based on HSIC Version 2.0. Details on the revision of HSIC could be found in the feature article "Revision of Hong Kong Standard Industrial Classification" (Census and Statistics Department, 2008). Although careful interpretation is required, an inspection based on the figures provided for both Versions 1.1 and 2.0 for years between 2004 and 2008 reveals that the trend presented here is the same for every industry.

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A genealogy of business and politics in Hong Kong

Tak-Wing Ngo

Business and politics have a long and close relationship in Hong Kong. Business elites have been taking an active part in the governance of Hong Kong since the mid-19th century. This continues after Britain handed over the colony to China in 1997. In fact, most studies about business and politics of Hong Kong are critical of the dominance of business influence in the Hong Kong Special Administrative Region (HKSAR). They have highlighted business capture of politics, government–business collusion, and the so-called real-estate hegemony in Hong Kong (So, 2000; Wong, 2010). The logic of this argument rests upon the close network of business elites represented in major policy communities and advisory bodies (Ho et al., 2010; Wong, 2012). At the same time, the existing political system has been designed in a way which gives the business community a controlling influence on the choice of the Chief Executive and veto control over the legislature. The result is the maintenance of a socio-economic system which privileges business interests at the expense of the underclass. This system, however, is facing increasing challenges. According to some observers, a contributing factor to the mounting problem of governing in recent years is the failure of the regime to forge an effective alliance between government and business (Cheung, 2008; Fong, 2013). They argue that the erosion of the intermediary role of business has undermined the precarious partnership between government and business in the post-handover era.

Insightful as these perspectives are, they show a tendency to treat business as a given. Little attention has been paid to the transformation of the business community or to the rise and fall of various business actors over the years. Such an ahistorical perception of business runs the risk of overlooking the fragmentation and diversity present within the business sector, and of failing to realize the fluidity of government–business relations. This shortcoming derives largely from an over-emphasis on institutions without giving due regard to the changing agency of the actors.

By highlighting the changing geo-political economy of Hong Kong, this chapter sketches a genealogy of business and politics from the colonial period to the post-handover era. It traces the rise and decline of British, Cantonese, Shanghainese, and mainland businesses in connection with commercial, industrial, financial, and land capital. It further explores the contention and cooperation between refugee capital, comprador capital, and state–owned capital during the rapid politico-economic transition, as well as the evolution of multiple relationships between business interests, the local administration, and the sovereign states before and after the handover.

Conceptualizing business and its genealogy in Hong Kong

The hegemonic position of business in a capitalist society is a universal phenomenon. In his seminal work *Politics and Markets*, Lindblom (1977) reminds us that governments in a market economy have to collaborate with business. They often submit to business dominance in order to make the system work. Business domination is thus not unique to Hong Kong. The question is how such domination is manifested in each country and how different societies manage the subsequent socio-economic contradictions. Elsewhere I have argued that the modern state in a capitalist economy is confronted with the contradictory task of enhancing wealth creation and favouring business privileges, on the one hand, and concealing/justifying such bias, on the other hand, in order to maintain its image as being fair and just (Ngo, 2002). Managing such contradictions is precarious at best, which is why so many nations have lurched from crisis to crisis.

How business domination is manifested and how it is concealed, justified, or compensated depends to a large extent on the nature and characteristics of business. To take a rather straightforward example, casino capital is the single most hegemonic interest in Macao. Land grants, urban planning, and transportation services are all organized to facilitate the growth and expansion of casinos. Such domination is justified in terms of the huge revenue and employment generated by casinos. Casino gambling is renamed 'the gaming industry', and the social evils of gambling are supposed to be constrained by a government-sponsored programme of 'responsible gaming'. Social and labour policies – including the annual offering of cash rewards, tax rebates, and various allowances, and a regulation that allows only local citizens to serve as croupiers – all serve to secure the acquiescence of the general public. In this sense, Macao's pattern of business domination and political management is *sui generis*. It underlines the idiosyncratic nature of business and politics in a specific context.

As the first step in understanding the idiosyncrasies of business and politics in Hong Kong, we must conceptualize, contextualize, as well as disaggregate 'business'. Let us borrow the summary aptly outlined by Haggard et al. (1997). They identify a number of conceptualizations of business in its relations to the state: (1) business as capital: thus the constraining effects of collective private investment decisions on public policies; (2) business as sectoral interests: hence their mutual competition for domination and policy returns; (3) business as individual firms: thus the influence of firm size, conglomeration, and oligopolistic position on the political process; (4) business as associational actors: hence the corporatist arrangements in mediating conflicts and compromises with other social players; and (5) business as networks: thus the familial, regional, dialectal, or ethnic connections in which businessmen and state officials are embedded.

These perspectives are not mutually exclusive; rather they reflect the multifaceted nature of business. As we will discuss shortly, different faces of business can be detected in Hong Kong at different historical times. This leads to the question of genealogy. Foucault (1977) describes genealogy as a particular investigation into those elements that appeared to have no history. A genealogical inquiry serves to shake up conceptual fixities, subvert seemingly natural categories, and reveal the contingencies of what we have taken for granted. Borrowing the Foucaultian insight in the study of the clinics, schools, prisons, and so on, a genealogical study of business as a structural actor may shed light on our knowledge about contemporary Hong Kong politics and society. At a minimum, it will help us to see business as a changing category, with a trajectory of history.

As a matter of fact, the nature of business, politics, and government-business relations has changed tremendously as a result of rapid economic transformations and the shifting relations between Britain, Hong Kong, and China. During the past 60 years, Hong Kong has experienced a rapid succession of structural changes to its economy. Its role in the global and regional economies has changed every one or two decades: it began as an entrepôt for East-West trade,

became a manufacturing centre for export products, was replaced by deindustrialization and subcontracting management for the Greater China region, then became a global financial centre and a regional headquarters for multinationals into China, and finally became a retailing and investment hub for mainland Chinese consumers and capital in the 2010s. This rapid change has been shaped to a large extent by a shift in the global circuits of capital and by the geo-political alterations brought by the transfer of sovereign rule from Britain to China, China's market reform, and the subsequent rise of China (Jessop and Sum, 2000).

In each of the economic phases, the characteristics of Hong Kong business varied in terms of ethnic composition, organizational and ownership structure, market domination, and networking practices. The roles of business in terms of capital, sectoral interests, individual conglomerates, associational actors, and politico-economic networks evolved with time. Because of this, the manifestation of business domination also changed with time. Such a shifting pattern of dominance required varying techniques of rule or governmentality to maintain regime stability and legitimacy. The governance problems in post-handover Hong Kong can therefore be seen as partly arising from the inability of obsolete or ineffective technologies of power to reconcile new forms of business domination with heightened public demand for political justice and accountability.

The beginning of business in politics

The institutionalization of business influence began shortly after the British annexation of Hong Kong. From the outset, the colony was meant to be a place for commercial and trade activities (Endacott, 1964a: 255). It was set up to serve the interests of the British merchants and to facilitate their businesses. Because of this, the British merchants had little difficulty in dominating the economy and the polity. During the first hundred years of colonial rule, British merchant houses such as Jardines, Swire, and Hutchison built up huge empires in entrepôt trade, land development, and public utilities. Their dominance earned them the name of princely *hongs*.

As capital, the *hongs* exhibited unanimous collective interests in defending a market regime that favoured free trade, low taxation, minimum labour protection, and high profit returns. They formed the Hong Kong General Chamber of Commerce in 1861, which claimed to represent the entire business community in Hong Kong. In its first hundred years of operation, the Chamber was firmly in the hands of British business. Half of the period was under the chairmanship of four merchant houses: Jardines (19 years), P&O Steam Navigation Co. (12 years), Swire (10 years), and Turner & Co. (10 years). It was not until 1984 that the first Chinese businessman was elected chairman of the Chamber.

The *hongs* criticized the colonial government for over-staffing and levying unreasonable revenue (Endacott, 1964a; Scott, 1989: 54–60). They demanded control over legislation, policy-making, and government finance, arguing that it was 'the common right of Englishmen to manage their local affairs and control the expenditure of the Colony' (Endacott, 1964b: 120). Eventually, the colonial government yielded to this pressure by including unofficial members in the Legislative Council in 1850. Starting from 1885, the General Chamber of Commerce was allowed to nominate one unofficial member to the Legislative Council while another legislator was nominated by the Justices of the Peace. The Executive Council, the top policymaking body, was opened to the *hongs* in 1896, when Bell-Irving of Jardines, and Paul Chater, a financier and property developer, were appointed as unofficial members (Crisswell, 1991: 179–180).

Since then, the inclusion of business representatives on the legislative and policymaking bodies has been an institutional feature of the political system in Hong Kong, even after the 1997 handover. During the first hundred years, the British *hongs* essentially monopolized such representation.

However, it would be wrong to assume that the *hongs* were the only business interests in town. From the outset, Britain's acquisition of Hong Kong depended not only on military strength but also on the indispensable help of Chinese contractors, compradors, and other merchants in providing essential supplies during the Opium War (Ngo, 1999a). After the occupation, British businesses relied on pre-existing Chinese trading networks to penetrate other Asian markets. In exchange for their collaboration, British authorities rewarded some native Chinese in Hong Kong, commonly referred to as compradors, with social and economic privileges, so that these collaborators became the first generation of Chinese bourgeoisie in the colony. They formed charities including the Tung Wah Group of Hospitals and Po Leung Kuk, which became the leading organizations representing the Chinese bourgeoisie (Chan, 1991; Sinn, 1989). Their participation in political affairs was, however, limited and overshadowed by the *hongs*.

In comparison, the majority of native Cantonese-speaking manufacturers were marginalized in the polity. Elsewhere I have argued that local manufacturing establishments had achieved a substantial scale by the 1930s (Ngo, 1999b). They formed the Chinese Manufacturers' Association in 1934 to represent the interests of Cantonese manufacturers. However, the colonial administration and British business interests considered the growth of industrial establishments as haphazard at best. They looked at the Association with deep suspicion, seeing it as a '*mahjong* club' controlled by a group of small Cantonese factories producing traditional Chinese products such as preserved fruits and matches. In line with other British colonies at that time, the colonial authorities often viewed indigenous entrepreneurs 'as a parasite or a scoundrel or, at best, an aberration' (Havinden and Meredith, 1993: 310). The Hong Kong government and the *hongs* were particularly annoyed by the exclusion of non-Chinese involvement in the Association's activities. Only factories run by Chinese or shops selling exclusively Chinese products were admitted as members. In the eyes of the colonial administration, the Association lacked professional staff to run the organization and was not well informed on overseas market conditions. The English-speaking government officials also found it difficult to communicate with the Association leadership. The only official exchange between the government and the industrialists was the opening speech made by the Governor at the annual exhibition of industrial products organized by the Association.

The Association resented being marginalized by the colonial government. Official publications of the Association described the industrial sector as 'a homeless orphan' because neither the British nor the Chinese government considered it part of the national economy, and as a result 'it was neither protected or assisted by the home government nor given any attention by the sovereign state' (Ai Ming, 1948: 9–10). Association leaders were also frustrated by the fact that their efforts to promote industrial development in Hong Kong were not appreciated by the government.

All in all, this early phase of business and politics, which lasted from the British annexation of Hong Kong to the end of the Pacific War, had a long-lasting legacy on the subsequent development of Hong Kong. The dominating representation of business interests in politics has never been seriously challenged in subsequent years. At the same time, the policies originally demanded by the *hongs* concerning free trade, low taxation, minimal labour protection, and government non-intervention have become reified as sacrosanct principles of government in Hong Kong. Goodstadt (2005: 117–138) observes that, during British rule, business elites were very successful at blocking or postponing policies meant to protect public interests, such as compulsory pension funds, nine-year free education, and fair competition laws. The continuing domination of business capital in political life not only constrains public policy choices but also creates a hegemonic discourse about the destiny of the place: Hong Kong's *raison d'être* is to make money, even after 1997.

Sectoral conflicts and the politics of intermediation

The dominance of the British *hongs* as the sole political interlocutors of the colonial state began to change after the Pacific War, when Hong Kong society and economy were transformed in less than a decade during the 1950s. The change was triggered by external circumstances, the most important of which include the communist takeover of mainland China and the outbreak of the Korean War. These events sparked a chain reaction in Hong Kong, which began with a huge influx of refugees and refugee capital, followed by the demise of entrepôt trade, and ended with the emergence of an export-oriented industrial economy. Rapid population growth and industrialization brought new economic actors into the political arena. New groups of industrialists emerged. From the early 1950s to the late 1970s, overt conflicts of interest existed between different groups of capitalists, cutting across sectoral, ethnic, regional, and even dialectal lines. The competition for domination among economic actors rendered the social and economic relations more fluid and complex, and presented challenges to governmentality.

The Shanghainese spinners who took refuge in Hong Kong were among the first to emerge as an organized economic interest (Wong, 1988). The Hong Kong Cotton Spinners Association was formally inaugurated in 1955. The Weavers' Club was set up and reorganized to form the Hong Kong Weavers' Association in the following year, and then formally registered in 1960 as the Federation of Hong Kong Cotton Weavers. Other sectoral associations followed suit in subsequent years. However, despite the rapid expansion of the industrial sector, there was no formal channel of communication between the colonial administration and the industrialists before the mid-1950s. There was not even a peak industrial association which, in the eyes of the government, could serve as the representative of industry, an interlocutor of the policy process, and a political supporter of the regime. Although the Chinese Manufacturers' Association had become more active, the colonial state was reluctant to recognize it as the legitimate peak association representing the entire industrial sector.

In addition to the problem of political representation, concerns about interest intermediation intensified when conflicts within the manufacturing industry increased as a result of the expansion of industrial activities. The rapid industrial growth created a diversity of interests within the manufacturing industry. The size of firms, the products produced, the methods of financing, the degree of labour- or capital-intensity, and the export markets all created conflicts of interest between different industrial sectors. In fact, conflicts abounded even within a single sector because of the low degree of vertical integration in most industries. This meant that production was fragmented into various subsectors, each with its own pattern of operation. For instance, the textile and clothing industry was divided into numerous subsectors including spinning, weaving, knitting, dyeing and finishing, and garment making. Within garment making, further subdivisions could be found. With such a diversity of interests, infighting within an industrial sector was not uncommon. For instance, a big row between spinners, weavers, and garment makers was sparked when the colonial government put forward the High Hong Kong Cost Content Scheme in the late 1950s.

At this historical juncture, the colonial state faced acute challenges to its effective rule, arguably not unlike those confronting the HKSAR government in present-day Hong Kong. In particular, the absence of political mechanisms for interest intermediation in the wake of conflicting business interests put the colonial administration in a vulnerable position. This was especially the case when Britain and the United States started to impose restrictions on Hong Kong's textile exports. During the Lancashire talks in the late 1950s and the United States textile quota talks in the early 1960s, negotiations broke down several times because of the inability of different industrial associations within the Hong Kong team to reach a consensus (Clayton, 2006). Talks

ended in stalemate and the Hong Kong government was embarrassed by the refusal of the textile associations to sit down at the negotiation table (*Hong Kong Textile Annual*, 1961). The Chinese Manufacturers' Association had little role to play in arbitrating the disputes because most of the Shanghainese who controlled the spinning and weaving sectors were not members of the Association. Since at that time textile exports were the life-blood of Hong Kong's industrial economy, the repeated impasses encountered in the textile negotiations severely undermined the fragile foundations of the colony.

This prompted the colonial government to construct a mechanism of interest intermediation and representation and to institutionalize a new strategy of rule. The first step was the creation of a new basis of political support. However, the plurality of manufacturers did not constitute any identifiable collective actors who were acceptable to the government as interlocutors. As a result, before the industrialists could be co-opted into the system, 'the industrialists' as a group had to be identified, defined, or constituted. In the end, what emerged was a politically constructed actor whose group boundary was shaped by the government, the *hongs*, and a few big industrialists. Small and medium-sized manufacturers, who made up the bulk of factories in Hong Kong, were marginalized in industrial representation, leaving the large Shanghainese manufacturers to represent the interests of the industry.

The process of constructing a collective actor representing industrial interests confirms Olson's (1965) insight that the shared economic characteristics of a collective, such as being industrialists, do not automatically enable the collective to take on political identity and action. The cohesion of capitalists, as Longstreth (1979) suggests, in addition to immediate economic interest, often needs to be reinforced by various social mechanisms such as membership in clubs, attendance at the same schools, kinship ties, interlocking directorships, special policymaking groups, and so on. In the case of Hong Kong, in addition to economic characteristics, cultural, regional, and dialectal ties were mobilized to create the political identities of industrial groupings. These ties were, in turn, appropriated by the colonial government for a specific political cause.

The ethnic division between the Shanghainese and Cantonese manufacturers was used by the colonial government as the basis for picking supporters. The pragmatic, cosmopolitan Shanghainese textile manufacturers were groomed by the government as the backbone of the industrial economy, while local Cantonese producers represented by the Chinese Manufacturers' Association were marginalized. Unlike their Cantonese counterparts, the Shanghainese spinners had received a Western education, spoke fluent English, and identified with the British business community. As Wong (1988: 41) points out, the fact that the Shanghainese left China to seek shelter in a British colony indicated that 'their commitment to private enterprise evidently transcended nationalistic considerations'.

In the end, the colonial state set up a new Federation of Hong Kong Industries, on the grounds that Hong Kong needed a single organization fully representative of all its major industries and engineering services. However, membership in the Federation was designed to be discriminatory. Only those factories that normally employed over 100 full-time workers, or consumed 25,000 kwh of electricity per month, or possessed fixed assets of HK$200,000 in value were eligible to be members. Smaller firms could only join as associate members. As a result, a large number of Cantonese factories were excluded from the new organization. Even as late as in 1971, membership stood at only 636, a very small percentage of the total 17,123 manufacturing establishments at that time. In addition, leadership of the Federation remained firmly in the hands of British or westernized businessmen. Among the 19 members of its first General Committee, 6 were heads of British *hongs*: Douglas Clague, M.S. Cumming, D.I. Bosanquet, I.E. Johnson, W.C.G. Knowles, and G.M. Goldsack. The Chinese members included Shanghainese textile industrialists Lee Chen-che, Lee Mou, and Wong Toong-yuen. The chairman was a senior Executive Council

member, Chau Sik-nin, and the deputy chairman was Douglas Clague. The only representative of the Cantonese manufacturers was U Tat-chee, who was invited by the Federation to sit on its General Committee but never attended any meetings.

The formation of the Federation did pull together some of the biggest manufacturers in Hong Kong. With government licensing, the Federation was in a position to define 'the interests' of industry. This new actor could safely fit into the existing system of consultation and co-option. Thereafter state-sanctioned industrial interests began to take part in colonial politics. The first industrialist appointed to the Legislative Council (and later the Executive Council) was Tang Ping-yuan of South Sea Textiles. He was the granduncle of Henry Tang, the former Financial Secretary (2003–2007) and Chief Secretary (2007–2011) of the HKSAR and contender for the Chief Executive position in 2012. Tang Ping-yuan's son, Jack Tang, was the first Chinese to assume chairmanship of the Hong Kong General Chamber of Commerce. In this regard, one cannot help noticing the broad parallels between the genealogy of the Tang family and the genealogy of business and politics in post-war Hong Kong.

By creating an associational actor, the colonial state successfully reduced its burden of interest intermediation. Under the corporatist set-up, many sectoral conflicts were negotiated within the Federation before being voiced in public. The colonial authorities were left with the task of mediating disputes between the Hong Kong General Chamber of Commerce and the Federation of Hong Kong Industries. In the following three decades, these two peak associations were acknowledged as the legitimate representatives of commercial and industrial interests respectively. Business and politics during this period resembled a state corporatist model, characterized by the active role played by top-down state-sponsored peak associations in policymaking and consensus building. As Schmitter (1974) reminds us, such non-competitive, hierarchical, and limited-interest representation served to exclude unwanted social demands and helped the ruling elite to maintain effective social control.

State corporatism and colonial governmentality

The domination of state-sanctioned corporatist business interests in the economy and polity, and the selective privileges granted to capitalist supporters of the colonial regime, typified the coloniality of Hong Kong. Similar situations could be found in other colonies. What was exceptional was the way such domination was concealed, justified, and compensated in Hong Kong. It constituted an exemplary case of colonial governmentality, when political acquiescence was created through interwoven policies and discourses that were accepted, internalized, and eventually defended by both the privileged and the general populace.

How did the colonial administration tackle the contradictory tasks of protecting specific business interests, arbitrating conflicting sectoral interests, and restricting rent seeking to prevent widespread discontent? Elsewhere I have argued that this dilemma was delicately contained by a 'substantive consent' among the ruling elite (Ngo, 2000a). In contrast to a 'contingent consent' based on electoral or procedural arrangements (the policy outcome of which is unpredictable), this consent was 'substantive' because it relied on assured policy outcomes. This substantive consent involved the inseparable components of allowing strong business voices in politics and yet guarding against preferential treatment for selected businesses. In practice, in addition to sharing policymaking power in the Legislative and Executive Councils, business interests were guaranteed that their vital interest of profit-making would be protected and facilitated through a range of pro-business policy measures such as low profits tax, limited social welfare provisions, minimal labour protection, free trade, and free capital inflow and outflow. In return, business elites agreed to constrain their privileges by accepting a policy of non-intervention, especially when it

involved selective groups. The colonial government refrained from using public resources to assist or protect individual business sectors and enterprises. This strategy of non-selective intervention, together with the pro-business measures, was commonly labelled a policy of laissez-faire. From the 1960s to the eve of the handover, the colonial authorities adhered strictly to this principle with 'an almost religious fervour' (Harris, 1988: 159). With a few exceptions, demands for preferential allocation of resources to specific sectors or businesses, such as land grants, industrial finance, high-tech projects, and so on, were all rejected. Whenever conflicts arose, they were settled with reference to the principle of non-selective intervention.

The policy gained public acceptance because it restricted rent seeking by powerful businesses to a certain extent. Although monopolies abounded in many sectors, policy outcomes in general were acceptable to the less powerful and the wider population. It gave rise to a variegated type of 'collaborative advantage' when compared to the East Asian developmental states (Schneider and Maxfield, 1997). The latter is characterized by strong and interventionist states who are capable of steering investment decisions and disciplining business. In contrast, the pro-business colonial state in Hong Kong restrained business capture by refraining from intervening in market activities. Besides limiting rent seeking, the policy of laissez-faire also enjoyed public support because it captured the social sentiment at that specific historical juncture. Laissez-faire stood as an antithesis to the absence of free market, limited personal freedom, extensive state control, absence of mobility and personal opportunity, and economic backwardness of socialist China (Ngo, 2000b). In an opinion survey about laissez-faire, Lau and Kuan (1990: 779) concluded that it was the common desire of ordinary people in Hong Kong 'to be left alone, to have nothing to do with politics, and to work for themselves and their families. That is what laissez-faire offers.' Laissez-faire was also associated with free competition, and free competition was seen as enhancing social mobility and personal opportunity. This allowed the system to justify itself in terms of equality of opportunities rather than uniformity of outcomes. In this case, a congruence between prevailing social values and circumstances allowed certain meanings and ideas to be attached to the notion of laissez-faire. It is in this regard that a 19th-century theory of macroeconomic management was ingeniously appropriated to become the basis of a ruling strategy.

This governmentality gradually degenerated after the Sino–British negotiation and eventually ceased to work after the handover in 1997. What followed is controversial. So (2000) argues that the traditional ruling coalition between the colonial administration and British business was gradually replaced by an 'unholy alliance' between Beijing and Hong Kong big business during the transition. The new alliance shared a common interest in mainland investments as well as in maintaining Hong Kong's business dominance. The new alliance was forged by the old mechanism of political co-option, although the institutions used for the purpose were different. Starting in the 1980s, Chinese business elites were appointed to the Basic Law Drafting and Consultation Committees, various preparatory committees, Provisional Legislative Council, National People's Congress, Chinese People's Political Consultative Conference, and in various capacities such as Advisors of Hong Kong Affairs, and so on. In contrast, Fong (2013) highlights the failure of the HKSAR government to foster a new government-business alliance. He attributes the declining legitimacy and capacity of the HKSAR government to the erosion of the intermediary role of the business elites. This erosion, according to Fong, is attributable to a number of factors, including the limited connection of co-opted business elites with the emerging civil society, growing public suspicion of government-business collusion, and the declining appeal of 'economism' as Hong Kong's *raison d'être*.

While these diagnoses are insightful, we contend that the causes go deeper. In fact, the corporatist arrangement mentioned earlier began to erode in the 1980s because of geo-economic changes in Hong Kong and mainland China. Business participation in politics took different

forms: from associational actors to business as individual enterprises and oligarchic networks. Because of that, the intermediary role of business as associational actors diminished. Interest conflicts no longer manifested in terms of policy contentions between business sectors and subsectors. Instead, particularistic interests were often at stake. The basis of substantive consent therefore disappeared. The Basic Law failed to replace the system with a kind of 'contingent consent', since Beijing did not allow the outcome of electoral competitions to be truly contingent upon voters' choices. Put differently, in the wake of the demise of state corporatism and substantive consent, new technologies of power have not emerged to replace the old form of colonial governmentality.

As a result, although many of the institutional arrangements appeared to enjoy a high degree of continuity after 1997, the system as a whole worked differently because the actors changed in nature. Such changes have been shaped by broader historical developments and contextual backdrops, witnessed in several parallel geo-economic transformations over the last four decades. These included economic restructuring in Hong Kong, market reform in China, the handover of Hong Kong, and the failure of the democratization project. These geo-economic transformations have now become common wisdom. What has hitherto skipped our analytical attention is their implications on the development pattern of business, and hence business in politics. A genealogical study will allow us to focus on this missing link.

Economic restructuring and business conglomeration

The two decades between 1978 and 1997 were a crucial episode in business and politics in Hong Kong. Several intertwined developments marked the episode as a turning point in history, besides the well-addressed fact of the transfer of sovereignty. These developments included deindustrialization, the retreat of British business, the conglomeration of local businesses, the emergence of hybrid business, the restructuring of political institutions, and the redefinition of the political. Together they created an impasse that undermined effective governance in post-1997 politics.

To begin with, China's embracing of the Open Door Policy and the subsequent market reform in 1978 had unmistakable impacts on the economy and the development of business in Hong Kong. The story is well known: beginning in the early 1980s, Hong Kong industries relocated their production on a large scale to the Pearl River Delta region, taking advantage of cheaper land and labour costs. Many kept their Hong Kong offices simply to take care of design, marketing, accounting, and other financial and legal services. This resulted in rapid deindustrialization in Hong Kong and triggered a process of economic restructuring. The manufacturing sector was rapidly taken over by the service sector, including banking, real estate, tourism, and logistics. Employment in manufacturing fell from 40 per cent to 10 per cent during this period, while service sector employment rose from 50 per cent to 80 per cent. By the end of 2015, manufacturing accounted for less than 3 per cent of the workforce.

The rapid economic restructuring had major implications for business. From the outset, deindustrialization sped up the diversification of business. As Hong Kong shifted from a manufacturing enclave to become a financial and service centre, local businesses, especially the large companies, ventured into different sectors. Many started their cross-sector expansion in the 1970s, but the onset of deindustrialization added further impetus. This was particularly noticeable among the textile spinners and other manufacturers who once owned large factory premises. When production was relocated to mainland China, the factory premises were vacated for property development.

More importantly, the expansion of cross-sector business resulted in the conglomeration of giant businesses. On the eve of the handover, the largest Hong Kong business groups already

exhibited very diversified and extended business investments. Compared to giant businesses in the West, such as Microsoft, Phillips, Volkswagen, and so on, few Hong Kong business groups have remained focused on a single industrial sector. They increasingly resembled Japanese *keiretsu* and Korean *chaebol* such as Mitsubishi and Samsung, which formed conglomerates of multiple autonomous companies across numerous sectors. Existing studies have underlined three structural characteristics shared by *chaebols* (Lim, 2003: 36–37). First, they exhibit a corporate governance structure that is either controlled or dominated by the founding family. Second, they rely on a holding company that controls a wide array of formally independent firms. Third, their business covers many different sectors, with extensive diversification of investments. In most *chaebols*, the founding family retains only a small share of ownership in the group. Control is achieved by setting up extremely complicated inter-subsidiary shareholdings. In addition, members of the founding family usually hold top managerial positions similar to professional managers.

Such *chaebol*-like conglomeration can be found in the prominent familial groups in Hong Kong. The exemplary case is Cheung Kong Holdings of the Li Ka-shing family, which owns a diverse array of companies and holding companies that operate in over 50 countries. Li began as a plastics manufacturer in the 1950s. He ventured into property development in the early 1970s, but the actual conglomeration of his business started in 1979 when he took over Hutchison Whampoa from the British *hongs*. Since then a huge empire has been built. In Hong Kong alone, the group's activities span property development, hotels, supermarkets, drug stores, telecommunications, container terminals, electric power, media, and biotechnology, to name a few. It is not an exaggeration to say that the group covers almost everything from cradle to grave. The Cheung Kong group is not an exception; similar giant conglomerates abound. For instance, New World Development and Chow Tai Fook Holdings, both founded by Cheng Yu-tung, cover businesses in jewellery, property development, infrastructure, energy, transportation, retail, telecommunication, mining, hotels, and media broadcast.

Conglomeration has major implications for government-business relations. First, conglomeration means that business elites no longer base their interests on a single sector. Compared with the pre- and post-war years, when manufacturers came together to form sectoral coalitions, business conglomerates during the pre- and post-handover years did not join together on a sectoral basis. Inter-sectoral conflicts – which were once profound during the colonial period – are no longer the major source of policy contention. Under the new circumstances, the corporatist arrangement that offered official recognition to the Hong Kong General Chamber of Commerce and the Federation of Hong Kong Industries as the exclusive representatives of commercial and industrial interests, respectively, has diminished in importance. Heads of business conglomerates are now presiding on multiple associations, including the Chamber and the Federation. The policy concerns of these organizations have become completely blurred.

Second, conglomeration paradoxically increased the scale and capital concentration of big businesses, but at the same time also contributed to the fragmentation of the business community as a whole. In their study of interlocking directorates among 250 listed public companies, Lui and Chiu (2007) find that there was a drop in the density of inter-business networks between the 1980s and the 2000s. This is because the Chinese business groups have branched out into different sectors and diversified their investments to create their own business kingdoms without fostering inter-familial alliances. Lui and Chiu conclude that the cohesion of the business elites, which was once maintained under the leadership of the British *hongs* and by the corporatist arrangement, has declined. In their words, the structure of the business sector under conglomeration has become increasingly 'nucleated and cellular' (Lui and Chiu, 2007: 8).

Third, in tandem with the declining relevance of sectoral divisions, the diminishing role of corporatist intermediation, and the drop in elite cohesion, interest conflicts have become

particularistic. Put differently, rent seeking has gradually replaced the substantive consent mentioned earlier. From time to time this has created intensive rivalry between business groups. Because of this, controversial projects abounded, most of which have been created by unfair treatment or favouritism by the HKSAR government toward selected business groups. The Cyberport project, for example, provoked massive outcry from many property developers, when the government entrusted the multibillion dollar project, in lieu of public auction, to the Pacific Century Group that was owned by Richard Li, the son of Li Ka-shing. Other examples include the North Point project, the West Kowloon Cultural District project, and the Wang Chau development project; all involved either attempts by rival business groups to capture the economic rent created by government licensing, or suspicions of government-business collusion. Wong (2015) observes that the Chief Executive election in 2012 heightened such intra-elite rivalry. During the campaign, Henry Tang was supported by big property developers including Li Ka-shing, the Kwok brothers, Lee Shau-kee, Robert Ng, and Gordon Wu. He was subsequently defeated by Leung Chun-ying, who had the backing of second-tier land developers such as Ronnie Chan of Hang Lung Group and Vincent Lo of Shui On Group.

As rent-seeking politics prevails, business elites have a strong incentive to get directly involved in post-handover politics. Such involvement is made possible by the institutional set-up of the HKSAR. Under the Basic Law, elections of the legislature and the Chief Executive are designed to give business a strong voice in the system. This has been well analyzed in several studies so we will not repeat the argument (see, for example, Ma, 2007). Suffice to say that the disproportional influence of business received an extra boost under business conglomeration. This is most noticeable in the Election Committee for the Chief Executive, where a handful of business conglomerates control a substantial number of votes through their candidates from multiple sectors. In the 2017 election, one-quarter of the 1,200 seats in the Election Committee election were returned uncontested. A substantial proportion of those candidates were nominated by business conglomerates. The ostensible goal of the Election Committee is to ensure the balanced representation of different social and economic interests. In practice, such balance is tilted in favour of big businesses. However, it is too early to conclude that such imbalance will automatically translate business power to political power. Such a conclusion would ignore the political influence of Beijing on HKSAR politics, either directly or through its control of hybrid businesses in Hong Kong.

Geo-economic integration and the emergence of hybrid business

Conglomeration constituted only one of the major changes in the nature of business in post-handover Hong Kong. Another development was the rise of hybrid business. The last two decades before the handover witnessed not only rapid economic restructuring in Hong Kong, but also increasing geo-economic integration between Hong Kong and mainland China. Such geo-economic integration included the relocation of Hong Kong investments to the mainland, the large influx of mainland investments into Hong Kong, and the emergence of integrated business operations across the border. Because of this, we find not only the declining relevance of sectoral divisions within business, but also an increasing ambiguity in the 'identity' of business.

This ambiguity is interconnected in two ways. First, the origins of business. It becomes more difficult to distinguish local market players from foreign investors, due to the expansion of capital investments across regions and borders as well as increasing cross shareholding among Sino-Hong Kong business groups. In essence, local capital and mainland capital have increasingly merged to form symbiotic relationships, and have developed extensive business projects or networks all over mainland China and Hong Kong. This integration of business operations has important implications for business in politics, since the players are no longer confined by the boundary of the

HKSAR. Second, the nature of ownership. The majority of firms which operated in Hong Kong before 1997 were private enterprises. This began to change after 1997, when cross shareholding became more and more common in Sino-Hong Kong businesses. As a result, the boundary between private enterprises and state-owned enterprises became blurred, giving rise to a new form of hybrid business. Such hybrid businesses act according to a different economic rationality than simply the pursuit of profit maximization.

The process began with the retreat of the *hongs* and the increasing dominance of local Chinese capital. This was signified by the takeover of Hutchison Whampoa by Li Ka-shing in 1979. Shortly after, Pao Yue-kong took over the Wharf and Wheelock. The takeover of British enterprises substantially widened the scope of the business operations of these pioneering capitalists and set the path towards business conglomeration. The loss of the Wharf caused Jardines to engage in defensive restructuring. Compounded by uncertainties related to the future of Hong Kong, Jardines and Swire moved their registered offices to Bermuda in the 1980s. During the crucial period between 1978 to 1997, local Chinese business effectively undermined the century-old domination of British *hongs* and, in the subsequent years, successfully institutionalized themselves as a dominant interest. By 1997, the top ten local Chinese business families (including the families of Li Ka-shing, Lee Shau-kee, Kwok Tak-seng, Woo Kwong-ching, and Cheng Yu-tung) already controlled 45 per cent of the total value of stock market capitalization in Hong Kong.

In the next 20 years, however, the prominent position of local Chinese capital was gradually overshadowed by the rise of mainland capital, especially those connected to state-owned enterprises. It should be noted that some state-owned enterprises had been in operation since the early colonial period. One of the earliest was China Resources. It first registered under the name of Liow & Co. in 1938 and was renamed China Resources in 1948. During the civil war, the company was entrusted with the mission of raising funds and securing necessary supplies and equipment for the communist revolution. After the establishment of the People's Republic of China, China Resources underwent several rounds of reorganization. Eventually the company was put under the direct supervision of the Ministry of Trade and became the sole import and export agent of China. Over the next 30 years, the company virtually monopolized trade between China and the outside world. During the post-war colonial era, other Chinese state-owned enterprises operated in Hong Kong included the China Merchants Steam Navigation, China Travel Service, Bank of China and its related banks, and so on. These enterprises maintained a very low profile during the colonial period, until China Everbright and CITIC spearheaded eye-catching transactions and high-profile operations before the handover. As with local business, mainland capital also underwent extensive conglomeration during the countdown to 1997.

As China's economy took off in the 2000s, a large influx of mainland investments began to take root in Hong Kong. Similar to the influx of refugee capital in 1949, the arrival of mainland capital in the new millennium also brought major changes to business and politics in Hong Kong. However, unlike the earlier refugee capital, this new capital did not flee China. Instead, it has huge business establishments and operations all over China. Mainland capital set a foothold in Hong Kong to take advantage of the investment opportunities under the 'One Country, Two Systems' arrangement. By the end of 2016, half of the 20 largest publicly listed corporations measured by market capitalization were mainland Chinese capital, including Tencent, China Mobile, China Construction Bank, CNOOC, ICBC Bank, CITIC, BOC Hong Kong, Bank of China, Ping An Insurance, and China Overseas Land & Investment. Only four companies – including CK Hutchison Holdings (Li Ka-shing family), Sun Hung Kai Properties (Kwok Ping-luen family), Hang Seng Bank, and Hong Kong Exchanges and Clearing – could be considered local Hong Kong business. Compared to the figure in 1997, when 45 per cent of the stock market capitalization was held by ten local businesses, the change is dramatic.

The implications of such drastic change go beyond sheer numbers. This is because of the peculiar incentive system governing mainland capital. In a conventional capitalist market economy, there is a clear distinction between the public and private sectors, where the latter is composed of private firms with well-defined ownership structures engaging in mutual exchanges for the sake of profit maximization. In China, however, the situation is more complicated because property rights are highly diffused, with overlapping public and private ownership. There exist a vast number of companies in China that cannot be clearly categorized as either public or private. They include collective enterprises, shareholding enterprises with a mixture of public and private shareholders, public-private joint ventures, and private companies disguised as state-owned or collective enterprises, in addition to the genuinely state-owned and privately owned enterprises. There are also crony enterprises, which are politically connected to influential office bearers, and relational enterprises, which are linked to national or local monopolies and oligopolies, and so on.

Stark (1996: 1016) calls this recombinant property, in which new forms of ownership emerge when the attributes of private and public are dissolved, interwoven, and recombined. It is a strategy of organizational hedging with which market players in post-socialist economies spread risks in an uncertain environment by diversifying assets and recombining resources. Under the structure of recombinant property, many hybrid businesses are expected or obliged to undertake non-commercial functions, such as fulfilling political missions specified by the central state. Put differently, hybrid businesses, especially those with a substantial share of state ownership, respond simultaneously to market signals and political incentives because they are run by political managers. This is a group of technocratic cadres who manage state-owned enterprises and state-controlled hybrid enterprises. Almost without exception, they come from the Chinese Communist Party *nomenklatura*, but claim their achievements through the performance of the enterprises they run. The party retains controlling power over the appointment, rotation, and transfer of the board chairmen and CEOs of these enterprises. These cadres-cum-managers strive to use their corporate performance as springboards to higher political career positions by growing their companies in ways that advance the interests of the party and the state (Ngo, 2018).

In this regard, the growing prominence of hybrid business in Hong Kong has considerable implications for business and politics. In particular, it is now widely known that profit-making is not the sole concern of hybrid enterprises in Hong Kong. Upholding the policy priorities of Beijing is also high in the company agenda. For instance, China-related enterprises have refrained from putting advertisements in newspapers that are critical of Beijing's policies. Employees of hybrid enterprises have also received instructions from the management to vote for specific candidates during elections or even to join their election campaigns.

One should note that the growth of hybrid business runs both ways. Hong Kong is not merely a passive recipient of investments from mainland capital. The majority of business conglomerates in Hong Kong have established joint ventures with various levels of government, party, or even military authorities and enterprises in China. Many mainland enterprises, including subsidiary companies of central and provincial governments, are also operating in Hong Kong and/or co-operating with local businesses. These hybrid conglomerates have manifested multiple concerns other than mere profit-making. For instance, it is reported that many of the projects and joint ventures which the Cheng Yu-tung family invested in mainland China did not make much profit. Some are welfare or philanthropy oriented. But they have earned applause from Beijing and established valuable connections at various levels of government. The Harvard training programme for China's high-level officials sponsored by New World Development is a good case in point. No wonder observers have found that firms owned by prestigious families have been more likely to build political connections with Beijing (Wong, 2012).

In retrospect, as Hong Kong increasingly integrated into the Chinese economy, business operations also became more and more 'sinicized'. The economy in Hong Kong is no longer an arena confined to local players. At the same time, business elites from Hong Kong and in Hong Kong are no longer merely playing the Hong Kong game. The mixing of capital, the blurring of economic boundaries, and the fluidity and mobility of capital across the borders mean that businesses face multiple sets of politics; business participation in politics does not only reflect the economic interests of capitalists in Hong Kong. It also concerns their economic and political interests in China. For this reason, many are ready to serve as political compradors of the new sovereign by closely following the policies of Beijing. This is similar to the role that native businessmen assumed during the early colonial period (Carroll, 1999).

Because of this, the old formula of government-business alliance that formed the basis of colonial governmentality has lost its relevance. New technologies of power have to be invented to accommodate new players and new games. Even the boundaries of the political have changed. To borrow Schmitt's (2007) words, ostensibly non-political categories have become political in contemporary Hong Kong. Business and politics in the HKSAR have therefore to be understood afresh.

Redefining the political

As business interests look beyond mere profit-making, and when business elites begin to wear multiple hats, their political reach also extends further and wider. Conventional political institutions such as the Legislative and Executive Councils are too limiting for them. Many have ventured into new playing fields by converting economic power into political leverage. In this regard, existing scholarship has lagged behind actual developments by continuing to focus on business control of conventional political institutions.

During the colonial era, the major political institutions included the Legislative Council, the Executive Council, and an elaborate system of advisory bodies set up by the colonial administration under the slogan of government by consultation. Analyses of business influence during the colonial period mainly focused on the membership of these institutions. Hence Rear (1971: 73) describes members of the Legislative Council and Executive Council as forming a 'fairly tight-knit group' directly representing the interests of big business and banking, industrialists and employers. Davies (1977: 65) traces overlaps in membership and finds that the advisory bodies were controlled by a relatively small number of business elites who were 'the richest, the oldest, and the most all-embracing, and they own[ed] more property in Hong Kong than any other equivalent group'. In his well-known formulation, King (1981) calls this 'administrative absorption of politics', a process in which existing or emerging elites were co-opted to create a consensual community that helped legitimize policy decisions.

Recent studies have continued this strand of analysis by mapping out business membership in various government committees and statutory bodies (Ho et al., 2010; Fong, 2013). However, business involvement in official bodies of the HKSAR constitutes only a small part of the political activities of business elites nowadays. Since the countdown to 1997, the range of political institutions has greatly expanded. Competing with the colonial administration for elite allegiance, Beijing co-opted many business and community elites onto its Basic Law Consultation Committee, Preliminary Working Committee, Preparatory Committee, and as Hong Kong Affairs Advisers, District Affairs Advisers, and so on. After the handover, new political offices – outside the HKSAR – were created or made available to business elites and supporters of Beijing, including the National People's Congress, the Chinese People's Political Consultative Conference, their respective local congresses, and so on (Cheung and Wong, 2004).

Furthermore, business elites have also been active in setting up new civic associations, as well as political parties such as the Liberal Party, the Business and Professionals Alliance for Hong Kong, and the New People's Party. Unlike conventional trade associations, which have existed for a long time in every sector, many of the civic associations are not business-oriented, nor do they share sectoral interests. Instead, they are social, clanship, friendship, or philanthropic associations. A good example is the Hong Kong Federation of Dongguan Associations, founded by Chan Wing-kee in 2014. Chan is the managing director of Yangtzekiang Garment, a permanent honorary president of the Chinese Manufacturers' Association of Hong Kong, the former CEO of ATV, and a standing committee member of the Chinese People's Political Consultative Conference. Chan also heads the Federation of Hong Kong Guangdong Community Organizations. Similar organizations, such as the Federation of Qing Yuan Associations (Hong Kong) and the Hong Kong Federation of Foshan Associations, followed suit. They maintain a close relationship with the Liaison Office of the Central People's Government in HKSAR and the United Front Work Department of the Chinese Communist Party; help propagate state policies; cultivate social support; and serve as political brokers during campaigns, elections, and mass mobilizations.

Another new playing field captured by business is think tanks. Among the newly established think tanks, the most eye-catching organization is Our Hong Kong Foundation, headed by former Chief Executive Tung Chee-Hwa. Tung's biography neatly reflects the genealogy of business in Hong Kong politics. He came from a rich business family with close connections to the Chinese government. He inherited the shipping empire OOCL and became a member of the Executive Council under the last British Governor, Chris Patten. Despite his limited political experience and public service record, Tung won a landslide victory when running for the Chief Executive office, thanks to the support of the Chinese government and the pro-Beijing business tycoons on the Election Committee. He resigned in 2005 and became a vice-chairman of the Chinese People's Political Consultative Conference. He founded the Our Hong Kong Foundation in 2014 by bringing together the major business tycoons of Hong Kong such as Victor Fung (Fung Group), Henry Cheng (New World Development), Ronnie Chan (Hang Lung), Pansy Ho (Sun Tak Holdings), Peter Lee (Henderson Land), Raymond Kwok (Sun Hung Kai Properties), Vincent Lo (Shui On), Francis Lui (Galaxy Entertainment), Peter Wong (HSBC), Peter Lam (Lai Sun), Richard Li (Pacific Century), Y.K. Pang (Jardine Matheson), Kenneth Fok (Fok Ying Tung Group), and Robert Ng (Sino Group). Interestingly, the line-up also includes the heads of mainland-originating conglomerates or hybrid enterprises, including John Zhao (Lenovo Group), Yan Cheung (Nine Dragons Paper Group), Lei Zhang (Hillhouse Capital Management Group), Chan King Wai (King Wai Group), and Hui Wing Mau (Shimao Group). The Foundation maintains a close relationship with the Chinese Liaison Office in executing multiple tasks: as a policy think tank, funding source, networking platform, channel of communication to Beijing, and electioneering machine.

By far the most controversial political activity of business conglomerates is their control over the mass media. With the exception of digital media, almost every conventional medium in contemporary Hong Kong – including TV, radio, newspaper, and magazines – has been taken over by business conglomerates. They can silence unfriendly reports simply by buying them out. Ironically, the only exceptions are the two veteran pro-Beijing newspapers, *Ta Kung Pao* and *Wen Wei Po*, which are state-owned and directly supervised by the Liaison Office of the central government. By controlling the mass media, these business conglomerates seek to shape public opinion and frame public discourses. In doing so, they have found a new way of participating in politics, by converting economic power into discursive leverage.

All in all, these new areas of business domination reflect the changing boundaries of the political. Unlike the colonial era, post-1997 politics is not just about policy contention.

Business in politics is not confined to only rent seeking and profit maximization. The goals, the actors, the playing field, and the rules of the game have radically altered. Paradoxically, political assertiveness is a double-edged sword for business elites. Business capture of local politics, as Wong (2012) rightly observes, may serve Beijing's political interests rather than the local elite's immediate economic interests. Business elites are facing increasingly delicate situations as they navigate their political loyalty, public influence, and economic interests. Like it or not, they are supposed to show their political 'obligation' by virtue of their market power and state recognition. Unlike the colonial era, withdrawal from political life is not without economic consequences for their business.

Conclusion

Tracing the genealogy of business and politics allows us to see the changing phases of business domination in Hong Kong. While it is evident that business has always enjoyed unparalleled political influence in the territory, the manifestation of such dominance is anything but unidimensional and static. The multiple identities of business as capital, sectoral interests, individual enterprises, associational actors, and networks exhibit varying economic and political rationalities in relation to different historical episodes. As such, the interests of business cannot be taken for granted as a given. Counting the number of seats controlled by the business community in governmental bodies or mapping the interlocking networks between enterprises and government is at best a partial indication of business influence.

Once we recognize the fluidity of business as an actor over time, it becomes apparent why the old government-business alliance of the colonial era ceased to work and why a new alliance is hard to forge in post-1997 Hong Kong. While the colonial administration succeeded in fostering competing business interests into a corporatist order through a pact of alliance, the dynamic transformation of business since the opening of China rendered this technology of power obsolete. The conglomeration and fragmentation of big business groups, as well as the emergence of hybrid businesses, have altered the agency of business as an actor, and hence given rise to new logics of rationality. This new era of uncertainty is compounded by the crisscrossing boundaries between mainland politics and local Hong Kong politics and a radical redefinition of the political as well as the realm of public contention.

Unlike the colonial era, business elites are now facing multiple political games. In contrast to the past when the goals were rather straightforward in terms of maximizing profit and market share, business elites are treading a fine line when making investment decisions as well as taking political stances. They are groping hard to find ways of accommodating political calculations into their business decisions (and vice versa) in as much the same way as Beijing and the HKSAR authorities are searching hard for new technologies of power to arbitrage social conflicts and meet competing demands. In both cases, a new form of govenmentality has yet to be found.

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The real estate elite and real estate hegemony

Stan Hok-Wui Wong

Introduction

All governments, democratic or autocratic, require a coalition of support in order to survive politically. The size and the constituents of the coalition of support vary from state to state. In Hong Kong, there is a popular belief that the government after 1997 is supported by a coterie of local business magnates specializing in land development. This observation has a grain of truth. Since the retrocession, many members of the real estate elite have sat on the Election Committee, the constitutional body responsible for the selection of the Chief Executive (Fong, 2014; Wong, 2010). Some of them, Li Ka-shing included, had even occupied important political positions such as the Preparatory Committee for the Hong Kong Special Administrative Region and the Hong Kong Basic Law Drafting Committee[1] long before the establishment of the Hong Kong Special Administrative Region.

Their visible presence in these formal political institutions caused concern, as some believed that they have misused their political clout to exert undue influences on the government to enrich themselves at the expense of public interests. Such worries gradually culminated into a massive backlash against the real estate elite circa the end of the Donald Tsang administration. The term "real estate hegemony" (地產霸權 *dichan baquan*) was coined to lambast the vested interests they represent.

With the benefit of hindsight, one may now find the so-called "hegemony" not as formidable as once thought. For one thing, they have become an easy target of political attack not only from the opposition camp, but also from within the establishment. In his bid for the Chief Executive office, Leung Chun-ying did capitalize on, quite successfully, the widespread resentment against the real estate elite to shore up his popularity (*Apple Daily*, 2012; *Hong Kong Daily News*, 2012; *Hong Kong Economic Times*, 2012). He eventually defeated Henry Tang, who was deemed to be the proxy for the powerful landed elite. That was only the beginning. Under the Leung administration, Thomas Kwok Ping-kwong, one of the largest property developers in Hong Kong, was sent to jail after a corruption trial. Equally colorful is that Li Ka-shing announced in 2015 the change of location of his business empire from Hong Kong to Cayman Islands.

While it now seems simplistic to say that Hong Kong is ruled by the "hegemony of the real estate elite," it is no less problematic to claim that the "hegemony" has crumbled because of these

recent episodes. This chapter is intended to critically examine the "hegemony" thesis. My central argument is threefold:

(1) Internal competition often prevents the members of the real estate elite from making a concerted effort to advance their collective special interests.
(2) The coalition of support for the HKSAR government consists of not only the real estate elite, but also a large segment of low-income citizens.
(3) Low-income citizen political support has, paradoxically, stemmed from economic policies that favor the vested interests of the real estate elite.

The rest of this chapter will be divided into three sections. In the following section, I provide a brief overview of extant literature on Hong Kong's political economy. Then, I shall present my argument. In the last section, I discuss the political implications of my analysis.

Related studies

For many years, Hong Kong has been touted as an epitome of free market capitalism. To people such as Milton Friedman, Hong Kong an ideal place for doing business due to its low tax rates, efficient bureaucracy, property rights backed by the rule of law, state intervention in the economy kept at minimal levels, and a vibrant capital market. The Hong Kong government – at least until the Leung administration – has taken pride in its faithful adherence to laissez-faire or "positive non-interventionism" (Haddon-Cave, 1980).[2]

This free-market image is further reinforced by early socio-political studies. Lau (1984) argues that Hong Kong people are inherently politically apathetic due to their refugee mentality and a utilitarian Confucian culture. Occasionally some may voice out their political demands, but they can be absorbed administratively (King, 1975) by incorporating elites and interest groups alike into the establishment (Scott, 1989). In short, Hong Kong in the 1980s or before was often portrayed as a paradise of capitalism, where the government served as an impartial arbiter in the market, while the people were economic animals mostly interested in making money, rather than making their voices heard.

These long-standing views of Hong Kong have been increasingly challenged. Ngo (2000) argues that the colonial administration kept its intervention at a low level in order to remain neutral amidst competing social demands, which was one way to acquire political legitimacy. Goodstadt (2009) observes that laissez-faire is only a pretext for the colonial government's lack of commitment to long-term social development. Youngson (1982) argues that the Hong Kong government actually has substantial intervention in factor markets, such as the housing sector. In fact, as of 2014, public permanent housing is housing 45.7 percent of the city's population (Hong Kong Housing Authority, 2015). Despite its provision of cheap housing for low-income citizens, the government also reaped tremendous benefits from the development of properties. For example, in recent years, nearly 20 percent of Hong Kong's total government revenue has come from land sales.[3] The enormous land sales income is made possible because of the existence of a highly lucrative property market, which is itself the result of the government's "high premiums, low rents" policy.[4] This policy allows the Hong Kong government to continue to finance many one-off capital projects by tapping into the Capital Works Reserve Fund, which essentially comes from the land sales income.[5] In this regard, the land sales income helps alleviate the pressure of raising tax rates.

Nor did Hong Kong people seem politically indifferent. Based on her study of Hong Kong's political development between 1949 and 1979, Lam (2004) argues that people in Hong Kong

actually have a rich history of political participation in the form of civic activism. The political development after 1997 makes the political–apathy thesis looks even more anachronistic. Political activism such as the July 1 Protest in 2003, the Anti–High-Speed Rail Protest in 2009 and 2010, not to mention the Occupy Movement in 2014, is indicative of Hong Kong citizens' political consciousness and readiness to participate in social mobilization.

The image of a benevolent and impartial government has also become increasingly problematic after 1997. Business interests have been overrepresented in the formal political institutions of the HKSAR government, including the functional constituencies of the Legislative Council (Scott, 2007; Cheng, 2005); the Election Committee of the Chief Executive (Ma, 2012); and numerous advisory committees (Cheung and Wong, 2004). It is difficult to convince ordinary Hong Kong people that the economic elite would refrain from utilizing the acquired political power to reinforce their economic interests. In fact, Wong (2010) provides empirical evidence to show that firms with directors or major stakeholders sitting on the Election Committee achieved better economic performance than those without. A number of controversial government contracts and high-profile corruption cases that involve members of the real estate elite have given rise to a popular impression that business interests, spearheaded by the real estate elite, have cast undue influence on the government.

The long shadow of the real estate elite in politics has stimulated a new generation of research on Hong Kong's state-business relations. Fong (2013) observes that the coalition of support of the HKSAR government is based narrowly in the business sector, which hampers the government's ability to respond to rising social demands. Worse still, as Fong (2014) argues, the business sector is able to bring the government to heel by appealing directly to higher authorities in Beijing.

In addition to academic interests, the political rise of the real estate elite also provokes deep public resentment. A popular volume entitled *Land and the Ruling Class in Hong Kong*, the Chinese translation of which is "real estate hegemony," became a local publishing sensation circa 2010. The real estate elite in the book is portrayed as the source of all economic ills in Hong Kong, ranging from business monopolies, lack of consumers' choices to poverty. So popular was the book that the term "real estate hegemony" became a buzzword in public discourse. In one public opinion survey conducted by the Chinese University of Hong Kong, 85 percent of respondents had heard of the "real estate hegemony" thesis, and 66 percent believed the "hegemony" existed in Hong Kong (Chinese University of Hong Kong, 2011).

Plausible as it is, the "hegemony" thesis soon runs into a predicament. It fails to explain why Henry Tang, the former Chief Secretary who received blessings from all major members of the real estate elite, was unable to capture the Chief Executive office in 2012. Nor could it predict the dramatic events that followed: the imprisonment of Thomas Kwok and the relocation of Li Ka-shing's business empire. Perhaps these events are insufficient to falsify the existence of the "real estate hegemony." Yet, if the "hegemony" really rules Hong Kong, one would not expect these dramatic events to happen in such a short duration so soon. A more critical examination of the nature and influences of the real estate elite is necessary.

Political rise of the real estate elite

In this chapter, I define the real estate elite as a coterie of ethnic-Chinese businesspeople who are substantial stakeholders of at least one listed property development firm in Hong Kong. The definition includes neither birthplace nor nationality because the population of Hong Kong has been in a constant state of flux. On the one hand, historically, Hong Kong has been a "refugee society" (Miners, 1995; Hughes, 1968) such that immigrants account for a sizable portion of the population.[6] On the other hand, a series of migration waves broke out in the 1980s and the early

1990s. Many Hong Kong citizens and their children returned to Hong Kong after acquiring citizenship in a foreign country. It is therefore inappropriate to classify the real estate elite based on nationality or birthplace.

It is worth noting that many members of the real estate elite earned their initial wealth in sectors other than property development. For instance, Hysan Lee, founder of the Hysan Development Company, made his fortune in the opium trade back in the early twentieth century. Chen Din Hwa of the Nan Fung Group was a leading textile manufacturer in the 1950s. Lai Sun Group, established by Lim Por-yen, was a giant in the garment industry. Despite their diverse backgrounds, they all expanded their business to the property market.[7] Their expansion coincided with two waves of disinvestment of British capital during the Cultural Revolution and the Sino-British negotiation over Hong Kong's transition, which allowed these local business elite to acquire assets at fire sale prices.

Many members of the real estate elite made their first foray into politics in the 1980s. That was the time when political uncertainties loomed over the city. In 1984, Beijing and London signed the Sino-British Joint Declaration, which set the date of transferring Hong Kong's sovereignty to the year of 1997. Many in Hong Kong worried about the impending Communist rule. Those with financial resources voted with their feet through migration. Others who stayed voiced out their demands for democratization, in hopes of building democratic institutions sufficiently strong to withstand the authoritarian rule of the People's Republic of China.

The confidence crisis in Hong Kong brought Beijing and the real estate elite together. From Beijing's point of view, it needed to restore Hong Kong people's confidence in order to contain the runaway capital and brain drain. For this reason, Beijing pledged to tie its own hands by agreeing to let Hong Kong people rule Hong Kong under the principle of "One Country, Two Systems." Of course, only those Hong Kong people whom Beijing could trust were eligible to rule Hong Kong. Yet, the traditional pro-Beijing elite in Hong Kong, commonly known as the leftists, whom Beijing could trust were unable to win Hong Kong people's trust. Beijing urgently needed to find an ally in Hong Kong.[8] Under such circumstances, Beijing reached out to the real estate elite.

There were several reasons that made the real estate elite a suitable co-optation target. First, they were successful business owners. Their political support for Beijing yielded the best "demonstration effect" for other runaway capitalists (Wong, 2012). Second, compared with the traditional leftists, they were more likely to be accepted by Hong Kong people who were hostile to the Communist rule.[9] Third, these business tycoons had extensive economic interests in mainland China, which made them easy for Beijing to control. Finally, co-opting them was also consistent with the national development interest, because the PRC at that time urgently needed both capital and technology to modernize its economy.

From the real estate elite's point of view, it was in its interest to form an "unholy alliance" with Beijing, because they shared a common enemy: the pro-democracy force (So, 2000). Successful democratization was likely to cause higher taxation and stronger labor unions, which ran counter to the interest of these capitalists.

Numerous members of the real estate elite were invited to sit on a variety of political committees in preparation for Hong Kong's eventual transition, including the Selection Committee that elected the first Chief Executive of the HKSAR. The moneymakers now became the kingmakers.

The claim that the real estate elite is the "ruling class" of Hong Kong cannot be directly tested. There is no formal document demarcating the power relationship between the HKSAR government and the real estate elite as a group, except the fact that some members of the real estate elite have sat on numerous formal institutions as discussed above. It is, however, still possible to derive indirect, testable hypotheses in order to evaluate the veracity of the claim. Here I discuss two.

Internal conflicts among the real estate elite

If members of the real estate elite constitute the "ruling class," we would then expect to see them make use of government policies to promote their group interest. Indeed, after 1997, there were a number of controversial development projects (e.g. the Cyberport Project, the West Kowloon Cultural Development Project, the Hong Kong–Zhuhai–Macau Bridge Project, etc.) that have been characterized as the government's attempt to cater to the special interest of the real estate elite. Casual observers may cite these examples as evidence that the government is promoting their group interest.

Yet, a closer examination of these cases would show that these mega projects actually invoked fierce internal strife among members of the real estate elite.

The Cyberport Project

At the height of the dot-com bubble, the former Chief Executive Tung Chee-hwa took the idea from Richard Li, son of Li Ka-shing, to develop a Hong Kong version of Silicon Valley known as the Cyberport. Without going through competitive tendering, Richard Li's company was chosen as the developer of this important project. The media later discovered that Richard Li could pocket up to a $35 billion profit from building residential properties in Cyberport, which left the public with the impression that the deal showed the government's favoritism toward Li Ka-shing. Interestingly, the controversy provoked not only public outcries, but also fury among members of the real estate elite. In an unprecedented move, nine major real estate developers issued a joint letter to the government, lambasting the government for violating procedural regularity. The government placated them with promises to invite them to participate in future residential development projects. This act reinforced the impression that there was a "secret deal" between the government and the real estate elite.

The West Kowloon Cultural Development Project

In addition to his ambition in IT, Tung also wanted to transform Hong Kong into "the Asian center of arts and culture, and of entertaining and sporting events," which was the blueprint for the West Kowloon Cultural Development Project. The government again invited big developers to finance the construction and operation of the cultural district. In return, the developers were allowed to profit from building residential and commercial properties on the site. This mega project was no less controversial than the Cyberport Project, because it turned out that only 30 percent of the floor space was reserved for cultural content, whereas the rest was intended for property development.

As with the Cyberport Project, the public outcry accompanied criticisms from members of the real estate elite. This is because the government opted for a single-consortium design such that only one developer could benefit from this mega project. Stanley Ho, a business magnate who chaired the Real Estate Developers Association of Hong Kong, openly urged the government to change the West Kowloon Cultural Development Project plan, so that more developers could benefit.

The government later announced a change of the development mode of the cultural district by splitting the project development among several developers through competitive tendering. This dramatic change was considered as a way to ward off accusations of "collusion between government and business." However, the new requirement greatly decreased the profits of successful bidders. As the government was unable to find a sufficient number of bidders, it announced indefinite suspension of the project.

The Hong Kong–Zhuhai–Macau Bridge Project

Since the early 1980s, Sir Gordon Wu, the chairman of Hopewell Holdings, had actively promoted the idea of constructing a mega bridge connecting Hong Kong to the west banks of the Pearl River. The Chinese authorities showed enthusiasm, as the bridge could strengthen the linkage between Hong Kong and the cities near the Pearl River Delta. Ironically, the project met resistance from within the real estate elite. Canning Fok, the managing director of Hutchison Whampoa under Li Ka-shing openly opposed the project, arguing that the government should not subsidize the project by granting Gordon Wu a nearby site for developing a new container terminal at zero land premium. He further contended that a new container terminal was unnecessary, as the existing terminals owned by his company would not reach its full capacity until 2016. He counter-proposed an alternative railway system to link its container terminals to the mainland. Despite Hutchison Whampoa's opposition, Zhu Rongji, then Chinese premier, signaled his support for the bridge project in 2002.

The Tsim Sha Tsui Waterfront Revitalization Plan

As said, although Leung Chun-ying portrayed himself as a fighter against the "real estate hegemony" during his bid for the Chief Executive office (*Apple Daily*, 2012; *Hong Kong Economic Times*, 2012), his administration could not avoid the improper association with the real estate elite. Quite astonishingly, his administration seemed to fail to take the lesson from the Cyberport Project and the West Kowloon Cultural Development Project. In 2015, without going through an open tender procedure, the government designated the New World Development Company, a major property developer in Hong Kong, to undertake the Tsim Sha Tsui Waterfront Revitalization Plan in the form of public–private partnership. Again, the government's decision infuriated some members of the real estate elite. This time, however, the angry developers chose not to issue an open letter, but to directly take the case to the court. The Sino Group, which owned the nearby Tsim Sha Tsui Centre, joined the Kowloon Shangri-La Hotel to apply for a judicial review of the government's decision. A few months later, the Leung administration shelved the Revitalization Plan, after which the disputants withdrew their judicial review application.

The above development projects, which were considered by many as examples to show the government's favoritism toward the real estate sector, all met resistance and obstruction from members of the real estate elite. They show that "group interest" of the real estate elite is an elusive concept. After all, members of the real estate sector are major competitors in a highly lucrative market. It is possible that they may cooperate to promote their collective interests. Equally possible is that their individual interests often run into conflicts, thereby preventing them from making concerted effort to influence government policies.

The aforementioned examples are not isolated incidents. As Wong (2015) points out, existing government policies may have structural biases against some members of the real estate elite. The leasehold system is a case in point. When a property buyer acquires the leasehold of an estate, the transaction involves two parts: a premium and an annual ground rent paid to the government. The latter is set at 3 percent of the adjustable rateable value of the property, implying that 97 percent of the property value goes to the land premium. This "high premiums, low rents" leasehold system turns out to favor large developers, who are able to afford exorbitant land premiums.

Similarly, the application list system that the government introduced in 1999 also disadvantaged small land developers. Under this system, land developers could make a private offer to the government when they identified a desired estate available for sale on the government "application list," which was published annually. The private offer could trigger a public auction if it

met the government's undisclosed reserve price for the site and the applicant paid a deposit at a certain fraction of the reserve price. This system is intended to reduce the government's role in controlling the supply of land. An unintended consequence of the system is that large developers, who have extensive land banks, have no incentive to acquire more land, while small land developers, who are eager to acquire more land, face high transaction costs associated with the auction deposit. Worse still, the act of triggering the public auction revealed their private valuation of the site to large developers who were otherwise uninterested. This system, thus, raised the bar for small land developers in acquiring land.

Political support from low-income citizens

The existence of internal strife within the real estate elite does not imply that the government is not promoting its class interest. But if the government does promote its class interest, the interest of other social classes should be compromised. When the government caters to the real estate elite at the expense of other classes, we should expect to see other social classes' resentment against the government. Resentment from the low-income class should run particularly deep because they lack properties. As a result, they cannot reap benefits from the housing boom, which allows the real estate elite to make handsome profits.

How dissatisfied low-income citizens feel about the government or the political status quo in general is an empirical question. I conducted a systematic analysis using public opinion survey data from the Asian Barometer Survey (ABS) Wave 3 in Hong Kong. The data were collected in the early 2016 through face-to-face interviews with randomly selected households based on the frame of quarters maintained by the Census and Statistics Department. In each selected household, one family member aged 18 or above was selected to conduct the interview using the last birthday method. The data contain altogether 1,217 observations.

The ABS data contain a number of questions that track respondents' attitude toward democracy, regime performance, and the political status quo. For the purpose of the current analysis, I focus on four questions: (1) evaluation of the economic situation, (2) pride in the political institutions, (3) disapproval of the administration, and (4) trust of the government. The original questions and answers are shown in the Appendix to this chapter.

The variable of interest is the respondents' income level. I used two rules to classify income levels. The first involves two categories only: monthly household income equal to or greater than $25,000 (above median) and monthly household income smaller than $25,000 (below median). I used $25,000 as the benchmark because the median monthly household income in Hong Kong in the last quarter of 2015 was roughly $24,500. In the second rule, I categorized monthly household incomes into three groups: (1) < $15,000 (low income), (2) $15,000–$39,999 (middle income), and (3) ≥ $40,000 (high income).

Many factors may influence one's evaluation of the government and the status quo. To reduce omitted variable bias, I control for birthplace, education, gender, use of social media, age, and age squared. Age squared is included to control for the potentially non-linear relationship between age and attitudes toward the government. Use of social media measures the frequency of using social media to access political information.

Depending on the dependent variable of interest, I applied either ordered logit or logistic regression to analyze the data. The results are presented in Table 20.1. As may be seen from the table, income is a strong predictor of one's attitudes toward the government in most specifications. Contrary to the expectation, however, high-income groups (the baseline) are more dissatisfied with the government or with the political status quo than their low-income counterparts. In particular, low-income citizens view the current economic situation in a more positive light

Table 20.1 Income levels and evaluation of the economic and political status quo

Dependent variable	Economic evaluation		Institutional pride		Disapproval of administration		Trust of government	
Definition of income levels	2 groups	3 groups	2 groups	3 groups	2 groups	3 groups	2 groups	3 groups
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Below median	0.287		0.521*		−0.190		0.375	
	(0.179)		(0.218)		(0.201)		(0.202)	
Middle income		0.207		0.699*		−0.633*		0.554
		(0.243)		(0.316)		(0.262)		(0.304)
Low income		0.574*		1.069**		−0.326		0.627*
		(0.290)		(0.336)		(0.314)		(0.314)
Born in Hong Kong	−0.021	−0.039	0.424	0.388	−0.547	−0.532	−0.019	−0.041
	(0.261)	(0.260)	(0.374)	(0.380)	(0.337)	(0.339)	(0.388)	(0.381)
Secondary school	−0.464	−0.499	0.181	0.080	−0.060	−0.035	0.689	0.675
	(0.397)	(0.393)	(0.524)	(0.510)	(0.501)	(0.492)	(0.544)	(0.535)
College or above	−0.419	−0.458	−0.157	−0.298	0.504	0.571	0.299	0.241
	(0.457)	(0.448)	(0.580)	(0.553)	(0.525)	(0.509)	(0.571)	(0.548)
Male	0.192	0.180	0.073	0.061	0.055	0.060	−0.234	−0.247
	(0.215)	(0.214)	(0.272)	(0.269)	(0.289)	(0.289)	(0.294)	(0.293)
Married	−0.041	0.016	0.369	0.502*	0.126	0.103	0.203	0.273
	(0.221)	(0.223)	(0.252)	(0.250)	(0.207)	(0.204)	(0.205)	(0.201)
Age	0.020	0.022	0.077	0.078	−0.095*	−0.090*	0.029	0.024
	(0.038)	(0.038)	(0.042)	(0.041)	(0.038)	(0.038)	(0.038)	(0.038)
Age squared	−0.000	−0.000	−0.001	−0.001	0.001*	0.001*	−0.000	−0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Use of social media	0.010	0.013	−0.058	−0.046	0.004	−0.005	−0.172*	−0.162*
	(0.061)	(0.060)	(0.068)	(0.068)	(0.074)	(0.076)	(0.075)	(0.076)
Constant								
Cut-off 1	−3.200**	−3.111**	0.116	0.400	−6.629**	−6.912**	−1.494	−1.328
	(0.874)	(0.889)	(1.152)	(1.150)	(0.964)	(0.976)	(1.026)	(1.051)
Cut-off 2	−0.301	−0.203	2.350*	2.680*	−3.121**	−3.375**	0.873	1.061
	(0.891)	(0.909)	(1.134)	(1.140)	(0.941)	(0.958)	(0.986)	(1.011)
Cut-off 3	2.017*	2.123*	5.090**	5.453**	−0.973	−1.198	5.347**	5.546**
	(0.873)	(0.893)	(1.124)	(1.146)	(0.927)	(0.940)	(1.009)	(1.029)
Cut-off 4	5.148**	5.256**						
	(1.175)	(1.191)						
Number of observations	843	843	749	749	763	763	819	819

Source: Asian Barometer Survey Wave IV in Hong Kong.

Notes: The baseline group is "Above Median" or "High Income," depending on the specification. All but the last two specifications are estimated with ordered logit. The last two are estimated with logistic regression. Standard errors are in parentheses. * p <.05, ** p <.01.

than high-income citizens. They are also more proud of the political institutions in Hong Kong and more likely to trust the HKSAR government. On the other hand, middle-income citizens show greater institutional pride and lower level of disapproval of the administration. The above differences are all statistically significant at 5 percent or less. The coefficient on the "Below Median" variable is also statistically significant in specifications related to institutional pride and identification of the opposition.

Taken together, the findings show that high-income individuals are more dissatisfied with the government and the political status quo than low-income citizens, after controlling for a range of variables such as education, gender, and age. The results are inconsistent with the prediction of the "hegemony" thesis because low-income citizens are supposedly the least likely beneficiaries of an economy that entrenches the oligopolistic interests of the real estate elite. On the one hand, low-income citizens are less likely to be owners of property. As a result, they cannot benefit from the booming housing market that occurred in Hong Kong since 2003. On the other hand, rents have gone up during the housing boom, which led to an increase in general prices. Low-income citizens should suffer more because they spend a greater percentage of their income on consumption than the rich.

The findings are more puzzling when one considers the fact that the Hong Kong government has been (in)famous for its hostility to welfare. Thus far, no administration in Hong Kong has followed in the footsteps of some populist Latin American governments that buy political support of the poor with pork-barrel spending or other non-programmatic benefits. The reason for low-income citizens' satisfaction with the political status quo is worth investigating.

Interest alignment between low-income citizens and the real estate elite after 2003

As soon as its sovereignty was transferred to the PRC, Hong Kong's economy went into a protracted downturn triggered by the Asian Financial Crisis that occurred in the same year. The Crisis brought a local housing boom to a precipitous end. Many citizens suddenly found their apartments worth less than their mortgages (the so-called "negative equities"). A large number of bank foreclosures ensued, causing a downward spiral in the economy. Many began to scale back their consumption. As market demand plummeted, more firms closed down, which ended up pushing up the unemployment rate. High unemployment further drove down market demand.

Some saw that the economic downturn was aggravated by an ill-timed government policy. Tung Chee-hwa, the first Chief Executive of the HKSAR government, announced ambitious pro-poor housing programs soon after taking office. The programs aimed to drastically increase housing supplies, with a view to addressing the needs of those who had not been able to buy a flat in the previous boom years. These policies were uniformly criticized by members of the real estate elite (*Ming Pao*, 1999), as they feared that raising the housing supply would further devastate the ailing housing markets.

The persistence of the economic crisis provided a condition for members of the real estate elite to coordinate among themselves to defend their collective interests. The problem confronting Hong Kong at the time was weak demand. The city needed an exogenous source of purchasing power to jump-start the faltered economy. In October 2001, they planned to issue a joint letter to the Chief Executive, urging him to accelerate Hong Kong's integration with the mainland as a way to revive the economy (*Sing Tao Daily*, 2001a). It is worth

nothing that many members of the real estate elite originally opposed the idea of closer integration with the mainland (*Ming Pao*, 2001), for fear of diverting the local purchasing power from Hong Kong to the mainland. As economic rebound was nowhere in sight, they changed their preference.

Whether their attempted indeed changed the preference of Tung Chee-hwa was unclear (*Sing Tao Daily*, 2001b). Yet, about a year later, Tung announced in his Annual Policy Address probably one of the most important economic policies in the history of post-1997 Hong Kong: deep integration with mainland China. His idea later manifested itself in the conclusion of the Closer Economic Participation Arrangement (CEPA), which is essentially a preferential trade agreement signed between mainland authorities and the HKSAR government. CEPA is intended to facilitate the movement of goods, services, capital, and people between mainland China and Hong Kong.

Members of the real estate elite welcomed CEPA and considered it as a gift bestowed by the central government for a good reason (*Ming Pao*, 2003; *Sing Tao Daily*, 2003). The policy boosted their core business in two important ways. The first is an increase in property sales in Hong Kong, while the second is a hike in the rents they charge retailers. Thanks to CEPA, many mainland citizens were no longer required to join group tours when visiting Hong Kong. The relaxation of the travel restrictions caused an influx of Chinese tourists and shoppers alike into Hong Kong. The major beneficiaries in Hong Kong include the retail sector, consumer services, and the real estate sector. For the retail sector and consumer services, it is easy to understand how they benefit from the scheme because their sales are directly proportional to the number of shoppers/consumers. The boom in the retail sector, thus, allowed landlords to charge higher rents.

The ease of travelling also breathed new life into the lackluster property markets. Many mainlanders came to invest in Hong Kong properties. The trend was fuelled by the United States Federal Reserve's quantitative easing, which drove down asset prices in Hong Kong relative to those in the mainland, as the local currency is pegged to the US dollar. Property developers capitalized on the influx of mainland investors by building more luxurious apartments. Another housing boom appeared. As Wong (2015: 21) points out, "ironically, in merely one decade, the most vexing social problem confronting Hong Kong people has changed from having too many 'negative equities' to having too few affordable flats."

Deep integration with, if not dependence on, the mainland benefits not only the real estate elite, but also low-skilled workers in Hong Kong. In particular, the boom in consumer services and in the retail sector has increased the relative demand for low-skilled workers vis-à-vis high-skilled workers. Even if the government enacted a statutory minimum wage in 2011, unemployment rate has remained low, while the wage of low-skilled continued to increase. Figure 20.1 shows the number of low-skilled workers (i.e., without college degree) in different income groups. From 2006 to 2011, there was a drastic decrease in the number of those who earn less than HK$6,000. It is also worth noting that many low-skilled workers are residents of the public rental housing estates. This welfare effectively insulates them from runaway rents under the new housing boom.

The benefits of deep integration with the mainland are not evenly distributed among Hong Kong citizens, however. The young and highly educated face great challenges. On the one hand, many of them are not rich enough to be homeowners, thereby missing the rising tide of the property market. On the other hand, they are not poor enough to have access to the housing welfare that benefits many low-skilled workers. Worse still, as the local economy is geared toward
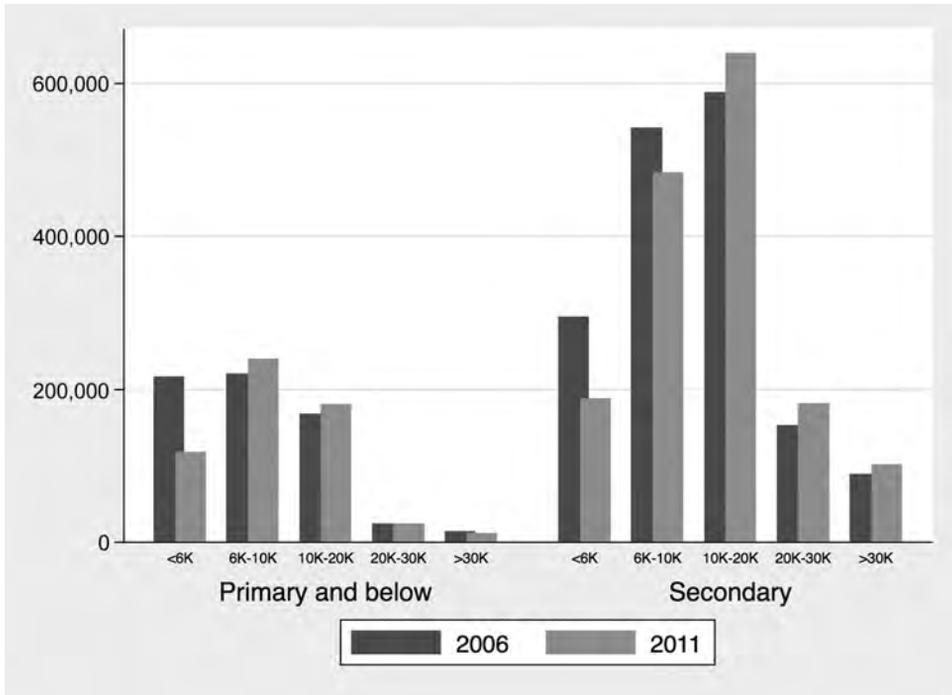
Figure 20.1 Employee income according to education level, 2006–2011

Source: 2006 Bi-Census and 2011 Census, Census and Statistics Department of HKSAR Government.

Note: The data exclude foreign domestic helpers. "Primary and below" refers to workers who have attained no more than primary education, while "secondary" refers to those who have attained no more than secondary education.

low–skilled consumer services, the young and highly educated find their skill set less rewarded in the labor market.

The distributive consequences of deep integration with the mainland provide an explanation for low–income citizens' tolerance with the political status quo. Many of them have actually benefited from the economic development since 2003, which has arguably entrenched the vested interest of the real estate elite. To further verify the validity of my claim, I analyze the ABS data together with another independent public opinion survey: the post-election survey of Hong Kong Election Study (HKES) (Wong et al., 2016).

The reason for using two different surveys is twofold. First and foremost, each survey has its own niche. While the ABS focuses on respondents' political attitudes, the HKES is intent on capturing respondents' voting behavior. With these two surveys, I am able to gain a more holistic understanding of Hong Kong citizens' political attitudes and political participation.

Second, these two surveys allow me to perform more rigorous tests of my argument because they share some common questions (most notably, political identification), but differ markedly from each other with respect to methodology and timing. While the ABS data were collected through face-to-face interviews, the HKES was an Internet survey completed by the online panel members of the international survey company YouGov. In addition, the ABS Wave 3 was conducted in mid-2012, while the HKES was done immediately after the Legislative Council election held in the September of 2016. As the two surveys stretched over a relatively long

period of time, we can see if the findings are robust to factors such as the change of government administration.

For the ABS data, my analysis focused on respondents' attitude toward mainland China. In particular, I examined: (1) their pride as Chinese citizens, (2) their perception of mainland China's influences over Hong Kong, (3) their pride as Hong Kong citizens, and (4) their identification with pro-democracy opposition parties (i.e. the pan-democrats). In expectation, low-income citizens should have a more positive attitude toward China as they are the beneficiaries of the deep integration.

For the HKES data, I am interested in respondents' vote choice. Are they more likely to vote for the opposition? I also examine their political identification as a cross-validation with the ABS results. In addition, the HKES contains one interesting question that asks respondents to identify their perceived cause of Hong Kong's housing problem. There are several options for respondents to choose, including "greed of real estate developers" and "collusion between government and business." I convert these options into dichotomous variables for a direct test of the popularity of the "real estate hegemony" thesis; if the "real estate hegemony" has adverse impacts on the economic interests of low-income citizens, they should hold a more negative view of real estate developers or "government-business collusion" than citizens at other income levels.

I included the same set of variables as in Table 20.1. Note, however, that the definition of some control variables in the HKES is slightly different from that in the ABS. For instance, in the HKES, I classified monthly household incomes into three groups: (1) < $20,000 (low income), (2) $20,000–$39,999 (middle income), and (3) ≥ $40,000 (high income).

First, consider the ABS data, the results of which are presented in Table 20.2. As may be seen from the table, low-income citizens, whether defined as "below median" or as those earning less than $15,000, indeed view mainland China more positively than high-income citizens (the baseline group). They are more proud of their identity as Chinese citizens and more optimistic about China's influences over Hong Kong. The coefficient on the variables of interest is statistically different from zero at 5 percent. By contrast, there is no significant difference between income groups regarding their pride as Hong Kong citizens.

In addition, consistent with my explanation, age is also a strong predictor of respondents' view on the mainland's influences over Hong Kong; older respondents see more positive influences, although the effect seems to level off at high ages.

The distributive consequences of deep integration are likely to affect politics. In fact, many social movements in Hong Kong after 2003 have been led by student activists or young people alike (the so-called "post-80s" or "post-90s" generations). The results displayed in Table 20.2 are also consistent with this political trend. Respondents earning less than the median monthly household income are less likely to identify themselves as the supporters of the pan-democratic camp. However, if in Specification (8), where incomes are divided into three groups, only the coefficient on middle-income respondents is statistically different from the baseline group, although the coefficient on low-income respondents has the expected negative sign.

Table 20.3 displays the results of the HKES data analysis. First, in the specification concerning identification with the opposition,[10] the coefficient on the variable of interest (low-income citizens) is negative and statistically significant at 5 percent. Its effect size (about −0.7) is also comparable to the one in the ABS data. Low-income citizens are also less likely than high-income citizens to vote for the opposition, and their difference in vote choice is statistically significant.

As for the perceived cause of Hong Kong's housing problem, low-income citizens, compared with high-income ones, are no more likely to subscribe to the "real estate hegemony" thesis. The coefficient on the variable of interest is not statistically different from zero in the specifications with real estate developers or government-business collusion (or both) as the dependent variable.

Table 20.2 Income levels and evaluation of the economic and political status quo: ABS data

Dependent variable	China pride		China's influence on HK		Hong Kong pride		Identification with opposition	
Definition of income levels	2 groups	3 groups	2 groups	3 groups	2 groups	3 groups	2 groups	3 groups
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Below median	0.532*		0.252*		−0.077		−0.750*	
	(0.208)		(0.127)		(0.236)		(0.326)	
Middle income		0.572*		0.337		−0.424		−0.774*
		(0.282)		(0.172)		(0.279)		(0.358)
Low income		0.763*		0.418*		−0.259		−0.961
		(0.351)		(0.202)		(0.373)		(0.493)
Born in Hong Kong	0.286	0.272	0.049	0.030	0.809*	0.837*	−0.550	−0.521
	(0.386)	(0.391)	(0.215)	(0.210)	(0.330)	(0.334)	(0.470)	(0.466)
Secondary school	0.837	0.784	0.079	0.045	−0.220	−0.176	−0.096	−0.038
	(0.490)	(0.482)	(0.328)	(0.318)	(0.374)	(0.360)	(0.657)	(0.651)
College or above	0.561	0.505	0.080	0.030	−0.563	−0.507	0.209	0.311
	(0.517)	(0.509)	(0.343)	(0.330)	(0.473)	(0.458)	(0.677)	(0.670)
Male	−0.129	−0.143	0.005	−0.004	0.118	0.137	−0.028	0.009
	(0.315)	(0.316)	(0.192)	(0.190)	(0.286)	(0.285)	(0.369)	(0.369)
Married	−0.154	−0.086	−0.040	0.008	0.229	0.177	0.579	0.512
	(0.238)	(0.235)	(0.133)	(0.129)	(0.258)	(0.258)	(0.485)	(0.484)
Age	−0.003	−0.007	0.086**	0.085**	−0.058	−0.055	−0.244**	−0.239**
	(0.045)	(0.046)	(0.026)	(0.025)	(0.048)	(0.048)	(0.067)	(0.066)
Age squared	0.000	0.000	−0.001**	−0.001**	0.001	0.001	0.003**	0.002**
	(0.001)	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)	(0.001)
Use of social media	0.000	0.010	−0.077	−0.071	0.105	0.095	−0.071	−0.087
	(0.072)	(0.073)	(0.046)	(0.046)	(0.069)	(0.069)	(0.080)	(0.085)
Constant			1.896**	1.784**			3.781*	3.910*
			(0.672)	(0.683)			(1.694)	(1.726)
Cut-off 1	−0.248	−0.109			−5.113**	−5.329**		
	(1.100)	(1.148)			(1.210)	(1.208)		
Cut-off 2	0.960	1.105			−3.146**	−3.361**		
	(1.049)	(1.098)			(1.182)	(1.187)		
Cut-off 3	4.222**	4.377**			0.708	0.511		
	(1.016)	(1.062)			(1.188)	(1.192)		
Number of observations	749	749	742	742	793	793	789	789

Source: Asian Barometer Survey Wave IV in Hong Kong.

Notes: The baseline group is "Above Median" or "High Income," depending on the specification. All but the last two specifications are estimated with ordered logit. The last two are estimated with logistic regression. Standard errors are in parentheses. * p <.05, ** p <.01.

Table 20.3 Income levels, vote choice, and perceived cause of housing problem: HKES data

	Voting behavior		Perceived cause of housing problem		
	Identification with opposition	Vote for opposition	Greed of real estate developers	Collusion between government and business	Either
Low income	−0.690*	−0.599*	−0.413	0.402	0.054
	(0.291)	(0.257)	(0.362)	(0.321)	(0.280)
Middle income	−0.192	−0.128	−0.365	0.326	0.035
	(0.184)	(0.174)	(0.260)	(0.225)	(0.194)
Born in Hong Kong	0.174	0.044	−0.199	1.341**	0.677*
	(0.294)	(0.271)	(0.312)	(0.329)	(0.271)
College or above	0.025	−0.263	−0.439	−0.107	−0.304
	(0.177)	(0.159)	(0.262)	(0.202)	(0.177)
Male	0.318	−0.235	−0.312	−0.050	−0.191
	(0.167)	(0.159)	(0.234)	(0.207)	(0.174)
Married	−0.783**	−0.574**	−0.339	0.023	−0.155
	(0.198)	(0.185)	(0.267)	(0.230)	(0.195)
Age	−0.053	−0.038	0.035	−0.092	−0.059
	(0.039)	(0.035)	(0.032)	(0.053)	(0.046)
Age squared	0.001	0.000	−0.001	0.001	0.000
	(0.000)	(0.000)	(0.000)	(0.001)	(0.001)
Use of social media	0.250**	0.187**	0.032	0.037	0.036
	(0.057)	(0.051)	(0.076)	(0.076)	(0.062)
Constant	−0.054	0.702	−1.288	−1.023	0.324
	(0.785)	(0.714)	(0.714)	(0.974)	(0.848)
Number of observations	1724	1724	1724	1724	1724

Source: The Hong Kong Election Study (HKES) Post-election Survey of the 2016 Legislative Council Election.

Notes: The baseline group for comparison is the "High Income." All regressions are estimated with logistic regression. Standard errors are in parentheses. * $p < 0.05$, ** $p < 0.01$.

Discussion and conclusion

Does the real estate elite form a coalition of support for the HKSAR government? Very likely, given that its members have occupied important positions in some formal political institutions. Are members of the real estate elite so politically powerful as to capture the HKSAR government? Probably not. The defeat of Henry Tang in his bid for the Chief Executive office and the relocation of Li Ka-shing's business empire suggest that the political clout of the real estate elite is far from invincible. The aggressive land acquisition by mainland developers under the Leung administration further signals that club membership to the real estate elite in Hong Kong is more fluid than many believed.

As Carrie Lam will take over the Chief Executive office after C.Y. Leung, the extent to which mainland capital can challenge the economic and political clout of the traditional members of the real estate elite remains unclear. It is, however, quite certain that the real estate elite as a group will not be the only veto player behind the government's decision-making, in part because the

increasing complexity of its club membership will hamper the members' ability to advance their collective interest, and in part because the government's coalition of support does not consists only of the real estate elite.

As I argue in this chapter, the HKSAR government enjoys considerable social support, which manifests itself in the rising vote and seat shares of the pro-establishment parties in elections of the legislature (Wong, 2014). More interestingly, its social support is likely to come from less affluent citizens, who, according to the "real estate hegemony" thesis, should be the primary victim of this hegemony. Conventional wisdom suggests that their political support is maintained by clientelistic benefits, such as free food and entertainment, offered by pro-establishment parties (Lee, 2012). In this chapter, however, I provide an alternative explanation that is based on an analysis of the distributive consequences of Hong Kong's economic development since 1997, particularly after 2003.

Deep integration with the mainland, an economic strategy that the real estate elite once urged the HKSAR government to pursue, has created a boom in the retail sector and consumer services industries, which significantly increases the demand for low-skilled workers, who tend to earn a relatively low income. With improved economic well-being, these citizens are generally satisfied with the political status quo. Using public opinion data from the Asian Barometer Survey Wave 3 in Hong Kong, I found that low-income citizens are more optimistic about the economic situation, more proud of the political institutions, and more likely to trust the government. More interestingly, they also tend to see positive influences of mainland China on Hong Kong and are more proud of their identity as Chinese citizens. Perhaps not surprisingly, low-income citizens are less likely to identify themselves as supporters for the pro-democracy opposition camp and less likely to vote for them. They are also no more likely to view real estate developers or "government-business collusion" as the main culprit of Hong Kong's housing problem.

A political implication of the current study is that pro-democracy activists and politicians, who attempt to challenge the political order, are meeting resistance not only from Beijing and the real estate elite, but also from less affluent citizens who have a vested interest in maintaining the status quo. This is perhaps the reason why political mobilization in recent years, such as the Occupy Movement in 2014, failed to achieve overwhelming social support.

That said, the vested interest of less affluent citizens likely depends on the vibrant development of consumer services industries. The problem is that consumer services industries tend to have low productivity, and the supply of mainland consumers will not increase indefinitely. In other words, overdependence on service industries, especially those geared toward mainland consumers, will not only make the exorbitant property prices unsustainable, but also expose Hong Kong to both economic and political vulnerabilities in years to come.

Appendix

[ABS Wave 3] Pride in the Political Institutions

I would like to ask your opinions on Hong Kong's government institutions. What do you think of the following statement? "Generally speaking, I am proud of our political system."

1. Strongly agree

2. Agree

3. Disagree

4. Strongly disagree

8. Can't choose

9. Decline to answer

[ABS Wave 3] Evaluation with the Economic Situation

How would you rate the overall economic condition of our city today? Is it . . .?

1. Very good

2. Good

3. So so (not good nor bad)

4. Bad

5. Very bad

8. Can't choose

9. Decline to answer

[ABS Wave 3] Identification with Pro-democracy Opposition

Some hold that the politics in Hong Kong is about the competition between the "pan-democratic" camp and the "pro-establishment" camp. Some think that they are the supporters of the "pan-democrats," while others think that they support the "pro-establishment" camp. Do you support the "pan-democrats" or the "pro-establishment" camp?

1. Pan-democrats

2. Pro-establishment

(*Continued*)

357

Original questions and answers in the two surveys

3. Neutral/Neither

8. No opinion/Don't know

9. Decline to answer

[ABS Wave 3] Approval of the Administration

How satisfied or dissatisfied are you with the current administration? Are you . . .?

1. Very satisfied

2. Somewhat satisfied

3. Somewhat dissatisfied

4. Very dissatisfied

8. Can't choose

9. Decline to answer

[ABS Wave 3] Trust in the Government

I'm going to name a number of institutions. For each one, please tell me how much trust do you have in them? Is it a great deal of trust, quite a lot of trust, not very much trust not very much trust, or none at all?

Hong Kong Government

1. A great deal of trust

2. Quite a lot of trust

3. Not very much trust

4. None at all

5. Do not understand the question

8. Can't choose

9. Decline to answer

[ABS Wave 3] Pride in Chinese Identity

Are you proud of being a Chinese citizen?

1. Very proud of

2. Somewhat proud of

3. Somewhat not proud of

4. Very not proud of

8. Don't know/No opinion

9. Decline to answer

[ABS Wave 3] Pride in Hong Kong Identity

Are you proud of being a Hong Kong citizen?

1. Very proud of

2. Somewhat proud of

3. Somewhat not proud of

4. Very not proud of

8. Don't know/No opinion

9. Decline to answer

[ABS Wave 3] China's Influences on Hong Kong

General speaking, the influence China has on our country is?

1. Very positive

2. Positive

3. Somewhat positive

4. Somewhat negative

5. Negative

6. Very negative

7. Do not understand the question

8. Can't choose

9. Decline to answer

[HKES] Perceived Cause of Hong Kong's Housing Problem

Some people say that Hong Kong has a serious housing problem. In your opinion, which is the most important reason for this problem? (Pick one only)

1. Greed of real estate developers

2. Poor government policies

3. Lack of land

4. Individual inability

5. Influx of Mainland capital

8. Collusion between government and business

6. Other reasons

7. Don't know

[HKES] Vote Choice

In the Legislative Council Election of your geographical constituency, which party did you vote for?

[HKES] Political Identification

In Hong Kong, some people identify themselves as the supporters of the pan-democratic camp, others identify themselves as the supporters of the pro-establishment camp, while others identity themselves as the supporters of the localist camp. How would you identify yourself?

1. Supporter of the pan-democratic camp

2. Supporter of the pro-establishment camp

3. Supporter of the localist camp

4. None of the above

5. Don't know

[HKES] Social Media Use

How often do you share news with friends and acquaintances using social media or mobile communication tools such as Whatsapp, Facebook, and WeChat?

1. Everyday or nearly everyday

2. Several times a week

3. Several times a month

4. Several times a year

5. Never

6. I don't use social media or mobile phone

7. Don't know

Acknowledgement

Notes

1 In anticipation of the handover, Beijing formed these committees to take care of the work related to the establishment of the Hong Kong Special Administrative Region.
2 As Ma (2012) points out, strictly speaking, "positive non-interventionism" as proposed by Haddon-Cave is not identical to laissez-faire.
3 The term "land sales" is not an accurate description of the land transaction, because what the Hong Kong government sells is not land, but the leasehold of estates.
4 I will discuss this policy in detail in the next section.
5 Table 4.7.1 of Wong (2015) records an overtime change of the land sales incomes as a share of total government revenue. After the handover, the share consistently ranges from 15 to 20 percent.
6 As of 1950s, about one third of the population were not born in Hong Kong.
7 For a list of major real estate developers that existed in Hong Kong circa the handover, see Appendix A of Wong (2015).
8 This is in part because the leftists' reputation was severely tarnished by their involvement in the violence of the 1967 Leftist Riots.
9 Ironically, they were arguably the enemy of the traditional leftists, as the 1967 Leftist Riots originated from a labor movement against the capitalists.
10 To capture recent political changes, the HKES defines the opposition as either the pan-democratic parties or some new "localist" parties.

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Theme 5

Socio-economic development and regional integration

Hong Kong's film industry reconstituted

Pathways to China after the golden age[1]

Stephen W.K. Chiu and Victor K.W. Shin

A historical overview of Hong Kong's film industry since the 1980s

Over much of the past century, Hong Kong had been well-known for its motion picture industry. Like many of the films it produced, the industry has experienced dramatic twists and turns historically. To begin with, although the Hong Kong film industry was deemed the "Hollywood of the East" or the "Asian Hollywood" (Stokes, 2007; Lam, 2007: 60–61; Hammond, 2000; Stokes and Hoover, 1999: 17; Dannen and Long, 1997), its box-office grosses were dominated by imported movies for several decades prior to 1982 (see Figure 21.1 and Appendix for the overall trend in the Hong Kong box-office takes). In spite of the famed Chinese martial-arts pictures produced in the early 1970s by Golden Harvest and starring Bruce Lee, the output of Hong Kong film companies accounted for only around 40 per cent of the total box-office revenue throughout the 1970s. The rebound of Hong Kong movies[2] did not take place until the early 1980s. In 1982, for the first time in the history of Hong Kong cinema, the box-office grosses of Hong Kong movies outweighed those of the imported films, signifying the arrival of the industry's golden age. The output of Hong Kong movies subsequently surged to 120 in 1990 and peaked at 187 in 1993 (see Appendix).

The industry's heyday lasted however for only one and a half decades. The film outputs and box-office revenue for Hong Kong movies began to plunge after 1993 (Figure 21.1). The dominance of Hong Kong movies in the domestic market was increasingly eroded by imported, mainly Hollywood, films. In 1997, foreign movies once again surpassed Hong Kong movies in box-office performance. The difference in theatrical receipts between imported films and local movies widened even more after that. From 1997 to 2006, the annual domestic box-office grosses of Hong Kong movies slumped from HK$556.3 million to HK$244.8 million (in 2010 constant dollars) while the box-office grosses of imported films remained strong and continued to grow from HK$617.3 million in 1997 to HK$624.2 million in 2006 (see Appendix).

Why was Hong Kong's film industry able to survive and even prosper in the 1980s amid the challenge from Hollywood in that period? How did the industry react to the challenges posed by the Hollywood blockbusters at that time? Why did the major film companies in Hong Kong fail to retain their power and dominance over the film market in the 1990s? How was the commodity chain of Hong Kong movies restructured during the late 1990s, and how has the restructuring
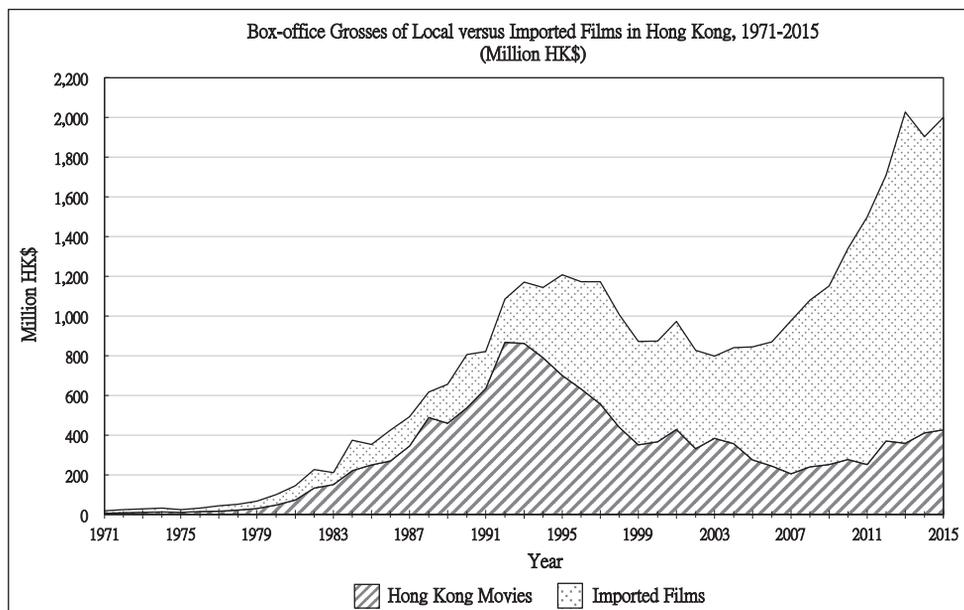
Figure 21.1 Box-office takes of local versus imported films in Hong Kong, 1971–2015

Source: Appendix.

impacted on the Hong Kong film industry throughout the 2000s? To address these questions systematically, we start by reviewing some conventional explanations for the rather abrupt reversal of the local film industry's fortunes from the boom of the 1980s to the bust since the mid-1990s.

The beginning of the industry's downfall, notes Teo (2008), can be traced back to 1993 – the year when Steven Spielberg's *Jurassic Park* set a new record for the highest box-office grosses in Hong Kong. From that time onwards, Hollywood movies began to extend a firm grip over the Hong Kong film market. From 1993 to 2006, the market share of imported films, mainly from Hollywood, skyrocketed from 26.4 per cent to 71.8 per cent. In 2010, imported films dominated the box offices with a 79.4 per cent share (Figure 21.2 and Appendix). The blockbuster of the year was usually a Hollywood picture. In 1997, James Cameron's *Titanic* became the first movie to earn more than HK$100 million in the Hong Kong box office. This record stood until *Avatar*, a Hollywood science-fiction epic film also directed by James Cameron, surpassed it in 2009.

Conventional explanations

The decline of Hong Kong's cinema has attracted considerable attention from local observers. Chan et al. (2010) mention in their review of the rise and fall of Hong Kong's film industry five major reasons for the industry's downfall: the changing consumption pattern of cinemagoers because of the proliferation of alternative entertainment media, the repetitive formulae used in film production which undermined the quality of Hong Kong movies, the withdrawal of foreign capital from Southeast Asia, the declining demand for Hong Kong movies in overseas markets, and the spread of illegal downloading of movies. These reasons largely overlap with the six factors highlighted by Teo (2008) for the industry's downfall. They include the growth of Hollywood's market share in Hong Kong, video piracy, the poor quality of Hong Kong movie screenplays, and
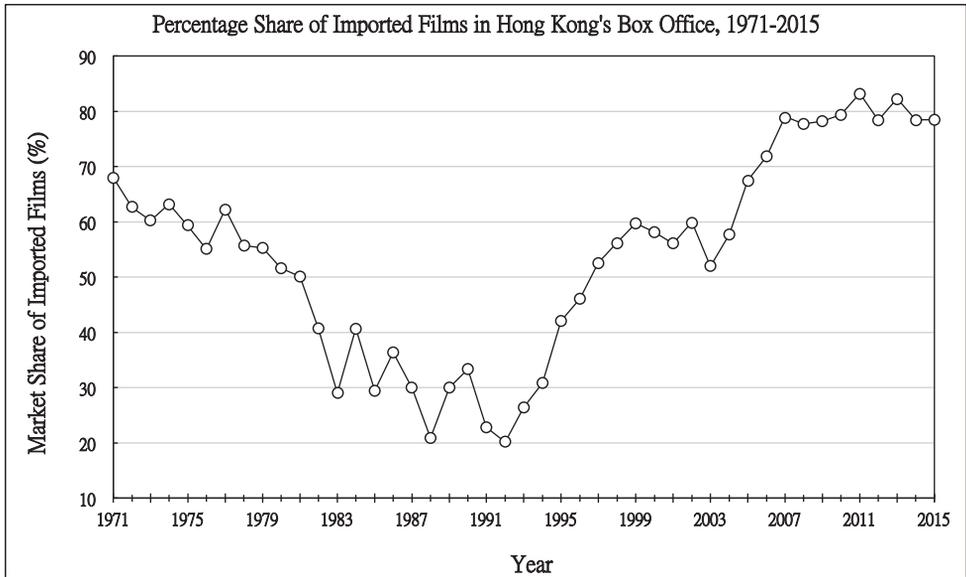
Figure 21.2 Percentage share of imported films in the Hong Kong box office, 1971–2015

Source: Appendix.

the underdeveloped market in China which was not ready at that time to serve as an outlet for the movies exported from Hong Kong, as well as the rise of other Asian film industries in the 1990s which undercut the traditional Asian markets for Hong Kong movies (Teo, 2008: 342–343).

We can therefore identify five distinct factors that are believed to be responsible for the decline of Hong Kong's film industry. We review each of these factors and their associated narratives in turn.

i   Given the backdrop of Hollywood's return to the Asian film market in the 1990s, some observers have attributed the industry's decline to the growth of Hollywood's market share in Hong Kong. Lee (2006a, 2009), in his analyses of cinemagoers' acceptance of US movies in East Asia, observes that Hollywood's blockbusters, particularly those which received Academy Awards in visual, audio, and technical effects, are more likely to overcome cultural barriers, and to achieve better box-office results abroad. Producers of these pictures, notes Oh (2001: 42), intentionally choose to focus on the "less culturally resistant genres and more internationally appealing content in order to diminish the cultural discount effect." Examining the acceptance of foreign movies in Hong Kong, Lee (2006b) finds that less culturally specific movies from Hollywood, such as science-fiction and action films produced with big budgets, are more appealing to Hong Kong cinemagoers as compared with American comedies which contain more culturally specific content. In this respect, Hollywood's advanced filmmaking technologies would help its movies overcome cultural barriers abroad and attract overseas audiences when traversing cultural borders (Noam, 1993). Martin (2015) stresses that the Hong Kong's film industry's response to Hollywood's competitive advantages was feeble due to Hong Kong's lack of sovereignty that resulted in the colonial government's minimal support for local film production. She contends that laissez-faire capitalism and the positive non-interventionism policy of the Hong Kong Government impeded its film industry from upgrading and overcoming its technical limitations (Martin, 2015: 326–327). Given

its situation of less capital investment and infrastructural resources compared to Hollywood, the Hong Kong film industry is considered to lack the capability to compete effectively with the big-budget productions from Hollywood blockbusters thus inevitably came to dominate the Hong Kong film market according to this narrative.

ii   Besides the competitive advantages of Hollywood movies by virtue of their capital resources and advanced filmmaking technologies, there are other, more local, factors that have been highlighted in the conventional discussions. Some commentators, for example, consider the spread of video piracy as the key factor that exacerbated the decline of Hong Kong's film industry (Lim, 2006). Curtin (2003: 238) stresses that the rising demand for pirated copies of movies reflected the "continuing popularity of the industry's output, yet . . . [the cinema-goers] are now more willing to buy and rent video copies than to buy theatre tickets." Film distributors were also said to hesitate to purchase the rights to Hong Kong movies because of the possibility that pirated copies could be released before the movies were launched officially (Symonds, 2007). Instead, they would prefer distributing Hollywood movies that are more likely to draw in cinemagoers rather than distributing Hong Kong movies. Given this situation, a Hong Kong film director, Chan Hing-kai, claims piracy to be the biggest challenge facing the Hong Kong film industry before 1997 (Ma et al., 2007).

iii   Some studies consider the industry's decline to be a consequence of the proliferation of alternative entertainment media which changed the consumption pattern of cinemagoers in Hong Kong. Zhang (1998) stresses that the youngsters, as the largest audience for Hong Kong movies, have access to a variety of entertainment, such as television, pop music and electronic games, apart from cinema-going (see also Leung, 1999; So and Chan, 1992). This view suggests that the rising popularity of alternative entertainment might have dampened Hong Kong's youngsters' interest in cinema-going, thereby lowering the box-office grosses of Hong Kong movies.

iv   Some observers attributed the Hong Kong film industry's decline to the changing structure of the regional production complex of movies in Asia. There are two variants of this argument. First, for a long time, many critics claimed that the overreliance on pre-sales of distribution rights to overseas film markets, particularly Taiwan, had undermined the quality of Hong Kong movies (Chung, 2007). Between the late 1980s and the early 1990s, film investors from Taiwan poured their capital into Hong Kong's film market because Hong Kong acted as a "stepping stone" for Taiwan film investors who were eager to take advantage of the co-production partnership with film companies in China (Liang, 1998). Taiwan capital covered as much as one-third of the production costs during this period (Chung, 2007: 361). To cope with the surging demand for films, many filmmakers in Hong Kong shortened the production time by using repetitive formulae such as typical casts and plots (Lim, 2006). Many critics thus repeatedly used the phrase "hasty and unpolished productions" (*cu zhi lan zao*, 粗製濫造) to describe the quality of most Hong Kong movies throughout the 1990s (Chan et al., 2010). This decline in the quality of local movies led to the desertion of cinemagoers.

The second variant of the "Taiwan factor" attributes the Hong Kong film industry's decline to the *slump* in exports of its film products. Following a regulatory change in China in 1994 that excluded many co-productions from the Chinese market, Taiwan capital withdrew as quickly as it had entered (Chung, 2007: 363). Because of this abrupt drying up of foreign investment, observers claim, the industry experienced a sharp downturn during the latter half of the 1990s.

v   Some studies cite the small-scale domestic film market in Hong Kong as a reason for sagging foreign sales. Lee (2006b), for example, stresses that Hong Kong's domestic market is too

small to support its film industry to compete effectively with other rising movie industries in East Asia. In a similar vein, Fu and Sim (2010) view Hong Kong as a case that illustrates how a small domestic film market limits its film companies' ability to make movies that are "culturally transmissible". This is why, they stress, most of the films exported from Hong Kong are "kung-fu and gangster movies" as film companies rarely pursue "innovation beyond duplicating such themes . . . [and develop] more broad-appeal programs" (Fu and Sim, 2010: 138). Because of this, the demand for Hong Kong movies in overseas markets stumbled.

These conventional explanations, advanced mostly by industry insiders and film critics, offer insights into the industry's decline, yet it remains unclear which are crucial in shaping the above development. For instance, one key fact about the downfall of Hong Kong's film industry is its abruptness. Except perhaps for the "Taiwan factor", none of these purported causes for its downfall could account satisfactorily for the sudden reversal of the industry's fortunes. Relative to the plunge of Hong Kong movies in terms of their output and the box office from their 1993 peak, the challenge posed by Hollywood movies was actually more in the form of a consistent but relentless climb in the box-office shares. Likewise, piracy had afflicted Hong Kong's film industry for some time during the 1980s (Booth, 2000). Changes in consumer tastes cannot be a key causal factor in explaining the sharp decline because tastes normally change slowly over time. Moreover, during the golden age of the industry over the 1980s, film critics had frequently levelled the charge that Hong Kong movies were "hasty and unpolished productions" (Teo, 2008).

The following section will identify the key factors for the Hong Kong film industry's downfall by describing the wrenching changes in the industry during the early 1990s. Then it will delve into the relationships between the global distribution networks of the Hollywood majors and their local alliances in Hong Kong who capitalized on imported movies to achieve dominance over the Hong Kong film market. The empirical evidence shows that conventional explanations cannot account satisfactorily for the rise and fall of Hollywood's and Hong Kong movies respectively. The key factors that led to the downfall of Hong Kong's film industry should instead be traced to the larger institutional change in the film market discussed further below.

Revisiting the golden decade

The downfall of Hong Kong's film industry occurred in the early 1990s, but the "seeds" of this event were sowed in the 1980s, the period which most scholars recognize as a "golden age" for Hong Kong cinema. Before delving into the industry's decline since the mid-1990s, we revisit the 1980s by delineating the institutional contours of the industry and film market that set the stage for the dramatic demise that followed. The industry's boom during the 1980s corresponded with the emergence of what we call the "distributor–led production system" organized around several major film companies. Unlike the situation faced by their American counterparts, there is no law in Hong Kong that prohibits film companies from integrating the processes of production, distribution, and exhibition under one roof. The "majors" are commonly regarded as film companies that dominated the industry through investing in and distributing movies, on the one hand, and operating or possessing their own theatre chains, on the other (Chan, 2000: 599–600, 605).

Some scholars attribute the success of the 1980s to various "indigenous" factors, including both the supply of and the demand for local film products (Cheuk, 2008; Zhao, 2007). On the supply side, the rise of a "new wave" of young directors, many of whom received tertiary education in Hong Kong or in overseas film schools, and who have been trained in the television sector, resulted in a burst of local movies that resonated with the taste, or as some may argue,

the quest for self-identity of Hong Kong cinemagoers during the 1970s and the 1980s (Fu and Desser, 2000; Teo, 1997).

On the demand side, as the baby-boom generation with its rising consumption power reached adolescence in the 1980s, it resulted in a surging demand for entertainment, including cinema-going, that boosted the box-office receipts of Hong Kong movies (Sui, 2009: 109). Due to this emergence of the "new wave" of directors along with the rising demand from the baby-boom generation for entertainment, the industry achieved remarkable success not only in its domestic market but also reaped prodigious profits from its distribution network in the region (Leung, 1993; Leung and Chan, 1997). With the highest per capita production in the world, and the second largest number of films exported in the early 1990s, the Hong Kong film industry was coined the "Hollywood of the East" or the "Asian Hollywood" (Stokes, 2007; Lam, 2007: 60–61; Hammond, 2000; Stokes and Hoover, 1999: 17; Dannen and Long, 1997).

Although the spurt in both the supply of and the demand for local film products signify the commercial success of Hong Kong cinema, less attention has been devoted to why those "new-wave" directors had the chance to prove their ability during the 1970s and the 1980s. The structural factors, on the supply side, which enabled those directors to make a successful ascent, are often overlooked in existing literature. Hence, this chapter proposes that the accession of the "new-wave" directors attested not only to their talent and ability but was also related to the conversion of the dominant mode of production in the Hong Kong film industry – namely, from Shaw Brothers' studio system to Golden Harvest's independent production system during the 1970s. Below we shall show that this conversion provided the "new-wave" filmmakers an opportunity to prove their talents in a less-restricted environment and led to a new institutional model throughout the 1970s and the 1980s.

Besides, on the demand side, even though the baby-boom cohort would have boosted the rate of theatrical attendance, these potential audiences might not necessarily prefer to watch Hong Kong movies. Since the baby-boom generation, in general, has attained a higher level of education than their parents, they could be expected to show a higher degree of interest in imported movies in a foreign language (Leung, 1993: 61). As Curtin (2007) puts it:

> [T]his generation was more experienced with Western popular culture than with tradi-tional Chinese culture and politics. Consequently, Hollywood movies and American music became quite popular in Hong Kong during the 1960s.
>
> *(Curtin, 2007: 43)*

In this sense, "the quest for self-identity" might not be an adequate explanation for why the baby-boom cohort favoured local productions over foreign movies. This pinpoints that the aforementioned "indigenous" factors could not account for the success of the Hong Kong film industry in the 1970s and the 1980s. Thus, here we suggest the necessity of taking a closer look at the historical context in which the industry is situated in order to examine how the industry developed. To this end, the subsequent section will apply a sociological approach to elucidate how the historical and institutional context of the Hong Kong film market and the interactions among film companies have shaped the development of the film industry.

The Hollywood studio system (for example, Warner Brothers, Twentieth-Century Fox, and Paramount) was the prevailing model in the movie business before the late 1940s. In a studio system, film production, distribution, and exhibition (screening) are all carried out in-house by the major film companies. By contrast, in a distributor-driven model, these tasks are performed by separate companies occupying different roles in an independent production system. While some film companies would forge alliances with one another, the distributors were central to

the coalition in most cases. The major distributors of Hong Kong movies until the mid-1990s operated their own theatre chains by acquiring or allying with several theatres or cinemas. Those that did not follow a film studio system – almost all distributors except Shaw Brothers and Sil-Metropole – would look for producers and directors, or invest in some production companies, to shoot movies for them. In this fashion, besides carrying out the sales and marketing of the film products, Hong Kong movie distributors were also the chief investors in most productions in the 1970s and the 1980s. The movies produced in this system would be screened in the theatre chains of the distributors. Revenue received from the box office was used to cover the accrued expenses involved in the production, distribution, and exhibition of the movies.

Three major film companies dominated the Hong Kong film market over the 1980s, namely, Golden Harvest (GH), Golden Princess (GP), and D&B. Golden Harvest (GH), established in 1971, was the first company that carried out this "distributor-led production system" in Hong Kong. The company started its business in film distribution and later operated its own chain of cinemas. Golden Harvest invested in several film production companies which in return supplied GH with movies on a regular basis. These movies were then shown in GH's theatre chain. Many independent production companies sprouted under the umbrella of GH throughout the 1970s and the 1980s. These included Hui's Film Production Co., Ltd., a production company directed by the a renowned comedic actor and director Michael Hui (Xu Guan-wen, 許冠文); Bo Ho Films Co., Ltd., headed by a well-known martial-arts actor and director Samo Hung Kam-bo (Hong Jin-bao, 洪金寶); Golden Way Films Ltd., led by a famous martial-arts actor and director Jackie Chan (Cheng Long, 成龍); Film Workshop Company Ltd., founded by famed director Tsui Hark (Xu Ke, 徐克) and his wife; and many others. These satellite production houses made over 400 movies for GH, many of which were blockbusters and reaped huge profits for their parent company.

After the success of GH, the distributor-led production system spread to become the conventional practice in the Hong Kong film industry. Film companies that entered the field during the 1980s also followed this system. Two of these companies, Golden Princess (GP) and D&B, rose to prominence by financing their own group of independent production companies and screening their products (Leng et al., 1985). Golden Princess (GP) was the second largest film company with its market share slightly smaller than Golden Harvest's. It was established in 1980 and backed by its parent company, Kowloon Development Company Ltd., a conglomerate with substantial investments in a vast range of infrastructural projects and public transport in Hong Kong, including The Kowloon Motor Bus Co. Ltd. (KMB). Similar to Golden Harvest, the company financed a bunch of independent production houses as its satellites, including Cinema City Enterprises Ltd., a production company founded by Karl Maka (Mai Jia, 麥嘉), Raymond Wong (Huang Bai-ming, 黃百鳴), and Dean Shek (Shi Tian, 石天), all of whom are directors, producers, and actors; Always Good Film Company Ltd., established by Frankie Chan (Chen Xun-ji, 陳勳奇), a director and actor; Magnum Films Ltd., set up by Danny Lee Sau-yin (Li Xiu-xian, 李修賢), a director and actor; and many others (Chan, 2000: 643; Stokes, 2007: 155).

In line with Golden Harvest and Golden Princess, D&B also followed the "distributor-led production system". The company was set up in 1984 by Dickson Poon (Pan Di-sheng, 潘迪生), a businessman who embarked on various trading businesses, including jewellery, watches, and apparel. D&B employed some directors to shoot movies in the first few years. However, the company stopped employing directors directly in the late 1980s; instead, it contracted with several independent directors for film production on a project basis. D&B hired its own producers to monitor all of its productions. Although D&B was engaged in the film business for only nine years (1984–1992), the shortest among the major film companies established during the 1970s, it produced and distributed over 100 pictures, some of which turned out to be the yearly

blockbusters. For instance, two of the company's productions in 1988 were the top two block-busters for that year – Clifton Ko Chi-sum's (Gao Zhi-sen, 高志森) *It's a Mad Mad World II* and Stephen Shin's (Xian Qi-ran, 冼杞然) *Heart to Hearts*. *It's a Mad Mad World II* reaped HK$25.8 million at the box office, equivalent to 2.4 per cent of the aggregate box-office grosses for 1988. Its prequel, *It's a Mad Mad World*, was also a blockbuster with the third-highest box-office record in 1987 (Chan, 2000; Hong Kong Film Archive, 2012a).

During the late 1980s these three major film companies dominated the Hong Kong film market not by actually owning the cinemas but by controlling them with exclusive exhibition deals. The "majors" persuaded the exhibitors who were scouting for movies to sign an exhibition contract. Each exhibition contract typically lasted for one to two years (Curtin, 2007: 53). The contract resembles an "exclusive deal" entailing that the exhibitors, or the cinema owners, screen exclusively the films provided by a major distributor within a certain period of time (Chan, 1985: 11–12). Once it was signed, not only did the distributors acquire the "booking rights"[3] to control the exhibition blocks – the period in which each movie is screened, they also forbade the exhibitors from shopping freely among other distributors for movies to screen. The theatres could thus screen only the movies released by the "major" they had contracted with. Most cinema owners at the time accepted either willingly or reluctantly the exclusive exhibition deals offered by the "majors" because of the setting of their theatres. Since most cinemas in Hong Kong during the 1980s were traditional theatres with only one to two screens, they could not screen a large number of movies at each turn. The theatrical setting as such blunted the bargaining power of the cinema owners for their exhibition blocks could be easily filled up by a major distributor. As a result, the "majors" took advantage of the setting of traditional theatres and controlled the exhibition sector until the 1990s.

As shown in Table 21.1, Golden Princess allied with 47 theatres in 1984, controlling almost half (49.5 per cent) of the theatres in the market. Golden Harvest had around one-third (32.6 per cent) of the theatres in the same year. When D&B was established in 1984, the company aligned with only five theatres. A year later, D&B expanded its theatre chain by co-opting over 20 theatres. The company's share of theatres peaked at 23.8 per cent in 1986. The three companies together controlled approximately three-fourths of the theatres in the late 1980s, making them the three major theatre chains in Hong Kong.

As each theatre chain requires at least 30 movies to put on screen each year (Economic Information and Agency, 1989: 168), there was a huge demand for films to fill up the exhibition

Table 21.1 Theatrical possession of Golden Harvest, Golden Princess, and D&B, 1984–1989

Year	Golden Harvest		Golden Princess		D&B	
	Number of allied theatres	Share (%)[#]	Number of allied theatres	Share (%)[#]	Number of allied theatres	Share (%)[#]
1984	31	32.6	47	49.5	5	5.3
1985	37	35.6	32	30.8	22	21.2
1986	20	19	43	41	25	23.8
1987	27	23.5	48	41.7	24	20.9
1988	27	20.3	40	30.1	25	18.8
1989	23	19.7	38	32.5	21	17.9

Notes: [#] Percentage share of theatres under their corresponding theatre chain in the total number of theatres of the year.

Sources: Tabulations from cinematic advertisements in *Singtao Daily* and *Mingpao Daily*, 1984–1989; *Hong Kong Economy Yearbook* (Hong Kong: Economic Information & Agency, various years); Hong Kong Motion Picture Industry Association Limited, *Annual Review*, various years.

blocks of each theatre chain. After Golden Harvest (GH) entered the market and engaged in film production, the number of movies produced and released in Hong Kong climbed from 94 in 1971 to 103 in 1974 (Hong Kong Film Archives, 2012a, 2012b). When Golden Princess joined the competition, the total film outputs in Hong Kong climbed by 8.3 per cent from 109 in 1979 to 118 in 1980. At the time D&B set up its theatre chain, the number rose moderately from 87 in 1984 to 89 in 1985 and reached a high of 116 in 1989. The three companies altogether produced over 50 movies each year and reaped around 40 per cent of the total box–office grosses during the late 1980s (Hong Kong Film Archive, 2012a).

While these three major film companies gained a lion's share of the market, film companies without any alliance with the "majors" barely scraped by. They included the film companies that distributed and exhibited foreign movies. As Hong Kong's movies occupied most of the screens available in the market, the number of theatres that exhibited local movies exclusively climbed from 23 in 1970 to 27 in 1980 and increased further to 33 in 1982 after Golden Princess came into operation (Table 21.2). In this very year, the domestic box–office revenue for local movies exceeded that for foreign movies for the first time in the history of Hong Kong's cinema (see Figure 21.1).

Table 21.2 Theatres in Hong Kong by exhibition of local movies or imported films or both, 1970–1985

Year	Exhibited local movies exclusively		Exhibited imported films exclusively		Exhibited both		Total number of theatres
	Number of theatres	Share (%)[#]	Number of theatres	Share (%)[#]	Number of theatres	Share (%)[#]	
1970	23	22.3	28	27.2	26	25.2	103
1971	14	N.A.	31	N.A.	32	N.A.	N.A.
1972	11	11.3	40	41.2	29	29.9	97
1973	34	N.A.	22	N.A.	14	N.A.	N.A.
1974	24	29.6	30	37	10	12.3	81
1975	22	26.2	32	38.1	8	9.5	84
1976	34	41	26	31.3	15	18.1	83
1977	23	N.A.	29	N.A.	16	N.A.	N.A.
1978	14	18.7	24	32	24	32	75
1979	16	20	18	22.5	26	32.5	80
1980	27	32.5	30	36.1	5	6	83
1981	29	35.4	24	29.3	23	28	82
1982	33	37.1	19	21.3	28	31.5	89
1983	48	53.3	14	15.6	22	24.4	90
1984	56	58.9	17	17.9	14	14.7	95
1985	39	37.5	14	13.5	45	43.3	104

Notes: "N.A." denotes data are not available because of the deficient information on the total number of theatres in the corresponding years.
Data reflect only the theatrical composition on June 30 and December 31 of each corresponding year.
[#] The sum of the data in these three columns may be less than a hundred since there could be some theatres that were not open to business in the corresponding year.

Sources: Tabulations from cinematic advertisements in *Singtao Daily* and *Mingpao Daily*, 1970–1985; Economic Information & Agency, *Hong Kong Economy Yearbook*; Hong Kong Motion Picture Industry Association Limited, *Annual Review*, various years.

With fewer theatres exhibiting foreign movies, the box-office sales of imported films nose-dived while Hong Kong's movies outperformed the Hollywood blockbusters in their home market. The box-office grosses of imported films plunged from HK$152 million in 1984 to HK$129 million in 1988 in constant dollars (see Appendix). By contrast, the box office of local movies surged from HK$5.7 million in 1971 to HK$30.1 million in 1979 and reached a high of HK$488.5 million in 1988 in constant dollars. The dominance of Hong Kong's movies in their domestic market persisted throughout the 1980s, which signified the "blossoming" of the Hong Kong film industry.

The decline of Hong Kong's film industry

The Hong Kong film industry fell from its 1993 peak, and imported movies dominated the film market thereafter. The reversal of fortune of Hong Kong's film industry and the return of imported films' dominance in Hong Kong was largely a result of the fall of the major film companies of the 1980s. In the following section we delineate how the restructuring of the cinema sector and the expansion of multiplex-cinema[4] circuits in Hong Kong led to the collapse of the "majors" and then fostered the conditions for Hollywood's distributors to align with the movie exhibitors in Hong Kong. This transformation was completed in three stages.

Stage one: the rise of Newport

The restructuring of the Hong Kong cinema sector began in the late 1980s when a new film company, Newport, was established. The liberalization of China's film market since the late 1970s along with the lifting of martial law in Taiwan in 1987 facilitated the flow of financial capital from film investors in Taiwan to China via Hong Kong.[5] The capital inflow from Taiwan gave birth to Newport Entertainment Co. Ltd. in 1988. Newport served as a "middleman" between foreign investors, mainly from Taiwan, and the independent production companies in Hong Kong (Lam, 2007: 60). Overseas investors wanting to invest in Hong Kong movies might pass their money to Newport. The company would then lend money to the production companies in Hong Kong.

The rise of Newport cut into the income stream of the pre-existing "majors". The owner of Newport was Chan Wing-mei (Chen Rong-mei, 陳榮美), a theatre owner whose cinemas were formerly allied with the pre-existing major film companies. When Chan established his theatre chain in the late 1980s, he poached several theatres from the existing "majors". Six of the 21 theatres in Newport's theatre chain were formerly allied with D&B, four were tied-up with Golden Princess (GP), and three with Golden Harvest (GH) (Chan, 1988: 2–5).

The establishment of Newport entailed the wresting of a considerable number of theatres from the "majors". As a result, each theatre chain in the market was comprised of fewer theatres than before. Assuming that a movie that is shown in more cinemas, on more screens, and for more days is more accessible to the public to know about, and *ceteris paribus*, will have higher box-office sales, the cutback of the "majors'" theatrical possession would inevitably result in a sharp slump to their revenue. Before Newport was established, there were at least 20 theatres screening exclusively the movies which GH, GP, and D&B distributed in 1987.[6] After Newport came on the scene, however, only GH could maintain the same number of theatres for the screening of its movies whereas the number of theatres allied exclusively with GP dropped approximately one-third (30.8 per cent) from 26 to 18. D&B faced a similar challenge. In 1987 D&B controlled 21 theatres, but the number dipped to 15 in 1989. Although Golden Harvest (GH) still possessed around 20 theatres in the early 1990s, the number dropped

gradually over the ensuing years. This provides clues as to why the box-office revenues of the three "majors" plummeted.

With fewer theatres under the "majors'" control, their income stream was trimmed. GH, GP, and D&B reaped HK$188.4, HK$169.5, and HK$113 million from the box office in 1987 respectively, but their revenue slumped respectively to HK$160.2, HK$168.9, and HK$73 million in 1989 in constant dollars (Table 21.3). Before Newport's entry, GH had 24.2 per cent of the market share, followed by GP (21.8 percent), and D&B (14.5 per cent). After Newport entered the market, however, the market share of GH plunged to 18.2 per cent, while GP's and D&B's market shares shrank to 19.2 per cent and 8.3 per cent respectively. In the early 1990s, the theatrical receipts as well as the market share of the three "majors" continued to fall significantly. The revenue for these "majors" was just slightly over half of what they earned before Newport was established.

Given their much reduced profits from theatrical receipts, the major film companies had to apply strenuous effort to maintain their operations. Once these "majors" could no longer afford the cost of maintaining a certain volume of movies for their theatre chains, some of them shut down their movie business while others changed their company's business strategies. The Executive Director of D&B informed us during an interview that the company's owner, Dickson Poon (Pan Di-sheng, 潘迪生), planned to leave the film industry in 1992. As he put it,

> One afternoon, Dickson called for a meeting with me. He told me in all seriousness that if the company could not control as many theatres as before, we won't be able to recoup film production costs. This is the first time I realized that the company might be shut down.

Table 21.3 Theatrical receipts and market share of Golden Harvest, Golden Princess, D&B, and Newport, 1985–1995

Year	Golden Harvest (Since 1970)		Golden Princess (1980–1995)		D&B (1984–1992)		Newport (Since 1988)	
	Theatrical Receipts (HK$ million)*	Market Share (%)#	Theatrical Receipts (HK$ million)*	Market Share (%)#	Theatrical Receipts (HK$ million)*	Market Share (%)#	Theatrical Receipts (HK$ million)*	Market Share (%)#
1985	146.9	24	110.6	18.2	38.9	6.4	–	–
1986	149.7	23.4	115.5	18.0	94.5	14.8	–	–
1987	188.4	24.2	169.5	21.8	113	14.5	–	–
1988	216.5	21.1	123.4	12.0	97.6	10	13.6	1.3
1989	160.2	18.2	168.9	19.2	73.0	8.3	20.3	2.3
1990	149.9	16.0	148.3	15.8	68.7	7.3	95.5	10.2
1991	244.1	24.6	140.8	14.2	61.0	6.1	86.4	8.7
1992	230.3	18.6	168.5	13.6	8.4	0.7	119.4	10
1993	204.6	18.1	14.3	1.3	–	–	190.4	17
1994	167.9	17.5	32.6	3.4	–	–	18.3	1.9
1995	120.5	15.5	18.0	2.3	–	–	50.3	6.5

Notes: * The company's theatrical receipts are weighted by the Consumer Price Index in each corresponding year, and are at constant 2010 prices.

The company's share in total box-office grosses of both local movies and imported films.

Sources: Chan (2000); Hong Kong Film Archive (2012a); Hong Kong Motion Picture Industry Association Limited, Annual Review, various years.

When we asked whether this led the company to close down, he replied,

> The company folded abruptly at the end of 1992 mainly because we lost our theatre chain to Regal. D&B did not own the theatres; the theatres belonged to separate owners. In mid-1992 we noticed that the theatre owners who formerly allied with us refused to renew our contract because they turned to Regal.[7] . . . As we could not control the theatrical screening of our movies, Dickson said there was no point to keep investing such a large sum of money in this industry. He then made up his mind to close down the company.
>
> *(Interview on 12 April 2012)*

After D&B shut down, the Louey family, the owners of Golden Princess (GP), wound up their theatre chain in 1993 and ceased investing in film production. In the subsequent years, GP distributed only three movies before it shut down completely in 1996. A council member of the Hong Kong Motion Picture Industry Association Limited (MPIA) noted that the restructuring of the cinema sector followed by the establishment of Newport struck a blow to the Louey family.[8] Before Newport came on the scene, GP controlled a considerable number of theatres which allowed the company to maintain its profit margin during the 1980s. The owners bestowed a high degree of autonomy on the film directors and did not monitor closely how the filmmakers spent the money in their film projects as long as the movies turned out to be box-office successes. According to the council member of MPIA, when Newport came into operation and wrenched some of the theatres from GP, however, the reduction of theatres in the company's theatre chain cut into its income stream. The owners then became frustrated with the way that the filmmakers handled their books. One Louey family member who was an accountant even admitted that he found the filmmakers' bookkeeping practices very confusing. As the core business of the family was running KMB, an anonymous industry executive stressed that movie business was not that important for them (Curtin, 2007: 64–65). As a result, when the Louey family could no longer tolerate "the industry's inability to institute transparent practices that might regularize production, distribution, and financing" (ibid: 67), they folded GP in the mid-1990s.

Stage two: the mass closure of traditional theatres[9]

After Golden Princess (GP) and D&B ceased operating, Golden Harvest (GH) became the only major film company to dominate the Hong Kong film market during the 1980s that still managed to survive. Although GH has continued to carry on its business up to the present, in the late 1990s, it rearranged its core business from investing in film production to distributing and showing foreign movies in Hong Kong. The company made this adjustment largely because the rising price of retail space in Hong Kong drove many traditional theatres formerly controlled by GH to close down during the 1990s.

Since the 1980s, the price of retail space in Hong Kong has shot sky-high. Theatrical rents grew as much as 40 to 50 per cent per year (Economic Information and Agency, 1987: 165). The rent for some theatres was even 2.5 times that of the previous year's rent. As most of the major distributors of Hong Kong movies rented rather than bought a group of cinemas to build their theatre chain, they had to bear a huge rental cost in their exhibition business. Although some major distributors could afford the rent, there were fewer cinemas available in the market. This is because in the 1990s the rising price of retail space drove many cinema owners to redevelop their properties for alternative uses and thus over 100 theatres closed down. The total number of theatres in Hong Kong shrank from 120 in 1990 to 79 in 1998, or
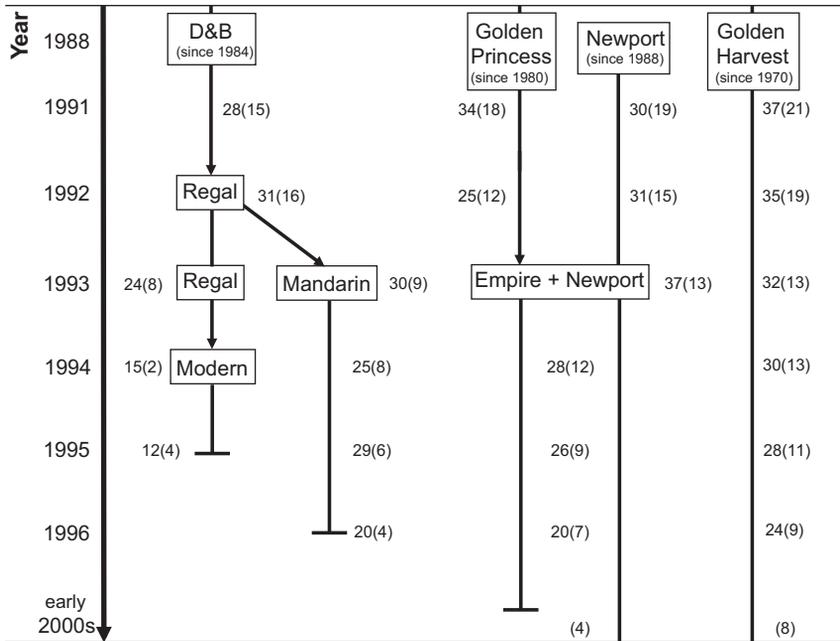
Figure 21.3 Composition of theatre chains of major film companies since the 1990s

Notes: Numbers with parentheses are the number of theatres that showed only the movies released by a major film company in the respective year.

Numbers without parentheses refer to the number of theatres which each major film company mobilized for the screening of its movies in the year. The sum of numbers without parentheses should exceed the total number of theatres in the year because some theatres might have screened the movies released by different "majors" in the same year.

Sources: Tabulations from cinematic advertisements in *Mingpao Daily* and *Singtao Daily*. We compiled the data from a sample of the two movies from each company that received the highest and the lowest box-office grosses in the respective year.

by 34.2 per cent.[10] Almost half (45.6 per cent) of the theatres were dismantled and converted into shopping malls, commercial buildings, and private apartments.[11] As the movie business became less lucrative than these alternatives uses, a lot of theatre owners took their curtain calls during the 1990s.[12]

Since most of the theatres controlled by Golden Harvest (GH) were dismantled in the 1990s owing to the rising price of retail space, its theatrical receipts were hardly sufficient to recoup the cost of its film productions. In the mid-1990s, the number of theatres allied exclusively with GH was halved, plummeting from 21 to 11 between 1991 and 1995 (Figure 21.3). In this period, the company's theatrical receipts shrank accordingly, diving from HK$244.1 million to HK$120.5 million in constant dollars (see Table 21.3). The co-founder of GH noted,

> In the 1990s the company controlled fewer theatres but we still had to maintain a certain volume of film outputs in order to fill up the exhibition blocks of our theatre chain. . . . As the contraction of our theatre chain has diminished our box-office revenue, we could not bear the massive expenses involved in film productions. . . . When one of our partners, Leonard Koon-cheung Ho (He Guan-chang, 何冠昌), passed away and the government

> reclaimed our production site on Hammer Hill Road, our boss [Raymond Chow (Zou Wen-huai, 鄒文懷)] decided to cease investing in film production and concentrated after that on the exhibition business.
>
> *(Interview on 4 October 2009)*

The mass closure of traditional theatres affected not only Golden Harvest, it also brought about a restructuring of theatre chains in the Hong Kong film market. In 1992 Regal Films Co. Ltd. took over some of the theatres that were previously allied with D&B. In 1993 the Regal Circuit was divided into two companies by Raymond Wong, a partner of Regal who then founded Mandarin Films Limited. While the theatre chain of D&B was succeeded by Regal and Mandarin, the theatres under Golden Princess (GP) were merged with Newport. When GP wound up its theatrical business in 1993, Chan Wing-mei, the owner of Newport, reacquired some of the theatres from Golden Princess (Chan, 1992: 42–43) and set up the Empire Circuit, another theatre chain separate from the Newport Circuit.

The restructuring of theatre chains, however, did not make the "newcomers", such as Regal, Mandarin, and Empire who took the place of the past "majors", better off but enveloped them in a vicious cycle. As the soaring price of retail space drove many theatre owners to close down their theatres and to redevelop their properties, the total number of theatres in the market fell noticeably. In this situation, the more "newcomers" tried to set up their theatre chain, the fewer theatres each film company controlled and thus the more difficult for them to achieve the economies of scale necessary to cover their costs. Consequently the number of theatres these companies possessed was much smaller than those held by the "majors" in the 1980s.

As shown in Figure 21.3, when the Regal Circuit was established in 1992 it allied exclusively with 16 theatres while 31 theatres in total showed its movies. In that year, the company released 20 movies and earned HK$116.8 million in constant dollars from the box office (Table 21.4). After the split, however, half of its theatres joined Mandarin. The number of theatres fully controlled by Regal dropped from 16 to 8. With fewer theatres under its control, the total theatrical receipts from the Regal Circuit in 1993 slumped by 38.9 per cent to HK$71.4 million in

Table 21.4 Film outputs and theatrical receipts of Regal, Mandarin, and Modern, 1992–1996

Year	Regal (1992–1994)		Mandarin (1993–1996)		Modern (1994–1995)	
	Film Outputs	Theatrical Receipts (HK$ million)[#]	Film Outputs	Theatrical Receipts (HK$ million)[#]	Film Outputs	Theatrical Receipts (HK$ million)[#]
1992	20	116.8	–	–	–	–
1993	19	71.4	23	117.6	–	–
1994	7	27	16	106.4	13	40.4
1995	–	–	17	63.2	13	26.8
1996	–	–	11	40.1	–	–

Notes: [#] Figures are weighted by the Consumer Price Index in each corresponding year, and are at constant 2010 prices.

Sources: Chan (2000); Hong Kong Film Archive (2012a); Hong Kong Motion Picture Industry Association Limited, *Annual Review*, various years.

constant dollars. When its owner, Steven Kit-sing Lo (Luo Jie-cheng 羅傑承), faced difficulty in recouping the huge cost involved (Economic Information and Agency, 1995: 155), he folded his film business in May 1994.

Although another "newcomer", Modern Films Co. Ltd. (新一代), undertook Steven Lo's exhibition business after he relinquished his control over Regal Circuit (Figure 21.3), the box-office performance of Modern's theatre chain was even worse than that of Regal's. In the second-half of 1994, only two theatres were allied exclusively with Modern while just 15 theatres in total were showing Modern's movies, a lot fewer than its competitors. With the fewest theatres among all theatre chains, Modern earned only HK$40.4 million in 1994 in constant dollars from the box office, about half (56.7 per cent) of the HK$71.4 million box-office revenue for Regal in 1993 (Table 21.4). In 1995 Modern's theatrical receipts dived a further 33.7 per cent to HK$26.8 million in constant dollars. The financial situation of Modern was so precarious that the company lasted for only two years, shutting down in 1995 (Economic information and Agency, 1996: 139).

Even though Mandarin's theatre chain surpassed Regal's and Modern's in the box office, the company faced the same problem. The number of theatres under Mandarin was much smaller than those under its competitors. While Newport and Empire, the largest-scale theatre chain at the time, allied exclusively with 13 theatres in 1993, Mandarin had only nine theatres (Figure 21.3). In 1996 the number of theatres controlled fully by Mandarin was further reduced to four. The company in that year earned HK$40.1 million in constant dollars from the box office, about one-third (34.1 per cent) of its box-office revenue (117.6 million) in 1993 (Table 21.4). As Mandarin could not afford the operational cost of its exhibition business (Economic Information and Agency, 1997: 96), it closed down its theatre chain in late 1996 albeit the company still engaged in film production in subsequent years.

The rising price of retail space stymied not only Golden Harvest and the foregoing "newcomers", it also stunted the development of Newport. As discussed earlier, in 1993 Chan Wing-mei, the owner of Newport, regained some theatres from Golden Princess (GP) after the latter petered out and set up the Empire Circuit (Figure 21.3), a sister company of Newport (Chan, 1992: 42), Although Chan's two circuits comprised the largest number of theatres, the soaring price of retail space drove many of his allied theatres to shut down. While there were around 12 theatres dismantled every year during the 1990s (Hong Kong Motion Picture Industry Association Limited, various years), the total number of theatres in the Newport and Empire Circuits plunged from 37 to 20 in just three years after Chan took over GP's theatre chain in 1993. With fewer theatres, its box-office revenue dropped sharply from 190.4 million to 47.6 million in constant dollars, or by 75 per cent, between 1993 and 1996.[13] The General Manager of Newport stressed when we interviewed him that

> The box-office revenue could hardly cover the rental cost which has been on a steady upward climb. This is why our boss [Chan Wing-mei] restructured his theatre chains in the late 1990s. He closed down the Empire Circuit in the early 2000s and folded many of his theatres in Newport Circuit.
>
> *(Interview on 19 September 2011)*

The number of cinemas under Newport fell from 21 at its inception (Chan, 1988: 4) to just four in 2009 (Figure 21.3). In brief, owing to the rising price of retail space, many distributors of Hong Kong movies controlled fewer cinemas than before so that they could hardly achieve the economy of scale necessary for cost recovery. While some film company owners, including those of Golden Princess (GP), D&B, Regal, and Modern, wound up their movie business, others such as Golden Harvest (GH) stopped engaging in film production. The collapse and restructuring

of the major film companies that had dominated the Hong Kong film market during the 1980s marked the demise of the "distributor-led production system" in Hong Kong.

Stage three: the rise of multiplex cinemas

The alliances between the film exhibitors in Hong Kong and the distributors of foreign movies hastened the downfall of Hong Kong movies. As noted earlier, some major distributors of Hong Kong movies left the field by the mid-1990s. Other film companies curtailed their investment in film productions because of the soaring price of retail space that drove the theatres they controlled to vanish throughout the 1990s. As the traditional theatre chains vanished during the 1990s, multiplex-cinema circuits mushroomed concurrently in Hong Kong.

Multiplex-cinema circuits have come to occupy a lion's share of the Hong Kong film market. The four circuits that have dominated the film market since the mid-1990s are the Broadway circuit,[14] UA cinemas,[15] Golden Harvest,[16] and Multiplex Cinema Limited (MCL).[17] They reaped altogether almost 80 per cent of the box office in the late 2000s (*Ming Pao*, 2007). Broadway is one of these cinema circuits that had expanded rapidly during the 1990s. The number of its cinemas and screens soared from 5 cinemas with 16 screens in 1993 to 11 cinemas with 49 screens in 1999; UA, the second-largest cinema circuit in Hong Kong, had 8 cinemas with 36 screens in 1999 (Figure 21.4). In the late 2000s, the 2 circuits dominated the exhibition sector by owning over 20 cinemas and about 100 screens in all. They are followed by Multiplex Cinema Limited (MCL) which expanded from 1 cinema with 2 screens at its inception in 1993 to 6 cinemas with 38 screens in 2012. Golden Harvest (GH) ranked fourth as it began to convert its theatre chain into a multiplex-cinema circuit from the mid-1990s. In the late 1990s, almost half of its cinemas were converted into multiplexes. In 2012 GH had 26 screens in its circuit, with 5 of its 6 cinemas in multiplex settings.
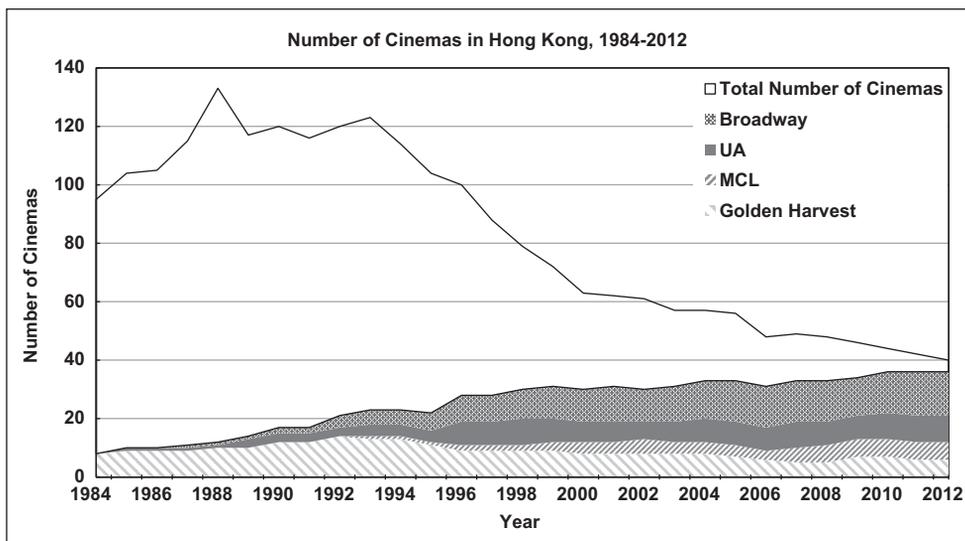
Figure 21.4   Number of cinemas in Hong Kong, 1984–2012

The transformation of Hong Kong's cinema sector provided an opportunity for the distributors of foreign movies to co-opt the exhibitors in Hong Kong and make a comeback into the Hong Kong film market. While multiplex cinemas had gradually replaced the theatre chains of the Hong Kong movie distributors, most of the multiplex exhibitors at the time faced difficulty in finding movies to screen. Although the theatrical setting of multiplex cinemas allows the exhibitors to put a variety of movies on the screens at a turn, the exhibitors could suffer huge losses if they do not have enough movies to fill their exhibition blocks. The multiplex exhibitors thus have to cope with the shortage of movies. They could not rely on the distributors of Hong Kong movies because most of the major distributors had already ceased investing in film productions or had even wound up their movie business for the reasons presented earlier. The General Manager of EDKO, a distribution arm of Broadway Circuit, described the situation as follows:

> As far as movie screening is concerned, some people thought that we gave preference to foreign movies but actually we didn't. We always wish to show Hong Kong movies but there aren't many choices for us as the film outputs in Hong Kong have been dropping over the 2000s. . . . We must load our cinemas with movies every day. It's fortunate that we [EDKO, a distributor of foreign movies in Hong Kong,] could help our circuit to scout around for movies. Otherwise, it's very difficult to recoup the tremendous cost to operate our cinemas.
> *(Interview on 10 April 2012)*

Given this situation, the distributors of Hollywood movies took advantage of the transformation in the Hong Kong film industry and successfully co-opted the multiplex exhibitors in Hong Kong. Columbia TriStar, for example, cooperated with EDKO, the distribution arm of Broadway circuit since the 1990s. Buena Vista, the distribution arm of Walt Disney, allied with Intercontinental Film Distributors (HK) Ltd. (IFDL), the parent company of Multiplex Cinema Limited (MCL). In 2006 IFDL acquired the "Hong Kong distributorship for UIP's[18] Paramount Pictures and Dreamworks Animation products."[19] Although UA does not ally with any Hollywood studio, it has its own distribution arm, Lark Films Distribution, to arrange screenings of imported films in its circuit.[20] When Golden Harvest (GH) ceased to invest in film production during the 2000s, it made use of its distribution arm, Panasia, to acquire the distribution rights of foreign movies. These movies would then be shown in GH's cinemas.

Unlike the old theatre owners, the multiplex exhibitors are omnivores who relied for their film supply on both the distributors of Hollywood movies and the local film companies. Also, they are no longer controlled by the major distributors of Hong Kong movies. Before multiplex cinemas became popular in Hong Kong during the 1990s, the major distributors of Hong Kong movies were able to control the cinema sector owing to the setting of the theatres discussed earlier. The restructuring of Hong Kong's cinema sector has however changed the relations of power between the movie exhibitors and the distributors of locally made movies. As the number of screens in a cinema determines how many movies it can show at each turn and thus the capacity of the exhibitor, cinemas with more screens have more flexibility in arranging their movie screenings. Since the multiplex cinemas in Hong Kong are equipped with at least three screens or houses, these cinemas could show a relatively large number of movies from different film distributors at each turn. Multiplex exhibitors are therefore more capable of negotiating with the film distributors for better terms in making the exhibition deals. For this reason, multiplex exhibitors differ from traditional theatre owners in that they have a great deal of bargaining power over the film distributors in Hong Kong, and they did not agree to comply with any "exclusive exhibition deals". The distributors of Hong Kong movies, henceforth, could no longer control the movie screenings.

While the exhibition blocks[21] were previously controlled by the major distributors of local movies, now it is the multiplex companies that decide when and what movie(s) is/are screened in which house(s) of their circuits. The vice-chairman of the Federation of Hong Kong Filmmakers explained how this has brought stiff competition to Hong Kong movies:

> In the past [during the 1980s], the movies invested by the major film companies had a higher chance to be shown to the public as these companies controlled the cinemas. Even though some of these movies were not of high quality, they could still be put on the screen for a relatively long period of time . . . because the boss, as the investors, had to recoup the return to investment. This, however, has changed completely. . . . Now, after a [local] film company produced a movie, it has to find a screening block from the multiplex exhibitors. There's no guarantee that their movies have a chance to be shown in the cinema anymore, not to mention to be screened for a long period of time.
>
> *(Interview on 8 June 2012)*

As the vice-chairman's comments illustrate, the multiplex exhibitors are not constrained by the major distributors of Hong Kong movies. These exhibitors could reserve favourable exhibition blocks for the imported films distributed by their allies, whereas the production companies of Hong Kong movies no longer benefit from the block-booking preferential treatment offered by the exhibitors. Foreign movies hence came to dominate the Hong Kong film market after 1997 (see Figure 21.1). The multiplex exhibitors, together with their distribution arms, have released and screened more and more imported films in Hong Kong. In 2006, the theatrical release of foreign movies was three times higher than that of local movies in the Hong Kong film market.[22] Of the 226 movies screened in Hong Kong in 2006, 172 were imported films while only 54 were locally produced (Hong Kong Film Archive, 2012b). The number of local movies exhibited in 2006 was just one-third (33 per cent) of the number exhibited in 1999.

The surge of imported films shown in Hong Kong also resulted in their rising box-office share of the market. The theatrical receipts of imported films have outperformed those of Hong Kong movies since 1997, a trend that has continued up to the present. From 2003 to 2006, imported films recorded a 51 per cent growth in their box-office takes, climbing from HK$414.1 million to HK$624.2 million, whereas the box-office takes of Hong Kong movies dropped from HK$384 million to HK$244.8 million, or by 36 per cent.[23] No wonder film critics and commentators, and even industry insiders, claim that the Hong Kong film industry is already a "sunset" industry (Chan, 2006; Chung, 2007: 39; Lee, 2006b: 265).

Reflections on the development of Hong Kong's film industry

We have identified so far a series of changes which had taken place in the cinema sector that altered the market order of Hong Kong's film industry in the early 1990s, namely, the rise of Newport, a challenger for the major film companies, and the mass closure of traditional theatres, to be replaced by multiplex cinemas. These changes triggered off a restructuring in the exhibition sector and led to the decline of the domestic film industry. In the following, we shall evaluate the relative importance of the conventional explanations for the industry's decline and incorporate them into our analysis in order to develop a sociological account of the vicissitudes of Hong Kong's film industry.

Hong Kong's film industry reconstituted

While some studies contend that the inflow of foreign capital investment from Taiwan resulted in the overreliance on pre-sales in the Hong Kong film industry, we hold a different view. Foreign capital was a significant source of finance for Hong Kong movies, yet it led to a paradoxical result: it plunged the industry into a sharp decline through spawning Newport, a new and significant challenger for the existing major film companies in the late 1980s since it wrested a considerable number of theatres from the "majors". Each theatre chain in the market henceforth comprised fewer theatres than before. With fewer theatres under their control, the "majors" were hard pressed to recoup their film production costs. This led to the winding up of two "majors", namely, Golden Princess and D&B, and gave rise to the entry of other "newcomers" who set off the cinema sector's second wave of restructuring. Hence, foreign capital was an exogenous shock to the field as it altered the power relations among the film companies in Hong Kong – its role is not the one described in the conventional accounts.

As noted earlier, some studies attribute the decline of Hong Kong's film industry to the slump in exports of its film products, the small size of the domestic film market, and the lack of government support for industry upgrading that resulted in a deficiency of technical skills among industry practitioners. Our study casts doubts on these claims because these factors were all present and remained relatively constant throughout the industry's boom and bust phases. During the golden age of the industry in the 1980s, film critics had already levelled from time to time the charge of "tasteless productions with little care for quality and artistic precepts" against Hong Kong movies (Teo, 2008: 341). Along the same line of argument, despite the small-scale domestic market and minimal support from the colonial government for Hong Kong's film industry, the industry experienced its heyday in the 1970s and the 1980s. Its film outputs climbed steadily and even out-grossed the imported movies from Hollywood at the domestic box office. It was coined as the "Hollywood of the East" since its market share in some countries even matched with that of Hollywood (Dannen and Long, 1997; Stokes and Hoover, 1999; Hammond, 2000; Stokes, 2007). It would be grossly unwarranted to blame the small scale of Hong Kong's film market for its fateful decline.

Revenue from overseas markets was an important income stream for Hong Kong movies (Leung and Chan, 1997: 143–151; Hong Kong Trade Development Council, 2001), sharing around 40 per cent of the total revenue during the 1990s.[24] However, it is dubious to attribute the industry's decline to the slump in exports for two reasons. First, as discussed earlier, Taiwan was the top importer of Hong Kong movies during the early 1990s due to the lifting of martial law in 1987 that hastened the flow of financial capital from Taiwan to China via Hong Kong. However, Taiwan capital withdrew as quickly as it came when the Chinese government excluded many co-productions from the Chinese market in 1994.[25] The drying up of Taiwan capital did not result instantly in the abrupt decline of Hong Kong movies' revenue from overseas markets,[26] but it affected the Hong Kong film industry through jeopardizing the sustainability of Newport and preventing the formation of a viable market order that favoured local movies by the mid-1990s. The wilting of foreign capital rather than the dwindling of movie exports, therefore, created an "external shock" that led to the Hong Kong industry's decline. Yet the impact of this "external shock" is not as described in the conventional accounts because the withdrawal of foreign capital did not lead to the slump in Hong Kong's film exports immediately. Instead, it coupled with the closure of traditional cinemas and touched off the restructuring of the cinema sector. This set the stage for the alignment between multiplex exhibitors and imported film distributors that sent the local film production in Hong Kong into a downward spiral.

Second, the domestic market other than exports is imperative for the industry's development. The ample literature on media economics shows that the domestic market of a film industry is crucial to the export of its film products (Hadida, 2008; Jayakar and Waterman, 2000; Weder, 1996). These studies apply economic models to test the "home market effect" for film exports, arguing that movies that could generate higher box-office grosses from the domestic market are expected to perform better abroad. The box-office performance of movies in the domestic market are often taken as an indicator or a benchmark for the distributors and exhibitors in overseas markets to determine whether, or for what duration, the movies will be released or screened (Vogel, 2007). In Hong Kong, the local theatrical screening, being the first window of exhibition, is the key conduit of profit return. Distributors typically try to "signify the premium value" of their film products by launching them in theatres (Curtin, 2007: 84). Then, they would market the products "through discount outlets" according to the movies' theatrical performance (ibid: 84). The box-office results from domestic theatrical screening are used as a benchmark for the local distributors to bargain with the overseas exhibitors and retailers over better terms in the exhibition or distribution contracts aboard (Hong Kong Film Archive, 1997: 69). This arrangement accentuates the importance of the industry's domestic market to its film exports. In this regard, the performance of Hong Kong's film exports, although important, is not a determining factor in the industry's decline.

Triad intrusion and video piracy are oft-cited explanations for the industry's decline, but this study shows that the disruption they purportedly caused to the industry might be overstated. We do not claim that triad intrusion and video piracy were innocuous but rather suggest that they do not account for the downfall of Hong Kong's film industry for two reasons. First, as pointed out by experts in triad studies, the triads sometimes perform a "service" to an industry or the local economy (Gambetta, 1993; Chu, 2000). Most film projects in Hong Kong depended heavily on private equity and angel capital, namely, affluent individuals who provide capital for a film business. This pattern of film finance is understandable given that the Hong Kong government had no policy to support the financing of film projects until the late 1990s (Wong, 2007; Zhang, 1998: 7) while most commercial banks in Hong Kong concentrate on trade finance and are notoriously conservative (Chiu and Lui, 1997). Even the industrialists who enjoyed their golden days in the 1960s constantly complained about the reluctance of the banks to finance their production and expansion (Chiu, 1994). The same situation is evident in the Hong Kong film industry. Given this situation, some anonymous insiders contend that the triads were actually the "dark knights" that financed many film projects in Hong Kong throughout the 1980s and the 1990s. Since triads are always seeking places for money-laundering, film production houses with "casual" accounting practices could be an ideal place for triads to invest their money (Curtin, 2007: 74). Moreover, the triads provided "location services" for filmmakers who were shooting movies in public areas. These "services" included an effort to ensure the "cooperation of the shopkeepers and the people who live" in the area (ibid: 72). In these respects, triads can be said to have "contributed" to the Hong Kong film industry.

The decline of the industry should not be attributed to the "piracy problem" as piracy existed almost a decade prior to the decline of Hong Kong movies circa the mid-1990s. Since the late 1980s, the widespread distribution of pirated copies of movies in the form of video cassettes or Video Home System (VHS) in Asia had already menaced the worldwide distribution of Hollywood movies (Buck, 1992; Darlin, 1992). In Hong Kong, even industry insiders acknowledge that piracy has been a problem ever since video copies of Hong Kong movies became available for rental, that is to say, around the 1980s (Booth, 2000). This period, however, was the "golden age" of the Hong Kong film industry as the film outputs in Hong Kong climbed steadily and even surpassed the imported movies from Hollywood in the domestic box office. Besides, as video

piracy of Hong Kong movies and imported films existed during the 1990s, piracy should have affected Hollywood's and Hong Kong movies more or less equally in the film market. If this is the case, why then did Hong Kong movies lose turf to Hollywood, and why could the latter achieve remarkable success in the Hong Kong film market? It follows that piracy should not be taken as the root cause of the industry's decline although it could have harmed the film market to some degree (Wang, 2003; De Vany and Walls, 2007; Dejean, 2009). This suggests that triad intrusion and video piracy are not decisive causes of the industry's decline.

Changes in consumption patterns as a result of the proliferation of alternative entertainment media have often been mentioned as a cause of the Hong Kong film industry's calamitous decline during the 1990s. These changes, however, did not lead directly to the industry's decline. Although Leung (1999: 30) found cinema-going to be a less popular choice of media consumption among young people in Hong Kong, she herself highlighted that over the 1990s, "[s]urprisingly, young people . . . visited cinemas more frequently than before." Leung's findings are supported by the box-office figures. As shown earlier in Figure 21.1, the total theatrical receipts in the Hong Kong film market dived steeply over the 1990s. In the midst of the freefall, the box-office revenue of locally made movies shrank at a much faster pace than that of the imported films. While the box-office grosses of Hong Kong movies plummeted monotonically from 1993 onwards, the box office of foreign movies grew steadily. An implication that follows is this: even if the proliferation of alternative entertainment media changed the consumption pattern of some Hong Kong cinemagoers, many people still visited cinemas yet few of them watched Hong Kong movies. This points to a key question about the root causes of the decline of Hong Kong's film industry, in particular why have cinemagoers "preferred" to watch imported films rather than locally made movies after 1993?

Some studies contend that imported films, notably Hollywood's movies, have dominated the Hong Kong film market because of their advanced filmmaking technologies. This helps the movies to overcome cultural barriers abroad and attract overseas audiences. In spite of Hollywood's comparative advantage, we show that it is the institutional settings of the film industries in receiving countries that determine whether Hollywood could expand its dominance over foreign film markets. Hollywood's successful invasion of the Hong Kong market since the 1990s largely depended on the re-alignment between the local multiplex exhibitors and the distributors of foreign movies. As early as the 1980s when the old market order prevailed such that most theatres were controlled by the major distributors of Hong Kong movies, the market share of Hollywood's movies was much smaller than that of the local movies. In the 1990s, however, the rising price of retail space in Hong Kong drove many cinema owners to redevelop their properties for alternative uses, for example, to build shopping malls, commercial buildings, or private apartments. Having fewer cinemas, the major distributors could hardly achieve the economy of scale necessary for cost recovery. The owners of some major distribution companies therefore wound up their movie business and left the industry by the mid-1990s.

The downfall of the major distributors of Hong Kong movies provided an opportunity for the distributors of foreign movies to co-opt the exhibitors in Hong Kong. After multiplex cinemas had replaced traditional theatres, the multiplex exhibitors controlled the exhibition blocks, namely, when and what movies could be screened in the cinema. This restructuring in the cinema sector provided the distributors of foreign movies with an opportunity to ally with the multiplex exhibitors. But for the rising price of retail space that drove most traditional theatres to go bust, multiplex exhibitors might not have been able to seize control of the exhibition blocks of Hong Kong movies and Hollywood's film companies could not co-opt a majority of exhibitors in Hong Kong. Owing to these alliances, Hollywood's blockbusters came to be widely screened in Hong Kong since the 1990s. Following in this vein, it was the alignment between the multiplex

exhibitors in Hong Kong and the distributors of imported films, including the Hollywood film companies, on the one hand, and the rising price of retail space, on the other, that led to the mass closure of traditional theatres and the restructuring of the Hong Kong cinema sector. The result is summarized in Figure 21.5 as a situation where imported films have dominated the retail space whereas most Hong Kong movies were pulled from the screen after a short period of time or did not have a chance of theatrical release.

Going north for co-production deals as a panacea?

Hong Kong was once one of the world's largest movie exporters. It was a production hub of movies in Asia prior to its decline in the 1990s (Leung and Chan, 1997). As noted earlier, Hong Kong's film industry was coined as the "Hollywood of the East" since its market share in some countries even matched with that of Hollywood. Whatever the case, our analysis shows that the industry became enfeebled after 1993. Its revenue from exports plummeted from HK$951 million in 1991 to HK$263 million in 1998 (see Appendix), testifying to the closing of Hong Kong's "Asian Hollywood" eminence.

In response to the industry's downfall, many Hong Kong's filmmakers expanded into the Chinese market by engaging in co-productions with the Mainland. Chan and Fung (2011) refer to the co-productions as a form of "structural hybridization" that can be understood as the collaboration between Hong Kong's and China's film companies and personnel in various domains, such as "management, investment, scriptwriting, shooting, artists and talent composition, organization
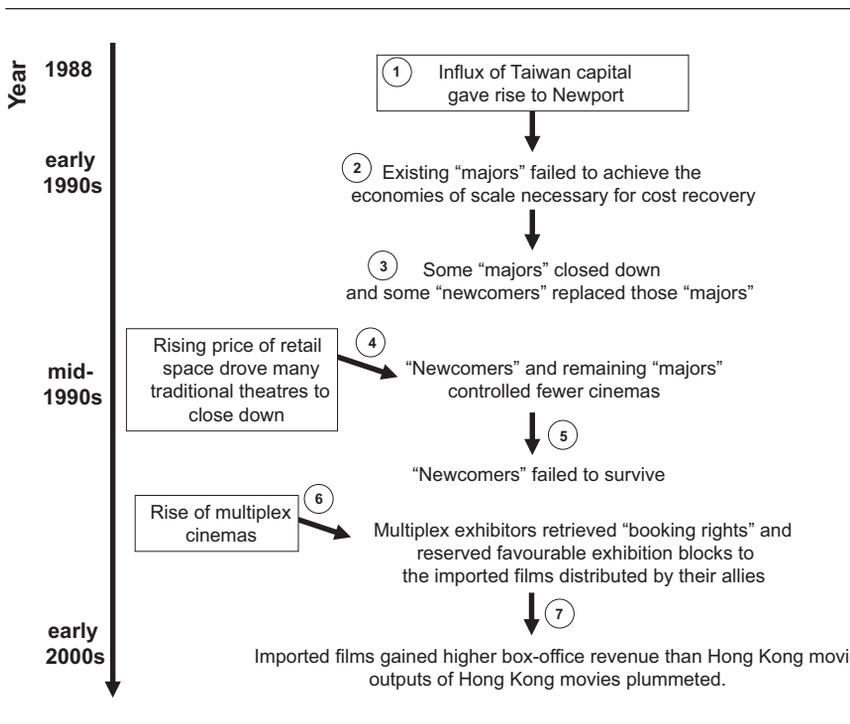
Figure 21.5   Key incidents leading to the downfall of Hong Kong's film industry during the 1990s

of the filming crew, post-production, marketing efforts and strategies" (Chan and Fung, 2011: 80). Co-production deals seem to have provided a short respite for the Hong Kong film industry because, according to CEPA, the movies that are jointly produced by Hong Kong and the Mainland are treated equally in terms of distribution as the movies made in the Mainland. While the Chinese government imposed an import quota of 34 films per year, Mainland-Hong Kong co-productions are exempted from the quota restrictions. They were shielded from competition with foreign movies, including Hollywood's blockbusters, for distribution in China. Practitioners from Hong Kong, in particular film directors, producers, actors, and actresses, thus sought to gain wider market access and to approach potential investors for their movies in the Mainland by means of co-production.

Analyzing the division of labour between Hong Kong and China in co-production, Fung (2014) identifies three modes of cooperation that characterize the power relations among the personnel. He refers to China's role in the first model as a "controller" of the co-production. Companies in the Mainland possess a great deal of power in the project as they take charge of the production and distribution. Hong Kong's actors and actresses are cast, but producers from Hong Kong are not involved in the production. Hence, these projects just benefited the Hong Kong performers who may gain popularity with the Chinese audience. Hong Kong's producers play a leading role in the second type of co-production. They oversee the production whereas their Chinese partners become an "abettor" who assists them in gaining permission from the Chinese authorities for access to the Chinese market. These movies and TV programmes are usually shot in China, but they involve actors and actresses from both sides of the border. In the third form of co-production, Hong Kong and China are both the "co-producers", participating equally in the production process. They also share the profits from sales on a more or less equal basis.

The advent of Mainland-Hong Kong co-productions, however, was not a panacea for the Hong Kong film industry. Despite the preferential treatment under CEPA, the role of Hong Kong's filmmakers has turned gradually into being of subordinate importance in the production process. As Yu Dong – the CEO of a leading movie distribution company in China – put it, present-day Hong Kong plays a less significant role in the Chinese film industry as many of its filmmakers are just assisting the film directors from the Mainland to make movies. Most of the movies are based on stories written by the Mainland scriptwriters whereas the Hong Kong personnel's involvement in the project is minimal (see Chu, 2015: 111). Chu (2013) describes this trend as a situation where Hong Kong's filmmakers are no longer essential players; they are just "commissioned to produce films of Mainland themes and stories" (p. 111) and thus do not have much authority to control the project. This suggests that the model characterizing China as a "controller" in the co-production, as discussed earlier, has become prominent in the field.

While Hong Kong's filmmakers seem to be losing out on their control of the co-production, the dwindling of Hong Kong's film industry has attracted considerable attention from scholars. Many studies have shed light on how Hong Kong's filmmakers sought to secure support from the Mainland investors by striking a balance between compliance with China's censorship regulations and the freedom of expression in film production (see Teo, 2008; Yeh, 2010; Pang, 2011; Szeto and Chen, 2011; Chan, 2013). Central to their observation is the dilemma between the preservation of some features of Hong Kong movies that might have contravened China's film censors and the filmmakers' compliance with the censorship in order to gain access to the Chinese market. This dilemma, as Szeto and Chen (2012) argue, led to the elimination of Hong Kong's "localness" in its film products, most of which are co-productions aimed at the Mainland audiences.

Film critics and commentators have raised a similar concern about the decline of Hong Kong cinema (see Wong, 2008; Zhang, 2008). *The South Metropolis Daily* (2010), for example, published a cover story in 2010 to mourn the absence of Hong Kong's characteristics in co-productions.

In a review published by the Hong Kong Film Critics Society (2013)[27] of Hong Kong movies made in 2012, the critics claimed that Hong Kong's film directors are too concerned about the box-office returns in China that are ten times those of the Hong Kong box office (p. 248). This provides clues as to why most of the co-productions became less appealing to Hong Kong's moviegoers; it is because they are catering to the Mainland audiences. The result is that the Hong Kong film industry has become increasingly concentrated with a large number of movies targeting mainland China whereas the Hong Kong film market is of less concern to the filmmakers.

Is there a way to revive the Hong Kong film industry? *Bloomberg Businessweek* (2015)[28] seeks to answer this question through interviews with two Hong Kong film directors – Chun-chun Wong (黃真真) and Johnnie To (杜琪峰). The article explores the ways in which Hong Kong's filmmakers could cope with the Chinese censors without compromising much on the movie content and without removing the elements that they want to incorporate into the film. Its observation is more or less consistent with Chu's (2015) argument that the cooperation between Hong Kong and China cannot be simply characterized by the dichotomy between the "big-budget Mainlandized inauthentic co-productions" and the "small-budget local authentic Hong Kong movies." Instead, these studies suggest that Mainland-Hong Kong co-productions can actually "both be making money and culturally significant" (p. 119).

The recommendations offered in the past studies are highly suggestive, but they focus mainly on film production, in particular how the Hong Kong filmmakers could overcome Chinese censorship and tap the Mainland film market. The Chinese market undeniably has great potential. It is understandable why most Hong Kong's film companies have shifted their market focus to China, giving priority to the Mainland audiences. However, as Chan et al. (2010: 78) point out, "does this mean that all future hopes for the Hong Kong film industry rest with the China market?" Not necessarily. Chan, Fung, and Ng (ibid) highlight the risk factors that remain in entering the Chinese film market, such as the "unpredictable changes in policy, government intervention, and censorship." These factors still cause Hong Kong's filmmakers to have reservations about relying solely on advancing into the Chinese market as a career strategy.

Given this circumstance, we suggest that a possible way to revitalize the Hong Kong film industry is to capitalize on what the industry has already achieved and to develop its competitive edge on a new platform. Without a doubt, China's film market is one such platform. Yet helping Chinese movies to penetrate overseas markets through international film trade could be an alternative way out of an impasse. Now that much of the industry's production side has vanished, further studies should delve into the expertise of Hong Kong's film industry practitioners in international distribution and networking in order to explore in greater depth the competitive edge of Hong Kong's film industry in globalization. For instance, among the best-selling co-productions, such as *Hero* (2002); *House of Flying Daggers* (2004); *Curse of the Golden Flower* (2006); *Lust, Caution* (2007); and *True Legend* (2010), Hong Kong's EDKO Films Ltd. contributed to these projects by promoting international sales and drawing in support from overseas investors, whereas its Mainland partners took charge of the production.

Besides, Hong Kong's talents have proven their competitive edge in China by having high market sensitivity and rich experience in film distribution and international marketing. For example, veterans from Hong Kong, such as Nansun Shi (施南生), Jeffrey Chan (陳永雄), Yam-chi Chu (朱任之), and many others, are senior executives of the distribution arms of the leading film companies in China. This suggests that Hong Kong's film companies and practitioners have assumed a brokerage role in film distribution and financing that fuelled the growth of China's film industry. Hong Kong's skills in international trade, film promotion, and networking that enable Chinese movies to tap into global exhibition outlets are areas where Hong Kong remains competitive. Further studies are thus suggested to take a broader view of the possibilities for the

industry to flesh out its role as a key broker for China's film distribution. This area of research deserves greater scrutiny than it has received thus far.

All in all, the development of Hong Kong's film industry presents a noteworthy case of how geo-politics are pertinent to the restructuring of the Hong Kong economy and how market players from different institutional fields respond to social forces to pursue their interest. Our study shows that a series of policy changes in China and Taiwan since the late 1980s – in particular, the opening of China's film market, along with the lifting of martial law in Taiwan in 1987, and the regulatory change in China in 1994 that excluded many co-productions from the Chinese market – constituted a structural condition that allowed market players to develop new practices and conventions. This led to a new market order that allowed Hollywood exporters to capitalize on their competitive advantages and make a successful return to Hong Kong. This case study contributes to the economic sociology of Hong Kong studies in two aspects: first, it illustrates how economic restructuring can be driven by exogenous forces at the global or regional level and mediated by the interactions among market players at the national or field level. Second, it accentuates the importance of the interactions between globally oriented actors, namely, the Hollywood exporters in this study, and the locally embedded actors – the film distributors and exhibitors in Hong Kong – to our understanding of market transformations. By putting Hong Kong studies in a sociological perspective, we can develop a more comprehensive understanding of the history of Hong Kong society that goes beyond common-sense narratives and conventional accounts.

Appendix

Screening, box-office takes, and market share of local movies and imported films in Hong Kong, 1971–2015

Year	Local movies		Imported films		Market share of imported films (%)	Revenue from overseas market for local films[1]	Share of overseas revenue in total revenue for local films (%)
	Number	Box office[1] (in million HK$)	Number	Box office[1] (in million HK$)			
1971	94	5.7	441	12.2	68	N.A.	/
1972	99	9.2	422	15.4	62.6	N.A.	/
1973	96	11.2	335	17	60.2	N.A.	/
1974	103	11.8	285	20.2	63.2	N.A.	/
1975	98	10.2	300	14.8	59.2	N.A.	/
1976	95	13.9	283	17.1	55	N.A.	/
1977	88	16.2	321	26.8	62.3	N.A.	/
1978	99	22.9	301	28.8	55.7	N.A.	/
1979	109	30.1	293	37.2	55.3	N.A.	/
1980	118	48.1	278	51.3	51.6	N.A.	/
1981	108	72.5	289	72.6	50.1	N.A.	/
1982	99	133.8	265	91.7	40.7	N.A.	/
1983	95	149.7	176	61.2	29	N.A.	/
1984	87	221.4	232	152	40.7	N.A.	/
1985	89	248.7	226	103.6	29.4	N.A.	/
1986	86	269.9	279	154.4	36.4	N.A.	/
1987	76	345	290	147.1	29.9	N.A.	/
1988	115	488.5	234	129	20.9	N.A.	/
1989	116	459.4	351	197	30	N.A.	/
1990	120	537.3	222	268.6	33.3	806	40
1991	135	634.3	384	187.6	22.8	951	40
1992	175	867.5	294	218.3	20.1	1,301	40

Year	Local movies		Imported films		Market share of imported films (%)	Revenue from overseas market for local films[1]	Share of overseas revenue in total revenue for local films (%)
	Number	Box office[1] (in million HK$)	Number	Box office[1] (in million HK$)			
1993	187	861.7	273	308.8	26.4	1,292	40
1994	143	790.5	318	352.7	30.9	1,185	40
1995	143	700	337	507.8	42	1,050	40
1996	108	632.4	312	540.2	46.1	417	60.2
1997	86	556.3	383	617.3	52.6	334	62.5
1998	85	440.4	370	567.7	56.3	263	62.6
1999	163	351.1	281	520.2	59.7	N.A.	/
2000	144	366.1	195	507.5	58.1	N.A.	/
2001	119	427.9	190	544.6	56	N.A.	/
2002	91	331	195	496.5	60	N.A.	/
2003	77	384	169	414.1	51.9	N.A.	/
2004	84	355.6	170	485.3	57.7	N.A.	/
2005	66	274.5	177	569.4	67.5	N.A.	/
2006	54	244.8	172	624.2	71.8	N.A.	/
2007	67	204.6	N.A.	772.7	79.1	N.A.	/
2008	67	240.2	N.A.	838.4	77.7	N.A.	/
2009	65	251.2	N.A.	900.3	78.2	N.A.	/
2010	77	276	N.A.	1,063	79.4	N.A.	/
2011	59	251.4	217	1,247.7	83.2	N.A.	/
2012	52	369.8	249	1,339.7	78.4	N.A.	/
2013	43	358.7	267	1,668.8	82.3	N.A.	/
2014	52	410.6	258	1,492.5	78.4	N.A.	/
2015	59	426.2	273	1574	78.4	N.A.	/

Notes:
[1] Box-office figures are weighted by the Consumer Price Index (CPI) in each corresponding year and are at constant 2010 prices. This study used General Consumer Price Index in 1971–1974 and CPI(B) in 1975–2015. See Census and Statistics Department (various years).
"N.A." denotes data that are not available.
Local movies refer to the films produced by any registered companies in Hong Kong. According to the definition given by the Hong Kong Motion Picture Industry Association Limited (2010), 50 per cent or above of the "listed effective post(s)" in the movie should be taken up by Hong Kong permanent residents. These posts include "film producer, director, script writer, actor or actress." Movies that fulfil these criteria are regarded as "Hong Kong movies". Imported films refer to non-local movies imported into Hong Kong from other places.

Sources:
[1] 1971–1999 Number of imported films shown in Hong Kong: Chan (2000: 91).
[2] 2000–2006 Number of imported films shown in Hong Kong and 2001–2002 box-office takes: Hong Kong Motion Picture Industry Association (Various years). [see Hong Kong Motion Picture Industry Association Limited. Various years. *Hong Kong Films: Annual Review*. Hong Kong: City Entertainment.]
[3] 2011–2015 Number of imported films shown in Hong Kong: CreateHK (various years).
[4] 1971–2010 Number of film outputs in Hong Kong: Hong Kong Film Archive (2012b).
[5] 2011–2015 Number of film outputs in Hong Kong: CreateHK (various years).
[6] 1971–1989 Box-office takes: Chan (2000: 92).
[7] 1990–2000 Box-office takes: Hong Kong Trade Development Council (2001: 10).
[8] 2003–2015 Box-office takes: Census and Statistics Department (various years).
[9] 1991–1998 Revenue from overseas market for local films: Census and Statistics Department (2001: 49).

Notes

1 This chapter is based on a larger project on the Hong Kong and Chinese film industries that was supported by the General Research Fund (GRF) from the Research Grants Council (RGC) of the University Grants Committee (UGC) in Hong Kong (Ref No. 442312). Authors' names are arranged alphabetically. Some parts of the chapter appeared previously in Chiu, S.W.K., and Shin, V.K.W. (2013) The fall of Hong Kong movies: A post-mortem investigative report. Occasional Paper No. 223. Hong Kong: Hong Kong Institute of Asian Pacific Studies, The Chinese University of Hong Kong; and Shin, V.K.W., and Chiu, S.W.K. (2016) Global distribution networks, local exhibition alliances: Hollywood's new map in Hong Kong. *Regional Studies* 50(5): 835–847. Copyright © Regional Studies Association, reprinted by permission of Taylor & Francis Ltd, www.tandfonline.com on behalf of Regional Studies Association.

2 According to the definition given by the Hong Kong Motion Picture Industry Association Limited (MPIA), "Hong Kong movies" refer to the films produced by any registered companies in Hong Kong (Hong Kong Motion Picture Industry Association Limited 2010). Fifty per cent or above of the "listed effective post(s)" in the movie should also be taken up by Hong Kong permanent residents (ibid.). These posts include "film producer, director, script writer, actor or actress" (ibid.). Movies that fulfil these criteria are regarded as "Hong Kong movies" (see Hong Kong Motion Picture Industry Association Limited, 2010).

3 "Booking rights" refer to the right to control how often and how long a movie will be put on screen.

4 Multiplex cinemas are different from the traditional theatres described earlier. Multiplex cinema is equipped with at least three screens or houses, with each house contains less than a thousand seats.

5 Following China's economic reform in 1979, the Chinese government has gradually relaxed its tight control over the film industry. The government permitted foreign film companies to forge co-production partnerships with the Chinese film studios. When the Taiwan government lifted its martial law in 1987, there was an influx of financial capital from Taiwan to China via Hong Kong. By the early 1990s, co-production deals between film companies from Hong Kong, Taiwan, and China were exceptionally active. The movies produced in this way brought together capital from Taiwan, the film personnel from Hong Kong, and the sites or locations in and the manpower for film production from mainland China. For instance, although Cinema City was a satellite production company of Golden Princess (GP), many of its productions were financed by Long Shong Group, a film distributor in Taiwan (Liang, 1998: 124). Another Taiwan film distribution company, Scholar, had also invested in the movies produced by Win's Movie Production Company in Hong Kong. Several other film companies in Taiwan, such as New Ship, Hua Liang, Feng Ming, Chang Hong, and Upland Films Co. Ltd., also funded the film production companies in Hong Kong (ibid: 125).

6 This information is drawn from the cinematic advertisements in *Singtao Daily* and *Mingpao Daily*. We compile the data from a sample of the two movies from each company that received the highest and the lowest box-office grosses in the respective year.

7 Regal was a film company set up by a businessman, Steven Kit-sing Lo (Luo Jie-cheng 羅傑承). The company sought to follow in the trail of the former "majors" by forging a vertically integrated commodity chain in its film business. When Raymond Wong, an actor and film director, split with Karl Maka and Dean Shek, and left Cinema City, a satellite production company of Golden Princess, he set up his own production house, the Mandarin Film Company in 1991. In the next year, Mandarin together with Regal formed the Regal Circuit by co-opting the theatres that previously allied with D&B.

8 Interview on 25 August, 2011.

9 As noted earlier, in Hong Kong a theatre in traditional settings has only one to two screen(s) or house(s) with more than a thousand seats installed in each theatre.

10 Hong Kong Motion Picture Industry Association Limited, *Annual Review*, various years.

11 Cinema Treasures, *Cinema Treasures | About Us*, available at http://cinematreasures.org/about/, accessed 3 May 2013; Wong H-p. [黃夏柏] (2007)《憶記戲院記憶》(*Cinemas in Memory*) Hong Kong: Wheat Publishing. (in Chinese)

12 Zheng B-z. [郑帮主] (1987) 曝光/捉影：戲院跟進地產業 (Exposure/Capture: Cinemas move forward with the real estate sector)《電影雙周刊》(*Movies Bi-Weekly*) 214: 13–14. (in Chinese)

13 Same data sources as Table 21.3.

14 Broadway's first theatre was established in 1949. The company converted its theatre to a multiplex cinema in 1987.

15 UA is the first among the four major multiplex circuits to set up multiplex cinema in Hong Kong. The first UA cinema was set up in 1985 in Shatin, a suburb in Hong Kong. It contained six screens and houses.

16 From the early 2000s, Golden Harvest (GH) withdrew from film production and focused on its distribution and exhibition business. The company made this adjustment largely because its theatrical possession was not large enough to achieve the economy of scale needed for cost recovery once some multiplex exhibitors, such as Broadway and UA, have grabbed a lion's share of the cinemas in Hong Kong since the late 1990s. In this case, the company converted its theatre chain into multiplex-cinema circuit, and began to screen the movies released by any film companies.

17 The parent company of MCL is Intercontinental Film Distributors (HK) Ltd. (IFDL). IFDL distributes foreign movies in Hong Kong. Before the establishment of MCL, IFDL rented several traditional theatres for movie screenings.

18 United International Pictures (UIP) is a joint venture that handles the overseas distribution of movies from several Hollywood studios, such as Paramount, Metro-Goldwyn-Mayer (MGM), United Artists, Universal, and DreamWorks.

19 Kadokawa Intercontinental Group, *Intercontinental Film Distributors (H.K.) Limited* (Kadokawa Intercontinental Group Holdings Limited), available at www.intercontinental.com.hk/about_us/ifdl_about_us_index.htm, accessed 3 May 2010.

20 Lark International Holdings Limited, *Lark International Holdings Ltd. (since 1963)* (Lark International Holdings Limited), available at www.lark.com.hk/multimedia.html.

21 As noted earlier, exhibition blocks refer to the period in which each movie is screened in a cinema.

22 Same data sources as Figure 21.1.

23 See Appendix.

24 See Appendix.

25 See Shin (2011) for further details on the changing political contexts of the Chinese and Taiwan film industries during the early 1990s.

26 See Appendix.

27 Hong Kong Film Critics Society. (2013)《2012 香港電影回顧》(*2012 Hong Kong Cinema in Retrospect*) Hong Kong: Hong Kong Film Critics Society. (in Chinese)

28 Lee, Y.-c. and Xi, Y. [李以莊、席悅] (2015) 回歸本土：新合拍片 年代 (Return to the Local: A New Era of Co-productions) *Bloomberg Businessweek*, March 11–24: 42–29. (in Chinese)

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22

End of a chapter?

Hong Kong manufacturers in the Pearl River Delta

Godfrey Yeung

Introduction

Hong Kong has experienced a series of politico-economic challenges since signing the Treaty of Nanjing (29th August, 1842) and the Convention of Beijing (9th June, 1898) after the defeat of Qing dynasty of China in the Opium War.[1] Rather than vanishing quietly into its unusual history, Hong Kong experienced four decades of unexpected and sustained economic growth after World War II and restructured its economy from entrepôt trade and labour-intensive manufacturing in the 1950s–1970s, to become one of the most important financial centres in Asia since the 1990s. Hong Kong managed to overcome numerous challenges during the last century, but the recent restructuring of the manufacturing sector could be a potential stumbling block for the long-term vitality of its economy.

The Hong Kong Special Administrative Region (SAR) of China (hereafter HK) experienced three major (economic) crises within two decades of the handover of sovereignty back to China in 1997: the Asian financial crisis of 1997–98, the severe acute respiratory syndrome (SARS) crisis in 2003, and the recent global economic crisis in 2008. In spite of the vibrant economic environment that had served Hong Kong well for the previous century (Enright et al., 1997), HK's competitiveness in manufacturing has diminished over time. Rather than simply serving as a window for China during the 1980s and 1990s (Smart and Smart, 1991; Sung, 1991), HK's relationship with southern China is more symbiotic, and the socio-economic development of HK has become increasingly integrated with mainland Chinese society. It is suggested that manufacturers from HK have been crowded out of the Pearl River Delta (PRD), and hence, this is the "end of the chapter" for HK manufacturing entrepreneurs.

Several recent high-profile labour strikes in foreign-financed firms in the PRD have been attributed to the non- or under-payment of medical insurance and other forms of allowance according to Labour Contract Law, which increased the costs for manufacturers (Warner and Zhu, 2010; see also Yeung and Mok, 2002). Some of the highest-profile labour strikes occurred at Yue Yuen in 2014 and Stella International in 2015. The former was triggered off by the under-payment of pensions while the latter was about the non-payment of the housing allowance, which can range from 5 to 20 per cent of workers' monthly incomes (*Financial Times*, 11 March 2015). Both companies are Taiwanese-financed shoes manufacturers headquartered in HK for

global brands: Yue Yuen specializes in sneaker manufacturing for Nike and Adidas, while Stella makes causal and fashion footwear for Deckers, ECCO, Timberland, Cole Haan, and Guess. Due to the close integration of the HK-PRD economies, an examination of economic restructuring in the PRD could yield important insights for the future of manufacturing in the region.

Next, a brief overview of the PRD illustrates the closely integrated economies of HK and southern China since the Chinese economic reform of the 1980s, initially with the relocation of labour-intensive and low value-added manufacturing from Hong Kong to PRD. The economic restructuring and the subsequent change of fortune of HK and domestic-funded manufacturers in the PRD is discussed in the third and fourth sections. This chapter concludes with a brief discussion of the importance of governmental industrial and education policies on the competitiveness of advanced manufacturing in HK.

A brief overview of the PRD

The PRD economic zone covers an area of 13 cities and counties (districts): Guangzhou, Shenzhen, Zhuhai, Foshan, Jiangmen, Dongguan, and Zhongshan, plus the urban districts of Huizhou, Huidong county, Boluo county; the urban districts of Zhaoqing, Gaoyao; and Sihui county-level cities. Two of the four Special Economic Zones (SEZs) – Shenzhen and Zhuhai – play an instrumental role in the economic development of the PRD.[2] Shenzhen, located in the southern strip of the former Baoan county and adjacent to HK, was one of the four SEZs established by the Chinese government to channel overseas Chinese and foreign capital and industrial resources through more up to date managerial knowledge and manufacturing technology in the 1980s.

Although occupying only 31 per cent of the land area and with 54 per cent of the total population in Guangdong, the PRD is almost synonymous with the province in economic terms: the 5,765 billion *yuan* of gross domestic product (GDP; with a per capita value of 100,448 *yuan*) recorded in the PRD accounted for 79 per cent of the provincial total in 2014.[3] The PRD also accounted for 83 per cent of industrial value-added, 93 per cent of foreign direct investment (FDI), and 95–96 per cent of the import and export values of Guangdong (GBS, 2015; see also Zhang and Hung, 1996). In spite of the economic rise of the Yangtze (Changjiang) River Delta since the 1990s, the PRD is still one of the main engines of economic development in China. In 2014, the PRD accounted for more than 9 per cent of the national GDP, 22 per cent of FDI, 26 per cent of exports, and 21 per cent of import values in China (NBS, 2015; GBS, 2015).

The PRD has had a significant impact on the development of HK since the economic reforms. High production costs in HK led to a massive relocation of labour-intensive manufacturing to the PRD, where labour and land costs are lower. Most investments were in the form of processing and assembling with local partners (and family relatives) rather than in FDI, as such investments below US$30 million could be approved directly by local governments (see Yeung, 2001, for the differences between processing and assembling and FDI). The Taiping Handbag Works in Humen Town of Dongguan was the first such investment from HK, in 1978. Under similar business models, HK acted as the marketing, logistics, and management centres for their manufacturing plants in the PRD: "front shops-back factories" (Vogel, 1989; Sung et al., 1995; Sit, 1998; Smart and Smart, 1991; Chan, 1995; Yeung and Mok, 2002). These forms of investment proliferated in the PRD in the following decade before being overtaken by (much) larger-scale FDI, including some originating from areas other than HK (Smart et al. 2015). HK was still the most important trading partner with the Guangdong province, accounting for 22 per cent of international trade value and 36 per cent of export value in 2014 (GBS, 2015).

This business model served both sides well for more than two decades as HK reduced the costs of economic restructuring via the relocation to the PRD, while the PRD developed as the

"factory of the world", producing a large proportion of labour-intensive manufactured goods for consumers worldwide, for example, electronic consumable products, garments, footwear, and plastic products (especially toys) (Lin, 1997; Enright et al., 2005). The electronics industries were especially important for the PRD, forming 24 per cent of its total industrial output value and 22 per cent of its industrial value-added in 2014 (GBS, 2015). During its peak in 2006, the PRD was called the "Fifth Dragon" after the four Asian newly industrialized economies (NIEs), and accounted for 10 per cent of China's total industrial output (Sung et al., 1995; Smart et al. 2015).

As with other booming economies, the competiveness of labour-intensive manufacturing is diminishing due to rising production costs in the Chinese economy in general and the PRD in particular. Could this impact on HK's manufacturing bases in the PRD?

End of a chapter? Labour-intensive, low value-added manufacturing relocated from Hong Kong

The development of HK manufacturers in the PRD can be illustrated by its trajectories of FDI, international trade, industrial output value, and employment in the region. There are however a few caveats on the publicly available statistics. FDI, from its origins, is specific to those companies registered in HK with investments in Guangdong province rather than the PRD per se, although the utilized value of FDI in the PRD has accounted for over 92 per cent of provincial total value in recent years (GBS, various years). The international trade and industrial output values are in the PRD, but there is no specific reporting of HK-financed firms, i.e., only foreign-financed firms in terms of international trade and HK, Macao, and Taiwan-based firms in terms of industrial output. The industrial output value is the sum of this value in nine cities in the PRD.[4] Obviously, all these figures are (slightly) inflated due to the inclusion of non-PRD or non-HK-based firms.

Perhaps the most important caveat when interpreting these data is the so-called "round-tripping" of Chinese capital and the distortion of trade statistics by transshipment and over-invoicing. China-based corporations reinvested their capital back into China through their subsidies in HK in order to get preferential (taxation) treatment from Chinese local governments (in the 1980–1990s) (Yeung, 2001; Fung et al., 2011; Smart and Smart, 2012). Moreover, the international trade figures could be inflated by the usage of HK as a transshipment port (more than 95 per cent of export value from HK in 2012 was subsequently re-exported to other destinations) or the over-invoicing of exports for the sake of moving capital out of China (as reported in the media in 2013 and 2015).[5] The (significant) discrepancies between China's trade data and the declared world trade data are also partly due to how trade data are recorded: export data are recorded on a freight on board (FOB) basis whereas import data are recorded on a cost, insurance, and freight (CIF) basis (see also Feenstra and Hanson, 2004). As the existing FDI and trade statistics do not capture the real country of "origin", they are therefore interpreted as second-best proxies, remembering the potential explanatory factors are based on circumstance and partial evidence, rather than the result of an exhaustive investigation, so could offer a less than accurate estimate.

Diminishing importance of HK manufacturing in the PRD

Although HK-financed firms still account for the largest share of utilized FDI value in Guangdong, there are obvious signs pointing to their diminishing economic importance for the PRD over time. Between 1989 and 1995, HK firms dominated the inflow of foreign capital, accounting for an average of 79 per cent utilized value of FDI in Guangdong (Figure 22.1). At their peak, HK firms invested US$6.53 billion in Guangdong, accounting for 87 per cent of the total
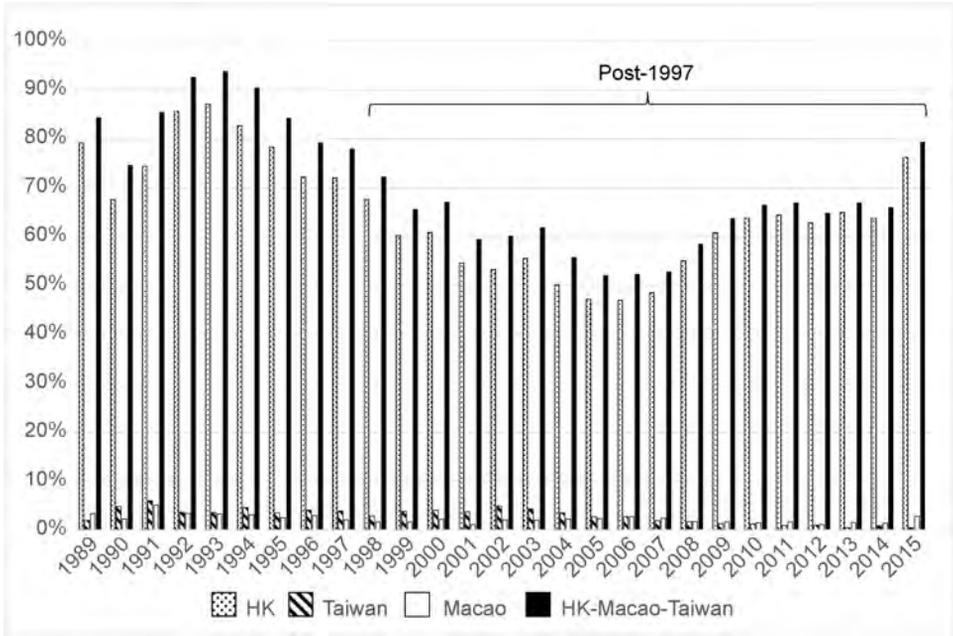
Figure 22.1 Percentage share of utilized value of FDI in Guangdong province, 1989–2015
Source: Compiled by the author from GBS data, various years.

utilized value of FDI in 1993. Adding from Taiwan and Macao (for the sake of comparison with other proxies), the corresponding figures average 86 per cent between 1989 and 1995 and reached a staggering all-time-high of 94 per cent in 1993! One could almost claim that FDI in Guangdong in the early and mid-1990s was investment from overseas Chinese communities, especially those from entrepreneurs based in HK, notwithstanding the "round-tripping" of capital mentioned earlier.

The trajectory of utilized value of FDI from HK in Guangdong is best described as a U-shaped curve since the handover of sovereignty in 1997. The investment share from HK decreased from 72 per cent in 1997, to an all-time low of 47 per cent in 2005–2006 of US$5.8 and US$6.8 billion, before rising again to 61 per cent after the global financial crisis in 2009 and maintaining at that level afterwards (Figure 22.1). The changing importance of HK in FDI cannot simply be explained by the implementation of major treaties, such as the 2001 accession of China to the World Trade Organization (WTO) and the 2003 implementation of the Closer Economic Partnership Agreement (CEPA). HK-Macao-Taiwan as a group accounted for an average of 61 per cent of utilized FDI between 1997 and 2008, and the corresponding figure was 68 per cent between 2009 and 2015, while the total utilized value of FDI in Guangdong province has more than doubled from US$11.7 billion in 1997, to US$26.88 billion in 2015 (see also Smart et al. 2015).

With the decline in processing and assembling, the importance of HK as a transshipment port for Guangdong's imports is also diminishing. HK only accounted for 1.36 per cent of Guangdong's import value in 2014, a massive drop from the 80 per cent recorded in 1995. Due to its efficient container terminals and well-developed logistics, HK was still the most important transshipment port for Guangdong's exports, but its share declined significantly from its peak of 87 per cent in 1995, to 30–40 per cent in the 2000s (35 per cent in 2014). Foreign-financed

Table 22.1 Selected economic indicators of three major types of firms in the PRD's economy, 1999–2014

	1999/2001*	*2005*	*2010*	*2014*
Real industrial output value:				
(in billion *yuan*, & percentage share in the PRD)				
HK-Macao-Taiwan	383	961	1,672	1,867
	(43%)	(33%)	(27%)	(23%)
Foreign-financed	190	1,044	1,972	2,203
	(22%)	(36%)	(32%)	(28%)
Share-holding	138	928	2,116	3,762
	(16%)	(32%)	(35%)	(47%)
Real industrial output value/employee:				
(in 1,000 *yuan*)				
HK-Macao-Taiwan	202.93		321.26	423.71
Foreign-financed	462.18		642.14	780.53
Share-holding	353.58		529.20	769.99
Collectives	30.46		143.66	218.82
State-owned	236.49		1,642.50	615.00
Real value-added per employee:				
(in 1,000 *yuan*)				
HK-Macao-Taiwan	53.16		88.34	101.03
Foreign-financed	106.46		158.37	163.53
Share-holding	93.61		143.36	183.83
Collectives	33.33		44.73	70.30
State-owned	114.82		450.57	215.54
Gross profits per employee:				
(in 1,000 *yuan*)				
HK-Macao-Taiwan	7.96		26.97	28.45
Foreign-financed	25.58		50.46	56.27
Share-holding	13.29		44.31	57.24
Collectives	1.76		9.14	18.72
State-owned	28.74		116.45	48.91

Notes:

*: 1999 data for real industrial output value & 2001 data for other indicators.

The real value is estimated by the retail price index (with 1999 as 100).

The data covers firms with 5 million *yuan* or more of annual revenue from their principal businesses before 2011. From 2011 onwards, the statistics cover only firms with 20 million *yuan* or more of annual revenue from their principal businesses.

Source: Compiled by the author from GBS data, various years.

firms as a group accounted for 50–60 per cent of the total value of exports and imports in the PRD during this period (GBS, 1996–2015).

The diminishing economic importance of HK firms for the PRD is clearly illustrated by their loss of top position in real industrial output value to (private) share–holding firms. HK–Macao–Taiwan firms used to account for around 40 per cent of the real industrial output value in the PRD in the early 2000s, while other foreign–financed firms accounted for another 23 per cent,

with sharing-holding firms accounting for 16–20 per cent (collectives and SOEs occupied the remaining 10–18 per cent) (Table 22.1). The share of HK-Macao-Taiwan firms diminished to around 30 per cent in the mid-2000s and reached 21–24 per cent in 2011–2014, while share-holding firms more than doubled their share by accounting for 47 per cent of real industrial output value in the PRD in 2014. The reality is that other firms than those originating from HK-Macao-Taiwan have grown much *faster* since the 2000s: the real industrial output value of HK-Macao-Taiwan firms increased 3.8 times, from 383 billion *yuan* in 1999 to 1,867 billion *yuan* in 2104, but local share-holding firms increased their industrial output value by a massive 26 times, to 3,762 billion *yuan*, at the same time! Why was there such a reverse in fortune between HK-Macao-Taiwan and local share-holding firms?

Competitiveness, state policies, and the decline of HK manufacturing

The diminishing role of HK manufacturing in the PRD could be explained by the specific profile of HK firms and the economic restructuring policy implemented by the Guangdong government. A (large) proportion of HK-financed firms in Guangdong are small and medium-sized enterprises (SMEs) engaged in labour-intensive, low value-added processing and assembling. They are adaptable to changing market demands but lack scale economies and are unable or even reluctant to invest in research and development (R&D). This is illustrated by the second lowest value in typical indicators of efficiency recorded by HK-Macao-Taiwan-based firms in the PRD (collective-owned firms have the lowest value). At 202,933 *yuan* and 53,156 *yuan*, the real industrial output value per employee and the real value-added value per employee recorded in HK-Macao-Taiwan-based firms was only about half the corresponding value in share-holding companies and other foreign-financed firms in the PRD, but also lower than the state-owned enterprises in 2001 (Table 22.1). This pattern remains unchanged, although the real industrial output value per employee and real value-added value per employee recorded in HK–Macao-Taiwan-based firms increased to 423,712 *yuan* and 101,030 *yuan* in 2014, respectively. The same pattern is repeated in the gross profit per employee.

The lower level of productivity in HK-Macao-Taiwan-based manufacturing firms has been reported by Mok et al. (2007, 2010) in their study of foreign-financed manufacturing firms in Guangdong. Specifically, Mok et al. (2007) reported a disappointingly low 54 per cent of mean technical efficiency in 238 (largely HK) foreign-financed toy manufacturing firms in Guangdong in 2002, presumably one of the more competitive Chinese industrial sectors in the global market. In comparison to estimates of mean technical efficiency in other developing countries in Asia, most noticeably the 79 per cent recorded in Vietnam (Vu, 2003), HK manufacturers, on average, could have a lower level of productivity than the manufacturing sector in Vietnam.

Without long-term investment in R&D and by relying on lower production costs in the PRD, SMEs from HK have lost their competitive edge in manufacturing (Yeh and Xu, 2006). Coupled with the much higher level of competition from locally funded enterprises and subsidiaries from transnational corporations (TNCs) or regional conglomerates, HK-financed SMEs face a very different competitive environment and are increasingly marginalized. This is illustrated by the agglomeration of consumer electronics firms in various industrial parks in the PRD. These industrial clusters are led by a number of global giants, such as Sony, Toshiba, Samsung, LG, and Motorola; locally based firms, such as Huawei, ZTE, and Lenovo; and their electronics manufacturing service (EMS) providers, for example, Foxconn, Flextronics, Quanta, Compal, Wistron, and so on. SMEs from HK compete with tens of thousands of small sub-contractors located in Shenzhen, Dongguan, and Zhuhai and can only provide low value-added parts and components for second or lower-tier EMS. Profit margins for sub-contractors are further squeezed by the

wide adoption of ERP (enterprise resource planning) systems by TNCs and their EMS providers, which integrate all relevant pricing and non-pricing information from sourcing and manufacturing to the distribution of finished products. Sub-contractors cannot inflate their production costs and bargain for higher asking prices as buyers have all the relevant pricing information (Personal communication with HK entrepreneurs in Dongguan on 15–16 December 2011). Due to significantly diminished profit margins in labour-intensive manufacturing in the PRD and a reluctance to relocate to inland and western provinces (due to their relative remoteness so that daily commuting to HK is unfeasible), a number of HK-financed entrepreneurs, especially the offspring of SME founders with much higher levels of education and higher opportunity costs than their parents, are diverting their capital into areas with higher returns, especially property development and speculation (Yeh and Xu, 2006). As the National Bureau of Statistics of China (NBS) and Guangdong Bureau of Statistics (GBS) have not published a breakdown of FDI data by country of origin and industrial sector, it is difficult for outsiders to make an accurate estimate of such a diversion of capital. Some entrepreneurs have estimated that the diversion of capital has contributed to 70 per cent of toy manufacturers closing down in recent years (Yeh and Xu, 2006). Furthermore, a number of HK's sub-contractors are engaged in low value-added, polluting sectors, such as electroplating, and are naturally among the candidates identified by the local governments for relocation under the "dual transformation" policy (see below).

Under the pressure of rising labour costs and the polluted environment, the Guangdong government has implemented a pro-active policy of "dual transformation" (dubbed as the strategy of "emptying the cage for new birds" by the media) since 2008 to improve long-term competitiveness. By relocating low value-added industries to peripheral areas within Guangdong and attracting higher value-added industries and skilled labour to the region, this policy aims to upgrade the value-added quality of its manufacturing and reduce negative environmental impacts. Thirteen industrial parks have subsequently been built for such purposes (*Southern Daily*, 31 August 2011).

The rise in (minimum) wages and operating costs due to the implementation of the Labour Contract Law (2007) have arguably facilitated the decline of HK low value-added manufacturing in the PRD. The Labour Contract Law was passed in June 2007 – becoming effective in January 2008 (see Brown, 2010) – and provides a detailed regulatory framework and was a significant improvement on the legal framework regulating employment relations, including the security of employment (Labour Contract Law, 2007; Warner and Zhu, 2010). Real wage values in the PRD stagnated in the 1980–1990s (Yeung, 2001), and the minimum wage was actually below the estimated lowest poverty line (c.f. Han et al. 2011). Wage rates in Guangdong subsequently increased significantly in the 2000s, partly due to labour shortages before the global financial crisis of 2008 and partly because of the rise in the minimum wage stipulated by the government. The minimum wage in Guangdong has increased by 180 per cent since 2010: from 660–1,100 *yuan*/month in 2010 to 1,210–1,895 *yuan*/month (2,030 *yuan*/month in Shenzhen) in 2016 (MOHRSS, 2016).[6] Obviously, rising production costs have further eroded the competitiveness of labour-intensive and low value-added manufacturing in the PRD (Personal communication with HK entrepreneurs in Dongguan on 15–17 December 2011).

The continued sluggish economic growth in developed countries, especially the major global importer, the European Union (EU), led to a slowdown in Chinese exports and subsequently, the export-oriented HK-financed manufacturers in the PRD. In 2012, exported goods to the EU decreased by 3 per cent in volume and 5 per cent in value (UNCTAD, 2013). Subsequently, the export powerhouses experienced a significant decline in trade: Chinese exports declined from an average annual growth rate of 27 per cent by volume between 2002 and 2007, to 13 per cent in 2011, and further decreased to only 7 per cent in 2012, resulting in several high-profile IT sub-contractor bankruptcies. One was the Taiwanese-financed Wintek Group. It had to close

two of its plants in Dongguan in 2014 due to the change in the supplier of touchscreens by a major brand-name mobile phone provider. This resulted in the redundancy of 7,000 workers and US$961 million in debts owed to various banks and suppliers in China (*Financial Times*, 11 December 2014). It is estimated that 17,000 labour-intensive manufacturing concerns with various forms of ownership have closed down in Shenzhen alone since 2000 (*China Daily*, 12 May 2016: 19). All these changes contribute to the significant reduction in employment in HK-Macao-Taiwan-based firms. At their peak in 2008, HK-Macao-Taiwan-based firms employed 5.27 million employees in the PRD. The number has since decreased by almost one million, to 4.27 million in 2014 (GBS, various years).

The claim that manufacturing in the PRD is over is premature as the decline of HK-financed manufacturing in the PRD has not been accompanied by their domestic-funded counterparts. With rising productivity, one could even argue that the rising nominal wages in the PRD has had no significant impact on the competitiveness of manufacturing in the PRD. After adjusting for the appreciation of *Renminbi*, rising wage rates, and labour productivity, Ceglowski and Golub (2012) argued that unit labour costs in China remained relatively low compared with most other countries (see also Jeanneney and Hua, 2011). The research consultancy Dragonomics estimated that labour productivity in China increased by 13 per cent per annum in apparel manufacturing between 2003 and 2010, which is (much) higher than in other low labour costs countries like Vietnam and Indonesia, and thus was able to offset most of the increase in wage rates in China. For the assembly of electronic components, manufacturers also have the advantage of efficient and tightly integrated supply chains in the PRD, which are difficult to replicate elsewhere.[7] Coupled with the efficient infrastructure, which is on a par with South Korea, according to the World Bank, no wonder Dragonomics says China combines "Third World wages with First World infrastructure" (*Financial Times*, 21 February 2011). It is therefore argued that the decline of HK-financed manufacturing is more of an indication of its diminishing competitiveness rather than an end of manufacturing in the PRD.

Beginning of a new era? Knowledge-intensive, higher value-added domestic manufacturing

The economic restructuring and the subsequent upgrading in knowledge-intensive manufacturing in the PRD is the normal pathway for economic development. This trajectory of economic restructuring is well documented in Europe and North America (Rowthorn and Wells, 1987; Cowie and Heathcott, 2003; see also Maddison, 2006) and the corresponding Asian-version in the "flying-geese model" (Akamatsu, 1961; Blomqvist, 1996; Yamazawa, 1990). The pro-active industrial policies implemented by the local and central Chinese governments provide a partial explanation for the rise of the domestic-funded manufacturing sectors in the PRD.

In addition to the "dual transformation" and other initiatives implemented by the Guangdong provincial government, the Chinese central government has identified ten prioritized industries in the "Made in China 2025" plan to further upgrade the manufacturing sectors and domesticate the high-end equipment in local industries (State Council, 2015).[8] This initiative could have significant impacts on the future trajectory of industrial development in the PRD, especially the domestication of new information technologies, numerically controlled machines and robotics, and new energy vehicles. In information technologies, the plan aims for a 75 per cent market share of domestic servers in the telecom and finance sectors by 2020, increasing to 90 per cent by 2025. In robotics and new energy vehicles, the targets are equally ambitious: it aims for a 50 and 70 per cent market share of domestically made robots and (or sales of 1 million) cars by 2020,

rising to a 70 and 80 per cent market share in robotics and (3 million) cars by 2025, respectively (State Council, 2015; *China Daily*, 30 September 2015).

In information technologies, some of the largest manufacturers are already based in the PRD, notably Huawei Technologies, ZTE, and Tencent. They are all domestically funded and located in Shenzhen.[9] Huawei Technologies and ZTE are among the world's biggest makers of telecommunications equipment and providers of ICT solutions. Tencent is one of the largest internet content and service companies in Asia. In 2016, the US$75.1 billion of revenues recorded in Huawei ranked 129th in the *Global Fortune 500* (Huawei, 2016). Royole Corporation, a four-year-old start-up company, has produced the world's thinnest full-colour flexible (i.e., bendable and rollable) and transparent 0.01mm display. Royole is expected to mass manufacture flexible displays for electronic devices from its US$1.7 billion plant in Shenzhen (with an annual capacity of 50 million pieces of flexible display) at the end of 2017 (Royole, 2017).[10]

In new energy vehicles, BYD Auto, is the most established domestic manufacturer in China. Established in Shenzhen in 1995, BYD was developed from original equipment manufacturer (OEM) of lithium ion batteries for brand-name mobile phone manufacturers to rechargeable batteries for the storage of (renewable) energy, and electric vehicles. In 2010, BYD Auto established the Shenzhen BYD Daimler New Technology (Denza), a 50–50 joint venture with Daimler AG for the manufacture of luxury electric cars in Shenzhen. Although there are over 100,000 vehicles sold, the top global electric vehicle sales by volume, BYD is slow to penetrate overseas markets (including HK). BYD Auto has, however achieved a higher level of acceptance for its electric buses in overseas markets by exporting 5,000 K-9 buses to the North American and European markets (*Mingpao*, 1 November 2015, 30 November 2015; BYD, 2017).

Perhaps the less well-known but equally important industrial development in the PRD during the last few years is robotics. To offset rising labour costs and facilitate the "Made in China" initiative of the central government, the Guangdong government announced in March 2015 its investment of 943 billion *yuan* to assist the automation of the manufacturing sectors in the province. According to the 2015–2017 action plan, led by Foshan and Dongguan in the PRD, Guangdong will push for the use of robots in 1,950 large companies (each with an annual revenue of over 20 million *yuan*), especially in the automobile, home appliances, textiles, and electronics industries and in the manufacture of construction materials. In addition to Foxconn, Midea (Foshan), an established household appliances manufacturer, introduced more than 900 robots to automate its manufacturing and logistics processes and has improved its efficiency by 15 per cent since 2011 (*Mingpao*, 25 October 2015; *South China Morning Post*, 21 December 2015). It is expected that top Chinese manufacturers in industrial robots, like GSK CNC Equipment (Guangzhou), LXD Robotics (Foshan), and Guangdong Jaten Robot & Automation (Foshan), will benefit from these policy initiatives.

The rapid pace of industrial upgrading in the PRD is partly revealed by the number of patents granted, in particular, the number of invention patents (different from utility and design patents which are mainly about products' design or appearance). The total number of patents granted in the PRD increased more than fifteen times, from 15,799 in 2010 to 241,176 in 2015, but the number of invention patents granted increased even faster, by 128 times. The number of invention patents granted was only 261 in 2000 but increased to 1,876 in 2005 and 13,691 in 2010 and reached 33,477 (9.3 per cent of the national total) in 2015. The number of invention patents granted accounted for less than 2 per cent of all granted patents in 2000, but the figure increased to 5 per cent in 2005 and has been over 10 per cent since 2010, reaching 13.88 per cent in 2015 (GBS and NBS, 2016). Huawei Technologies, the world's biggest maker of telecommunications equipment, was granted 2,409 invention patents in 2014 (*China Daily*, 24 February 2015).

The above examples illustrate how the competitiveness of PRD in manufacturing has shifted rather than diminished. One could argue that these examples developed under the intervention of government policies and support but there are counter-examples of new industry developed by (private) individuals. The recent rise of unmanned aerial vehicle (UAV, or flying drone) manufacturing in the PRD is one typical example. It is also an illustrative case of the importance of agglomeration economies with embedded, integrated supply chains, and yet another missed golden opportunity for HK.

Established by four graduates at the Hong Kong University of Science and Technology in 2006, Da-Jiang Innovations Science and Technology (DJI) decided to establish its company in Shenzhen due to the availability of (highly) skilled engineers, partly because of the proximity of other well established software and hardware firms (Huawei, ZTE, Tencent, and BYD) and the well-developed information technology supply chains and logistics networks in the PRD. Accounting for 70 per cent of global market share and valued at US$8 billion in 2016, DJI is the largest civilian flying drone manufacturer in the world (*South China Morning Post*, 13 July 2016).

Through the demonstration effects of DJI, the PRD developed into one of the most important flying drone manufacturing centres in the world within a decade. By 2015, the export value of civilian drones in Shenzhen had recorded a year-on-year increase of seven times to reach US$472 million (mostly to European and North American markets). The PRD also leads in innovation and technologies in certain areas. For instance, DJI's Phantom 4 series flying drone has intelligent automatic obstacle avoidance and an auto-pilot mode guided by GPS and GLONASS navigation, which allows users to track its location on a live map and record takeoff points (which allows users to retrieve the drone easily). Its Geospatial Environment Online (GEO) provides users with up-to-date guidance in restricted flying areas and assists the planning of flight paths. DJI has signed a contract with Lufthansa Aerial Services (LAS) to adopt its aerial platforms and develop applications and technology for potential customers, including inspecting the infrastructure and aircraft with drones equipped with thermal-imaging systems (*China Daily*, 27 January 2016).[11]

Selected cities in the PRD have already reaped the benefits of industrial upgrading during the recent global economic crisis. With a host of incentive policies, including the Peacock programme, where selected high technology firms have been awarded 10 million *yuan* or more as startup funding since 2011, R&D investment accounted for 4.05 per cent of the Shenzhen's GDP in 2015. Importantly, about 90 per cent of R&D investment in Shenzhen originated from private enterprises, and 4 per cent of R&D investment is double that of the national level and on a par with the South Korea. Subsequently, strategic industries (internet and information technology, biotechnology, renewables, and new materials) contributed 40 per cent of Shenzhen's 1.75 trillion *yuan* GDP in 2015, ranked the second in the PRD and fourth in China (Shanghai ranked first at 2.49 trillion *yuan*, followed by Beijing at 2.3 trillion *yuan* and Guangzhou at 1.8 trillion *yuan*) (*China Daily*, 12 May 2016: 19).

A missed opportunity for Hong Kong?

A number of Western analysts have portrayed a gloomy picture before the establishment of HK SAR government in 1997. *The End of Hong Kong: The Secret Diplomacy of Imperial Retreat* by Robert Cottrell (1993) and *The Fall of Hong Kong: China's Triumph and Britain's Betrayal* by Mark Roberti (1994) are two such typical examples in the literature describing the historical background and events leading up to the Sino-British negotiation and the subsequent political development in Hong Kong after the conclusion of the Sino-British Joint Declaration. Cottrell's (1993: 194) pessimistic conclusion – "[w]hen the British flag descends by the Hong Kong harbour-front, . . it will be the end of, . . Hong Kong" – is largely based on his fatalistic view of the prospect of

political development in Hong Kong. Roberti (1994: 322) hypothesized that most major regional subsidiaries of transnational corporations

> found it better in the short term to remain [in Hong Kong], . . but after 1997, there is likely to be a slow but steady – and quiet – exodus . . . to other cities within the Asia-Pacific region. Within twenty years of 1997, Hong Kong could well be almost exclusively a Chinese financial and commercial center.

The obituary, entitled "The Death of Hong Kong", written by Kraar (1995) in *Fortune* typifies the pessimistic view of HK's survival.

The post-1997 experience shows that such pessimism has not materialized. It is the end of a chapter for labour-intensive, low value-added HK manufacturers but not the end of manufacturing in the PRD. There are (obvious) signs of the rise of a "world factory" for knowledge-intensive, higher value-added domestic manufacturing in the PRD.

The rise of manufacturing sectors in HK has been facilitated by the opening of Shenzhen SEZ and then the PRD for foreign investment since 1978. HK-financed firms in the toy and electronic manufacturing sectors benefited from the low production costs in the PRD till the 1990s, before the rise of locally funded competitors. With the phased out of the Agreement on Textiles and Clothing (ATC; the successor to the Multi Fibre Arrangement, or MFA) quotas in 2005, HK-financed textile and clothing firms in the PRD were crowded out by their more competitive domestic counterparts. Most importantly, the propensity to (re-)invest in manufacturing of the newer (second) generation of HK entrepreneurs is generally (much) lower as they perceive manufacturing investments as "risky" with low profit margins and long repayment periods. This is especially the case when the alternative options for such capital were investment in real estate during the property boom in HK and China. This facilitated the brain drain and loss of new engineers to HK. This hollowing-out deindustrialization is not dissimilar to that of the relocation of manufacturing from Europe and North America to Asia in the 1970–1980s.

So has manufacturing (of any form) a future in HK?

Hong Kong is not prepared for the arrival of the fourth industrial revolution, either in terms of institutional environment or human capital.[12] The fourth industrial revolution involves advanced manufacturing in "smart factories", a fusion of new automation technologies with the industrial Internet of Things and machine learning. It involves a synthesis of automation (from 3-D printing and robotics to autonomous mobility), augmented reality with big data, and cloud computing as well as artificial intelligence.

In their comprehensive review of Hong Kong's manufacturing, Berger and Lester (1997: xv–xvi) outlined six specific policy proposals, including the facilitation of the establishment of new technology-based enterprises and upgrading the technological capabilities of labour. Importantly, they specifically highlighted the importance of "*technological competence . . . [in] government . . . [and] to bring technological expertise to Hong Kong from the West and from the People's Republic of China*" (1997: xvi, original italics). The above discussion of the development of new industrial sectors in the PRD demonstrates the importance of the proximity of complementary supply chains, a supply of manufacturing scientists and engineers, and supporting industrial policies by the government.

HK government have yet to develop a set of coherent industrial and educational policies, although their importance was highlighted by Berger and Lester back in 1997. Instead of proactive policies to improve the institutional environment in general or develop competence in specific sectors, most high-profile government initiatives are a response to long-standing demands from certain quarters or even crises. The Cyberport and Hong Kong Science Park are typical examples. Both projects are responses to the Asian financial crisis of 2007, and the former ended

up becoming more like a property development project than a regional hub for innovation and technology development.

Although it is premature to evaluate the possible impacts of some recent initiatives by the HK government, specifically the recent establishment of the Innovation and Technology Bureau in 2015, the planned (HK$8.2 billion) smart production hub in Tseung Kwan O, and the proposed Lok Ma Chau Loop Innovation and Technology Park (located at the border between HK and Shenzhen), one can still speculate that such initiatives may not be able to achieve their aims due to the piece-meal approach of existing government policies on science and technology, industrial development, and education.

Current investment in R&D in HK only accounts for 0.76 per cent of its GDP, which is well below than that of South Korea (3.6 per cent), Singapore (2.3 per cent), Taiwan (2.3 per cent), and the mainland China (2.07 per cent) (World Bank, 2015). Comparing R&D investment in HK with another tiny city–state in Southeast Asia, Singapore outspent HK by about three times in terms of R&D expenditure in 2015 (Table 22.2). The business sector in Singapore spent four times as much as their counterparts in HK on R&D, and there is simply no comparison in terms of government investment in R&D: US$1.53 billion in Singapore versus a token gesture sum of US$90 million in HK. A total of 28,165 personnel were involved in R&D in HK in 2015. More than half R&D personnel were working in the higher education sector and 43 per cent (12,217) in the business sector. This is much lower than the 47,902 R&D personnel (including 5,800 full–time research postgraduate students in 2014) in Singapore. Inputs obviously may not be proportional to outputs in R&D, but the gap between HK and Singapore is unquestionably large in terms of investment from the business sector and government. Without

Table 22.2 A comparison of R&D indicators in HK and Singapore, 2015

	HK	*Singapore*
Total expenditure (in US$, billion)	$2.34	$6.81
in % of GDP	0.76%	2.34%
By sector:		
Business sector	$1.02 (44%)	$4.16 (61%)
Higher education	$1.22 (52%)	$1.12 (16%)
Government	$0.09 (4%)	$1.53 (23%)
Personnel	28,165	47,902[*]
By sector:		
Business sector	12,217	32,835[*#]
Higher education	15,247	5,800[*#]
Government	701	N/A

Notes:
[*] in 2014.

[#] R&D personnel data in Singapore use a different classification system: research scientists and engineers (which refers to research scientists and engineers in business sector, higher education, and government), full-time postgraduate research students, and others.

Government R&D expenditure includes public research institutes in Singapore.

Sources: Compiled by the author from the Census and Statistics Department, HK (www.censtatd.gov.hk/hkstat/sub/so120.jsp) and the Department of Statistics, Singapore (www.singstat.gov.sg/statistics/browse-by-theme/research-and-development).

tangible support from the government, given high and ever-rising land and opportunity costs, there will continue to be a low propensity to invest by (local and foreign) entrepreneurs and venture capitalists in manufacturing sectors with a much higher risk and longer repayment period.

HK is unable to guarantee its potential labour supply for advanced manufacturing. According to a recent report by the Academy of Sciences of Hong Kong (2017: 7), pre-university students in HK have specialized in too few subjects prematurely: two-thirds of pre-university students in HK took only two elective courses in addition to English, Chinese, and mathematics. Moreover, student enrolment in advanced mathematics decreased significantly from 23 per cent in 2012 to 14 per cent in 2016, which is falling even further behind than the 40 per cent in Singapore and 50–80 per cent in Japan, South Korea and Taiwan.

Without the sustained interest of future generations in STEM (science, technology, engineering, and mathematics) subjects in higher education, HK will not be able to provide the necessary supply of scientists and engineers and will continue to rely on imported labour from mainland China and elsewhere for advanced manufacturing. The inflow of skilled migrants from mainland China is likely to create social tension in HK due to the resistance of further integration by a vocal group of HK residents. Such social tension could lead to further political uncertainty, partly due to the loss of faith in the government and the polarization (including the development of the "independence for Hong Kong" movement) of the general public concerning the future development trajectory of HK (see Smart et al. 2015).

Coupled with a sceptical general public about any initiatives that could bring closer integration with mainland China and the business communities, political pressure could negate the recent efforts of the HK government's longer-term development policies. Allegations of collusion with the business community or "red entrepreneurs" (entrepreneurs either based in or with mainland Chinese influence) have delayed a number of government initiatives and requests for funding. Some Legislative Council members have refused to approve funding and subsequently delayed the establishment of Innovation and Technology Bureau for three years, partly due to the allegation that the Secretary appointed, Mr Nicholas Yang, is a supporter of the former Chief Executive of the SAR government (Mr. Chun-ying Leung) (*South China Morning Post*, 6 November 2015). Comparing the conservative approach adopted by HK government with the proactive industrial policies and the existence of complimentary manufacturing sectors in southern China, aspiring entrepreneurs have a higher propensity to select Shenzhen as their preferred location. There are more than 2,000 electronics; 1,300 material; and 1,000 electrical equipment manufacturers, and a labour force of 9 million within a two-hour drive of Shenzhen. The strong ecosystem in the manufacturing sector allows design houses in Shenzhen to develop a prototype in one-fifth of the average 10–15 weeks (MGI, 2015: 64).

With regard to the role of government policies in economic development, one can also compare the development trajectory of HK with Singapore. Instead of relying on a "positive nonintervention" industrial policy and having the banking and financial sector as the core economic driver as in HK, the Singaporean government has implemented a series of pro-active policies to promote and support the development of various manufacturing sectors in addition to the banking and financial sector since independence in 1965, from electronics (integrated circuits), petrochemical (petroleum refining and other chemicals), and aerospace (engine and servicing) to the recent biomedical sciences (especially pharmaceutical manufacturing). Moreover, the government has invested heavily to develop the physical infrastructures (from being a transshipment port and container terminal to being the air and sea logistic hubs in Southeast Asia) and to ensure a supply of skilled engineers, partly through tertiary educational institutions and partly through its liberal labour importation scheme (from well-paid engineers and bankers to low-paid construction workers from China, India, and Pakistan, etc.).[13] This not only assists Singapore to develop

a host of complementary industrial sectors (the world's largest offshore oil-rig producer, and the major service provider hub for ships and airplanes), but also develop synergies with the banking and financial sector (such as petrochemical and logistical financing and trading and the recent development of Islamic banking). In advanced manufacturing, the Singaporean government has invested S$3.2 billion (US$2.29 billion) in advanced manufacturing and engineering under the Research, Innovation and Enterprise (RIE) 2020 plan, along with other initiatives to enhance the supply of scientists and engineers. With an established legal system that is compatible with international law (including arbitration) and a host of supportive government policies on industries and education, Singapore is now a much more attractive location for TNCs.

Unless HK can develop and implement a set of coherent industrial and educational policies, on the one hand, and be able reconcile the polarized attitudes towards mainland China, on the other hand (this obviously needs the co-operation of mainland Chinese central and local governments), HK, with its established financial and business services, could at best be entering another phase of regional integration with the PRD simply confined to support for Shenzhen and Southern China. With the ever-rising political and social tension between HK and China, it is not inconceivable that HK may simply be edged out of the future industrial development of the PRD: HK needs the PRD more than the PRD needs HK, partly because China is developing its financial and business services sectors. Should this indeed be the case, one cannot help but wonder whether this is blind faith in the "positive non-intervention" industrial policy that used to serve HK well in the 1970–1990s or lack of vision for the long-term economic development among decision-makers and entrepreneurs in HK.

Notes

1 See Endacott (1964) and Miners (1987) for the pre-war history of Hong Kong and Scott (1989); Cottrell (1993); and Roberti (1994) for the background and procedures of the Sino-British negotiation on the 1997 issue. Readers interested in a comprehensive contemporary history of Hong Kong can refer to Welsh (1993) and Chan (1994).

2 The other two SEZs are Shantou in Guangdong province and Xiamen in Fujian province. Originally part of Guangdong province, Hainan Island gained its administrative quasi-autonomous status in 1988 and formed the fifth SEZ in China.

3 Out of the 57.63 million population of the PRD, 25.55 million are migrant workers without local household records. Tension with local residents is unavoidable, especially in cities with a high proportion of migrant workers, such as Shenzhen, Dongguan, and Guangzhou, and this has profound socio-economic implications for those areas.

4 The nine cities in the PRD are Guangzhou, Shenzhen, Zhuhai, Foshan, Jiangmen, Dongguan, Zhongshan, Huizhou, and Zhaoqing. As the main economic powerhouse, these nine cities can be regarded as the second-best economic indicators for the PRD.

5 The increasingly fragmented and dispersed production processes where intermediate goods and services are traded across sovereign boundaries leads to the double counting of value in international trade, e.g., 28 per cent of US$19 trillion global gross exports in 2010 was counted twice. It is estimated that the value of international trade (after adjustment for double counting) was about 30 per cent of developing countries' GDP, on average. The corresponding rate for developed countries' GDP is 18 per cent (UNCTAD, 2013).

6 However, Ha et al. (2011) estimated that the new Labour Laws have an insignificant effect on manufacturing firms in Guangdong (they increased labour costs per capita by up to 4.9 per cent in the sample firms).

7 To remain competitive under rising wage rates, some small labour-intensive manufacturing firms in the PRD have resorted to hiring workers by the day. Firms in toy, garment, and handbag manufacturing are able to offset the higher daily wage rates by employing experienced workers in the industrial clusters, while other workers are willing to be employed in a legal grey area due to the insecurity of permanent jobs during periods of economic slowdown, i.e., owners disappearing with unpaid wages. This type of precarious employment could be subject to crackdowns by local government after the introduction of new rules on dispatch workers in 2012 (*South China Morning Post* 22 May 2016).

8 The ten prioritized industries are new information technologies, numerically controlled machines and robotics, aerospace devices, ocean engineering and shipping, advanced rail equipment, new energy vehicles, electrical equipment, agricultural machines, advanced materials, and medicine and medical instruments (State Council, 2015).

9 There are rumours that Huawei is ultimately controlled by the Chinese state, partly due to the military background of its founder.

10 Royole was founded in California, HK, and Shenzhen in 2012. The founder of Royole was named as one of the ten most innovative people in China by Forbes China in 2015. It should be noted that four out of ten awardees are from Shenzhen (it was five out of ten in 2014, including the founder of DJI Technology) (*China Daily* 12 May 2016: 19).

11 It must be emphasized that the competitiveness of knowledge-intensive industries in Shenzhen could be under pressure from rising costs, especially the significant increase in housing costs, e.g., housing costs in Nanshan in South-western Shenzhen increased by 50 per cent in 2015, and are 50 per cent higher than Guangzhou. This is one of the reasons contributing to the forthcoming relocation of Huawei's consumer business unit global headquarters to Songshan Lake of Dongguan in the PRD. DJI is another high-profile company to relocate its R&D division to Songshan Lake (*South China Morning Post*, 25 May 2016).

12 The first industrial revolution exploited water and steam power to mechanize production. The second industrial revolution utilized electricity for mass production, while the third industrial revolution involved the use of micro-electronics and information technology in automated production. The fourth industrial revolution is wider in scope than Industry 4.0, originally proposed in a German government project concerning the computerization of manufacturing.

13 It must be emphasized that there are social implications for the labour importation policy: 1.6 out of 5.5 million of the population of Singapore are students or foreign workers holding various types of student or employment passes/permits, and this imposes significant pressure upon society, especially in public transport and housing.

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23

Hong Kong

China's global city

David R. Meyer

The return of Hong Kong to China's sovereign control on 1 July 1997 was an extraordinary event in urban history. Arguably, this is the first time a global business centre passed peaceably from the control of one country to another. The United Kingdom rightly claims that it provided the conditions under which Hong Kong became the third most important global city after London and New York. Nevertheless, Britain had forcibly taken the territory occupied by Hong Kong from China after the Opium Wars of the 1840s. Thus no Chinese government would recognize Britain's claim to the city as legitimate (Walsh, 1993). China's powerful economic growth following the 1978 reforms of Deng Xiaoping inevitably set the stage for the insistence by China in the Joint Declaration it signed with the United Kingdom in 1984 that Hong Kong be returned to China's control in 1997 (Overholt, 1993).

As the turnover time approached, many observers claimed that Hong Kong would suffer irreparable damage as a global business centre (Kraar, 1995; Theroux, 1997). Even as these claims made headlines around the world, global financial institutions, business services firms, and regional headquarters of global firms demonstrated their confidence in Hong Kong's future under China's control by remaining and expanding (Meyer, 2000). China's government established guarantees in the Basic Law, the constitution which governs Hong Kong from 1997 to 2047. The city had a high degree of autonomy to run its affairs as a special administrative region of China. The famous Article 109 committed the city to being an international financial centre, which China has continually interpreted as meaning that Hong Kong is China's global business centre. Senior government officials from the President, Premier, and on down the hierarchy repeatedly affirm support for Hong Kong (Meyer, 2000, 2009, 2016a).

The passage of two decades since 1997 provides a basis for assessing Hong Kong's status as a global city under China's sovereign control. This chapter begins with establishing Hong Kong's position as a global city prior to 1997. Then, changes in the city's leading business sectors – finance, business services, and corporate management – over the subsequent two decades are examined. The final section details Hong Kong's bonds with its sovereign power in the twenty-first century.

Emergence of Hong Kong as a global city

Since Hong Kong's early development from the 1840s to the 1860s, the most senior decision-makers who control the exchange of capital in Asia and between that region and the global economy have agglomerated in the city. Leading British merchant trading companies quickly established operations in Hong Kong during the 1840s and 1850s, and other firms from France, Germany, the United States, and India (Parsee) soon followed. These firms structured the organization of Asian trade with Hong Kong as the hub for Asia-Pacific with a focus on China, and Singapore became a secondary hub for Southeast Asia. Important Chinese firms from the mainland and the rest of Asia joined this agglomeration, thus making Hong Kong the meeting place of the two great social networks of capital in Asia – the foreign and the Chinese. These business networks convey market information, knowledge, and expertise; serve as means for cooperating and collaborating on deals; and operate as mechanisms for intraorganizational and interorganizational management (Meyer, 2000).

The founding of the Hongkong and Shanghai Bank (modern HSBC) in 1864/65, with headquarters in Hong Kong and major branches in Shanghai, Yokohama, and London, ratified Hong Kong as the pivot of Asian trade and finance (King, 1987, 1988). Leading British, United States, German, and Parsee (India) firms founded the bank, and they built an Asia–wide and global network of offices. By the early 1860s, other banks from countries such as Britain, France, and India (often with British owners) also operated from Hong Kong, making it both a trade and a finance centre for Asia. Over subsequent decades into the early twentieth century, the establishment of branches by the Hongkong and Shanghai Bank across Asia mirrored Asian trade and finance. Firms in these sectors expanded in Hong Kong during the late nineteenth and early twentieth centuries, and by the turn of the century Chinese banks increased in importance (Meyer, 2000).

Natural resource processing and consumer manufacturing expanded modestly in Hong Kong during the first half of the twentieth century, but significant industrial growth commenced in the late 1940s and 1950s as Shanghai and Guangdong manufacturers moved to the city. They were joined by Taiwan industrialists, and local Hong Kong Chinese also commenced manufacturing. These firms powered rapid industrial growth that continued into the 1980s based first on textiles (spinning, weaving), and then apparel, toys, and other consumer manufactures developed. These were exported primarily to Europe and North America. Hong Kong's industrial expansion peaked during the 1980s because the city's manufacturers began to relocate production to Guangdong Province and to start new factories there as the 1978 reforms of Deng Xiaoping opened China to outside investment. Subsequently, manufacturing in the city plummeted as these trends continued to unfold, and Hong Kong firms looked elsewhere in China for factory sites (Berger and Lester, 1997; Enright et al., 1997; Meyer, 2000).

The industrial graft on the economy of Hong Kong over the three decades after 1950 generated substantial local wealth that supported large-scale growth of banking in the city (Meyer, 2016a). Even as its factory expansion increasingly occurred in mainland China, Hong Kong became one of the world's largest centres of Chinese industrial corporate management. With Asian economic development accelerating during the second half of the twentieth century, non-financial firms from Europe, North America, and Asia increasingly used Hong Kong as their regional corporate management centre for Asia. Financial firms from the same regions likewise made the city the pivot of their organization of finance. Most of the leading corporate and investment banks housed their Asia-Pacific headquarters in the city, and they were joined by numerous other financial sectors such as fund management, private equity, and hedge funds. The business services sector (accounting, law, management consulting) also expanded to serve corporations (Meyer, 2000).

Consequently, when Hong Kong returned to China's sovereign control in 1997, it inherited the third most significant global centre of finance and corporate management, after London and New York. Firms that used Hong Kong as their Asia-Pacific management centre accepted China's assurances that the city would continue as a leading global business centre. At the same time, the immense economic growth of China meant that Hong Kong's business with its sovereign power would dominate the city's economy, as it had during the previous 150 years. We now examine how Hong Kong's pivotal business sectors of finance, business services, and corporate management have fared over the two decades since 1997.

Hong Kong's leading global business sectors

The key decision-makers who control the exchange of capital continue to exploit Hong Kong as their organizational hub for Asia-Pacific. Regardless of continuing questions about China's approach to the city as its window to global capital, little or no evidence exists that Hong Kong's status as the third great global business centre, after London and New York, has been undermined.

Finance

Senior financiers primarily employ face-to-face communication to exchange sophisticated information and knowledge, build collaborative relationships, and gain trust in each other (Beaverstock, 2004; Faulconbridge et al., 2007; Hall, 2011; Jones, 2007). These structured social exchanges in a tight agglomeration enhance performance (Thrift, 1987). Leading financiers are hubs of networks both within and between centres. Financiers from outside the centre come to the global centre to meet with its top financiers, and the latter often travel around the region for face-to-face meetings.

Interviews with financiers in Hong Kong demonstrate that they follow these behavioural principles (Meyer, 2015). These financiers access a wide range of financial sectors that allow them to mobilize capital for exchange. Within Hong Kong they easily meet each other for face-to-face communication. It takes them as little as 5–10 minutes and seldom more than 20–30 minutes to reach each other, and they often walk because that is the quickest means to move in the dense agglomeration of Hong Kong. This immediate access allows them to engage in many face-to-face meetings during a day, maximizing their performance. While formal meetings often are the format during initial contacts with other financiers, clients, and service firms, informal meetings typically are more important because it is within these structured relationships that the most sophisticated exchanges of information and knowledge occurs, collaborative ties can be developed more readily, and trust is enhanced. Hong Kong financiers repeatedly affirm that these types of meetings are critical to their performance.

Hong Kong's financiers also leverage their high status in global financial networks. Because the city is recognized as the hub of Asia Pacific, external financiers look to the city's financiers as key partners in exchanges of capital (Meyer, 2015). The city possesses superb airline connections globally and to all of the key business centres of Asia Pacific, and especially to every major city of China. This allows Hong Kong's financiers to efficiently move around the region for face-to-face meetings with other financiers, clients, and government officials. Financiers explicitly recognize that they and their firms are hubs in the networks. Their special expertise about China means that financiers from outside Asia come to Hong Kong to meet with its financiers. The asymmetry of information, knowledge, and expertise comprises a critical competitive advantage of the city's financiers and their firms (Zhao, 2003; Zhao et al., 2005).

Table 23.1 Presence of world's largest 500 overseas banks in Hong Kong, 1997–2015

World ranking	Number			% of group		
	1997	2006	2015	1997	2006	2015
1–20	19	20	20	95	100	100
21–50	26	23	26	87	77	87
51–100	36	26	28	72	52	56
101–200	51	37	34	51	37	34
201–500	83	50	57	28	17	19
Sub-total	215	156	165	43	31	33

Source: Hong Kong Monetary Authority, *Annual Report* (Hong Kong: Hong Kong Monetary Authority, 1997–2015).

This behaviour of major financiers undergirds the resilience since 1997 of Hong Kong as the pivotal financial centre of Asia-Pacific. With few exceptions, prominent global commercial and investment banks (e.g., BNP Paribas, Citigroup, Deutsche Bank, Goldman Sachs, HSBC, Morgan Stanley) continue to house their Asia-Pacific headquarters in Hong Kong (see firms' websites). Singapore serves as the regional headquarters for Southeast Asia, and this office typically reports to Hong Kong.

The strategy of these banks to house their Asia-Pacific headquarters in Hong Kong comports with broader evidence about the decisions of top global banks to concentrate in the city. During the two decades since 1997, a significant share of the world's largest overseas global banks use Hong Kong as an organizational base (Table 23.1). All of the top-20 banks operate from the city, and collectively, over 90 per cent of the top-50 maintain a Hong Kong presence. Just over half of the banks ranked between 51 and 100 have major offices in the city. Even among the banks ranked between 101 and 200, about one-third are based in Hong Kong. Among the top-500 banks, about one-third are in the city. The major decline in large banks in Hong Kong since 1997 occurs in the banks ranked below 51, and most of this decline occurred by 2006. Since then the share of banks in that group has stabilized. Hong Kong, therefore, remains an overwhelming choice of the top-50 global banks. The drop in the share of smaller members of the top-500 banks may indicate that they are not as competitive with the bigger banks in Asia-Pacific. As the region's economies expanded in the last two decades, the largest banks may have greater capacity to build sizable organizational presences to dominate financial markets.

In keeping with this long-term resilience of Hong Kong, the current organizational structure of HSBC mirrors the form created by the early twentieth century (King, 1987, 1988; Meyer, 2000). Hong Kong is the Asia-Pacific headquarters, and its reports are Singapore for Southeast Asia (Indonesia, Malaysia, Thailand); Shanghai for China; and Mumbai for India. Tokyo and South Korea report to Hong Kong, and other countries report to one of the four main headquarters (Meyer, 2014a). In addition to corporate and investment banking, Hong Kong continues as a major centre of hedge funds, private equity, fund management, and private wealth management. Diversified global firms such as Blackstone, Carlyle, and KKR, that combine hedge funds, private equity, and fund management, house their most important Asian offices in Hong Kong (Meyer, 2016b).

Growing wealth in Asia creates opportunity for Hong Kong private wealth managers to expand their business across Asia. Hong Kong, along with Singapore, are among the top-five private wealth management centres in the world, along with Switzerland, London, and New York (Meyer, 2014c). As China's window to global capital, Hong Kong benefits in attracting

private banking clients because its sovereign power now ranks second in Asia, after Japan, in the number of high net worth individuals (investable assets of US$1 million or more) and amount of their investable wealth. The world's major corporate and investment banks with Asia-Pacific headquarters in Hong Kong also have elite private banking units for high net worth individuals. This contributes to Hong Kong's leadership in private wealth management.

In 2004, China's leaders strengthened Hong Kong as the top Asian financial centre by positioning it as the country's first offshore renminbi settlement centre (Hong Kong Monetary Authority, 2016). The Hong Kong Monetary Authority and global banks operating in the city had eight years to build a dominant position in renminbi settlement. Finally, in 2012 China extended renminbi trading to other financial centres, beginning with Taiwan (Taipei) and Singapore, and following with London, Tokyo, Sydney, Frankfurt, Luxembourg, and Switzerland (*Xinhua News Agency*, 2015; Sen, 2013; Strauss, 2014; Taiwan banks, 2013).

China's vast external trade provides Hong Kong banks with enormous opportunities to handle the offshore renminbi settlements. Between 2001 and 2015, the percentage of the country's trade settled in renminbi rose from a range of 5–10 per cent to 20–25 per cent. With over 1 trillion renminbi in deposits, the largest amount outside mainland China, Hong Kong's banks dominate renminbi settlement. As of 2015, Hong Kong banks annually handled about 6 trillion renminbi in trade settlement. The prominence of Hong Kong in renminbi handling also extends to issuing bonds in renminbi. The city houses the largest renminbi bond market outside mainland China; as of 2015, outstanding renminbi bonds issued in Hong Kong totaled almost 400 billion renminbi. Relatedly, renminbi loans outstanding in Hong Kong reached about 300 billion renminbi (Hong Kong Monetary Authority, 2016).

Trade settlement and issuance of bonds and loans helps undergird Hong Kong financiers' heft in foreign exchange trading of renminbi. That trading reached a daily rate of almost US100 billion in 2015. Hong Kong is a global hub of renminbi clearing and settlement, handling about 1 trillion renminbi daily, and the city's platform is directly linked to mainland China's clearing and settlement platform. Hong Kong's banks handle about 70 per cent of offshore renminbi payments conducted vis-à-vis mainland China, as well as that occurring in offshore markets (Hong Kong Monetary Authority, 2016). China leveraged its sovereign control to establish Hong Kong as the global centre of renminbi financing, and that gives the city's financiers extraordinary access to information, knowledge, and expertise about global capital flows involving China.

Measures of global financial centre rankings do not directly measure the organizational control of the exchange of capital which is the critical basis for Hong Kong's top position, after London and New York. Nonetheless, various rankings consistently place Hong Kong in the top five along with London, New York, Singapore, and Tokyo (Meyer, 2015). Tokyo, however, mainly ranks high because it houses large Japanese banks, insurance companies, and related financial institutions. Foreign financial firms in Tokyo primarily operate in Japan; they do not run their Asian business from that city – Hong Kong is their base (Meyer, 2000, 2009; Research Republic, 2008).

The Global Financial Centre Index (GFCI), arguably, is the most comprehensive ranking of centres (Z/Yen, 2007–2017). Issued at six-month intervals, it includes almost 90 cities in its most recent release. The areas included are: business environment, human capital, taxation, reputation, infrastructure, and financial centre development. Over 100 variables are used to compile the index, and the data are supplemented by a survey of financial professionals that number over 3,000. The index is mainly useful as a broad, comparative indicator, not as a precise measure of financial centre importance. With these caveats, index and ratings support other indicators of Hong Kong's significance as a global financial centre. Over the entire period of 2007 to 2017 and covering 21 releases, the city ranked third globally, after London and New York, every time except for five instances when Singapore ranked third (Z/Yen, 2007–2017).

Business services

Services dominate Hong Kong's economic activity. By the time it returned to China's sovereign control in 1997, services comprised 85 per cent of the gross domestic product (GDP). This rose to 91 per cent by 2006 and to 93 per cent by 2014 (Census and Statistics Department, various years). Yet, services always have been the core of Hong Kong's economy. The industrial graft constituted a dramatic addition during the period from the late 1950s to the late 1980s, but that graft did not essentially alter the principal business of Hong Kong since the mid-nineteenth century. Its leading firms control the exchange of capital in Asia and between that region and the global economy (Meyer, 2000). Thus, finance, trade, corporate management, and the business services that support these sectors have always dominated its economy.

Changes in selected business services between 1997 and 2015 offer perspective on the city's economy (Table 23.2). The number of lawyers doubled, and the number of certified public accountants tripled. Firms in both sectors are advisory to the core activities of finance, trade, and corporate management. Advertising, which is less directly related to the key intermediary services, increased about 7 per cent. Without question, Hong Kong is the greatest legal centre of Asia, with offices from over half of the top-100 global law firms (Hong Kong Trade and Development Council, 2016a). Similarly, the top-four global accounting firms – Price Waterhouse Coopers (PwC), Deloitte Touche Tohmatsu (Deloitte), Ernst & Young, and KPMG – have large office presences in Hong Kong and dominate the provision of accounting services to the local and foreign firms headquartered there (Hong Kong Trade and Development Council, 2016b). As of 2016, PwC had 3,900; Deloitte had 2,265; Ernst & Young had 2,900; and KPMG had 2,200 (Hong Kong's 25 largest, 2017).

Since its emergence as the preeminent finance and trade centre of Asia-Pacific in the mid-nineteenth century, Hong Kong's business ties overwhelming focused on North America, Europe, and Asia (Meyer, 2000). Most analyses of these ties covered finance and commodity trade (exports, imports). Hong Kong's broader services' ties were not examined much; yet, this sector now dominates the city's economy. As measured in Hong Kong, services include finance and trade, as well as numerous other services sectors such as construction, real estate, telecommunications, and information.

Intriguingly, Hong Kong's services trade with the global economy mirrors its long-term relations over the past 150 years. From 1999 to 2015, an overwhelming share (about 90 per cent or more) of the city's services trade was with Asia, North America, and Western Europe (Table 23.3). Over that period, exports of services almost tripled from HK$279 billion to HK$781 billion and imports of services tripled from HK$184 billion to HK$570 billion. Asia comprises the greatest services trade partner of Hong Kong, accounting for over 60 per cent of its global trade, and the city has its largest absolute net trade balance with that region. Although Asia's share of Hong Kong's trade declined slightly from 1999 to 2006, the region's share rebounded to over 60 per cent by 2015.

Table 23.2 Number employed in selected business services in Hong Kong, 1997–2015

Business service	1997	2006	2015
Lawyers	4,969	6,495	9,978
Certified public accountants	13,209	26,051	39,234
Advertising	13,354	11,654	14,272

Sources: Census and Statistics Department (various years) *Hong Kong Annual Digest of Statistics*; Census and Statistics Department (1998–2016) *Statistical Digest of the Services Sector*.

David R. Meyer

Table 23.3 Exports, imports, and net exports of all services by region for Hong Kong, 1999–2015

Region	Exports to (% of total)			Imports from (% of total)			Net exports (HK$ billions)		
	1999	2006	2015	1999	2006	2015	1999	2006	2015
Asia	55.8	50.2	60.8	59.9	55.8	65.2	45.4	118.5	103.2
North America	22.1	23.1	16.0	18.3	17.6	13.3	28.0	77.5	49.3
Western Europe	16.1	19.4	17.6	11.0	16.7	14.3	24.7	60.0	56.0
Australia and Oceania	2.2	3.0	2.7	5.9	6.3	4.5	−4.6	−1.3	−5.0
Central and South America	1.1	1.5	1.2	0.7	1.0	0.7	1.9	5.7	5.5
Others	2.8	2.7	1.7	4.3	2.7	2.1	−0.3	7.4	1.5
Total %	100.0	100.0	100.0	100.0	100.0	100.0			
Amount in HK$(billions)	279.2	554.6	780.8	184.1	287.0	570.4	95.1	267.6	210.4

Source: Census and Statistics Department (2002–2017), *Report on Hong Kong Trade in Services.*

After 1999, North America's and Europe's share of Hong Kong's services trade (exports and imports) has remained in the range of 15–20 per cent for each region (Table 23.3). At the same time, most of the relative increase of Hong Kong's services trade with Asia has come at the expense of North America whose share declined approximately 5 per cent between 1999 and 2015. The services trade of Hong Kong with Australia and Oceania fell to less than 5 per cent by 2015. Extensive commentary about the global economy focuses on growth in Central and South America, optimism about Africa finally developing, and the Middle East as an exporter of oil. Yet, from Hong Kong's perspective as Asia's leading global business centre, these regions remain unimportant. Instead, Asia remains bonded with North America and Europe.

Corporate management centre

Few global corporations have their world-wide headquarters in Hong Kong. As a British colony for most of its existence, it did not have a sizable economy to support large companies. Firms that emerged elsewhere were unlikely to shift their global headquarters to the city; instead, they preferred to remain in their home country where their government provided political protection. Nonetheless, as the pivotal decision-making centre for controlling the exchange of capital within Asia and between that region and the global economy, it is an optimal base for global firms' regional headquarters for Asia and/or for major economies in the region, especially China.

Regional headquarters provide the organizational control of a firm's business within a region. The senior executives interact locally with major financial institutions to access capital for the firm's regional activities. They look to business services such as local offices of global accounting firms, law firms, consulting firms, and advertising for advice and for providing direct services to the firm. And, the senior executives access their peers in other regional headquarters for advice, information, and knowledge about the regional economy. This cluster of expertise is essential for managing the global corporation's regional business, and all of the major decision-makers rely heavily on face-to-face communication to access this expertise.

Hong Kong always has been a pivotal regional headquarters centre for Asia (Meyer, 2000). Since its founding in the 1840s, finance and trading firms used it as their decision-making base for Asia and, especially, China. Subsequently, these same types of firms, along with nonfinancial

Table 23.4 Regional headquarters in Hong Kong by world region/political unit of parent company, 1997–2016

World region/political unit	% of total surveyed		
	1997	*2006*	*2016*
Asia (total)	29.0	34.0	34.6
Japan	12.9	17.3	17.3
Mainland China	12.5	9.1	9.9
Singapore	0.1	3.6	2.9
Australia	0.5	1.7	2.7
Taiwan	3.0	2.3	1.8
Western Europe (total)	26.6	30.7	31.1
United Kingdom	9.2	9.3	9.0
Germany	5.6	6.2	6.2
France	3.7	4.5	5.3
Switzerland	3.2	3.4	3.7
Italy	0.7	1.9	2.6
Sweden	1.3	1.5	2.2
Netherlands	2.9	3.9	2.1
North America (total)	24.0	25.2	21.9
United States	23.3	24.0	20.7
Canada	0.7	1.2	1.2
Selected total (%)	79.6	89.9	87.6
Total number surveyed	939	1,228	1,379

Sources: Census and Statistics Department (1997–2016), *Annual Survey of Companies in Hong Kong Representing Parent Companies Located outside Hong Kong.*

firms from Europe and North America, set up regional headquarters in Hong Kong to supervise their Asian business. This process has continued to the present (Enright et al., 2005).

Since the return of Hong Kong to China's sovereign control in 1997, global corporations from Asia, Europe, and North America have maintained their regional headquarters presence in the city (Table 23.4). Asian firms account for the largest share of headquarters, with about one-third, followed by western Europe with just under one-third; North America (primarily the United States) comprised around one-fifth by 2016. From this perspective, global firms maintain the long-term integration of Asia with the developed world headed by Europe and North America. Since 1997, the share of regional headquarters accounted for by the selected political units remains close to 90 per cent. While some Asian political units are not on the list because their headquarters numbers are too small, the more important conclusion is that Asia remains tightly bound to Europe and North America. Global corporations from the lesser-developed world of Russia, eastern Europe, the Middle East, Africa, and Central and South America have minimal ties to Asia as reflected in their near absence from Hong Kong's regional headquarters cluster.

Asia's large share of regional headquarters suggests that many global firms in the region believe that they must have a presence in the Hong Kong agglomeration of businesses in order to manage their Asian and global business (Table 23.4). They cannot manage that solely from their domestic headquarters. The reasoning is that these firms can access the global business knowledge

and contacts that epitomize the Hong Kong agglomeration. The substantial share from Japan, around 17 per cent between 2006 and 2016, raises an intriguing point. Japanese firms have superb access to Asia and world markets through telecommunications and airline connections from their domestic bases.

Nevertheless, a significant share of these firms believe they need a regional headquarters presence in Hong Kong. The rationale is that firms in Tokyo, along with those in other large Japanese cities (e.g., Osaka, Nagoya, Kyoto), require access to global firms in Hong Kong as the Asia–Pacific business centre. And, Hong Kong is the meeting place of the Chinese and foreign social networks of capital. Japan's firms cannot access that broad network domestically because mainland Chinese and overseas Chinese firms (Taiwan, Philippines, Thailand, Malaysia, Indonesia) only place an office in Japan to service that market. United States and western European firms follow the same practice (Meyer, 2000, 2009).

Firms from mainland China can readily access Asian business centres, yet they comprise a significant share of regional headquarters in Hong Kong. Since 2006 the share has stabilized at about 10 per cent of the city's headquarters (Table 23.4). As China's window to global capital, mainland firms access global business networks more readily from Hong Kong than they can from their domestic headquarters – the key is their face-to-face interactions in the city.

The largest state banks of China – Agricultural Bank of China, Bank of China, China Construction Bank, and Industrial and Commercial Bank of China – all with Beijing headquarters, have big Hong Kong offices (see banks' websites). China Merchants Bank, headquartered in Shenzhen, China, just across the border from Hong Kong, significantly expanded in the city when it purchased Wing Lung Bank. China Merchants leveraged that purchase to increase their presence in Hong Kong financial networks which are dominated by American and European global banks (Meyer, 2016b). Likewise, many of the major state-owned enterprises, with global headquarters in Beijing, also have Hong Kong offices (see firms' websites). Some of them, such as the venerable China Merchants Group, headquartered in Beijing, whose "mother firm" dates from the nineteenth century, have a sizable local presence (Liu, 1962). This firm has been a pillar of the Hong Kong business community for many decades (Vogel, 1989).

Singapore, which has been the southeast Asia business centre since the mid-nineteenth century, is a target of global firms for their regional headquarters to manage Thailand, Indonesia, and Malaysia business (Huff, 1994; Meyer, 2015; Yeung et al., 2001). At the same time, local Singapore firms look to Hong Kong for their regional headquarters (Table 23.4). These firms comprise about 3 per cent of the regional headquarters of Hong Kong, a sizable share that is equal to that from important western European economies. Singapore firms could readily run their Asian business from Singapore if the only requirement were telecommunications and airline connections to Asia; the city possesses superb linkages (Meyer, 2015). Nevertheless, these firms gain from the intense networks of global businesses that meet in Hong Kong.

The large share of regional headquarters in Hong Kong accounted for by western European corporations continues their long-term engagement with Asia. Their firms were leaders in developing Asian business in the nineteenth century (Meyer, 2000). Unsurprisingly, the former colonial master, the United Kingdom, with a share of 9 per cent, remains the largest home of western European headquarters (Table 23.4). German corporations, however, are not far behind with a 6 per cent share. The other large western European economies – France, Switzerland, Italy, Sweden, and the Netherlands – have sizable shares of regional headquarters. Befitting its status as the biggest global economy, the United States accounts for the greatest share of regional headquarters in Hong Kong, with just over 20 per cent.

While Hong Kong is Asia-Pacific's most important business centre, its future is tied to its sovereign power China. The bonds between Hong Kong and China have strengthened measurably since 1997.

China's window to global capital

While Hong Kong's pivotal businesses that control the exchange of capital in Asia always had close ties to China, these bonds were mediated by British colonial control of the city. The return of Hong Kong to China's sovereign control in 1997 transformed these relations; British rule ceased. Under *The Basic Law* (1992), Hong Kong retains significant jurisdiction over its internal governance, and the structure of this political control remains until 2047. China mandated that the city continue to operate as an international financial centre, and Beijing leaders' repeatedly affirm that Hong Kong is the country's window to global capital (Meyer, 2009, 2016a).

In addition to Hong Kong's position as the leading financial and business centre of Asia-Pacific, the city also serves as the head of China's financial centre networks. These networks are structured with Hong Kong, the offshore centre; Shanghai, the financial/commercial centre; Beijing, the political centre; and Shenzhen, the financial satellite of Hong Kong (Lai, 2012a; Meyer, 2016b; Zhao et al., 2011). Shanghai's status as the mainland's premier financial/commercial centre dates from the early nineteenth century, and it has never relinquished that position (Meyer, 2000). While the city struggled for almost three decades after 1950, China's leaders implemented preferential policies after the 1978 reforms of Deng Xiaoping to support the return of the city to its former unchallenged position (Lai, 2012b). China's leading state banks house their top commercial and investment bankers in the city to serve the vast concentration of private-sector businesses in the metropolis and in the Yangtze Delta region. Likewise, foreign financial firms have offices to serve their domestic clients in China (Lai, 2012a).

As the political centre of China, Beijing is the network core of political knowledge about governmental policy and regulations across all sectors of the economy. Besides the major government ministries, it houses the headquarters of all of the leading regulatory agencies such as the People's Bank of China, the China Banking Regulatory Commission, and the China Securities Regulatory Commission. Most of the major state banks of China are headquartered there, as well as many of the largest state-owned enterprises. This concentration attracts foreign commercial and investment banks whose financiers are charged with building relations with all of these government entities (Lai, 2012a; Zhao et al., 2004, 2005, 2011).

Shenzhen's large financial sector serves the vast industrial complex of South China, especially in Guangdong Province. The city also is home to numerous nonfinancial headquarters of mainland firms, including some of China's largest enterprises. China Merchants Bank and Ping An Bank are the leading banks of Shenzhen, and all of the major state banks have sizable offices in the city. Numerous private equity and venture capital firms are headquartered in Shenzhen, and many operate across China. The city also has become a back-office centre for Hong Kong's foreign and local firms. Shenzhen's financial and other business networks extend to all of the major business centres of China. Nonetheless, its financial global ties are mostly mediated through Hong Kong's networks. Foreign commercial and investment banks in Hong Kong mostly serve their clients in South China from their regional headquarters base (Meyer, 2016b).

The Global Financial Centre Index (GFCI) covering the period from 2007 to 2017 provides a useful perspective on China's financial centre networks, and the results comport with the conceptualization of the cities presented above (Table 23.5). Hong Kong, of course, ranks third globally in most rankings. Over recent years Shanghai's ranking has ranged between 16 and 20 globally, and Shenzhen ranks in the low-20s. Recently, Beijing's ranking rose significantly, and

Table 23.5 Global ranking of Hong Kong, Shanghai, Shenzhen, and Beijing, 2007–2017

Date	Hong Kong	Shanghai	Shenzhen	Beijing
Mar-07	3	24	–	36
Sep-07	3	30	–	39
Mar-08	3	31	–	46
Sep-08	4	34	–	47
Mar-09	4	35	–	51
Sep-09	3	10	5	22
Mar-10	3	11	9	15
Sep-10	3	6	14	16
Mar-11	3	5	15	17
Sep-11	3	5	25	19
Mar-12	3	8	32	26
Sep-12	3	19	32	43
Mar-13	3	24	38	58
Sep-13	3	16	27	59
Mar-14	3	20	18	48
Sep-14	3	20	25	32
Mar-15	3	16	22	29
Sep-15	3	21	23	29
Mar-16	4	16	19	23
Sep-16	4	16	22	26
Mar-17	4	13	22	16

Source: Z/Yen (2007–2017).

it may be moving into the mid–20s rank globally. Except for Hong Kong's top global rank, the other cities' ranking should not be taken as precise measures. Instead, they confirm that Shanghai and Shenzhen are the first and second most important financial centres of mainland China and increasingly are recognized as major global centres. Beijing's rising rank, however, must be qualified. That rating results from the concentration of political-finance in the city, not private-sector finance.

China's financial integration with Hong Kong extends to other venues besides renminbi finance outside of the mainland (Hong Kong Monetary Authority, 2016). In 2014, Beijing authorities granted approval for the Hong Kong Exchanges to join with the Shanghai Exchange to allow traders from each exchange to trade directly on the other; this is known as Hong Kong-Shanghai Connect (Ren, 2014). The Hong Kong-Shenzhen Connect, to link Hong Kong with the Shenzhen Exchange, however, was delayed because China's stock markets remained in turmoil (*Reuters News*, 2016; Sender, 2015). In early December 2016, this "Connect" opened for trading, although early flows remained small relative to the amount through the Hong Kong-Shanghai Connect (He, 2017; Yiu, 2016). Increased trading through these "Connect" programmes will provide additional support for Hong Kong as the world's top centre for offshore trading of renminbi (Meyer and Guernsey, 2017).

Arguably, an even more significant "connect" programme has been proposed by China's leaders. In March 2017, at a news conference after the annual session of the National People's

Congress in Beijing, Premier Li Keqiang announced "bond connect," which will commence later in the year. This will allow overseas investors to use Hong Kong accounts to buy and sell bonds in the mainland, the world's third largest bond market, and allow mainland investors access to the Hong Kong bond market. "Bond connect," according to Premier Li, "will help Hong Kong maintain its status as an international financial center" (Luo and Lin, 2017). The implementation of "bond connect" will be coordinated by the People's Bank of China, the China Securities Regulatory Commission, the Hong Kong Exchanges, and the Hong Kong Monetary Authority (Chen, 2017). This coordination reflects the increasing financial integration of Hong Kong with mainland China, which enhances the city as China's window to global capital.

China's leaders also view Hong Kong as a key participant in the "One belt, one road" initiative which President Xi Jinping introduced in fall 2013. This comprises a grand proposal to integrate Asia, Europe, and Africa through building the Silk Road Economic Belt, a reference to the ancient Silk Road linking China to the Middle East and Europe, and building a twenty-first century Maritime Silk Road (Cheng, 2015). In May 2016, Zhang Dejiang, chairman of the Standing Committee of the National People's Congress, and China's third highest ranking official, spoke at the Belt and Road Summit in Hong Kong and stated that the city possesses unique strengths to contribute to the "One belt, one road" initiative. These strengths included professional sectors, financial services, "people-to-people exchanges," and cooperation with the mainland to develop business along the routes of both "roads" (Sun and Lau, 2016).

In 2013, President Xi and Premier Li proposed the creation of a multilateral development bank to facilitate the "One belt, one road" initiative. By April 2015, the Asian Infrastructure Investment Bank (AIIB) had been formally established, and the 57 founding member countries had joined it. Headquartered in Beijing, the AIIB aims to provide intergovernmental funding for infrastructure in Asia, and it works with other multilateral development banks, such as the World Bank and Asian Development Bank, as well as countries involved in the project and private-sector firms (Callaghan and Hubbard, 2016; Jin, 2015; Sekine, 2015). In March 2017, Hong Kong joined the AIIB, along with 12 other applicants, bringing the bank's total membership to 70. This allows Hong Kong officials to participate directly in the strategic decisions of the AIIB and provide its financial community greater access to information about forthcoming projects. Jin Liqun, the President of AIIB and one of China's leading financiers, had supported Hong Kong's application (Jie, 2017; Li, 2017). China's leaders envision Hong Kong's financial sector as a key underwriter of "One belt, one road" projects and those directly funded by the AIIB. This comports with the government's policy to continue to strengthen Hong Kong as its global financial centre. China's leaders can take comfort from Hong Kong's ranking as number one globally in economic freedom (Economic freedom, 2017).

Challenges facing Hong Kong

Since the middle of the nineteenth century, Hong Kong's history has been replete with challenges to its position as the leading financial centre of Asia-Pacific (Meyer, 2016a). That long-term perspective must be maintained to properly assess the severity of the current tests. Global firms keep positioning their senior decision-makers in the city to participate in its local and Asia-wide networks of capital (Chen, 2016). That is the basis for the resilience of Hong Kong's financial, business services, and corporate management sectors. Likewise, China's leaders recognize that pivotal status of Hong Kong, which is the reason they designed the "One Country, Two Systems" model – to preserve the city as China's window to global capital.

Arguably, fear of the "mainlandization" of the city is the most widely discussed challenge to Hong Kong. The term's negative connotation draws on a variety of concerns, including: refusal

by China's leaders to allow fully democratic elections of the Chief Executive; inability of youth protests to convince China's leaders to alter their approach to Hong Kong's governance enshrined in the *The Basic Law* (1992), the constitution of Hong Kong; the influx of talented mainland students to the city's universities; competition from mainland citizens for jobs in the city's leading businesses; comments by Chinese leaders which seem to be attempts to influence Hong Kong's independent judiciary to rule favourably on mainland policies; and the undermining of the freedom of the press (Lam, 2017; Un, 2017; Yu and Griffiths, 2016).

Top officials of China's Communist Party recognize the concerns about "mainlandization" of Hong Kong, but they argue that it is unfounded. No less a luminary than Zhang Dejiang, the third-ranked leader in the Politburo Standing Committee of the Communist Party, rejected the idea that China was trying to "mainlandize" Hong Kong. He appealed to the policy of "One Country, Two Systems" as the protection of Hong Kong's autonomy under Chinese rule (Un and Lau, 2016). Nevertheless, China's control over Hong Kong under the "One Country, Two Systems" governance was reaffirmed in the election of the new Chief Executive, Carrie Lam. She was chosen by the city's selection committee and must be approved by China's government as detailed in *The Basic Law* (1992). President Xi Jinping and Premier Li Keqiang set high expectations for her. They said she must use her power under "One Country, Two Systems" to improve the economy, deal with social-political conflicts, and improve the livelihood of the city's citizens (Lam and Ng, 2017; The challenges, 2017).

One of the more severe social-political conflicts, the Occupy Central movement, will be facing the new Chief Executive. This movement emerged in late 2014, and it reflects the concerns over "mainlandization" of the city. On the surface, the movement was a protest against China's method for choosing the next chief executive of Hong Kong. However, many social issues such as educational quality, competition by mainland residents for jobs in Hong Kong, and mainland tourists flooding to the city, loomed beneath the surface. Although senior Beijing officials expressed anger at Hong Kong residents over the protests, little danger existed that this would cause a serious problem for relations between Hong Kong and China. The city's position as the leading Asia-Pacific financial, trade, and corporate management centre, and as head of China's financial centre networks, is secure (Meyer, 2014b). Nonetheless, in late March 2017 the Hong Kong police brought criminal charges against nine organizers of the 2014 pro-democracy protests. This sets up a challenge for Carrie Lam, the new Chief Executive (Wong, 2017).

Conclusions

Since the return of Hong Kong to China's sovereign control in 1997, the city has thrived as China's window to global capital. Across an array of business sectors, including finance, business services, and corporate management, the city continues as the leading Asia-Pacific centre for the exchange of capital within Asia and between that region and the global economy, especially Europe and North America. As well, the city's financial sector is the senior member of China's financial centre networks. Business networks that radiate from Hong Kong across Asia, into China, and from Asia to the global economy have been sustained for over 150 years. This extraordinary resilience of Hong Kong's business sector now is buttressed both by China's sovereign control of the city – no outside threat to it will be tolerated – and by the country's rise to superpower status in the global political economy.

While arguments have been made that other cities in Asia may usurp Hong Kong's pivotal position, these points have little support. Tokyo is quintessentially a Japanese business centre; global firms operate from it to mainly access the domestic market. Shanghai is the mainland centre, but foreign and overseas Chinese firms have rarely employed it as a business management

pivot for Asia. Singapore is a city-state that remains the leading southeast Asia network hub, but it has never been an Asia-Pacific hub and cannot rely on a great economic power as its backer, as Hong Kong can. The status of Hong Kong as China's global city provides the security of its continued prominence in global networks.

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24

Chinese state capitalism in Hong Kong[1]

Ho-fung Hung

Introduction

After the Asian Financial Crisis and the subsequent prolonged economic stagnation in Hong Kong in 1997–2003 that culminated in the SARS debacle, Hong Kong financial markets and the economy at large rebounded under a set of Beijing policies to increase Hong Kong-mainland China economic integration. The signature measure of policy is the Closer Economic Partnership Agreement (CEPA) signed in 2003 that further lowered tariffs and other restrictions on Hong Kong goods and capital entering into China, and vice versa.

Chinese officials and state media are not shy to take advantage of Hong Kong's post-2003 economic rebound to emphasize that Beijing's policies allegedly triggered the rejuvenation, through mercy, a gift that Beijing offered the Hong Kong people, and that the Hong Kong economy had lost its luster and was one-sidedly dependent on China to thrive. This discourse seems sensible in the context of the peak of China's economic boom from China's accession to the WTO in 2001 and China's strong economic rebound in the aftermath of global financial crisis in 2008.

This chapter shows that this discourse about Hong Kong's economic dependence on China is misleading. I will show that, after the 1997 sovereignty handover, China has been maintaining and developing Hong Kong's role as China's offshore economy. This role originated in British times and served China's economic development well in the Mao era and the early stage of market reform in the 1980s. Such a role for Hong Kong continues to be indispensable to the heyday of the China boom. Being a free financial and currency market at the doorstep of China, the financial market and currency of which is still not fully liberalized, Hong Kong is becoming the most important window for Chinese enterprises, giant state-owned enterprise in particular, to raise capital and undertake different kinds of essential operations.

In what follows, I will first outline the origins of Hong Kong's offshore economy role to China under Mao, then discuss the dynamics of the recent China boom as well as Hong Kong's contribution to it. It will be followed by an exposition of the rise of Chinese state capitalism – as manifested in the rising dominance of Chinese state companies and state capitalist elite – in Hong Kong in the context of such Hong Kong-China economic relations.

Hong Kong in Mao China's shadow

It is well known that, after the Chinese Communist Party (CCP) secured control of most territories of China lest Taiwan in 1949 and when the British were preparing for an evacuation scenario when the People's Liberation Army moved to right North of British Hong Kong, Mao reached a decision to keep the British in Hong Kong, adopting a "fully utilize and plan for the long run" Hong Kong policy. This policy served Mao's China well and continued until the late 1970s, when Beijing started to signal its intention to seek Hong Kong's sovereignty transfer to China in 1997.

After 1949, Beijing tolerated British governance of Hong Kong. In exchange, Britain tolerated CCP's operation in Hong Kong through various front organizations including schools, trade unions, Chinese state-owned enterprises, and so on. As such, Hong Kong became the only window through which the PRC could break the trade embargo on China that the United Nations imposed in the wake of the outbreak of the Korean War. Hong Kong was a traffic center for the smuggling of strategic military-related supplies such as medicines during the war. In the Cold War decades, Chinese state enterprises in Hong Kong, most notably the Bank of China and China Resources, have been the important channels through which the PRC could absorb foreign exchanges via their trading activities or remittance services. The Chinese trading companies were also channels through which China employed its limited foreign exchange holdings to import foreign capital goods, particularly in the 1970s (see Schenk, 2001; Lui and Chiu, 2009: 25–80; Guo, 2009).

This special role for Hong Kong was key to the development of China's socialist economy under Mao despite international isolation. After market reform commenced in the 1980s and China started to move into an export-oriented and investment-heavy model of development, Hong Kong's economic significance to China did not diminish. Hong Kong's role in Chinese development only changed alongside China's changing political economy.

A brief history of the China boom

During the Mao period, the Communist party-state managed to extract and concentrate scarce rural surplus and build up an extensive network of state-owned, urban-industrial capital through rural collectivization and the "price scissors" between agricultural and industrial products (Selden, 1993). Though the peasants were chained to their villages under the household registration system that restricted their migration away from their birthplaces, their life expectancy and literacy rate improved significantly as a result of state investment in rural elementary education and public health (Hung, 2016: Chapter 2). With the exception of the Great Leap Famine of 1959–61, the Maoist path of development fostered high GDP growth rate over most of the period until the mid-1970s, when the growth momentum generated by the central planning system was exhausted and the economy came to a standstill. But it also left China with a bulk of state capital and a vast pool of healthy and educated surplus laborers in the countryside. China also developed a strong state less burdened by external debts in comparison with other developing and socialist countries. These developmental outcomes laid a solid foundation for the market reform launched by the post-Mao leaders in the late 1970s as a remedy to overcome economic stagnation (Naughton, 1995: 55).

The market reform started with decollectivization and the restoration of a peasant economy in the countryside in the early 1980s, followed by urban state enterprise reform and price reform in the late 1980s. In the 1990s, state-owned enterprise reform accelerated and the question of privatization came to the forefront as the most contentious issue. Thorough theses stages, the main thrust of the reform is to decentralize the authority of economic planning and regulation

and to open up the economy, first to Chinese diasporic capital in Asia and then to transnational capital from all over the world.

The first stage of reform was characterized by decentralization that transferred power over economic governance to local governments, which were then cut off from subsidies from the central government (Shirk, 1993: 334–335). Lured by the opportunities for profiteering activities, local governments with different preexisting resource endowments devised different strategies of capital accumulation. Lacking technical and management know-how as well as marketing networks in overseas market, most local developmental or entrepreneurial states depend heavily on labor-seeking transnational capital, mostly from within East Asia, to jumpstart and sustain local economic growth. Though foreign direct investment does not constitute a major part of China's continental economy in quantitative terms, it plays a significant role of driving China's labor-intensive and export-oriented industrial growth (see Lin, 2000; Hsing, 1998). As of 2004, almost 60 per cent of Chinese exports are manufactured in foreign-funded enterprises, and this percentage is even higher for higher value-added products.

The bulk of state capital accumulated in the Mao era conveyed large convenience to foreign investors, who can simply plug themselves into the preexisting network of production by establishing joint venture or multilayered subcontracting connections with local state-owned or collective enterprises. The "unlimited" supply of healthy and educated labor from the countryside, another legacy of the Mao era, persistently keeps wage levels much lower than international standard. China's attractiveness to global capital is further enhanced by the competitive pressure among local states, which race with one another to achieve high GDP growth by offering the most favorable terms possible to foreign investors, ranging from tax breaks to free industrial land.

The social dynamics of the reform shifted dramatically when urban reform accelerated after the mid-1980s. The crux of the urban reform was to turn state-owned enterprises into autonomous profit-making units by hardening the "soft budget constraint" of the enterprises that warrant government subsidies and government absorption of losses. It was also to replace fixed, centrally planned prices of key commodities with floating, market prices. Under the new pressure to make profits, many state-owned enterprises started eliminating the welfare packages for workers and replacing life-long employment with short-term contractual one. Falling income and job security for industrial workers coupled with runaway inflation and rampant corruption unleashed by the price reform. The reform, which started with a "dual track system" that ushered in the coexistence of fixed planning prices and floating market prices for such key commodities as gasoline, cement, steel, and other materials in short supply enabled government officials and state enterprise managers to purchase these commodities at low planning prices, stockpile them, and then sell them at skyrocketing market prices. Through this rent-seeking activity, many cadres, or their kin and protégé, amassed enormous private wealth and turned themselves into the first generation of China's "cadre-capitalist class" or "bureaucratic capitalists" in a matter of a few years (Wen, 2004: 37). Inflation, corruption, and class polarization reached crisis proportions in 1988, paving the way for the large-scale unrest in 1989.

After the Tiananmen revolt was bloodily cracked down, China's path to political liberalization was cut off. It also accelerated the neoliberal attack on urban workers' rights. To break the international isolation resulting from the bloodshed in the Tiananmen, Jiang Zemin and Zhu Rongji, the CCP leaders originating from Shanghai and chosen by Deng, pursued an aggressive neoliberal economic agenda throughout the 1990s, following the Washington consensus and advice from US financial capital conscientiously. This approach provided the cover and incentive to the Clinton administration to set aside all doubts about the CCP regime in the aftermath of Tiananmen and to adopt an engagement policy toward China in the name of promoting human rights improvement through enhancing economic freedom and openness.

In the 1990s, the liberalization of the economy and the subsequent social polarization advanced with far greater ferocity than in the 1980s. Massive layoffs of workers in state-owned enterprises, which were transformed into profit-oriented capitalist enterprises or underwent outright privatization, and the complete dissolution of the welfare system embedded in public enterprises swept all major cities, creating swelling ranks of the urban underclass. The incipient privatization of state-owned enterprises in the 1990s opened up new opportunities for senior cadres and their associates to snowball their wealth through "insider privatization," heralding the formation of a new class of oligarchs, Russian style (Li and Rozelle, 2000). Many state enterprises, after reform, became profit-oriented capitalist corporations with government holding majority share. Some of them were listed on stock markets in China and overseas such as Hong Kong, Singapore, and New York. Had it not been for the firm grip on society by the post-Tiananmen authoritarian state, the polarizing yet upheaval-free liberalization of the economy would have been impossible, at least not in the pace as we witness.

The intense competition for foreign investment among local governments, as well as the pro-capital authoritarian state that kept demands of the working classes at bay, contributed to the attractiveness of China to global capital, in particular manufacturing capital having developed in Japan and Asian Tigers during the post-war take-off of East Asia. Between 1990 and 2005, investment from Hong Kong, Taiwan, South Korea, Japan, and Singapore altogether constituted 71 per cent of the stock of foreign direct investment (FDI) flowing into China, with capital from Hong Kong constituting over half of these foreign investments. Many of these investments are export-oriented, transforming China into the "workshop of the world." They underline the Chinese economic miracle as a continuation of the earlier East Asian miracle, and they tie China into the global network of free trade. They are the main sources of dynamism and profits in the Chinese economy.

In the 1990s, export-oriented manufacturing started to roar in China. Though the export sector already emerged in the 1980s, thanks to the beginning of the inflow of Hong Kong manufacturing capital, it did not go far as most surplus labor in the countryside was retained in the rural collective enterprises (known as township and village enterprises, or TVEs) and the booming agricultural sector. The one-off devaluation of the renminbi (RMB, the Chinese currency) against the dollar for more than 30 per cent in 1994, followed by its pegging to the dollar, was a boost to China's export manufacturing in the 1990s. The Clinton administration's signing of a landmark trade agreement with China in 1999 that lowered trade barriers for all kinds of goods, in addition to the opening of the China market in exchange for US and Europe opening their markets to Chinese products during China's bid for accession into WTO that became reality in 2001, all contribute to the rise of China's export engine. But one indispensable fuel of China's export-oriented success is the protracted low wages in Chinese manufacturing given China's "unlimited supply" of rural surplus labor.

Low-cost, labor-intensive, and export-oriented manufacturing has been a driving force of China's economic boom from the mid-1990s onward. The massive trade surplus that the export sectors generated provides liquidity in the banking system – in the form of increasing supply of RMB backed up by foreign currencies, mainly US dollars – that fueled the growth of fixed asset investment mostly undertaken by state enterprises and kept the banking system afloat despite the not so impressive performance of SOEs benefiting from lax lending by state banks. The reliance on export, fixed-asset investment, and a low-wage regime that repressed consumption became the key characteristics of the Chinese pattern of capitalist development. Like earlier Asian Tigers, the US constituted the single-most important market for China's exports, only recently surpassed by the EU as a whole. The rapid expansion of China's export-oriented industries has already made China the biggest exporter to the US among all Asian exporters (Hung, 2016: Table 3.6).

At the same time, fixed asset investment including infrastructure construction and housing construction undertaken mostly by local governments or state sectors also play an important role in driving the Chinese economy. But most fixed asset investment in the Chinese economy has been financed by bank lending, and a large portion of liquidity in the banking system originates from a "sterilization" process in which exporters surrender their foreign exchange earnings to state banks in exchange for an equivalent amount of RMB issued by the People's Bank of China, China's central bank. In other words, a large part of the liquidity in China's banking system originates from the ballooning trade surplus. At its height in 2007, China's current account surplus amounted to 47 per cent of the increase in monetary supply as measured in M2, including all cash and bank deposits in the financial system. This liquidity, in the context of China's high saving rate, is mostly channeled to bank loans that finance fixed asset investment by state enterprises and local governments. It is not exaggerating to say China's export sector is the mother of its capitalist boom.

Hong Kong played a special and indispensable role in the emergence of the China boom as outlined above. Being geographically close to China and having a free economy, Hong Kong has been a leading East Asian dragon that provided and channeled foreign direct investment, mostly manufacturing investment to fuel China's export sector. Hong Kong's early inclusion in the world's free trading system rendered the city entrepot status as a large portion of China's exports was routed through the port facilities of Hong Kong. At the same time, the politically privileged, resourceful, but inefficient and unprofitable state sectors have been active in setting up operations in Hong Kong or listing on the Hong Kong stock market to raise capital from all around the world. Hong Kong therefore is an offshore economy that facilitates China's export and import of goods and capital, hence gluing China to the world economy when the Chinese economy is still not fully open.

Hong Kong as China's offshore market beyond sovereignty transfer

As we have seen, British Hong Kong had performed an important role in connecting China to foreign capital and foreign markets while China maintained the partial closure of its economy, allowing the Chinese economy to benefit from its integration with the global economy while shielding itself from the risks associated with economic openness from the 1950s through the 1980s. The idea to institute a "One Country, Two Systems" arrangement after sovereignty handover from Britain to China in 1997 is first and foremost an attempt to ameliorate the confidence crisis among business elites and the middle class in the territory, as many recognize. At the same time, it is also an attempt on the part of Beijing to perpetuate Hong Kong's role as China's offshore market beyond the sovereignty handover.

In the 1990s, US-China re-engagement has been in full force through economic integration. In 1992, the US Congress passed the United States–Hong Kong Policy Act that regulates US relations with Hong Kong beyond 1997. The Act purported that the US would regularly monitor whether Hong Kong's autonomy from mainland China, its rule of law, and its pre-existing freedom after 1997 is maintained as promised in the Sino-British Joint Declaration. Upon verification of such autonomy, the US would "continue to treat Hong Kong as a separate territory in economic and trade matters, such as import quotas and certificates of origin." The stated purpose of this act is to support the UK in its effort to ensure Hong Kong's autonomy after the sovereignty handover, as well as to lend support to the Hong Kong people's defense of their autonomy. They were widely recognized as necessary steps to uphold Hong Kong's freedom in the wake of the 1989 Tiananmen crackdown and on the eve of 1997 handover (US-HK Policy Act, 1992).

Besides the stated political objective, the Act in fact benefits Beijing too, as the US pledged recognition of Hong Kong's autonomous status in commerce and trade matters warranted the continuation of Hong Kong's role as a useful offshore platform for the Chinese economy beyond 1997. For example, the Act stipulated that "The United States should continue to grant the products of Hong Kong nondiscriminatory trade treatment (commonly referred to as 'most-favored-nation status') by virtue of Hong Kong's membership in the General Agreement on Tariffs and Trade," and

> The United States should continue to support access by Hong Kong to sensitive technologies controlled under the agreement of the Coordinating Committee for Multilateral Export Controls (commonly referred to as 'COCOM') for so long as the United States is satisfied that such technologies are protected from improper use or export.
>
> *(US-HK Policy Act, 1992)*

The first stipulation was important before China obtained permanent most favored nation status in and its accession to the WTO in 2001. The US's certification of Hong Kong and China as two independent custom territories, as followed by other economic entities in the world, enabled China and Hong Kong to remain two separate members even after China's accession to WTO, with Hong Kong maintaining a more open trade and investment linkage with the world economy than China. As such, China's export and import of goods and capital via Hong Kong continue to enjoy significant advantage over direct export and import. It is more so after China enacted the CEPA with Hong Kong in 2003, further lowering trade and investment barriers between Hong Kong and China. Today, China imports many foreign goods that are still subject to tight quotas and other regulations through Hong Kong. One example is the import of agricultural products like tropical fruits and frozen meat, which were imported by Hong Kong in large quantities with the majority of which re-exported to mainland China (ChinaAg, 2015).

Another example is that capital registered as originating from Hong Kong enjoys more freedom of movement around the world, in Western countries in particular, in comparison to those registered as originating from mainland China. It is why many mainland China corporations would either register as a Hong Kong company (e.g. Lenovo) or send their investment to the world via their Hong Kong subsidiaries. A lot of capital that China exports to Hong Kong is re-exported to other parts of the world as Hong Kong capital. It explains why a vast majority of China's outward investment is going to Hong Kong, as shown in Table 24.1.

While some of this investment ends in Hong Kong, many investments would in turn flow to other countries or is used to make foreign acquisitions with Hong Kong money. It is well known that China has been taking advantage of this role of Hong Kong to enable many sensitive deals to stay under the radar. In 1998, a Hong Kong based company Chong Lot Travel Agency headed by businessman Xu Zengping, a People's Liberation Army (PLA) veteran, struck a deal with the Ukrainian government to acquire a retired Soviet-era aircraft carrier *Varyag*. It was originally expected to be a deal about turning an old aircraft carrier into a floating theme park. But as it turned out, this operation was in fact linked to the PLA's project to acquire and renovate foreign aircraft carriers. The *Varyag* was later reformulated into the much-boosted-about *Liaoning* carrier commissioned in 2012, China's first aircraft carrier said to make significant contribution to China's attempt to project its power to the Pacific Ocean. (*South China Morning Post*, 19 January 2015) In a similar vein, for the recent Nicaragua canal project that a Chinese company collaborated with the Nicaragua government as an effort to bypass the Panama Canal in Atlantic-Pacific traffic controlled by the US, the Chinese company involved is in fact a Hong Kong registered company run by a mainland Chinese businessman.

Table 24.1 Top 20 countries (regions) as destinations of China's outward FDI stock, by the end of 2015

Country/region	Stock (billion USD)	% Share
Hong Kong	656.855	59.8
Cayman Islands	62.404	5.7
British Virgin Islands	51.672	4.7
United States	40.802	3.7
Singapore	31.985	2.9
Australia	28.374	2.6
Netherlands	20.067	1.8
United Kingdom	16.632	1.5
Russia	14.02	1.3
Canada	8.516	0.8
Indonesia	8.125	0.7
Luxembourg	7.74	0.7
Germany	5.882	0.5
Macao	5.739	0.5
France	5.724	0.5
Kazakhstan	5.095	0.5
Laos	4.842	0.4
South Africa	4.723	0.4
United Arab Emirates	4.603	0.4
Myanmar	4.259	0.4
Total	**988.059**	**89.8**

Source: China's Ministry of Commerce (2016).

The significance of the second stipulation as cited above to China is more notable. Ever since 1989, the US has imposed strict embargos on the export to China of high-end technologies that are deemed sensitive and employable for military use. By enabling Hong Kong to import such technologies as a separate custom territory, the Hong Kong Policy Act effectively offers China a loophole to get access to these technologies, even though the assumption is that the US government would routinely monitor whether the Hong Kong customs department is fulfilling its obligation to adhere to the US-led global regime of trade sanctions involving mainland China. But at times it has been revealed that Chinese companies have been actively bypassing US sanctions by smuggling sensitive technologies via Hong Kong. The US Congress has regularly tried to tighten the monitoring of Hong Kong export to China. But smuggling by Chinese and Hong Kong businesses in Hong Kong has continued. The latest case is the smuggling of military-grade US drones to China via the port of Hong Kong (Gettinger, 2016). It is difficult to estimate the scale of such smuggling activities that have not been found.

UK and US recognitions of Hong Kong's autonomy from mainland China and of Hong Kong's rule of law have further implications. The court system in Hong Kong had been in reciprocal agreement with many other court systems in the world, particularly those in common law countries. This continued after 1997. As such, even though judgments by courts in China and those in other countries are mostly not mutually enforceable, foreign judgments in courts with

reciprocal agreements with Hong Kong are enforceable in the territory, and vice versa. Moreover, the Hong Kong government revamped its arbitration institutions to put it in line with the international standard under the Model Law on International Commercial Arbitration of the United Nations Commission on International Trade Law in 2011. Such revamping, together with Hong Kong's membership in the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards under which commercial arbitration in any place is enforceable in all member countries and the "arrangement between Hong Kong and the mainland for reciprocal enforcement of arbitral awards" signed in 1999, turned Hong Kong into an international arbitration center. Even though China's arbitration system is not compatible with international standards and does not have reciprocal enforceability with most major economies, outward-oriented Chinese companies and foreign companies investing in China could overcome this incongruence by relying on arbitration in Hong Kong.

Another key institution that warrants Hong Kong's role as China's offshore market is the maintenance of Hong Kong's own currency and financial system after 1997. Complete openness of Hong Kong's financial system to the world economy, the free convertibility of the Hong Kong dollar, and a separate and presumably independent financial regulation system enables Hong Kong to continue performing its role as an intermediary between China and the world. I will turn to the exceptional importance of financial sector among Chinese state capital in Hong Kong later.

Rise of Chinese state companies in Hong Kong

The presence of Chinese state companies in Hong Kong predated the reform period. As we saw in the first section, state companies like the Bank of China and China Resources had been operating under the auspices of the British colonial government to handle financial and trade activities between the PRC and Hong Kong as the only channel for economic interaction between the communist state and the outside world.

With the beginning of the market reform in the 1980s, these enterprises became ever more profit-oriented. The imminent sovereignty handover of Hong Kong to China further enhanced the prowess of these enterprises in Hong Kong. At the same time, more and more state enterprises in the mainland came to open subsidiaries as "window companies" in Hong Kong. (Guo, 2009: Chapter 2) Some incorporated in Hong Kong and other overseas territories, like Lenovo. The increasing activities of PRC-origin state companies in establishing their foothold in Hong Kong from the 1980s on were driven by the importance of Hong Kong's role as an offshore platform for the PRC economy, as discussed in the previous section.

Some of the biggest Chinese state enterprises incorporated in Hong Kong became public in the Hong Kong Stock Exchange (HKEX), and are collectively known as "red chip" companies in the financial market. Table 24.2 shows that these companies have been increasing in numbers and prominence (as measured by its share of capitalization and equity fund raised) over the years. And they cover a wide range of business fields dominated by giants in finance, energy, and utilities.

On top of the rising dominance of "red chip" companies in the local economy, an increasing number of Chinese state-owned companies incorporated within China came to be listed Hong Kong Stock Exchange ever since the Exchange started to accept listings of PRC-based companies in 1993, called "H-share" companies. Though these companies did not have actual operations and businesses in Hong Kong, they used Hong Kong as the most important channel to raise capital from the local economy as well as from the world economy. Hong Kong's unique attraction for these companies to raise capital there is the combination of its proximity to China and its judicial autonomy from China as discussed previously.

Table 24.2 Equities raised by red chips and H-share companies in the Hong Kong Stock Exchange, 1993–2014

Year	Equities raised (billion HKD)		as % of total fund raised in HKEX		
	Red chips	*H-share*	*Red chips*	*H-share*	*Total*
1993	15.08	8.14	16.75	9.04	25.80
1994	13.23	9.88	25.51	19.05	44.56
1995	6.67	2.99	17.01	7.63	24.64
1996	19.01	7.87	19.01	7.87	26.88
1997	80.98	33.08	32.71	13.36	46.07
1998	17.37	3.55	45.40	9.28	54.68
1999	55.18	4.26	37.25	2.88	40.13
2000	293.66	51.75	65.07	11.47	76.54
2001	19.08	6.07	32.56	10.36	42.92
2002	52.72	16.87	51.99	16.63	68.62
2003	4.89	46.84	2.34	22.40	24.74
2004	26.37	59.25	9.54	21.43	30.96
2005	22.39	158.68	7.50	53.13	60.63
2006	50.77	303.82	9.84	58.88	68.72
2007	114.97	85.73	20.13	15.01	35.14
2008	223.80	34.11	53.52	8.16	61.67
2009	78.01	121.73	12.23	19.09	31.32
2010	55.42	290.88	6.55	34.40	40.96
2011	60.78	89.19	12.59	18.47	31.06
2012	40.01	123.67	13.33	41.19	54.52
2013	66.32	135.62	17.93	36.67	54.60
2014	364.90	193.44	39.26	20.81	60.08

Sources: HKEX fact book.

Looking at the history, main lines of business, and capitalization/fundraised statistics about H-share companies, we would readily see them matching or even surpassing predominance in the Hong Kong economy in comparison to local companies including the "red chips".

The rise of China Mobile in the Hong Kong market is illustrative of how these mainland-based companies came to be incorporated and/or listed in Hong Kong's stock market in collaboration of Western financial giants. The creation of China Mobile, which is among the few "National Champions" companies in China and is on the Fortune Global 500 list, illustrates what SOE reform in the 1990s is about. Before the 1990s, China's telecommunication services were provided through fragmented facilities operated by provincial governments. In the early 1990s, Goldman Sachs "aggressively lobbied Beijing" to create a national telecommunication company and succeeded (Walter and Howie, 2012: 159). Under the auspices of international bankers, accountants, and corporate lawyers, China Mobile was created as a new company that represented the consolidation of previously provincially owned industrial assets. After years of American bankers' efforts in building its international image, China Mobile completed its initial public offering in Hong Kong and New York in 1997 despite the Asian Financial Crisis, raising US$4.5 billion. As the authors point out, China Mobile's valuation was not based on an "existing

company with a proven management team in place with a strategic plan to expand operations," but on projected estimates of the future profitability of the consolidated provincial assets as compared to the performance of existing national telecom companies operating elsewhere in the world (161). As such, international bankers, as minority stakeholders of the company, and China's central government, as the majority stakeholder, made huge fortunes by creating a "paper company."

Utilities, energy, and finance have been always the dominant sectors among red chips and H-shares in the Hong Kong capital market, but the financial sector has been growing particularly rapidly and is expected to continue its increasing dominance among state capital in Hong Kong. As we can see from Table 24.3, financial companies were not seen among the top H-share and red chip companies listed in the Hong Kong Stock Exchange in 2000. But by 2014, over half of

Table 24.3 H-share and red chip companies among the top 50 companies in Hong Kong by capital capitalization

Year	Company	Classification	Market capitalization (HK$/Mil)	% of equity total
2000	PetroChina Co. Ltd.	H-share	22857.14	0.48
	China Mobile Ltd.	Red chip	792586.3	16.53
	China Unicom (Hong Kong) Ltd.	Red chip	150008.3	3.13
	China Merchants Holdings (International) Co. Ltd	Red chip	11582.63	0.24
	Shanghai Industrial Holdings Ltd.	Red chip	12749.56	0.27
	CHINA EVERBRIGHT LTD.	Red chip	12419.3	0.26
			Total	20.91
2014	China Construction Bank Corp.	H-share	1531458.33	6.15
	Industrial and Commercial Bank of China Ltd.	H-share	491254.29	1.97
	Ping An Insurance (Group) Co. of China Ltd.	H-share	294551.67	1.18
	Bank of Communications Co., Ltd.	H-share	253485.89	1.02
	China Life Insurance Co. Ltd.	H-share	226583.78	0.91
	PetroChina Co. Ltd.	H-share	181450.54	0.73
	China Petroleum & Chemical Corporation	H-share	159458.99	0.64
	Agricultural Bank of China Ltd.	H-share	120496.19	0.48
	China Pacific Insurance (Group) Co., Ltd.	H-share	109346.82	0.44
	Bank of China Ltd.	H-share	365429.35	1.47
	CNOOC Ltd.	Red chip	466119.44	1.87
	China Mobile Ltd.	Red chip	1845762.61	7.41
	CITIC Ltd.	Red chip	329221.94	1.32
	BOC Hong Kong (Holdings) Ltd	Red chip	274363.65	1.10
	China Unicom (Hong Kong) Ltd.	Red chip	248904.58	1.00
	China Overseas Land & Investment Ltd.	Red chip	188410.14	0.76
	China Resources Land Ltd.	Red chip	119248.42	0.48
	Lenovo Group Ltd.	Red chip	113522.22	0.46
			Total	29.39

Sources: HKEX fact book.

total market capitalization of the top H–share and red chip companies originate from banks for insurance companies, which were the backbone of Chinese financial capital.

The increasing dominance of finance by Chinese capital in Hong Kong is attributable to China's designation of Hong Kong as the offshore wholesale center for RMB business in its long–term campaign to internationalize the RMB. The IMF inclusion of the RMB in its basket of SDR (Special Drawing Right) currency in November 2015 gave a boost to such campaign. With the increase in international use of RMB, more foreign businesses would like to buy in and hold RMB through the financial institutions of Hong Kong. While all major banks in Hong Kong have been vying for the RMB business, Chinese financial institutions in Hong Kong enjoyed much competitive advantage because of its mainland connection and because of the fact that the Bank of China, itself a red chip company in Hong Kong, was designated the official clearing bank of the RMB in Hong Kong and in many other places with RMB offshore markets including Singapore, London, and New York.

RMB internationalization and dominance of Chinese financiers

Since the global financial crisis of 2008 triggered by US the financial meltdown, the Chinese government has been working to reduce its dependence on the USD through a campaign to internationalize the use of RMB. Such effort will presumably increase the amount of trade settled in RMB for China, gradually displacing the dominant role of USD in China's trade and hence reduces China's large accumulation of risky USD-dominated assets like the US Treasury Bonds, in its foreign exchange reserve. Increasing the global circulation of RMB will also increase holdings of RMB in foreign countries, hence enhancing China's overseas influence.

While a full internationalization of the RMB will require China to liberalize its capital account, meaning the CCP will need to let go of its control of the banking sector and its monopoly in credit creation, the openness of Hong Kong's capital account and its financial system, as well as the regulated permeability between the Chinese and Hong Kong financial systems allows Beijing to pursue RMB internationalization by creating a large offshore pool of freely convertible RMB in Hong Kong while delaying liberalization of mainland China's capital account. The centrality of Hong Kong in the RMB's internationalization process is well illustrated in China's successful bid to get the RMB included in the IMF SDR basket of currencies side by side with the US dollar, the euro, the pound sterling, and the yen in late 2015.

The IMF created the SDR in 1969 to solve the problem of the inadequacy of hard currencies, such as US dollar and gold, necessary to maintain the Bretton Woods monetary order. Such order was constructed in the Bretton Woods Conference of 1944 and was anchored on the gold convertibility of the USD, with 1 ounce of gold to US$35, as well as fixed exchange rates of major currencies with the USD. To warrant the stability of this order, the central banks of major capitalist countries needed to accumulate sizeable foreign exchange reserves so that they could intervene to protect their currencies' peg with the USD at times of currency crisis. The rapid expansion of the world economy in the 1960s fomented a shortfall of USD and gold that jeopardized the stability of the Bretton Woods order. The invention of the SDR is an IMF attempt to tackle such shortfall.

SDR is not a currency. It is an accounting unit the value of which is determined by the values of currencies in its currency basket. The composition of the basket and the weight of each constituent currency are determined by the IMF. SDR cannot be used to purchase goods and services, and it can only be traded among central banks. The IMF occasionally created certain amount of SDR out of thin air to meet the perceived need of the world economy. It then allocated the newly created SDR to its member countries according to their relative economic standing. The

central bank of a country can use its SDR to purchase hard currencies within the SDR basket from another country, or it can use its currencies holdings to trade for more SDR. The interest arrangement of the SDR is such that a country holding more SDR than its allocated quota could earn interest, while a country holding less SDR than its quota needs to pay interest. This arrangement enables countries caught in a currency crisis to trade its SDR for hard currencies with countries interested in accumulating more SDR to earn interest. Given this mechanism, countries can displace hard currencies with SDR in their foreign exchange reserve mixes, increasing their foreign exchange reserves and hence their capability to maintain their currencies' fixed exchange rate without increasing the global demand for hard currencies.

Two years after the invention of the SDR, nonetheless, Nixon abolished the gold convertibility of the dollar. By 1973, the Bretton Woods world monetary order had collapsed and major world currencies had moved back to free floating. The world's urge to accumulate foreign exchange reserves dwindled, and the SDR became much less relevant. Currently, the total amount of SDR circulating in the world economy amounts to only 0.28 trillion when measured in USD. It is a mere 2 per cent of the value of the 12 trillion dollar total foreign exchange reserves in the world. The composition of the SDR basket changed multiple times over the years. Canadian dollars, Australian dollars, South African rand, Saudi Arabian riyals, and Iranian rials were once in the basket. They came and went without many people noticing and remembering. It attests to the insignificance of the SDR in the world monetary system. (Boughton, 2001: Chapter 18)

The long forgotten SDR made newspaper headlines again in 2009, in the wake of the financial breakdown in the US that unleashed a global fear about an imminent collapse of the USD among large holders of USD assets in their reserves, China in particular. In March that year, Zhou Xiaochuan, the head of China's central bank, issued a statement to call for increasing the use of SDR and the replacement of USD with the SDR as the leading world reserve "currency." Zhou also advocated an expansion of the SDR currency basket so that its stability will be less dependent on the financial health of any particular countries. In November 2011, the then Chinese President Hu Jintao amplified such advocacy by incorporating it as the centerpiece of his proposals to reform the global financial system in his speech at the G-20 Summit.

Beijing's proposal of replacing the global dollar standard with an SDR standard coincides with Beijing's effort to push for a RMB inclusion into the SDR basket. The push is similar to Beijing's campaign to seek to host a Summer Olympics and to enter the WTO in the 1990s. Chinese leaders must have assumed that the RMB being included into the SDR would be tantamount to an official endorsement by the IMF that the RMB is as reliable and liquid as the USD, the euro, the pound, and the yen as a reserve currency. Such endorsement could increase world demand for the currency, inducing capital flows into China that could give a new boost to the Chinese economy. The symbolic pride of getting the RMB recognized as a peer of the USD and the euro will also benefit the Chinese Communist Party's legitimacy in the eyes of its people. From the vintage point of IMF insiders who favor RMB inclusion, such inclusion could encourage Beijing to further liberalize its financial system and capital account to make RMB fully convertible. But in 2010, in its 5-year review of SDR basket composition, the IMF rejected the inclusion of the RMB, as it concluded that the RMB has not met the "freely usable" criteria of SDR constituent currency. According to IMF definition as laid out in the IMF Articles of Agreement, Article XXX(f), a freely usable currency is one that is "widely used to make payments for international transactions" and is "widely traded in the principal exchange markets."

The IMF designation of the RMB as not freely usable in 2010 is hardly surprising. China's financial system has been insulated from the global financial circuit as Beijing maintains tight foreign exchange control as a safeguard against volatile financial flows and against the erosion of the Communist Party's command of the economy through its control of credits and deposits.

After 2010, Beijing redoubled its effort to make the RMB fulfill the IMF's technical requirements for inclusion into the SDR. The tricky part is how the Communist Party could meet the requirements without forfeiting its control of China's financial sector.

By early 2015, it became apparent that Beijing had hit jackpot, and the IMF started to signal that it was on the way to certifying that the RMB had fulfilled the requirements. The data most widely cited as proof of RMB's "free usability" is that the use of the RMB in international payments has shot up from below the top 15 currencies in 2011 to the fifth rank as of September 2015, just trailing behind the USD, the euro, the pound, and the yen. This appears to be an impressive achievement. But a more careful look into the data (Table 24.4) shows that the fifth rank of the RMB represents only 2.45 per cent of all international payments, still way far below the 43.3 per cent for USD and 28.6 per cent for the euro.

More importantly, as shown in Table 24.5, among those 2.45 per cent of international payments carried out in RMB, 70 per cent are transactions done in Hong Kong – a former British

Table 24.4 Top currencies' shares in international payments as of September 2015 based on value

Ranking (%)	Currency	Share
1	USD	43.27
2	Euro	28.63
3	British pound	9.02
4	Japanese yen	2.88
5	RMB	2.45
6	Canadian dollar	1.81
7	Swiss franc	1.62
8	Australian dollar	1.54
9	Hong Kong dollar	1.12
10	Thai baht	0.94

Source: SWIFT.

Table 24.5 Customer initiated and institutional payments (inbound + outbound traffic) by markets as of September 2015

Markets (%)	Share
Hong Kong	69.8
Singapore	6.7
UK	6.2
China	4.6
USA	2.8
Taiwan	2.7
South Korea	1.5
France	1.1
Australia	0.9
Germany	0.5

Source: SWIFT.

colony that became an offshore market under Chinese sovereignty with its own USD-pegged currency and a façade of autonomy despite Beijing's increasing control of its financial sector.

In other words, the internationalization of the RMB that makes the currency fulfill the IMF's technical requirements is mostly about the RMB-ization of the Hong Kong economy so far. It involves the increase of RMB deposits in Hong Kong banks, sales of RMB-denominated "dim sum bonds" in Hong Kong, and the "through train" Hong Kong-Shanghai stock arrangement, etc. The increasing use of RMB in Hong Kong has been carefully managed by Beijing under a quota regime. As such, RMB's "free usability" in the world is in large part attributable to its "free usability" in Hong Kong, and China's opening of capital account to the world is mostly its controlled opening to Hong Kong. The "free usability" of the RMB is way different from the "free usability" of the existing currencies in the SDR basket. RMB remains not fully convertible, and China's capital account remains quite impermeable.

In such manner, Hong Kong has played a unique, indispensable role in RMB internation-alization. In fact, policy advisors and financial think tanks have been explicitly advocating a consolidation of the role of Hong Kong's offshore financial center to aid the rise of RMB as a global currency in the years to come. It is agreed that the only viable way for the RMB to take the helm of a major global currency while China's capital account remains not fully liberalized is to develop Hong Kong, an offshore financial center with independent currency and judicial systems under Chinese sovereignty, as a wholesale RMB offshore center, with other financial markets around the world (such as London and Singapore) as retail centers. In achieving this, developing the Hong Kong Stock Exchange's connection to mainland financial markets, building of an RMB-bond market in Hong Kong, and expansion of RMB-denominated financial products rolled out by Chinese state banks in Hong Kong become ever more important.

The rapidly expanding RMB business in Hong Kong not only boosted the prowess of Chi-nese state banks in the territory. It also fomented the rise of Chinese financial elites in the Hong Kong financial system at large. To vie for Chinese business, many foreign financial firms in Hong Kong have been increasingly active in recruiting mainland Chinese-originated, Western-educated financiers with good connections in China. The highest profile case of such a hire would be the hiring of Fang Fang by JP Morgan in 2001 who later became the chief executive of JP Morgan in China in 2007. This case got a lot of attention as JP Morgan has been under a US federal investigation into whether the bank's "Sons and Daughters" hiring program violated the Foreign Corrupt Practices Act by illegally buying connections among Chinese elite, with Fang at the center of the storm. In connection to this US investigation, Hong Kong's anti-corruption agency arrested Fang in 2014 (*New York Times*, 21 May 2014).

The rise of Fang Fang in Hong Kong's financial world is far from an isolated case. In 2010, a group of prominent Chinese elites, notably under the leadership of Fang Fang, established the Hua Jing Society of Hong Kong, with the goal of organizing mainland Chinese professionals in Hong Kong and cultivating Hong Kong–mainland China exchanges. This Society has been active in different types of social, educational, and philanthropic activities in Hong Kong, as well as emphasizing and reinforcing Hong Kong's social interactions with mainland China. Politi-cally, it was reportedly a key supporter of C.Y. Leung's election campaign for Chief Executive of Hong Kong in 2012.

After C.Y. Leung's successful bid, many leaders of the Hua Jing Society were appointed into committees of government bodies. For example, Judy Chen, the current chair of the Society, used to serve in the HKSAR government's Central Policy Unit, as well as in the Major Sport Events Committee and Civic Education Committee in the government. The founding chair Fang Fang, who has been a member of the Chinese People's Political Consultative Conference, has been a regular member of the Commission of Strategic Development of the HKSAR government

chaired by the Chief Executive and including all major government officials. The roster of leaders in the Hua Jing Society in Table 24.6 shows that they come from diverse background including education, arts and culture, etc., but leaders with financial backgrounds constitute the single most prominent group, with the founding Chairman Fang Fang himself as the most telling example.

The C.Y. Leung administration also set up a Financial Services Development Council in 2013 with its stated mission to "promote our financial services industry and Hong Kong as an international financial centre on the Mainland and overseas." Among its board of directors are a

Table 24.6 Background of leaders of Hua Jing Society (as of May 2017)

Founding Chair	Fang Fang	Fang Fang was born in 1966 in Wuhu, Anhui Province. He graduated from Tsinghua University and then got an MBA degree from Vanderbilt University. He joined JP Morgan Chase in 2001 and is the former head of investment banking in China at the firm prior to his resignation in March 2014. In 2010, he became a member of the Standing Committee of the Communist-led All China Youth Federation. In 2008, he was named a member of the Chinese People's Political Consultative Conference. In May 2014, Fang was arrested by Hong Kong's Independent Commission Against Corruption. He was then released but was required to stay in Hong Kong. It was reported that his resignation and the subsequent investigation against him is related to the cronyism in large Wall Street banks, which hire the relatives of top Chinese officials to gain deals and profits.
Chair	Judy Chen	Judy Chen was born in 1971 in Shanghai. She is the chairman of UNICEF HK and member of the 11th committee of All-China Youth Federation, under the leadership of the Chinese Communist Party. Her father, Chen Zuo'er, was the Deputy Head of the Hong Kong and Macau Affairs Office of the State Council. Her husband is the nephew of Li Ka-Shing. Judy worked at Merrill Lynch before and served as the head of Wealth Management in Asia-Pacific area.
Executive Chair	Zhang Yi	He graduated from the University of International Business and Economics with a Bachelor's degree in Law and gained a Master degree in Law at Stanford University. He is a partner at King & Wood Mallesons Law Firm. He is currently a member of Shanghai Political Consultative Conference and All-China Youth Federation.
	Rao Guizhu	Head of *Horizon*, a monthly digest based in Hong Kong that analyzes politics and economics issues in Greater China.
Vice-Chair	Zhang Yue	Chief Manager of Asia Area in Deutsche Bank. Before joining DB, he worked at Citi Group.
	Dong Jie	Managing Director, Promisky Holdings Group Ltd. Wife of Frank Chan Shung Fai, a Hong Kong businessman, and a member of Hong Kong Election Committee and North District Council. Her grandfather, Dong Qiwu, was a general in the PLA.
	Meng Mingyi	Meng is currently an Investment Banking Analyst at Nomura. He graduated from the London School of Economics and Political Science with a degree in Economics. His father is Meng Xiaosu, the former secretary of Wan Li, who served as the Chairman of the Standing Committee of the National People's Congress from 1988 to 1993. Meng Xiaosu is currently the President of China National Real Estate Development Group Corporation.

	Ren Shanshan	Not available
	Tian Bin	Not available
	Chen Wei	She graduated from Central Academy of Drama in 1987, and is currently an active director of music theater and opera.
	Zhan Sheng	Undersecretary-General of Hong Kong United Youth Association.
	Diao Tong	Not available.
	Liu Bin	Chair of Board of Director, New Success International Group Limited; Master degree from Macquarie University, PhD in Renmin University. He was sent to Hong Kong by the People's Bank of China in 2001. He has worked in China Construction Bank and other Chinese financial institutions ever since.
	Joseph Zeng	Joseph Zeng is a partner and Hong Kong Office Head of Greenwoods Asset Management. Before joining Greenwoods, he was a Vice President with JP Morgan's FIG Group of investment banking department focusing on the IPOs and M&As of Chinese banks and insurance. He was an equity analyst co-covering China banks at JP Morgan's equities research team. Zeng holds the Master of Science degree in accounting and finance from London School of Economics, and studied International Finance in the Graduate School of the People's Bank of China and Wuhan University. Mr. Zeng is a CFA Charter holder. He was a member of the New York Society of Securities Analysts and was a board member of the Chinese Finance Society in the US.
	Zhao Jiayin	Vice Chairman of "New Hong Kong People Association." Holds a Master Degree in Law.
	Wu Kexuan	She graduated from Tsinghua University and worked as Investment Banking Analyst in Goldman Sachs and UBS before joining Phoenix Television in 2011.
	Zhou Yuanzhi	Not available
	Chen Shuang	CEO and Deputy General Manager of China Everbright Group, responsible for investment banking. He was the chief of legal affairs office of Bank of Communications headquarter.
Secretary General	Guo Qifei	Vice President of HNA Holding Groups Co. Ltd, responsible for asset management and corporate financing. He has been in financial investment for ten years and has experiences in merger and acquisitions for transnational corporations. He is also a non-managing director of AID Partners Technology Holdings Ltd.
Treasury	Pu Zefei	River delta asset management (Shanghai) Co., Ltd. Founding partner. Member of board of director of Hong Kong Jiangsu Youth Association
Deputy Secretary-General	Liu Yang Edward	Associate, Reed Smith Richards Butler (shipping litigation and arbitration). Born in Tianjin and educated in University of Southampton. Migrated to Hong Kong in 2010 through "Admission Scheme for Mainland Talents and Professionals."
	Huang Henan	Finance

number of most prominent mainland Chinese and Hong Kong financial elites, including Chen Shuang, vice-chairman of the Hua Jing Society.

The Hua Jing Society has been very involved in helping push the central government's key agenda and policy regarding Hong Kong. For example, after Beijing introduced the One Belt One Road initiative and C.Y. Leung announced the HKSAR priority to turn Hong Kong into a hub for this initiative, promoting the One Belt One Road became one of the main themes of many activities organized or joined by the Society. Before and after the Legislative Council election of 2016, when the central government took the fight against political forces promoting "Hong Kong independence" to the forefront, the Hua Jing Society became active in petitioning for the disqualification of "pro-independence" elected legislators and mobilized its members to participate in anti-independence rally with other pro-establishment groups.

Looking ahead

In sum, we see that Hong Kong's role as China's offshore economy originated under Mao, when Beijing consciously maintained Hong Kong's function as China's sole window to the capitalist world at the height of the Cold War. The manifestation of such function is the rise of Chinese state enterprises in Hong Kong under British rule.

It is well known that China has been exploiting such role of Hong Kong to jumpstart its economic reform in the 1980s, using Hong Kong as a platform to draw capital from all around the world. In this context, Chinese state enterprises' activities in Hong Kong surged, and their dominance in Hong Kong's financial market rose.

Many expect that China's accession to the WTO will lead to final full opening of the Chinese economy to the world economy. In the process of China's further economic liberalization, Hong Kong's function as China's offshore economy will fade, the argument goes. But as we discuss in this chapter, the CCP is not going to open up China's financial market anytime soon, provided that the CCP control of credit in a closed financial system is the most important foundation of its rule. Nor will the Hong Kong-China difference regarding the terms of WTO membership, as well as western countries' regulation of trade and investment, go away anytime soon. Hong Kong's role as commercial and financial intermediary between China and the world economy will stay.

In the years to come, China will heighten its pursuit of further financial integration with the world and internationalization of the RMB while keeping its capital account closed. In this context, Hong Kong's role as China's offshore economy will only strengthen. Such political economic configuration is going to become more entrenched as China's economic slowdown is making Beijing more hesitant in rapid financial opening. As such, Hong Kong's judicial and financial independence – at least in the formal sense – from mainland China will continue to be crucial from Beijing's standpoint, while the dominance of Chinese state capitalist sector composed of China state companies and individual elites with deep mainland Chinese connections, particularly those related to the financial sector, will continue to grow in the Hong Kong economy. How to maintain the balance between such nominal institutional independence and the expanding dominance of China's state capitalism in all spheres of life in Hong Kong is far from a simple economic question but more a political one.

Note

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Theme 6

Future development

25

Identity as politics

Contesting the local, the national and the global

Agnes Shuk-mei Ku

Hong Kong presents a case of multiple, intersecting and conflicting identities on different levels. Politically, it was once a British colony and is now part of China under the 'One Country, Two Systems' framework, where it presumably enjoys a degree of autonomy that sets it apart from the rest of the nation. Culturally, the vast majority of people share a common ethnic identity of being Chinese and a common reservoir of a long-standing Chinese heritage. However, their daily culture also shows elements of a distinct Hong Kong character that distinguishes itself from mainland culture in various ways. For instance, English is a dominant language for official use within the government, large corporations, universities and many high schools, while most people speak Cantonese in daily life. Hong Kongers speak Cantonese and write traditional Chinese (as opposed to the mainland's Mandarin and simplified Chinese) and their daily language reflects subtle differences in the values, sentiments and perceptions pertinent to the community. Nevertheless, while Hong Kong-Cantonese culture is prevalent, the influence of Mandarin is increasingly felt in all corners of society. It is common to find Mandarin speakers as tourists, students, academics and neighbours, and local parents are eager to send their children to Mandarin classes inside and outside of school. In addition, there is a visible trend of economic and social integration with the mainland in various spheres of society, including immigration, work, university education, marriage, daily consumption, trading, investment and infrastructural expansion. This trend has been met by varying degrees of societal acceptance and resistance.

Identity, despite essentialist claims about belongingness, is in fact relational, fluid, multiple and changing. Identity builds on a cultural construct that simultaneously establishes commonness and difference, signifying what it means to be part of an imagined collectivity and creating a distinction between us and them, between member and non-member and between insider and outsider. Both the representation of 'us' and the construction of 'them' are crucial aspects of identity formation. In Hong Kong, there exists no single brand of Hong Kong-ness; rather, one finds a variety of identity claims based on a multiplicity of intersecting and competing discourses. 'Local-ness', 'Chineseness', 'nationalism' and 'global-ness', among others, have become highly contested categories of identity that are embedded in different narratives about the city.

A Hong Kong identity coming of age

Prior to the 1950s, there was relatively little sense of a distinct collectivity among the city's inhabitants. Many Chinese people from the mainland, who came to Hong Kong for work, saw themselves as sojourners whose homes remained on the mainland. Because of the freedom of movement across the border and the free development of both popular culture and literary culture (movies, Cantonese opera and literary clubs), in the Pearl River Delta (Hong Kong, Guangzhou, and other nearby cities in southern China), a regional perspective that considers culture and identity offers an appropriate framework (Ching, 2008). If a meaningful classification exists, it would be less about the division between Hong Kong and the mainland than between, for instance, Lingnan and Zhongyuan (centralist) cultures, between maritime and inland cultures and between the periphery and the (power) centre within the vast territory of China.

It has been said that a modern Hong Kong identity came of age during the 1960s (Turner and Ngan, 1995). To a large extent, identity formation in Hong Kong has been, and still is, about both *attachment to* and *distinction from* – about feeling a sense of belonging to the city and marking a boundary with mainland China. On the one hand, the birth of the People's Republic of China (PRC) in 1949, led by the Chinese Communist Party, gave rise to increasing ideological, political and socio-economic differences with Hong Kong, especially in the context of the Cold War. On the other hand, within the city, changes were taking place regarding immigration control and demographic, economic, social, cultural and political fronts. The continual influx of Chinese immigrants during the 1950s and early 1960s, which took place in the midst of relaxed or ineffective immigration control measures, not only swelled the population but also bred a new local-born generation (Ku, 2004). Colonial rule began to change from a laissez-faire approach to more proactive social and cultural intervention in the aftermath of the two mass riots in the mid-1960s.

A discourse of a nascent community and a local identity as 'Heunggongyan' – a Hong Konger or a Hong Kong person – emerged more clearly after 1971 under the governorship of Sir MacLehose. That government promoted the idea of 'Hong Kong is our home' and enhanced a corresponding sense of social citizenship and belonging through a host of initiatives and civic campaigns. These included, for example, launching the 'Keep Hong Kong Clean' and 'Fight Crime' campaigns and the City District Officer Scheme; setting up the Independent Commission Against Corruption; establishing neighbourhood mutual aid committees; and introducing various social programmes in public housing, education and welfare. In the 1970s, the government ushered in a period of unprecedented social and administrative reformism, accompanied by remarkable economic growth. The new generation found itself growing up in a period of relative economic affluence, cultural freedom and political stability.

Bradley (1997) considered identity as working at three levels, namely passive, active and politicised. During the 1960s and the 1970s, Hong Kong seemed to witness the rise of a local identity in a more passive mode, largely lying dormant and embedded in daily life. The government's goal was more to cultivate a sense of communal belonging than to nurture a culturally or politically independent identity. A full-fledged sense of citizenship was not yet in the making (Ku and Pun, 2004). From a layperson's perspective, popular culture enjoyed a free hand in shaping local culture (Ng, 2002). Toward the end of the 1970s, an emerging local identity developed a greater sense of self-awareness, which was brought about by constructing the 'other'. While Chinese immigrants from the mainland – legal and illegal – had been coming to Hong Kong on a daily basis, there was another influx of immigration as a result of China's open door policy. Legislators depicted these newcomers as an unwelcome group of unskilled labourers, and they introduced stringent measures to curb illegal immigration (Ku, 2004). The mass media

popularised an image of the mainlanders with the character of 'Ah Chan', who represented a different and inferior 'other' in socio-economic and cultural terms (Ma, 1999).

Hegemonic formation: the colonial-Chinese-global nexus

The early 1980s, in the face of the '1997' issue, witnessed a significant change in Hong Kong identity. This sense of identity changed from a half-passive, half-active mode to a highly active mode and became underpinned by much anxiety. Many people emigrated from Hong Kong while its society witnessed an interest in narrating, exhibiting and preserving the changing face of the city in museums, memoirs, movies, archives, architecture, political speeches and academic conferences. The then-prevailing discourses and representations consisted of the hegemonic myth of miraculous economic success, which imagined barren rock, or a fishing village, transformed into a modern metropolis. Such a narrative of economic success also incorporated other elements as constituent parts such as the rule of law, free markets and efficient administration. For Hong Kongers, this narrative acquired a hegemonic status such that the prospects of reunification with communist China engendered anxiety over the possible tarnishing of the city's glamorous image.

After the political handover in 1997, the SAR government attempted to mobilise its cultural apparatus and renew the city's identity. On the one hand, it drew on the prevailing colonial narrative to project being a world city; on the other hand, it increasingly incorporated a framework of integration between Hong Kong and the mainland into its policies (Ku, 2002). A typical example of the way the government grounded its governance in established narratives is seen in the Chief Executive's annual policy speeches, specifically in the continual invocation of the 'success formula'. The fundamentals for success were proclaimed as something already rooted in society and without reference to the colonial legacy. Indeed, the colonial legacy of values, institutions and identities is often so intertwined with the local culture that it has become impossible for one to reject the former without rejecting parts of oneself (Pieterse and Parekh, 1995).

On one level, the colonial becomes absorbed by, or dissolved into, the local. On another level, the colonial is transfigured as part of the global. King argued that the colonial city prefigures the global city: 'colonial cities can be viewed as the forerunners of what the contemporary capitalist world city would eventually become' (1990: 38). Indeed, globalisation is very much a product of the history of colonialism and neo-imperialism, which are themselves largely products of capitalist expansion. This perhaps explains the high degree of ease with which the colonial and post-colonial governments transmuted the city into a vision of a world city or global city through appeals to a cosmopolitan imagination. Likewise, the government simply appropriated prevalent ideas into a ready formula of success for the development of a world city. Clearly, the smooth transition to a vision of a world city was made possible through the appropriation of the post-colonial discourses of liberalism and capitalist growth.

The idea of Hong Kong attaining an increasingly prominent international status is not new. What distinguishes this discourse is perhaps its more conscious articulation of a long-term plan for developing a distinctive strategic position both within the nation and the Asian region. This articulation is prompted by a growing awareness of the imminent possibility of Hong Kong being overshadowed – in the context of increasing global competition and China's rapid economic development – by other neighbouring cities, especially Shanghai and Singapore.

The vision of a global city is expressed in an official document entitled *Bringing Vision to Life – Hong Kong's Long-Term Development Needs and Goals*, which was published in February 2000 in conjunction with the formation of the Commission on Strategic Development in early 1998. The idea was to consolidate Hong Kong's position as a great international metropolis both in

the national sense and within the Asian region, comparable to that of New York in America or London in Europe.

Moreover, in the current context of Hong Kong, the government emphasises various discourses about 'China' or 'Chineseness' as necessary resources or ingredients for the construction of a world city. In particular, the government often draws on the same colonial metaphor of 'East meets West', using the image of 'a melting pot' between Chinese and Western cultures as a symbol of cosmopolitanism – but then twists this symbol with a different cultural interpretation of Chineseness. Chief Executive Tung Chee-hwa, for instance, stressed the need to nurture certain qualities among the Hong Kong citizenry as cultural ingredients to reinforce its status as a world city and, simultaneously, to strengthen the link between Hong Kong and the mainland. Such qualities consist of a set of cosmopolitan values and traditional Chinese values, the latter including 'such things as trust, respect for families and elders, a commitment to self-improvement, a sense of obligation to the community and a focus on consultation rather than confrontation'.[1]

In brief, the government's cultural projects have embodied and familiarised elements of the local, the national and the global. However, the logic of each dimension and the potentially tense relationships within and among them remain unclear and have yet to unfold. In the meantime, China's rapidly changing and increasingly globalised development poses challenges to Hong Kong's sense of identity, and to its sense of distinction, vis-à-vis the mainland.

Mainland city versus global city?

During earlier colonial times, Chinese residents in Hong Kong had been described as 'industrious, peaceful and law-abiding',[2] which were probably qualities deemed necessary to safeguard and reproduce a de-politicised citizenry. The SAR government revived this early colonial discourse that essentialised Chinese culture as valuing consultation over confrontation. Such a selective re-invention of Chinese culture appears to be sustained by a discourse of stability that has buttressed authoritarian governance. It may be argued that such themes reflect, albeit not exclusively, a Euro-Western view of the colonised 'other' that justified the paternalistic rule of colonial times. In the post-colonial context, as discussed above, the Chief Executive reiterated an association between such essentialised cultural qualities of Chineseness and the vision of a world city.

In society, however, there has been a lurking fear of the possibility of Hong Kong becoming just another Chinese or mainland city rather than a truly global city. Literally speaking, given the geo-political fact of Chinese sovereignty, Hong Kong is indeed a Chinese city, although it is more precisely a special administrative zone within the Chinese state. Still, the more pertinent issue here concerns the subjective identification or de-identification of its people.

What specific symbolic meanings does the image of a mainland city connote? Two levels of meaning have prevailed in public discourse. First, the political meaning suggests a tendency for the SAR government to look up to Beijing for positive reinforcement, and as a result, Hong Kong may lose the high degree of autonomy that distinguishes it from mainland cities under the 'One Country, Two Systems' principle. Secondly, the cultural meaning of a mainland city embodies values and norms that are not commensurate with international standards such as respect for rule of law, human rights and democratic principles. These two levels are closely intertwined in that the institutions of civil society are undermined if the government subordinates these values to the concerns of order, stability and control.

In principle, the Basic Law lays down the basic civil rights of the Hong Kong people such as freedom of speech, freedom of association, the right to a fair trial and, most importantly, the power of final adjudication. To this extent, the Basic Law delineates the normative and institutional boundaries of a local civil society in legal-formal terms. However, under the overarching principle

of state sovereignty, and under an undemocratic political structure, the Basic Law vests the National People's Congress with the final interpretive authority over laws pertaining to Hong Kong. In this way, notwithstanding the constitutional safeguard of the common-law tradition over local matters in Hong Kong, the Basic Law has subjected itself to an interpretive community committed to the discourse of 'democratic centralism'. In 1999, the controversy regarding the right of abode of the mainland-born children of Hong Kong residents is a case in point, revealing the deep tensions between two competing legal discourses of Chinese Law and Common Law (see discussion below).

In the meantime, China's changing role on the world stage brings to the fore a different set of discourses regarding its associated 'global-ness'. After an era of economic reform, the decade of the 2000s witnessed the nation increasingly nested in global relations. China successfully joined the World Trade Organization in 2001 and further pronounced its policy of a 'peaceful rise' during Hu Jintao's leadership in 2004. The Beijing Olympics in 2008 was widely perceived as a 'coming-out party' for China as an emerging power in a globalising world (Zhang, 2012). In this context, the SAR government has perpetuated a discourse of economic integration with the mainland to emphasise Hong Kong's contributions to China's globalisation and its resulting benefits. For instance, in 2015 Chief Executive C.Y. Leung highlighted the role of Hong Kong in the following areas: meeting the development needs of China and the world, serving as a bridge or 'super-connector' between the mainland and the rest of the world, developing trading interests with the mainland, developing market opportunities in the mainland, helping with market liberalisation in the mainland, collaborating with Guangdong province and expanding the liaison network in Asia and in the mainland.

From a different point of view, China's self-globalising strategy has been closely linked to the project of nationalism. China seeks to glorify the century-old dream of modernisation and the building of a strong nation, while simultaneously defending the uniqueness of a Chinese development model and espousing oneness with the world (Zhang, 2012). Moreover, it has been perceived that the central government's strategy, especially after 2003, has been one of dissolving the city-state boundary of Hong Kong and subsuming it under the framework of nationalisation. In this regard, the increased tensions between Chinese nationalism and global universalism, and between Chinese nationalisation and local autonomy, continue to underscore Hong Kong's uneasy relationship with the mainland.

Chinese nationalisms and citizenship claims

In terms of subjective identification, studies have shown that Hong Kong identity prevails over Chinese identity (Mathews et al., 2008). Nevertheless, it may be an oversight to assume that Chinese nationalism has been entirely absent or irrelevant in constituting Hong Kong's identity. On a different level, it is instructive to examine the issue in terms of the idea of multiplicity rather than dichotomy. For instance, scholars have distinguished between political nationalism and cultural nationalism as two competing strands of Chinese nationalism during the 1950s and 1960s (Ip, 1997; Lo, 1997). Political nationalism was advocated by the traditional leftist camp and followed the line of PRC-led patriotism, whereas cultural nationalism was upheld by more liberal Chinese intellectuals who did not identify with the communist regime. This cultural emphasis, with its non-statist overtones, struck a stronger chord among students and the general populace, especially after the leftist-instigated riot of 1967. The Chinese language movement of the late 1960s, which emerged under the sway of Chinese (cultural) nationalism, resulted in the colonial government adopting a bilingual policy. Given that the vast majority of the population was Chinese, it was part of the government's hegemonic strategy to accommodate and remake, rather than eliminate, Chinese culture and language through education (Wong, 2002).

In a nutshell, Chinese nationalism assumed different forms in Hong Kong. On the one hand, Chinese culture, including language (Cantonese being the spoken form) has been built into local identity, perhaps in a diffused way (Ip, 1997). In other words, a specific cultural form of Chineseness has always been part of Hong Kong's identity and perhaps forms a sub-text. On the other hand, political nationalism, which subsided after the riot in 1967, has never taken root among the people but remains a vibrant force among patriotic leftists (Lee, 2011).

On the whole, the dissociation between political and cultural nationalisms and the tension between patriotism and universalism have resulted in an ambiguous discourse of Chinese nationalism in Hong Kong. This has prompted the rise of a discourse of citizenship – based on a set of universalistic values regarding human rights and equality – during the political transition (Ku and Pun, 2004; Ku, 2009). The responses toward the June Fourth incident may be used as an example to shed light on such complications. The pan-democrats have been inclined toward realising the goal of democracy within a greater China framework while delinking patriotism from unquestioning loyalty to the party's regime. These pan-democrats have, therefore, insisted on commemorating the June Fourth incident as they continue to fight for democracy in Hong Kong. Their vision for the future is to see a democratised China, of which Hong Kong is a part. Recently, however, some members of the younger generation have been seeking to frame Hong Kong's identity in separatist terms and to accordingly sever the incident from memory. Such a view is nonetheless different from that of those who maintain that this historical event is an integral part of Hong Kong's collective memory, with tremendous implications for civil society and political identity (Law, 2014). The patriotic camp, on the contrary, has followed the party line and remains silent on the issue.

After 1997, just as political nationalism is being revived from above, the rift is deepening on all sides. Today, conflicting ideologies and values continue to produce cleavages between the younger and more liberal-minded generations and those who follow the PRC's traditional patriotic party line. Education has become a frequent battleground for such identity politics. The government's proposal for patriotic education in 2012, followed by a strong opposition campaign spearheaded by secondary school students, is a telling example. Furthermore, disagreements are also beginning to surface within the pan-democratic camp, as an increasing number of people from the younger generation are seeking to establish a more locally grounded framework vis-à-vis the mainland.

Multiple discourses on local identity

Hong Kong is now at the crossroads of change, amidst increasing state-society conflict, evolving Hong Kong–mainland relations and generational change. The younger generations, dubbed the post-1980s and post-1990s generations, are seeking to make their voices heard. Old and new forces contest the meanings of 'local', conjuring up multiple images regarding Hong Kong's identity. Three different streams of discourse may be identified as hegemonic, populist-localist and critical.

Firstly, the hegemonic discourse has been constructed upon the prevailing narrative of success. Consequently, since the 1970s, there has been a growing awareness of the significant socio-economic and cultural differences between Hong Kong and the mainland. In the process of Hong Kong's identity formation, locality has continued to be a badge of identity distinguishing the local people from the mainlanders and, as in the post-handover right of abode case, further distinguishing the local-born children of Hong Kong residents from the mainland-born children of Hong Kong residents.

In the right of abode event in 1999,[3] the government relied on the prevailing sense of Hong Kong's identity to drum up public support for its decision to seek constitutional interpretation.

Within the discourse of stable governance, this struck a raw nerve by depicting a doomsday scenario in which Hong Kong would suffer from an uncontrollable influx of mainland migrants, who were assumed to be poor, unemployable and welfare-dependent. The hegemonic discourse was buttressed with a set of statistics to rationalise the discriminatory and exclusionary outcomes. The event dealt a blow to the tradition of rule of law in Hong Kong. It also reflected a culture of narrow localism or nativism, i.e., a stance in favour of protecting the interests of the majority of established residents vis-à-vis the claims of newcomers or immigrants with families in Hong Kong (Ku, 2001).

Secondly, in recent years, a new populist-localist discourse has emerged against the backdrop of increased conflict with the mainland, contributing to the rise of an intensified awareness of self-identity. To some extent, this emergent discourse overlaps with the hegemonic discourse, as both thrive on populism. The emergent discourse nevertheless carries a stronger dose of localism with a quasi-separatist overtone. With the introduction of the Individual Visit Scheme in 2003 allowing mainland Chinese people to visit Hong Kong on an individual basis, specific incidents relating to mainland tourists, pregnant women and parallel traders have affected daily life and fueled generalised discontent. Moreover, people are becoming wary of the central government's increased use of power over issues relating to freedom, political reform and the rule of law, which touch on the core values of Hong Kong. Overall, a strong sentiment against the trends of mainlandisation has been on the rise along all fronts, including socio-economic ties, political and legal values, living space, consumption needs and culture (such as language). This sentiment has engendered the emergence of various localist discourses ranging from populist nativism to federalism and separatism (or Hong Kong nationalism, as mentioned in the university student magazine, *Undergrad*, in 2014). This brand of localism is gaining increasing support among the younger generation, as seen in the Legislative Council elections of September 2016.

Thirdly, the critical discourse by intellectuals and activists reveals a liberal-leftist orientation that advocates such values as equality, openness, community and participatory democracy. Scholars of cultural studies (Law, 1997; Chan, 1997) have drawn on a postcolonial perspective to deconstruct both the discourse of global capitalism underpinning Western colonialism or neo-imperialism and the grandiose discourse of Chinese nationalism. These scholars have celebrated, on the one hand, a local culture characterised by hybridity, between-ness, periphery and subversive potential, and they have embraced, on the other hand, a global and cosmopolitan outlook that emphasises openness, diversity, transnationality and reflexivity. Such scholars have affirmed the 'local' whilst simultaneously being wary of any essentialism regarding Hong Kong's identity. They have also advocated discarding clichés such as 'East meets West' or 'Hong Kong as a cultural desert'.

In terms of cultural discourse, the metaphor of 'East meets West' indeed shows the limitations and inadequacies of the prevailing understanding of this global city. In two separate senses, the metaphor reduces what is or should be a complex space of cultural diversity into a structure of facile binarism. First, the metaphor leaves out an entire range of ethnic minorities who have remained in society for a long time such as Indians, Pakistanis and Filipinos. This omission is not just a simple rhetorical oversight but perhaps reflects certain forms of racism present in the mainstream culture. The metaphor, moreover, has had the effect of making invisible the variety of national origins of the people who fall into the umbrella category of 'the West'. It also cloaks the cultural diversity and pluralism of the Chinese community in the umbrella category of 'the East'.

From a post-colonial or critical perspective, the image of the world city builds on a fairly straightforward extension of the logic of success from the local to the global level. Such a linear projection reflects a pattern of development that is largely governed by the logic of capitalism, with its propensity for trans-local and trans-national expansion. However, by uncritically

adhering to this logic of global capitalism, the government has failed to envision the multiplicity of this vision of a global city on the one hand, or to confront the possible tensions between local and global interests on the other (Ku, 2001).

An ideology of developmentalism has long animated the government's strategy toward actualising a modern global city. This ideology promotes capital accumulation and urban entrepreneurialism at the expense of local cultures and histories. Abbas (1997) found in the city 'a culture of disappearance' that often empties history of its critical potential. Upon entering the 21st century, a new wave of preservation movements gave rise to new values grounded in history, culture and space. The conflicts, one after another, have become vehicles for the articulation of hegemonic and contestatory ideas and practices. For instance, prior to the protest against the Guangzhou-Shenzhen-Hong Kong Express Rail Link in 2009, a discourse of community-based preservation had started to emerge during the 2000s (Ku and Tsui, 2009), while a counter-discourse of people's space had been underway in the midst of the campaigns against the demolition of the Star Ferry pier and the Queen's pier in 2006 and 2007, respectively (Ku, 2012).

The critical discourse raises profound questions regarding the hegemonic values from a different vantage point. Recently, this discourse has come under attack by a populist-localist force for its indiscriminate advocacy of such values as equality and universalism, especially over issues relating to mainlanders and ethnic minorities. From a critical perspective, however, populism feeds on generalised sentiments among the public that easily fall prey to prejudice. It also carries the risks of essentialism that reifies and prioritises the us-them dichotomy and overlooks the multiplicity within each category (Hui, 2012).

Politics of collective memory

Lastly, identity and collective memory may be established through discourse and institutions as much as through icons, symbols and events. Victoria Harbour, local streets and architecture of historic value are some of the more popular icons of the city and its culture. The Central Police Station (CPS) compound is one of the most salient symbolic carriers of shared values. The compound consists of the Victoria Prison, the Central Police Station and the former Central Magistracy, which formed the oldest and largest architectural complex under colonial rule and reflected the classical style of its time. During the 2000s, the compound's future development became a matter of dispute, despite it already being listed as a historic monument. Public discourse celebrated the site as an icon of Hong Kong, and representations of the place became endowed with specific spatial, historical and symbolic meaning, driving to the core definition of Hong Kong's identity.

The prevalent view that the CPS compound is an historical icon associated with 'rule of law' constitutes a familiar Hong Kong story in collective memory. Collective memory is the active past informed by the present, yet it is not entirely free-floating or autonomous from the past; instead, it is embedded in existing discourse (Schwartz, 1996) and undergoes an ongoing process of negotiation across time (Olick and Levy, 1997). From a quasi-presentist perspective, the rule of law was not only a legacy from the past but also carried much relevance and significance for contemporary Hong Kong, especially for a generation that had experienced the political transition of the 1980s and 1990s. In the debate over the CPS compound, the repeated reference to the salient idea of the rule of law was largely shaped by a discursive framework that had been deposited into the public sphere for three decades (Ku, 2010).

The case of the Queen's pier presents an interesting juxtaposition to the CPS compound. Resorting neither to a statist nor to a nationalistic framework, the activists rendered a new interpretation of the site by shifting to the perspective of society. They drew on a pre-existing narrative

of Hong Kong's identity and yet re-articulated its meaning in relation to the spatial context of the new struggle. Such activists began the narrative in the 1960s and the 1970s by tracing the birth of local consciousness among a new local-born generation. They also recalled that the Queen's pier was historically a popular site for protest and therefore related it to the development of citizenship or to the political subjectivity of the Hong Kong people. Following the narrative of identity, the activists expressed a renewed relationship with the place by claiming that the place belonged to the people – in the dual sense of the common folk and resilient citizens.

Despite the movement's failure to achieve its goal, a new oppositional discourse of a people's space was being developed to challenge the hegemonic ideology of developmentalism, with noticeable symbolic effects. A dual process of discursive re-formation and spatial re-appropriation was unfolding. This process registered some significant shifts in perspective: from the government to the people, from collective memory to public space, from one stream of history to another and from past to present (Ku, 2012). The ongoing civic movement was partly a new struggle over conservation issues and partly a conscious effort to re-enact the tradition of local activism inherited from the past. The movement re-articulated a local identity in relation to democracy and common space. Public critics furthered the significance of the event by placing it into the larger context of the people seeking a cultural identity in post-handover Hong Kong. A meta-discourse emerged linking the movement to a process of discovering identity in the context of unrelenting development. Apparently, the movement was broadening its significance from a struggle over history, memory and space to a struggle over local identity and political agency. In retrospect, what took place in 2006 and 2007 may have planted the seed for the subsequent social activism that resorted to novel and increasingly radical action around the idea of people's space, which was epitomised in the anti-express rail link protests in 2010, in the anti-national education movement in 2012 and most glaringly in the Umbrella Movement of 2014.

Concluding remarks

Identity is a multi-faceted and highly contested concept relating to ethnicity, cultural affiliation, belonging, political identification and other aspects of subjectivity. Since the handover, public opinion surveys of ethnic identity by the University of Hong Kong have shown that the number of people who regard themselves as "Chinese" fluctuated. It rose from 18.6% in 1997 to 36.8% by June 2008 and dropped again to 14.5% in December 2017. The category "Hong Konger in China" was the highest at that date, at 67.8%, followed by "Mixed Identity" at 45.1%.[4] While these findings are subject to interpretation, it seems that a pertinent question inevitably concerns the extent to which growing sentiment against mainlandisation has influenced Hong Kong's identity. On a deeper level, however, a more fundamental question concerns how far such senti-ment interacts with our core values and our fluid sense of local-ness, Chinese-ness and global-ness in constituting and reconstituting our identity on multiple levels in changing contexts.

Notes

1 See *Vision* 2.63–2.64, (1997).
2 *Hansard* (1897/98), p. 7.
3 Initially, the Basic Law guaranteed right of abode to all persons, among others, of Chinese nationality born to Hong Kong residents regardless of their place of birth. The curtain of the controversy was raised when, under the effective jurisdiction of the mini-constitution in July 1997, hundreds of mainland-China-born children of Hong Kong residents who had either overstayed their temporary permits or entered the terri-tory illegally made a public claim to their right of abode upon the local state. The episode soon escalated into deeper civil conflict as the government, finding itself pressed with the danger of an uncontrollable

influx of migrants, made the rights of these people conditional upon passing an administrative procedure. This then triggered off a process of intense legal and political struggle until the Court of Final Appeal's ruling was partially subjected to constitutional interpretation by the Standing Committee of the National People's Congress in June 1999.

4 www.hkupop.hku.hk/english/popexpress/ethnic/eidentity/poll/eid_poll_chart.html

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Political de-institutionalization and the rise of right-wing nativism[1]

Iam-chong Ip

In the post-Cold War era when most communist regimes collapsed, as the rest turned to join the global economic order and as liberal capitalism swept the globe, many feel that the triumph of the West, coined by Francis Fukuyama as "The End of History", poses a threat of de-territorializing identities which has fueled a new sort of opposition such as tribalism, fundamentalism and nationalism. What makes the whole picture more complicated, however, is that these local forces are not hostile to everything universal and global. Instead the hostilities and antagonisms tend to become indigenized in one way or another (Appadurai, 1990: 5). For smaller countries and cities, there is always anxiety over political absorption or cultural homogenization by big ones. For example, in East Asia, the rise of China may be perceived by many as more worrisome than globalization or Americanization.

The case of Hong Kong's recent nativism is illustrative of this process of de-territorialization, occurring along with communal stability shot through with human motion, commodity exchange and capital flow across the border with mainland China. All these call the legitimacy of authorities into question, resulting in embattled relationships between state and nation. Whereas Beijing, with its economic triumphalism, especially after 2008, seeks to capture and monopolize the ideas of nationhood and further subordinates Hong Kong's political autonomy to the so-called "China model", it results in the blurring of the boundaries between the city and China, an indispensable part of Hong Kong's ideological and political framework predicated on the principle of "One Country, Two Systems". The obverse of this process of de-institutionalization is the obligation and imperative "to be free and sovereign, to produce one's own experience" (Dubet, 2004: 708). In Hong Kong, it constitutes a new moment for a reworking of identity politics in which a multiplicity of conflicting and irreconcilable appetites, in the name of "nativism", compete for cultural and political dominance. This chapter argues that understanding this process of de-institutionalization is crucial for clarifying the political agency of nativism.

Changing the status quo

Hong Kong, despite being primarily a Chinese society, has to be understood as the place of multiple and continuous displacements of mainland Chinese from their homelands, of overseas Chinese from southeast Asia, of other peoples displaced from British colonies such as India and

Pakistan. Immigrants, victims of wars, famines and political turbulence in the Mainland, had always been the main driver of Hong Kong's population growth, especially since the middle of the 20th century. At the height of the Cold War, following the influx of millions of Chinese refugees coming to the colony, more rigorous control over the border with the mainland was imposed by the colonial authority and the Chinese communist regime. Yet most local residents, despite their weak or no identification with the Chinese Communist Party (CCP) and the Kuomintang, had neither seen Hong Kong as their home town nor imagined themselves as a socio–cultural unity until the mid-1970s. The emergence of a local identity, a subject representing a diverse people with a diverse history, coincided with the economy recovering from the oil crisis after 1975 and Hong Kong's burgeoning cultural industry which enacted membership categorization devices to set mainlanders against the locals (Lui, 2002; Ma, 1999: 35). What followed was the colonial government's immigration policy change that revoked the Touch Base Policy – which granted the immigrants who reached urban areas immunity from repatriation and the right of abode – in 1980 (Ku, 2004; Lui, 2002). It further strengthened its border with mainland China and maintained a relatively stable population.

In the later phase of the Cold War, the colonial authority successfully secured a localized community with social welfare provisions; border and immigration control; recruitment of local Chinese for senior civil servants; and promotion of local language in school, government and media. The profound discovery of "Hong Kong" was made through the impact on local people's life of these policies. As a result, there emerged a local social imaginary with "tacit popular acceptance of the existing regime of power" (Chan, 1995: 24), drawing and patrolling the boundaries with mainland China. It constituted some themes, such as "(Hong Kong's) life-style", "current social and economic system" and "to maintain the status quo", endorsed by the Sino–British Joint Declaration for Hong Kong and the Basic Law related to the city's political prospect in the 1980s. They keep reappearing in the post-1997 era, recalibrated and revamped, unsettling yet persistent.

In this light, the resumption of Chinese sovereignty over Hong Kong, though officially coined as a "return", does not offer an origin to which Hong Kongers could in any final or literal sense return. The "original China", no longer there, has been transformed not only by Hong Konger's changing perception and imaginary of it, but also by the CCP's Maoist political campaigns and Deng's open door policy and economic reforms since the late 1970s. Ironically, Hong Kong was reverted to Chinese sovereignty largely through the promise of prolonging the status quo. Apart from a manufactured consent to a certain social order, it largely relied on the political, legal and cultural frameworks set by the British colonial authority in its final years which made the city stand out of all Chinese cities with the promises of continuing economic prosperity, political autonomy and freedom.

The resilience of this "status quo" was sorely tested during the transition period. In the summer of 1989, local mobilization in support of the Beijing student movement and the following military repression had plunged the city into the height of national identification and local anxiety over her political prospect. The Chinese authority's fierce denunciation of the Hong Kong people's involvement in "subversive activities" eventually subsided to the saying, "The well water does not intrude the river water". Amid the political controversies in the transition period and the early years after 1997, the "One Country, Two Systems" formula proved capable of maintaining Hong Kong's fragile and ambivalent boundaries with China until recently. It served to transmit the values, codes and patterns of political behaviour characteristic of formal democracy by facilitating Hong Kong's political compliance with the sovereignty of China government as well as a system of local political autonomy. Hong Kong's opposition parties and politicians, usually termed as "pan-democrats", emerging out of this political moment, followed a moderate convention of political engagement. With the promise of constitutional reform, stipulated by

the Basic Law, the regime of an "executive-led" administrative state with limited representative democracy in the legislative body constitutes a framework which pro-Beijing politicians attempt to absorb the city into China's authoritarian-capitalist state and the opposition strives to change but not to challenge fundamentally.

In retrospect, the rise of nativism seems to be on a course of gradual accumulation, one from quantitative to qualitative changes of the cultural atmosphere and political framework described above. In the early years of post-handover era, the culmination of popular discontent with Beijing's political intervention into Hong Kong, such as the mass rally on July 1, 2003, primarily consolidated a politicized civil society in opposition to the government and the business monopolies, rather than resulted in any political agitation with flavour of nativism or secessionist ideas. However, the ambiguous call for local identity began to surface in a spate of bottom-up activism since the mid-2000s, recently leading to the Umbrella Movement in 2014 (Cheng, 2016). For instance, in the campaigns over the Star Ferry pier and the Queen's pier in Hong Kong in 2006–07, there was an embodiment of local meanings and historical narratives in places as well as the activists' unconventional tactics and actions (Ku, 2012). The 2009–10 protest against the project of Guangzhou–Shenzhen–Hong Kong Express Rail Link was led by the "post-80s" youths who upheld their post-materialist values and idyllic way of life in opposition to the economic development featuring further integration of the city with China as a global capitalist power (Cheung, 2014). They signalled serious problems of governance and legitimacy, not simply confined to the government. Since 2010, the longing for local autonomy has been brewing in different issues and it further manifests itself in different new political stances and manoeuvres. One of them is the nativist turn, primarily taking shape in increasingly intensified border-crossing experiences, not only Hong Kong citizens' short stays in the mainland, but also, more important, locals' increasing daily encounters with Chinese visitors in the city of Hong Kong.

When the Beijing government first launched the Individual Visit Scheme in 2003 to allow mainland travellers to visit Hong Kong and Macau on an individual basis rather than in tour groups (LCS, 2014), it was largely seen by the general public as an economic benefit to Hong Kong's recession-ridden economy. Since around 2010, the grievances and anger over mainland visitors, firstly causing birth tourism and crisis in the public health system, then street obstruction and traffic congestion, have begun to bubble to the surface firstly on the Internet and then spilled over to the streets while the number of mainland visitors has tripled from 2002 to 2015, reaching almost 45.8 million per year. The enraged protesters against mainland Chinese sometimes look like ordinary citizens simply interested in safe streets, good order and public resources. But that is not the case. They, especially the organizers and active participants, are very much eager for governmental interference to enforce the nativist rules and values, not merely in matters pertaining to daily life, but also in wide range of cultural and political issues. The nativists' ethnic cause, political actions and even intellectual discourses proliferated in the midst of these controversies and protests, commonly termed as "Hong Kong-Mainland conflicts" (*Zhonggang Maoduen*).

Bio-political concerns

The description above, despite a crude sketch, provides a starting point for our understanding of the recent rise of nativism in Hong Kong. There emerged the escalating sentiment against mainland Chinese in early 2011 when the term "locust" began to be widely used on the Internet and eventually spread to traditional media. For example, an online music video titled "The World of Locust" was released in February 2011, and its viewing rate reached over 1 million within weeks. It mentioned a wide range of phenomena, from the bad behaviour of mainland visitors to birth tourism and new immigrants allegedly abusing social welfare and public facilities. Then

a Facebook page titled "Against the Mainland pregnant women giving birth in Hong Kong", which was launched in the summer of 2011. It functioned as a rallying point for mobilization and campaign against mainland Chinese.

> Hong Kong's pro–locust politicians, fake social workers, unethical lawyers, snobbish private hospital sand mediocre officials only care about their fame and votes. They are obsessed with factional struggles, profit-seeking and flattering. They always betray the interest of local women. . . . We are ordinary HK citizens not involved in any political conflict. This purely "*citizen-initiated movement*" takes the interest of the local pregnant women as the first priority. And we are also concerned about the social development, local civilization and prevention of "locust cleansing". We defend the rights the local citizens deserve to have. *We represent ourselves.* We will continue to struggle until the final victory. *No political parties and politicians are allowed to join.*[2]

From the paragraph above, one may identify the populist rhetoric featuring a sense of people-hood with no connection with institutional politics, in contrast to the alleged "dirty works" done by a bunch of out-of-touch elites who rot the very fabric of society. Social media provides a platform for the confluence of various themes, discourses and affective forces, among which one may identify two types of discourses running in opposite directions (Sloop and Ono, 1997: 51). The first one is *outlaw discourse* appealing to people's anti–mainland sentiment that represents a position incommensurable with dominant or legitimate positions. The inflammatory language such as "locust", was intended to stir up hatred between Hong Kongers and mainlanders, rather than to make any rational argument. The term "locust" is an empty signifier and a quilting point (Laclau, 2005), a seemingly tangible target discursively binding all fear, hatred and panic together in social action. The *civic discourse*, articulating the outlaw one with a legitimate claim to social rights and policy demands, attempts to disqualify the entitlement of mainland Chinese pregnant women and their babies, "Mainland Chinese pregnant women" and "Mainland Births (in HK)", to Hong Kong's social resources and citizenship.

Following the controversy over and protests against mainland Chinese birth tourism, in 2012, parallel trade, which passes on goods to buyers across the border from Sheung Shui, a district close to Shenzhen, aroused public concern. A small and hastily formed group took the lead to protest against mainland visitors by drawing public's attention to the problems of overcrowd-ing in shopping areas and neighbourhoods, shortage of basic goods such as baby milk powder and falling sanitation conditions. Chun-ying Leung, as soon as he was elected chief execu-tive, announced a ban on birth tourism and introduced export restrictions on infant formula to prevent bulk purchases by visitors and parallel traders. Yet these measures did not stop the protests from eventually spilling over to other corners of the city and leading to the campaign of "Restore Hong Kong" (*guangfu xianggang*) in the following years. Some protesters, waving a modified colonial–era Hong Kong flag, cursed mainland visitors, called mainland visitors "locusts" and people of "Shina" (*zhinan*), a Japanese term for "China" with derogatory meaning and yelled at them to "go home".

> We cherish and actualize our Hong Kong's freedom of speech and assembly today. We insist and continue regardless of others' view. We call those mainlanders as locust. They are locust! Why do we need to modify our expression? I believe a lot of Hong Kong people also call mainlanders as locust. Today we voice out your feelings by calling mainlanders locust ("Locust! Locust!" chanted the crowd). . . . We, as ordinary Hong Kong citizens, could organize rally and assembly without following political parties. We did it!

In the remarks above, made by Liang Jincheng, founder of North District Parallel Imports Concern Group (*Beiqu Shuihuoke Guanzhuzu*), in an "Anti-Locust" campaign on February 26, 2014, one could identify an imperative to express hatred towards not merely mainland visitors, but also to those who accused them of racism or only advised them to exercise prudence in their choice of words. It is crucial to understanding the importance of this urge to the formation of their nativist identity. The activists acknowledged their freedom to hate mainlanders as part of freedom of speech, which has long been claimed as one of the core civic values of the city. With boldness of speech, in defiance of civility or "political correctness", they empowered themselves by fashioning the populist subject position of "ordinary but concerned" citizen, on the one hand, and venting the real voice of the alleged "Hong Kong people", on the other. This authentic pursuit in defiance of courtesy, civility rules and sometimes legal rules could explain their unique style of activism. For example, in February and March 2015, some hardcore nativists repeatedly harassed the pharmacies and groceries that catered to mainland visitors under the banner of "Restore Hong Kong". More scandalous was the fury resulting in bullying people, even elderly and children, resembling mainlanders. Protesters kicked over the cabin baggage and trollies carried by passengers queuing for cross-border bus. Sometimes they misidentified ordinary visitors and even local citizens as parallel traders from the mainland.

The terms "*bentu*" (local), "*zuqun*" (ethnicity/race) and "Hong Kong *minzu*" (Hong Kong nation) themselves, not pinned to stable physical–medical or sociological meaning, designate a political divide open to multiple uses. Here, with the help of Michel Foucault's concept of "bio-politics", I would like to further examine the political nature of the affective power involved. He developed the concept to take account of the power mechanism centred on regulating and intervening collective form of life and tracing it back to the historico-political discourse that envisioned "the social" in terms of races and race wars in the seventeenth century (Foucault, 2003: 69–80). Then in the 19th century, it evolved to a set of knowledge and power techniques concerning population, its birth, survival, health and productivity, in parallel to constructing the threat from other species of race. The categories of race and population in demographics, public hygiene and other sciences were eventually adopted by nation-state, bureaucracy and technocracy that played the role of the guarantor of racial purity (Lemke, 2011: 5; Foucault, 2003: 89). In contrast with the consolidation of varied bio-political drives into centralized political authorities and technical domination, Hong Kong's new call for local identity is a kind of disorganized and dispersed bio-politics, perpetuated by affective power, a confusion of rages, resentment and bitterness, rather than formalized by rational institutions.

The hit phrase "The city is dying, you know?", a quote from *When Heaven Burns*, a Hong Kong television drama in 2011, captures the worry about the "death" of Hong Kong as a form of collective life, overwhelmed by the fear of "China", a menace less politico-economic than bio-political in nature. The term "bio-political" refers here to the contested terrain of administering and regulating life processes at the level of the population, especially its number, flow and distribution, in which ethnic differences and hierarchies are played out. Bemoaning the decline of Hong Kong, the nativists allegorically combine the huge influxes of Chinese visitors, alongside new immigrants, the Chinese government's political intervention, accelerating economic integration between the mainland and Hong Kong, into a threat to the city. Anger and aggression with an undertone of apocalyptic future fear turns people against those they believe are eroding Hong Kong's ordinariness, self-worth and integrity.

The rise of nativism echoes the sea change in political values and sentiment leading to a legitimacy crisis for the political authorities, the long-standing political order and their ruling ideologies, as noted by Hong Kong political scientists (Lee and Chan, 2008; Ma, 2011, 2015). All these happened in parallel to the Hong Kong government's decreasing capacity to constitute

and manage local society. While the colonial government succeeded in securing its border with China and fostering a relatively stable population and community with its administrative arms, the new circumstances do not allow the government to repeat its predecessor's steps. It is not primarily because of its closer political and economic ties to China, but also due to the changing role of China in regional and global economy. While Hong Kong, as a financial hub and management centre, benefits from the flooding of global capital into China, the outflow of Chinese capital, outbound visitors, along with the Beijing government's political interventions, contribute to the new formation of Hong Kong's bio-political structure, resulting in unexpected consequences. The stalled democratic reform and implementation of universal suffrage, enormously compromising the authority's political mandate and governance, have further been interpreted as a decision of the Beijing government to blur the city boundary with the mainland and scrap the principle of "One Country, Two Systems". It is to say that apart from political reform, local population growth, health, housing and livelihood have been increasingly perceived as beyond the Hong Kong people's control.

As an immediate response to the breakdown of the dominant bio-political control, the nativist campaigns are less about structural reform of welfare policy than practicing a more exclusionary model of citizenship. As the nativist historian Xu Chengen, quoting a poem by American poet Robert Frost, said, "Good fences make good neighbours". For him, Hong Kongers embraced Chinese nationalism in the post-handover years until the year of 2008, after which the China government abandoned its hands-off approach to Hong Kong governance. And the democrats and left-wing social activists failed to build "good fences" to safeguard the city (Ku, 2014). Despite Xu's a little bit dramatic remarks and portrayal, his view represents a new breed of right-wing conservatism opposing to any proposal to increase public services and facilities for catering to escalating social demands, which is only seen as attracting more mainlanders to Hong Kong (Ip and Yick, 2014). The nativists' call for the local completely rests on desperate attempt to maintain border and fend off the Chinese other. This practice, I argue elsewhere (Ip, 2015), is a pursuit of ethnocracy featuring a governing power maintaining an ideological and affective boundary, although it often connotes cultural, linguistic and racial differences (Balibar, 1991). The nativists, despite their refusal to articulate their demands in the ways recognized by the government, legitimized and reinforced the states as institutions to closely discipline and keep under surveillance the outbound Chinese tourists. Rejecting all proposals for channeling visitors to less crowded areas of Hong Kong and even questioning the effect of fine-tuning the visa schemes, they keep urging law enforcers of Hong Kong and mainland China to charge traders with smuggling and violating the terms of the travel visa.

In terms of pragmatic problem-solving, nativism did not sound very radical. Whatever the reason, the number of mainland visitors dropped by 13% in March 2015 compared to the same period in the previous year (Wu and Wang, 2015). And Chun-ying Leung and the Beijing government also terminated the multiple-entry travel visa arrangements for residents of Shenzhen. Most nativists groups, following an internal meeting among themselves, decided to stop their campaign temporarily and found the outcomes of their campaigns satisfactory (Ip, 2015: 418). Their actions already successfully fed themselves back into the political process of managing Hong Kong's boundaries. They also reinforced the local state and the Beijing government as institutions to closely discipline and keep under surveillance the outbound Chinese tourists. What they achieved is "scaling down" the state power from below, by seeking to re-institutionalize their agenda in immigration policy, rather than simply unleashing their anger (Jessop, 2002; Brenner, 2004; Peck, 2002; Varsanyi, 2011).

Engagement in ethnocracy and scaling down the state power are two crucial components of the political project of Hong Kong nativism. A critical understanding of them is helpful for

clarifying the nature of their recent nationalist cause. One may be easily misled by the varied and confusing discourses and rhetoric of "city-state", Hong Kong nationalism, "minority nationalism" (versus state nationalism), self-determination and independence (Chin, 2011; Li, 2014; Wu, 2014). Looking closely, all these remain remote visions or unknown futures one hurl oneself towards, yet without any transitional programme or practicing what they preach. For instance, the editors of *Undergrad* (the University of Hong Kong Student Union official magazine) who published *Hong Kong Nationalism*, which attracted sudden interest, once denied any plan to promote political independence (Cheung and So, 2015; So and Cheung, 2015). A young man, claiming himself as one of the founders of Hong Kong National Party, said that they would not recognize the constitutional status of the Basic Law and threatened to use "whatever effective means" available to push for independence. Yet he admitted that they did not have any plan for political independence but argued that advocacy without taking any action was part of freedom of speech guaranteed to Hong Kong residents under the Basic Law (Cheung, 2016).

Nativism as an existential choice

The surge of nativism creates a sort of political activism characterized by "atomization" of movements participated by individual activists, small associations and even ad hoc working groups. They moved from one issue (such as protest against Chinese visitors) to another (such as action in support of illegal hawkers) with excitement, rage and a very weak sense of solidarity. What binds them into open networks is less a stable organizational structure, alliance or an ideological belief than a set of symbols and categories articulated and elaborated by some opinion leaders. A bunch of commentators, primarily active on the Internet, whip up fear, justify the nativists' actions, define the field of possibilities within which actors move and portray the political visions for which they struggle. The immediate background against which these intellectual adventurers gain their popularity in recent years is not only the troubles caused by visitors, but also the city's crumbling "status quo", from declining liberty and autonomy to the stalled constitutional reform. The territory's public opinion has been preoccupied above all else with stories of "mainlandization", an elusive term confusing media self-censorship, repeated delays in democratic reform, and Beijing's interventions into Hong Kong's election, with the changing appearances of the city life caused by outbound Chinese investment in the city's housing market and influx of mainland visitors. The pro-nativism writers portray a pessimistic picture of an impending doom engulfing the city:

> Around 1997, Hong Kong people only sought to maintain the status quo ("keep the status quo"). Unfortunately it has been crumbling like a marble statue standing in the middle of sand and dust storm. Its face has been increasingly blurred and is about to be smashed into pieces and abandoned on the road. What shall we do? Submitting to the authority and resigning ourselves to adversity? Or we have our backs against the wall to secure and defend what we have?
>
> *(Chin, 2011: 8)*

Chin Wan, regarded as the spiritual leader of nativism, gained his fame by his thesis on Hong Kong as a city-state and his strong urge to separate Hong Kong from China on all fronts (probably except Hong Kong's status as Chinese financial hub). Despite the eccentricity of his theory about revitalizing *huaxia* (a cultural and imperial concept of China) via "restoring" the native Hong Kong, Chin is a prolific writer actively engaged in local debates and sometimes even leading public opinion. What strikes at the heart of many Hong Kongers is his urgent injunction:

there is no time to reflect, and "we" have to act now! The Hong Kong people need to make an existential decision with their own free will, seemingly the only freedom left to them by the worsening situation. Being a nativist, as Lu Sida, another nativist opinion leader on the Internet said, is less a political calculation than an existential choice:

> Should an underdog give up the fight? Let's put aside the talk of international politics favoring China rather Hong Kong. While the police had guns and already fired (in the Mongkok riot in February 2016), why didn't the "rioters" run away? As a Chinese saying goes, "The commander of the forces of a large state may be taken down, but the will of a man cannot be taken from him." Fighting requires the will to live. This could not be taken away by guns and bullets. One would not give up resistance even in a one-sided game.
>
> *(Lu, 2016)*

The nativist–existentialist choice is made because the comfort zone, the status quo, no longer exists. Lu, Chin and others view the fact that nativism is not an option for the majority as a proof of Hong Kong's neocolonial condition rather than a challenge to their own stance. If you are not nativist in Hong Kong, you are either "Kong-pigs" (a term for politically ignorant Hong Kongers) or CCP's minions. Nativist activism is a road to and a desire for authenticity which turn backs on the long-standing conventions for political engagement in Hong Kong. This ethic of authenticity is sometimes coined as "chivalrous" (*yongwu*) with connotations of violent struggles in opposition to the democrats' principles of "Peace, Rational, Non-violence, Non-profanity" (*he-li-fei-fei*). Although some activists express it by physical confrontation with riot police, in the Umbrella Movement in 2014 and Mong Kok civil unrest in 2016, it should not be seen as a uniform set of practices and values in support of armed struggles. Instead it serves as a gesture despising all certainties with courage to live in the face of the abyss, or a rhetorical device that inspires life and action, rather than perpetuating the establishment. Yet what distinguishes Hong Kong's nativism from existentialist philosophy is that most nativists do not make the full responsibility of his existence rest on themselves. Nativist choice is somehow involuntary. For instance, Chin explained that he previously did not want to get involved in the troubled water of "rescuing Hong Kong", yet he could not stand the worsening situation anymore and finally decided to advocate his cause (Chin, 2011: 16–17). They blame a long list of culprits for their involuntary choice – pro-Beijing groups, democrats, "leftist pricks" and CCP conspiracies. Their incompetence, misconceptions, complacency, arrogance and greed, according to the nativists, push ordinary people like them to act out.

Nativist political groups, primarily composed of political neophytes, have sprouted over the past five years, such as "Hong Kong Autonomy Movement", "Hong Kong resurgence", "Civic Passion", "North District Parallel Imports Concern Group", "Hong Kong Indigenous" and "Proletariat Political Institute". They constantly shift their forms of engagements and action styles from protesting against and harassing mainland visitors and parallel traders, confrontation with police, riot-like public disturbance on the street, to running for election. After claiming partial victory over the issue of mainland visitors after March 2015, some activists said they were going to take the political opportunities to run for the local District Board elections toward the end of the year. Yet, while some moderate nativist candidates won some seats, others looked for other opportunities for action or planned to run for election again.

For example, Edward Leung Tin-kei, member of "Hong Kong Indigenous", the leading group protesting against mainland visitors in 2015, decided to run for the New Territories East by-election of the Legislative Council. On February 8, 2016, Leung and other members of "Hong Kong Indigenous", called for action to shield the illegal hawkers in Mong Kok, a hotspot for

street vendors, allegedly in defense of Hong Kong's disappearing street culture. It eventually led to serious and violent clashes between protesters and riot police after midnight followed by mass arrest of riot participants, including some members of "Hong Kong Indigenous". Afterwards, Huang Taiyang, the spokesperson, stirring up a tragic mood as well as reminding people of their achievement in the issue of mainland visitors, published recorded audio on the Internet with the title of "Final Message to Hong Kongers: Better to Die with Honour than Survive in Disgrace". Taking advantage of the media attention to the civil unrest and "Hong Kong Indigenous", despite the defeat, Liang received about 15% of the total votes in the election, considered as a promising outcome for the nativist movement. A large number of candidates from the nativist groups such as Youngspiration and Civic Passion-Proletariat Political Institute-City-State Alliance, planned to contend with the traditional democrats and pro-establishment camps in the upcoming Legislative Council election. Finally, Wai-ching Yau and Baggio Chung-hang Leung ("Youngspiration duo"), who leaned towards Hong Kong independence, got elected. However, wearing and displaying the "Hong Kong is not China" flag, they took their oaths by pledging loyalty to the "Hong Kong nation" at the opening of the new Legislative Council. While they pronounced "China" as "Chee-na", similar to "Shina", one of them even mispronounced "People's Republic of China" as "people's re-fucking of Chee-na". As a result, the government challenged their qualifications as legislators in court by arguing that they failed to swear allegiance to Hong Kong as part of China. Then, the court vacated their seats. Nativism still barely consolidated gains in political institutions.

The surge of nativism points to not simply an anti-China sentiment, but also further splintering among pro-democracy groups, a symptom of the waning of Hong Kong's liberal-democratic order and political pluralism which developed in the late colonial times and continues to serve as mainland China's offshore civil society (Hung and Ip, 2012). Since the 1980s, moderate democrats and social movement activists had taken hold in such a public sphere centred around an administrative state endowed with representative political systems, though tilted heavily toward the local business elite. However, over the years, a significant number of citizens have increasingly found the liberal society of Hong Kong without stable institutional protection, full of contradictions, distant from their immediate concerns and devoid of any effective power to resist China's influences. This disaffection, nevertheless, implies, rather than a rejection of political democracy in general, the uncertainty and vulnerability of people's lives and the loss of relevance of political institutions for social life in Hong Kong. The identifications with the traditional democrats have weakened its function as providing a fundamental reference point for organizing individual political universes, especially amongst young people. They concentrate more on specific causes and determined actions rather than loyalty to opposition organizations. What is needed, notably for the nativists and their supporters, is a new breed of prophet-like political activists offering thoughts and visions to capture people's anxiety and urgency, something splendid and sublime, for social mobilization. Liberals' preaching that liberty and democracy will prevail over tyranny in the long run is found not adequate for coping with the political urgency. From the nativists' point of view, a dose of sect-like enthusiasm, such as ethnic struggles or secessionist nationalism, that can be embraced, loved and appropriated by Hong Kongers for struggles, is indispensable.

The democrats' political organizations and discourses are now being seriously criticized as irrelevant to the new political conflicts, ineffectual protection from mainlandization, or even "betraying" Hong Kong and complicit in the ruling regime. Or quite simply, they are cynically ignored. Nativists portrayed the old democratic struggles as grounded in the ill-conceived and fanciful ideas of Chinese civic nationalism or universal values. What the democrats lacked is a devotion to a "politics based on faith and passion" (Chin, 2011: 190). They were sometimes pictured as self-serving politicians with neither strong will, passion nor ability to resist

mainlandization. Some pro-nativism critics even argued that their ups and downs are well on the way to irrelevance (Lu, 2015). What is undergoing is a process of gradually building up a political subject by learning to orientate themselves in a fragmented world and de-institutionalized environment without clear reference points. The nativist discourse, shared by different oppositions to the power, is mobile and strategically multivalent. Yet, rather than a paradigm shift in institutional politics, it is a tendency that has increasingly greater repercussions among young people and clashes with the more established opposition parties. It is more a new kind of contentious politics than a well-planned political programme. The nativists assert and demand a right from an explicitly partisan and passionate position not grounded in juridical universality, a principle between and above the political adversaries. Instead, it is a belligerent position to reveal the alleged truth about the perpetual war beneath the illusions in which we believe that we are living in a peaceful order.

Conclusion

Aihwa Ong has analyzed the policy of "One Country, Two Systems" with her concept of "graduated sovereignty", an exercise of power with zoning technologies to scale the nation space into an archipelago of political enclaves, "special administrative regions", of distinct governing regimes (Ong, 2006: 103). Insofar as this policy facilitates more flexible networks for capital accumulation, makes neoliberal reform possible and experiments with limited civil rights and electoral democracy, it serves as a detour on the road to national integration. This approach, as Cathryn Clayton sharply notices, is a "sorting mechanism" based on a particular spatialization of Hong Kong's and Macau's colonial histories, coined as "systems", rather than "ethnicity". From the China government's perspective, especially in the 1980s, it looked perfect for political and administrative concerns. However, she further wonders if the sense of cultural identity nurtured under graduated sovereignty would evolve into a resistance undermining the official version of Chineseness (Clayton, 2009: 143–144). The case of Hong Kong nativism roughly confirms her speculation.

As Chin and other nativist columnists said, the conditions for self-determination or even independence have long been in place – clarity of boundaries; unique history and culture; separate social system, political regime and judicial system. When the status quo, the crucial binding force of the graduated sovereignty, is questioned, closer ties with China for further economic development do not work well for, and sometimes even work against, political integration, not to mention official nationalism. While Beijing and the Hong Kong SAR government have become more eager or desperate to convey the completeness of the national body as a politico-economic system to which Hong Kong is supposed to affiliated, it further instigates the people to imagine the city as a sacred image of the body threatened and overwhelmed by an alien system. For example, as some critics pointed out, Chun-ying Leung, the Chief Executive of Hong Kong, Beijing officials and state media accused several nativist groups, such as *Undergrad* and Hong Kong National Party, of "advocating independence" and posing a threat to national security. In Leung's and the top Beijing cadres' hearts, they might have known their responses could only spark a rise in sales of pro-independence publications and brought these frivolous political groups into the spotlight. It might further ignite support from pro-democracy citizens for political independence (Cheung and So, 2015; So, 2015). But they might prefer to have more pro-independence voices and even unrests in Hong Kong to justify more hardline measures for stability. As a critic notes, the ever-growing anti-separatist bureaucratic institutions, creating self-fulfilling prophecies, have bred a separatist consciousness in China's frontier regions such as Tibet and Xinjiang (Huang, 2009: 225, 235). Hong Kong is no exception.

Yet, unlike those ethnic regions, civil society and limited democracy of Hong Kong provides separatist consciousness with more room for maneuver. Despite their anti-communist and militant overtones, what the nativists have achieved, so far, is less an opposition movement against the authorities than a wedge in local political landscape between democrats and democracy, on the one hand, and a confusion between democracy and ethnocracy, on the other. Nativism, as a political agitation and discourse of ethnic struggle as well, functions as a form of exclusion, segregation and ultimately, as a process of attempting to normalize society with the principle of ethnocracy. What makes it distinctive, rather than its cultural identification with Hong Kong's way of life, is its introduction of a rift into the political order from a combat position, splitting the social body into warring entities.

Notes

1 The work is supported by the Early Career Scheme sponsored by the Research Grants Council of Hong Kong (Project no.: 23600616).
2 "About Us", Facebook Page "It's Time to Say No!" (Chinese title: Protest against Mainland Chinese Women Giving Birth in Hong Kong! Let's show 100 thousands likes to the Government! URL: www.facebook.com/itstimetosayno/?fref=ts.

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Sustainable development in Hong Kong

Roadblocks and road-map

Mee Kam Ng

Introduction

Sixty per cent of future cities have yet to be built before 2030 (WUC, 2016: 2). To develop a Global Urban Agenda that would position sustainable cities at the heart of 21st century development, a living document called *The City We Need 2.0* has been developed by the World Urban Campaign (WUC), a partner platform of the UN-Habitat. The document highlights the 'growing awareness of the risks of climate change and the unsustainable models of production, consumption and development' and calls for a paradigm shift: to restore and replenish the natural systems that support urban life and to transform a centralized production approach to one that is participatory and collaborative, empowering people and communities 'to become co-producers of energy, public goods and services' as well as a green economy (WUC, 2016: 3). Acknowledging the benefits of the digital revolution, the document advocates the adoption of 'systems approaches' to promote sectoral and temporal integration of all facets of urban development.

Ten key principles and ten drivers of change are put forward in *The City We Need* document to address the challenges of global urban development. The following sections first synthesize these aspects, followed by a review taking stock of Hong Kong's current mode of urban development. Key roadblocks to sustainable urban development are identified, and the concluding section sketches a plausible road-map for the city to move towards sustainable development.

'The City We Need'

The ten principles put forward in *The City We Need* document can be grouped into three major aspects to redress an economics-biased development pathway (Table 27.1): an enlightened mode of governance, environmental and spatial sustainability and socio-economic sustainability.

An enlightened mode of governance

In future cities, the city we need is 'people-centred, ethical and just', valuing 'the lives and the potential of all inhabitants, especially the poor and the other disadvantaged groups' (WUC, 2016: 4). It promotes the 'right to the city for all' in participatory planning; decision-making; and the

Table 27.1 Ten inter-related principles in *The City We Need* and key drivers

Governance		Drivers of change
Principle 1	The City We Need is socially inclusive and engaging.	1. Governance and partnership
Principle 4	The City We Need is collectively managed and democratically governed.	2. Planning and design 3. Finance
Principle 5	The City We Need fosters cohesive territorial development.	4. Land, housing and services 5. Environment
Principle 10	The City We Need learns and innovates.	6. Health and safety 7. Economy and livelihoods
Environmental and spatial sustainability		8. Education 9. Technology
Principle 5	The City We Need fosters cohesive territorial development.	10. Monitoring and evaluation
Principle 6	The City We Need is regenerative and resilient.	
Social and economic sustainability		
Principle 2	The City We Need is affordable, accessible and equitable.	
Principle 3	The City We Need is economically vibrant and inclusive.	
Principle 7	The City We Need has shared identities and sense of place.	
Principle 8	The City We Need is well planned, walkable and transit-friendly.	
Principle 9	The City We Need is safe, healthy and promotes well-being.	

Source: WUC (2016: 4–12).

eventual enjoyment of housing, public goods and services. It stresses the importance of 'bottom-up participatory processes throughout the entire policy cycle: to collectively define and review priorities, strategies and actions' (WUC, 2016: 4). *The City We Need* promotes effective partnerships of the public, private and civil society sectors to safeguard local democracy and cultivate a strong sense of community through capacity building, collaboration and self-reliance. Besides a participatory and transparent process, *The City We Need* recognizes the importance of coordinating integrative sectoral policies and multi-stakeholder actions within a comprehensive and coherent territorial framework so that resources can be allocated strategically and equitably. Since cities are often nested in a regional context, coordination and cooperation maybe necessary to promote mutually beneficial and environmentally sound linkages across territorial units. As the search for a more sustainable future is a learning process, *The City We Need* is indeed a 'laboratory' ready to experiment with and reflect on alternative low-carbon and technology-savvy scenarios, especially in terms of promoting social justice.

Environmental and spatial sustainability

The City We Need should encourage the preservation of natural resources through inter-municipal cooperation to attain economies of scale and agglomeration, clustering housing, industries, services and educational institutions, to avoid unhealthy competition among local authorities or public agencies. The future cities should learn from nature: self-regenerative, energy and resource

efficient, low-carbon and renewable, replenishing the resources they consume and recycling and reusing 'waste'. The future cities should manage 'water, land and energy in a coordinated manner and in harmony with their hinterlands' (ibid, p. 9). *The City We Need* supports ecosystem restoration and geographical equity and producing food to feed its own citizens. It also supports local biodiversity, recognizing nature's limits and carrying capacity and valuing ecosystem services to protect the health, aesthetics and liveability of the urban environment. Hence, instead of competing for world-class status, *The City We Need* should be resilient in the face of 'acute shocks and chronic stresses, both natural and anthropogenic' especially for its most vulnerable and marginalized dwellers (WUC, 2016: 9). The New Urban Agenda should be about the development of a circular economy with sustainable production and consumption patterns (WUC, 2016: 9). Integrated policies are required to promote regenerative urban and regional development and planning that promote a circular economy and to achieve green savings. *The City We Need* calls for the closing of the many material loops in cities such as water, waste and food systems etc., making the urban realm self-regenerative within the natural ecosystem (WUC, 2016: 19).

Socio-economic sustainability

In *The City We Need*, every inhabitant is regarded as a citizen regardless of his or her legal status (WUC, 2016: 5). Land, infrastructure, housing, transport and basic services are planned and operated in an integrated, affordable and accessible manner to suit the needs, safety and dignity of all, with particular attention to groups who are deprived or discriminated against, such as women. People are seen as co-owners of the public space, possessing the right to participate in its design. Resettlement 'should be minimized to avoid disrupting people's livelihoods and their social networks and relations' (WUC, 2016: 5–6). *The City We Need* fosters local economic development, providing a level playing field for 'micro-, small-, and medium-sized enterprises' and recognizing them as an important source of livelihood especially for the less fortunate (WUC, 2016: 6). It 'facilitates inclusive prosperity and promotes the right to decent work, livelihood and shared prosperity through skills development, youth training and policies that support non-discriminatory employment' by public, private and civil society partnership (WUC, 2016: 6). Indeed, the recovery of local markets (WUC, 2016: 21) for the community in the planning and design process is 'a key to improved environmental management, improved worker occupational health and safety, decreased municipal costs, fairer wages and improved worker livelihoods' (WUC, 2016: 21).

The City We Need is not just a growth machine. It also serves to foster 'a strong sense of place and a sense of belonging for all' (WUC, 2016: 10). It celebrates local culture and heritage, indigenous knowledge and skills, human dignity and values diversity as 'a source of creativity, growth and learning in a knowledge economy'. Integrated and participatory planning and design should result in interconnected land uses and public spaces that integrate form and functions (WUC, 2016: 11). *The City We Need* should be compact, with fine-grained blocks and street networks and spatial arrangements of employment, education, shopping and recreational opportunities that maximize accessibility and minimize ecological footprint and sprawl (WUC, 2016: 11). Walkability is important not only to promote healthy behaviours and communal lifestyles, reducing dependence on cars, it can also help boost more green spaces (WUC, 2016: 16). The promotion of low-carbon urbanism can also be seen as a move to generate new industries, business and work opportunities (WUC, 2016: 21). A city with all stakeholders working together in organizing 'inter-generational, inter-cultural dialogue and events' will promote understanding and tolerance, fostering 'a culture of peace' (WUC, 2016: 12). It helps to boost the use value of the city, allowing all people to enjoy the urban realm without fear.

The City We Need calls for a revisiting of urban planning and design codes and standards to address resilience and sustainability of all urban spaces (WUC, 2016: 16). Indeed, rights-based and social justice approaches should be adopted in the design of housing, public space, land uses and services so that different urban dwellers can have productive access and use of urban spaces (WUC, 2016: 17). One key driver is the intervention of governments in land markets through land use legislation and policies to ensure social functions of housing, land and property; to mitigate speculation; to protect the tenure of vulnerable groups; and to ensure housing affordability and future land use needs of *The City We Need* (WUC, 2016: 17).

It is perhaps not an overstatement to argue that humankind has never been so close to a consensus on how to technically build a more sustainable future (ESCAP et al., 2012; GCEC, 2014; IPCC, 2014; ISOCARP, 2010; UNDP, 2009; UN–Habitat, 2011, 2013; World Bank, 2010; WUC, 2016). As argued elsewhere (Ng, 2016: 3), 'many research works have confirmed the profound impacts of the built environment on people's physical, mental as well as socio-economic well-being' (Barton et al., 2015; Dannenberg et al., 2011). Then, what are the barriers towards building a more sustainable urban realm? Perhaps a closer examination of the efforts of the self-crowned Asia's World City, Hong Kong, towards sustainable development may provide some insights to such a question.

Asia's world city: roadblocks towards sustainable development?

According to *The City We Need* document, an enlightened mode of governance is required to steer an economics dominant society towards one that is people-centred, ethical and just within a restorative and resilient environment. Sustainability planning among jurisdictions within the region is advocated to 'retain local economy while building and enhancing regional cooperation' (Principle 5). In other words, a fundamental reframing of the urban and regional development processes is in order. Yet Hong Kong faces formidable inter-related internal and external challenges to initiate such a paradigm shift.

Within the city, in the name of 'positive non-intervention', 'big market, small government' or 'minimum intervention with maximum support', the government of Hong Kong has long refrained from producing macro-socio-economic plans. A compartmentalized bureaucracy is also not conducive to integrated and comprehensive policy-making. At the same time, as a society ruled by law, the administration has for a long time managed to present itself as impartial and fair in the development process. However, behind this facade of non-interventionist and impartial approach is a government with substantial discretionary power to manipulate the strategic growth direction of the city (Ng, 2008). Further still, its reliance on land-related revenue (averaging 30 per cent of total revenue in the post-handover years) makes it a stakeholder with vested interest in a biased spatial development strategy that maintains a high land price (average land premium per square foot is about HK$14,000 or US$1,800), with policies that privilege the property development related economic sectors and actors. The trend is not particularly conducive to sustainable development (Figures 27.1 and 27.2; see also the following section). A lack of integrated socio-economic and environmental planning, the ideology of privileging the market as the best instrument in spurring growth, a compartmentalized bureaucracy and the absence of grassroots community inputs in the planning and development processes have blinded, until recently, both the government and the general public to the severe social and environmental implications of an economic development pathway that has been premised upon high land prices.

The re-integration of the Hong Kong Special Administrative Region under the 'One Country, Two Systems' arrangement in 1997 has worsened the mode of governance in Hong Kong. Probably fearing capital flight, the Government of Hong Kong is seen to be biased towards the
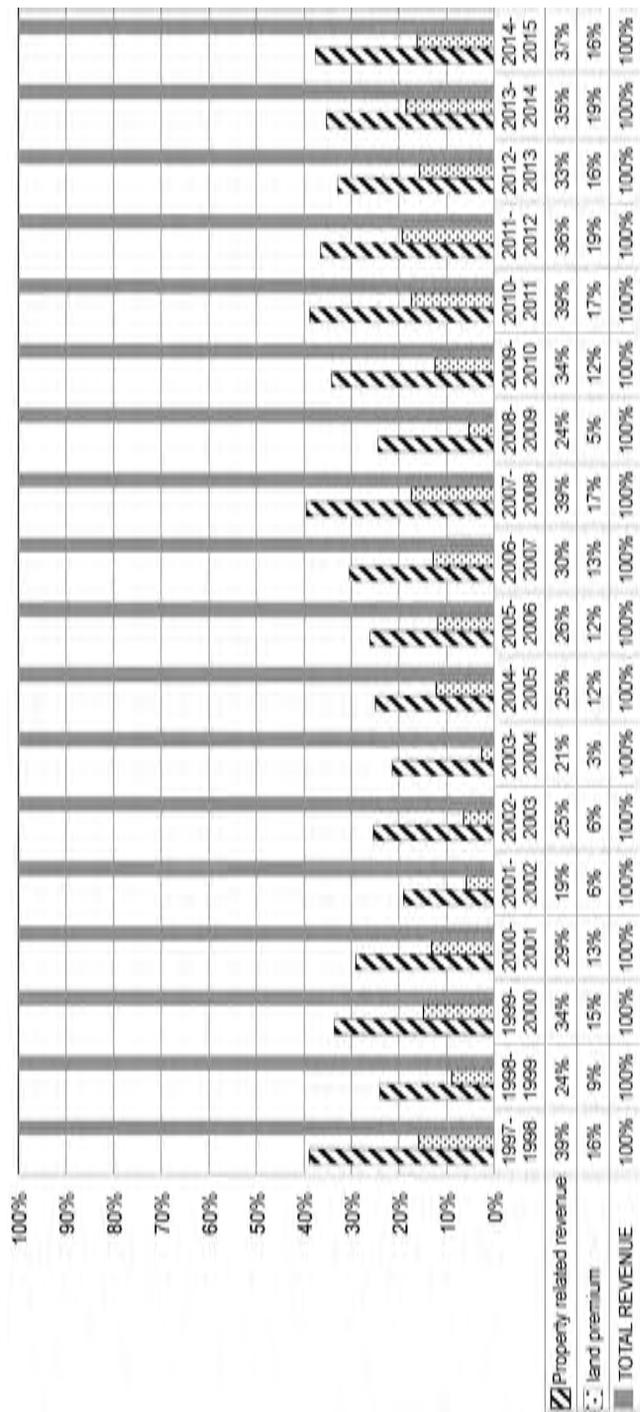
Figure 27.1 Percentage of property-related revenue and land premium with reference to government's total revenue

Source: Based on: www.ird.gov.hk/eng/abo/rev.htm, accessed on 11 July 2016.

Note: Property-related revenue includes: property taxes, stamp duties, properties and investments, Land Fund, estate duties, land transactions, recovery from Housing Authority and land premiums.

	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Property related revenue	39%	24%	34%	29%	19%	25%	21%	25%	26%	30%	39%	24%	34%	39%	36%	33%	35%	37%
land premium	16%	9%	15%	13%	6%	6%	3%	12%	12%	13%	17%	5%	12%	17%	19%	16%	19%	16%
TOTAL REVENUE	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Land premium/sq.ft.	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	8,781	4,806	3,831	5,772	2,916	6,488	3,040	26,971	30,091	15,906	22,068	3,079	22,530	27,242	16,902	18,389	15,760	13,417

Figure 27.2 Land premium per square foot

Source: Lands Department, The Government of Hong Kong, Land sale records, various years, downloadable from: www.landsd.gov.hk/en/landsale.

interests of big market players (Chu and So, 2007), racing nature and bull-dozing communities to make way for 'progress' and 'developments'. The Government also changed the planning system in the city. The Planning Department had quietly changed [exact date unknown] the hierarch of plans from 'territorial–subregional–local district' to 'regional–territorial–local district'. In other words, even under the 'One Country, Two Systems', regional planning has quietly become part of the planning system. In 2006, the Governments of Hong Kong and the Guangdong Province jointly commissioned a planning study on 'Coordinated Development of the Greater Pearl River Delta Townships' (henceforth, 'Coordinated Development'. While this move tallies with Principle 5 of *The City We Need* (WUC, 2016: 8), that is, 'inter-municipal cooperation to achieve economies of scale and agglomeration, optimize use of resources and prevent unhealthy competition among local authorities and other public agencies' and may provide a great opportunity for Hong Kong to carry out socio-economic and spatial planning for better regional positioning, the 'Coordinated Development' study was received with many negative comments from Hong Kongers. Hong Kongers were sceptical of the impacts of further integration with China as can be seen in the controversy surrounding the building of the Guangzhou-Hong Kong high speed rail (HSR) to integrate with the then emerging China HSR network (Chiang, 2009).

The circumstances have put Hong Kong in an awkward position: internally, the city is not moving towards a sustainable path and at the regional scale, the various modes of integration have been punctuated with negative reactions from citizens (So, 2011). And in any case, according to the Coordinated Development study, Hong Kong is encouraged to 'continue to strengthen its position as an international metropolis in Asia, develop its international finance, trading, shipping, logistics and high value-added service industries' (GP et al., 2009: 7), a pathway that has presented major roadblocks to sustainable development.

A non-democratic society without integrated sectoral planning or inclusive participatory policy-making processes

With the ideology of 'big market, small government', the bureaucracy has shied away from developing long-term integrative socio-economic and environmental strategies to guide the city's development. Without fundamental soul searching of the economics first approach to development, the allocation of land uses in the urban planning process continues to reproduce the 'status quo'. Hong Kong has two urban forms: very dense development in the built-up urban areas and much lower development intensity in the New Territories where most of the land is owned by indigenous villagers (defined as those who existed before the coming of the British colonizers in 1898, the year the British leased the New Territories for 99 years). While land use zoning was introduced in the urban areas before the Second World War (The Town Planning Ordinance was enacted in 1939), the Ordinance was not applied to the New Territories until 1991. Although the land area zoned for residential development (397 km^2) is 70 per cent more in the New Territories (where population is 50 per cent less) than in the Hong Kong city area (192 km^2), most of the land owned by indigenous villagers is zoned as green spaces (200 out of 397 km^2 or 56 per cent).[1]

In other words, land use zoning has limited the land development rights of the indigenous population. The existence of the two density regimes 'squeezes' most of the developments into the urban areas. A constellation of historical and constitutional factors sustains a high land price regime in the urban areas. Planning has very little impact on the ultra-dense built form of urban Hong Kong because the development intensity is more or less set by the Buildings Ordinance, not by the Town Planning Ordinance. Building height and site coverage are determined basically by the number of 4.5 meter-wide roads surrounding a site (Planning Department, 2012: 19 cited in Ng, 2014: 497). As skyscrapers are generally allowed in high-density residential areas, land can

be sold at a high premium. Figures 27.1 and 27.2 show that the government actually 'benefits' from this spatial development strategy. Although land-related revenues are crucial for financing government operations, high land prices have made housing unaffordable. The taken-for-granted mentality of putting land to uses with the highest economic returns has often deprived people's rights to use city spaces. This hegemonic thought has seldom been challenged until recently. A primary reason for this is Hong Kong's non-democratic polity.

In Hong Kong, the power of the executive-led government first set up by the British colonial government has been reinforced since the city's return to Chinese rule in 1997. The seven million people in the city do not have a democratic political system. The political, administrative and legal set-up makes a reframing of the economic growth biased mind-set from within the government almost impossible. Even the law-making body, the 70-seat Legislative Council, is not wholly constituted by direct election. While half of the seats are returned by geographical constituencies through direct elections, the other half are elected by functional constituencies (with only 230,000 voters [about 3 per cent of the total population] mostly in the business and professional sectors). Although the Legislative Council possesses the power to enact, amend or repeal laws and to examine and approve government budgets, it can only react to initiatives undertaken by the government. Given the design of the legislature, the opposition parties are usually the minorities, lacking substantial power to challenge the executive dominance of the government.

Inherited from the practice of the British Empire, advisory committees have been a key feature of the administration. While the former colonial government tried to exercise 'administrative absorption of politics' through appointing elites and sometimes opponents into advisory committees on various policy areas, the Chinese Central Government has played the game of 'political absorption of economics' (King, 1986 cited in Cheung and Wong, 2004: 880). These advisory bodies have been dominated by business and professional interests. Cheung and Wong (2004: 882) found an increased representation of the 'business' sector (over 1/3) after Hong Kong's return to Chinese rule while the labour sector continued to be poorly represented among these 'advisors'.

The City We Need document emphasizes the importance of an inclusive and bottom-up planning process to help reframe the development philosophy towards one that is more environment and community friendly. Yet the dominant economic concern in the city serves as a straitjacket for the urban planning system. There are now three levels of plans in city: regional, territorial and district level plans. In theory, the territorial development strategy (recently called Hong Kong 2030+) should provide a platform for the city to map out its future development framework within the regional context. Yet in the 82-page public engagement document on Hong Kong 2030+ (DB and PD, 2016), only one page was devoted to the regional dimension. Three building blocks are identified: planning for a liveable high-density city; embracing new economic challenges and opportunities; and creating capacity for sustainable growth which includes transforming rural land into urban uses and reclaiming land from sea (DB and PD, 2016: 21). Interestingly, the Coordinated Development study completed in 2009 is not mentioned in Hong Kong 2030+ and the conceptual spatial framework formulated focuses only on Hong Kong, showing a tiny bit of Shenzhen in grey colour. This is strange as Hong Kong has been building the Hong Kong-Zhuhai-Macao Bridge (the city has to pay about US$1 billion, 43 per cent of the total costs), spending over US$10.8 billion on the HSR to Guangzhou and another US$3.2 billion on the Liantang/Heung Yuen Wai Boundary Control Point and associated works.[2] More puzzling is that a week before the conclusion of the consultation period of Hong Kong 2030+ on 30 April 2017, the outgoing Chief Executive of Hong Kong led a delegation of senior officials to the 'bay area' of the Pearl River Delta region (a key theme in the Coordinated Development study).

Does it mean that development of the bay area in the Pearl River Delta is a national development policy that does not need to be consulted locally (Ng, 2017)? If yes, this is against the principle of subsidiarity in sustainable development, that is, development decisions should be taken at a local level as far as possible.

By virtue of the Town Planning Ordinance, people are granted a right to participate in the planning process of district level outline zoning plans. However, this right is confined to making comments after the public notice of the plan, by which time the plan would have been endorsed by all government departments as well as by the government-appointed Town Planning Board. Hence, it would be very difficult to change this hard won consensus within the establishment. Further still, the quorum for a legitimate decision made by the Town Planning Board members is only five, yet some controversial planning issues could attract numerous objections. Because of these historical and institutional factors, some people have been disillusioned by the planning tool in forcing changes in the built environment.

Except for self-initiated, bottom-up social movements (Kuah and Guiheux, 2009; Lam, 2004; Ng, 2014), there is no community-based planning in Hong Kong. Plans are made according to the Hong Kong Planning Standards and Guidelines rather than through solid research on people's spatial needs in a particular context (Ng, 2015). While the Planning Department has endeavoured to consult the general public in many of its planning initiatives, the top-down planning process does not start with basic research on the history, heritage, culture and lived experiences of the local space users. The concerns are always more technical and factual such as population, land status, legal rights to use the space etc. As the government almost monopolizes such technical information, there is little need for the planners to go to the community for the required planning inputs. Over the years it seems that the general public has internalized the values of economic competitiveness and continuous growth. Hence, except for an emerging group of civic activists, the majority of the population have played the role of 'silent space users'. *The City We Need* document calls for a fundamental reframing of the development philosophy from an economics dominant one to one that is people-centred, ethical and just. The hegemonic thought 'groomed' by a non-democratic mode of governance has made many believe that such a vision is an impossible dream and pragmatism dictates that no time should therefore be wasted on it.

Fragmented environmental efforts within the bureaucracy with little ramification in the market or civil society

Hong Kong is a biodiversity hotspot, with just 1 per cent of the area of Guangdong Province, the city has more than one-third of its amphibian species (Environment Bureau, 2016: 9). Indeed, birds in Hong Kong (over 540 species) account for more than one-third of the total recorded in China and its hard coral species (84) outnumbers that of the Caribbean Sea (Environment Bureau, 2016: 9). However, it was not until 2016 that the Government published its first biodiversity strategy and action plan.

Although the government has refrained from developing an integrated strategy to guide the city's development and the bureaucratic setup is rather compartmentalized with little input from the community, there are policy bureaus and executive government departments that have played an instrumental role in combating climate change and ameliorating the environmental impacts of regional and urban developments in the city. For instance, as early as 2000, the Government of Hong Kong participated in the Guangdong Joint Working Group on Sustainable Development and Environmental Protection to tackle air and water pollution problems. However, the efforts, from the perspective of environmental sustainability, still have much room for improvement. Without an overarching strategy to restore the ecosystem and harmonize conservation and urban

development in the regional and local contexts, the government's current efforts to build 'new development areas' in the New Territories and the recent proposal to reclaim 1,000 ha of land from the sea east of Lantau Island (the habitat of the Chinese white dolphins) may bring more negative impacts on the overall environment of Hong Kong.

The Environment Bureau plays a very important role in steering the environmental discourse in the city. In 2010, the Bureau published the Climate Change Strategy and Action Plan; in 2013, in conjunction with the Transport and Housing Bureau, Food and Health Bureau and Development Bureau, a Clean Air Plan for Hong Kong was published; and in the same year, the Bureau also published the Hong Kong Blueprint for Sustainable Use of Resources 2013–2022. However, as argued elsewhere (Ng, 2012), the target of reducing carbon intensity by 40 per cent by 2025 (base year: 2005) is too low when compared with other world cities such as New York (to reduce actual greenhouse gas emission by 80 per cent by 2050 based on 2005) and London (to reduce actual greenhouse gas emissions by 60 per cent by 1990 levels by at least 80 per cent by 2050)[3] (Environment Bureau, 2010; Greater London Authority, 2011; The City of New York, 2015).

The 2013 document on a Clean Air Plan for Hong Kong is commendable in many aspects: it is a jointly prepared document by four key policy bureaus and concrete targets were set and delivered, including the reduction of roadside levels of nitrogen oxides, respirable suspended particulates and sulphur dioxide by 29, 37 and 59 per cent respectively when compared with 1999; promulgation of a new set of Air Quality Objectives (benchmarked against a combination of interim and ultimate targets under the World Health Organization Air Quality Guidelines) in 2014; and cooperation with Guangdong Provincial Governments to endorse a new set of regional emission reduction targets in 2012.[4] Yet the Plan can do more. Electricity generation generates most of the local emissions (about 68 per cent, followed by local transport [17 per cent] and waste [5 per cent]), and 90 per cent of Hong Kong's electricity consumption is related to 42,000 buildings in the city (Environment Bureau, 2015). According to the Census and Statistics Department (2016: 190), the commercial sector consumed 65 per cent, and the domestic sector 27 per cent of electricity in Hong Kong. In other words, commercial buildings are a key producer of greenhouse gases in the city. Yet the Clean Air Plan is silent on what could be done in the building sector (such as mandating green building codes, a practice the Housing Department has voluntarily adopted when constructing new public housing).

In *Hong Kong's Blueprint for Sustainable Use of Resources 2013–2022* (Environment Bureau, 2013), the discussion focuses on the environmental domain regarding the change of consumer behaviour ('use less, waste less') through policy and legislative changes, developing a comprehensive waste management plan and setting a target of reducing 40 per cent of municipal solid waste by 2022 (Environment Bureau, 2013: 2). Infrastructure such as organic waste treatment facilities, waste-to-energy municipal solid waste treatment and landfill extensions will be undertaken to achieve the above targets. Unlike Japan, Taiwan and Singapore, where landfills take up at most 2 per cent of the waste, more than half of Hong Kong's solid waste is dumped into landfills (Environment Bureau, 2013: 10). This again is a manifestation of the government's emphasis on 'big market, small government' and its vested interests in property-led economic growth as there has been little, if any, discussion on promoting a circular economy with sustainable production, distribution and consumption patterns. This should be a central theme on any discussion of 'sustainable use of resources'.

Different units within the administration have played various roles in enhancing environmental sustainability, for example: the Agricultural, Fisheries and Conservation Department possesses ecological information; the Architecture Services Department plays a key role in rolling out the Water Efficiency Labelling Scheme, Energywi$e Label, carbon and energy audit and building green government premises; the Housing Authority has adopted an integrated, holistic and life

cycle approach to building public housing communities; and the Hong Kong Observatory has a strong track record of climate–related scientific research and of keeping records of greenhouse gas inventories etc. However, it can be argued that environmental sustainability is promoted in the city at a technical level without fundamentally questioning the underlying values and philosophies of the local and regional economic developments. The kind of reframing demanded in *The City We Need* document is again absent.

A compact city in a rapidly growing region: strangers in a socio-spatially polarized city?

Hong Kong is an extremely compact city. The built-up area comprises only about 24 per cent of the total amount of land in Hong Kong. Minimizing the urban footprint and maximizing green spaces are often seen as positive measures towards sustainable development. However, the density regime has sometimes rendered the urban environment much less liveable. Table 27.2 shows the housing density of the city. About 45 per cent of the population are living in public rental and subsidized sales flats with a density of 213,041 per km^2. About 47 per cent are living in private permanent housing with a density of 124,323 per km^2. Rural population density is 17,161 per km^2 (about one-seventh of urban areas). Not only are people living in very high-density environments, per person internal space is extremely tight. In 2013, the average living spaces of public rental and private housing were $13m^2$ (HKHA, 2013: 6) and $12m^2$ respectively, just half of the Singaporean average (Shih and Chiu, 2013).

According to the Audit Commission (2013: v), the overall provision of open space in the city as at November 2008 was $2.6m^2$ per person (the minimum standard in the Hong Kong Planning Standards and Guidelines is $2m^2$ per person, $1m^2$ as district open space and $1m^2$ as local open space). However, at the district level, 11 districts (out of 18) experienced shortfalls: overall shortfalls in two districts and shortfall in either local or district open space in nine other districts (Audit Commission, 2013: v). A bigger problem is that public spaces are provided by the government, and people have limited rights to design these places. Very often signs are installed to forbid many activities in these regulated facilities. Since there is no community planning at the

Table 27.2 Population density in different types of housing in urban and rural areas

	Area (km²)	Number of units (in thousands)		Estimated population[1]		Total population	Overall density
		Urban areas	NT	Urban areas	NT		
Public rental & subsidized sale flats	16	512.2	663.2	1,485,380	1,923,280	3,408,660	213,041
Private residential	26	770.4	512.3	1,841,408	1,290,996	3,232,404	124,323
Rural settlements	35	8.3	205.5	24,900	616,500	600,636[2]	17,161

Notes:

[1] Household size of public rental and subsidized sale flats and private residential flats are generated from figures on the stock of permanent living quarters and estimated population by type of housing in Table 28 (p. 401) of the Hong Kong Yearbook Appendices, downloadable from: www.yearbook.gov.hk/2014/en/pdf/Appendices.pdf.

Public rental housing: 2.75; Subsidized sale flats: 3.11; Private permanent quarters: 2.47.

[2] Since there is no official figure on the number of people living in rural settlements, this figure is obtained by subtracting the previous two items from the total population. This is bound to be an inflated figure because it also includes temporary housing or population living in non-domestic premises.

neighbourhood level, place-making for community building is not a regular practice in Hong Kong. People in general have very little knowledge of their rights to design and co-share public space as advocated in *The City We Need*.

According to the Transport Department, Hong Kong has an admirable public transportation system and serves over 12.5 million passenger journeys every day.[5] The mass transit system, about 177 km long with 85 stations, carried about 4.64 million passenger trips per day in 2015.[6] In fact, the 'rail plus property' model not only showcases transit-oriented development to the world, it also serves as a very successful 'rail plus property' business model. That is, the Mass Transit Railway Company (MTR) is the right to develop land alongside railway alignments to pursue integrated developments above railway stations and depots. Yet from The *City We Need* perspective, the proliferation of the 'MTR station below a shopping mall cum high-rise residential towers' (resembling a 'birthday cake') urban form is not conducive to the development of a walkable neighbourhood with vibrant local economic activities by micro-, small-, and medium-sized enterprises'. According to a 2012 unpublished study by Stephen Law at Space Syntax at University College London (Ng, 2014: 504), total street length could be three times longer and the number of streets could be eight times denser if the 'birthday cake' urban form is not pursued. In a sense the 'rail plus property' model could 'deprive' people the opportunity to use the streets as public space and 'force' them to consume in the privatized spaces in shopping malls. This is one of the reasons for the recent campaign of resurrecting bazaars (markets) in public areas in Hong Kong. It is a campaign to reclaim the people's right to use the city, to build a sustainable and learning community with social capital and bottom-up efforts.[7]

Ultra-high-density urban development has produced a socially and spatially polarized society. The Gini coefficient of the city has increased from 0.52 in 1996 to 0.54 in 2011.[8] Although Hong Kong has a good public housing sector, the allocation of rental flats is means-tested. The subsidized sales flats have been very popular. However, in 2002, the government announced a number of measures to stabilize the then Asian financial crisis induced slumping property market, including stopping land auctions, introducing a land application list system, launching demand-driven construction of public housing, suspending the building of subsidized flats and encouraging low-income and public housing tenants to purchase properties by offering no-interest loans. Figure 27.3 shows the escalation of land premium per square foot since 2004 after the government introduced a land application list system in 1999 and stopped regular land sales in 2002. The average land premium increased almost four times. Under the application list system, a developer had to apply to 'trigger' a piece of land on a list to be auctioned, if the price were deemed right from the government's perspective. In those years, the supply of public housing units for rental and sale, as well as private housing units, dropped. The cumulative impacts of these have led to serious housing issues for all social strata in the city. There is a very long queue for public rental housing: in March 2016, the number of applications amounted to 284,800, of which 53 per cent were general applications and 47 per cent were non-elderly, one-person applications.[9] Housing prices have continued to rise as a result of the high land premium and the slackening supply of both subsidized sales flats and private housing units (Figure 27.4). The housing price index was about 297 in 2015 when compared with the base year 1999 (100). For six straight years, Hong Kong was found to be the most unaffordable housing market in the world. According to a survey of 367 cities by Demographia (Li, 2016), a total of 19 years of gross annual median income is required to buy an average flat in the city, the highest among the city surveys it has conducted in the past 11 years (ibid). Many people have to resort living in partitioned apartments, and some have to squat illegally in industrial buildings.

An ultra-dense urban realm and astronomical land premiums have resulted in very tight living space per person, inadequate open space and sub-optimal walking environments, putting a heavy

	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	98	99	2000	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16
Private residential units	15,886	19,489	33,108	26,274	23,996	31,052	26,397	26,036	17,321	16,579	10,471	8,776	7,157	13,405	9,449	10,149	8,254	15,719	11,280
Public rental housing	16,046	14,123	29,382	35,820	49,386	20,154	13,948	20,947	24,691	4,430	4,795	22,759	9,021	6,385	17,787	9,778	20,898	5,634	10,147
Subsidized sale flats	21,535	21,093	20,967	23,194	22,862	1,072	320	-	-	-	2,010	2,200	370	1,110	-	-	-	-	1,326
Land premium/sq.ft.	8,781	4,806	3,831	5,772	2,916	6,488	3,040	26,970	30,091	15,906	22,068	3,079	22,530	27,242	26,902	18,369	15,760	3,427	17,255

Figure 27.3 Production of housing units by types and land premium per square foot

Source: Hong Kong Census and Statistics Department, *Hong Kong Monthly Digest of Statistics*, various years.

Housing price index (1999=100)

Number of units

	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Private residential units	15,881	19,481	33,102	26,273	23,982	31,052	26,392	26,036	17,321	16,571	10,478	8,776	7,157	13,405	9,449	10,148	8,254	15,711	11,28
Public rental housing	16,04	14,12	29,38	35,82	49,38	20,15	13,94	20,94	24,69	4,430	4,795	22,75	19,026	6,385	17,789	9,778	20,89	5,634	10,14
Subsidized sale flats	21,53	21,09	20,96	23,19	22,86	1,072	320	-	-	-	2,010	2,200	370	1,110	-	-	-	-	1,326
Housing price Index			100.0	89.6	78.7	69.9	61.6	78.0	92.0	92.7	103.5	120.5	121.3	150.9	182.1	206.2	242.4	256.9	296.8

Figure 27.4 Production of housing units by types and housing price index (1999 = 100)

Source: Hong Kong Census and Statistics Department, *Hong Kong Monthly Digest of Statistics*, various years.

toll on the population's well-being. According to the Hong Kong Mental Morbidity Survey of 5,719 Chinese adults of 16 to 70 years of age, using the Chinese Revised Clinical Interview Schedule, the weighted prevalence estimate for any past-week common mental disorders was 13.3 per cent (Lam et al., 2015). Among these individuals, only 26 per cent had consulted mental health services in the past year, and it was concluded that health and lifestyle factors, closely related to the built environment, are important considerations for mental health promotion (Lam et al., 2015).

Towards sustainable development: a road-map

The City We Need encourages the adoption of a systems approach to rethink the future of cities:

> Systems approach can further help realize a heretofore impossible dream: that of bridging short-term economic goals with longer-term policies and strategies that focus on shared prosperity and better health, safety and wellbeing of all of a city's inhabitants.
>
> *(WUC, 2016: 3)*

With a compartmentalized bureaucracy and a societal tendency to 'develop at all costs', systems thinking is seldom practised in Hong Kong. However, sustainability requires ecological literacy, the recognition of the inter-connectedness between nature and human developments. As argued by *The City We Need*, this is not a problem unique to Hong Kong. The high-carbon development pathway that humankind has embraced since the industrial revolution, coupled with the privileging of the market mechanisms over traditional redistribution and reciprocity approaches to handle human growth and livelihood issues, is evident in other cities (Polanyi, 1944). Polanyi lamented the current state of human development, 'instead of economy being embedded in social relations, social relations are embedded in the economic system' (Polanyi, 1944: 57). He (Polanyi, 1944: 178) reminds us that the economic aspect of land is just one of its many vital functions – land is the site of humankind's habitation, a condition of our collective safety, our landscape and our seasons. He argues that the problem of the market economy is not because it is based on economics; the true problem is that it is based on self-interest (Polanyi, 1944: 249). His prophetic arguments almost seven decades ago have proven to be right by history – climate change, global warming, socio-economic polarization and acute health issues among a sizable portion of humanity have shown that an economic regime premised on the commodification of human beings and nature (to become labour and land) is not sustainable. A fundamental reframing is required to reconnect ourselves to nature and to one another.

History has rendered a lot of Hong Kongers with a perception of the territory as a 'borrowed place, borrowed time' (Hughes, 1976), first as a British colony (1841–1997) and then as a Special Administrative Region with the 'One Country, Two Systems' arrangement under Chinese sovereign rule for 50 years. This is perhaps one of the reasons for people's seemingly inherent bias towards economic pursuits. Hong Kong has obtained impressive economic growth and has been extremely resilient over history. However, if the city would like to move towards a more sustainable pathway, it is really time to practise an urbanism that is friendly with nature and promotes social capital accumulation to build cohesive and resilient communities.

The territory of Hong Kong is nested within a wider regional ecosystem, water catchment areas and sub-systems of fauna and flora that have been modified, for better or worse, by all sorts of human activities over time. To pursue sustainable development and to bequeath a better and healthier eco-environment to our future generations, it is very important for us to have an audit and assessment of the natural ecological systems that extend beyond Hong Kong's administrative

boundaries. The Coordinated Development Study has mapped out a strategy for quality environment in order to establish a comprehensive regional eco-security system (GP et al., 2009: 9). And in a later study, a vision of building a 'Livable Bay Area of the Pearl River Estuary' has been put forward (GP et al., 2009). How to develop the Bay Area in a low-carbon and ecological manner will be crucial for the region's sustainability.

As suggested by Atkins (2014), it is important to identify key ecological features (topography, landscape, climate, fauna and flora, water systems, existing human settlements and cultural assets), risks and constraints and estimate the carrying capacity of a territory before planning can be done properly. Such ecological assessment can help the city or region identify ecological conservation areas and developable areas of various graduations, from intensive to restrictive development zones. This exercise can provide objective and scientific data as an informed basis for a city or region to rethink how to best utilize its land resources. In Hong Kong, excluding country parks (443km^2), green spaces in the New Territories amount to 220km^2 (the total built-up area is only 267km^2 at the time of writing)[10]; hence there is genuine need to carefully assess their ecological conditions and map out a longer-term strategy for these spaces. As argued in *The City We Need*, future urban developments should be low carbon, ecologically friendly and resilient, mimicking nature with restorative power (Atkins, 2014), or as advocated in the China mainland, future urban developments should resemble a 'sponge city' (MOHURC, 2014), with climate and future proofing.

While a review of 'green spaces' in the New Territories, land largely owned by indigenous villagers, may sound like a very logical proposition, it is a politically sensitive issue. While there have been discussions about developing the legally protected Country Parks, there has been strange silence on developing rural land. The government of Hong Kong has been avoiding the question of permitting development in the New Territories, except for offering the right for indigenous male villagers to build small houses. The traditional mode of development in rural areas has been the acquisition of land by the government before urban development takes place. The indigenous population is not encouraged to carry out development on their ancestral land. And the hope of urbanization has driven developers to buy land at a very cheap price from the indigenous villagers and to wait for the government's plan to develop it, very often driving out existing farmers (tenants), wasting fertile and useful agricultural land.

The two density regimes and the government's reliance on a high land price policies are not sustainable. The government needs to seriously consider how to better utilize the city's resources and gradually implement institutional changes to the current systems that 'secrete' spaces in the territory (Lefebvre, 1991). There is a need for the city to sense the urgency of revamping its current planning system in order to perceive the various gaps that need to be 'plugged'. Land is indeed a key issue, and an innovative approach is required so that the government, landowners in rural Hong Kong (including indigenous villagers and developers who have huge land banks there) and the general public can co-develop a future that is ecologically sound and socio-economically sustainable. Indeed, one of the key proposals in *Garden Cities* or *Tomorrow: a Peaceful Path to Real Reform* (Howard, 1902: 29) is to have the land vested in trustees for the whole community so that the increment of value gradually created over time becomes an asset of the municipality. He was advocating common ownership of land as an alternative to government-led or market-led development, a pathway that has been increasingly explored by scholars in order to spur sustainable development (Gibson et al., 2013). How to increase the amount of land to be held collectively by different communities as 'commons' and at the same time put it to effective use to satisfy people's needs are challenging tasks for the current generation and beyond. The city should put more efforts into generating creative options to develop currently underused or abandoned rural land (including brownfield sites) for sustainable uses.

A thorough reconsideration of land uses in the city can help lower the density of the main urban areas so that 'complete neighbourhoods' can be built that are safe, interconnected, with a diversity of housing options for different socio-economic groups, employment opportunities, community amenities and civic gathering areas for community members to develop a sense of place and access to nature (City of Regina, 2013: Appendix I). As advocated by *The City We Need*, local economic development is crucial for inclusive prosperity as well as place character (WUC, 2016: 6). In order to better retrofit existing urban areas or to develop new urban settlements with nature, a lot more research work needs to be done. New indices such as 'complete neighbourhood index', 'well-being index' or 'ecological healthiness index' can be developed through detailed research to better inform planners of people's lived experiences in space. Research findings can also be used to recalibrate the Hong Kong Planning Standards and Guidelines that have been instrumental in the making of the hierarchy of different plans. Furthermore, Hong Kong is a rapidly aging society. According to government statistics in 2013, the population aged 65 and above will increase 2.6 times by 2041 (Government of Hong Kong, 2013). The city has an urgent need to plan and design the city for an aging population.

The City We Need argues that reforms in the mode of governance are essential to building 'people-centred, ethical and just' cities. While the technical solutions to building ecologically and spatially sustainable cities exist, barriers to these developments are very often political and cultural. Hence, the pursuit of sustainable development is politically charged, and unless a society genuinely embraces a spirit of experimentation and innovation, putting collective and public interest ahead of private individual self-interest, it will remain an almost impossible task. IPCC (2013: 17) has ruled that 'it is extremely likely that human influence has been the dominant cause of the observed warming since the mid-20th century' and that a continuation of the current pathways of development is not going to be sustainable. Hong Kong needs to develop a social infrastructure that allows citizens from all walks of life to collectively discuss and decide their urban future.

Closing the material loops, developing circular economies, building healthy communities rich in social networks and social capital and reconnecting the city with the natural systems that span administrative boundaries demand 'out of the box' thinking and placing economic development in its proper place to serve human flourishing, to attain the full development of our potentials to serve one another's needs. This vision would require a platform for people to engage in meaningful dialogue, to hash out the kinds of values they want to see in the everyday living space of their city (Sandel, 2009). This goes beyond representative democracy. It calls for the use of the latest technology to allow people's access to information and a right to plan and design their own communities. It demands an education system that nurtures young minds about their rights to the city through connecting with nature and other human souls to grow together, maximizing their physical and psychological well-being and co-developing a sustainable future with detailed research knowledge, creativity, respect and love for the land, nature and their fellow human beings.

Acknowledgements

Notes

1 Calculation based on land use zoning: Downloadable from Development Bureau, www.devb.gov.hk/filemanager/en/content_69/P201207040369_0369_96621.pdf.

2 For expenses on Hong Kong–Zhuhai–Macau Bridge, see Yau (2017); for expenses on the HSR: see Yeung (2017), Civil Engineering and Development Department on Liantang/Heung Yuen Wai Boundary Control Point and associated works: www.cedd.gov.hk/eng/projects/major/nt/5019gb.html.

3 While actual emission measures the amount of carbon dioxide and other greenhouse gases produced, emissions intensity measures the amount of emissions per unit of economic output. Emission intensity could be misleading when rapid economic growth takes place because lowering emission intensity does not mean a decrease of absolute emissions.

4 Information from GovHK website on 'Air Quality in Hong Kong': www.gov.hk/en/residents/environment/air/airquality.htm.

5 Transport Department website: ww.td.gov.hk/en/transport_in_hong_kong/public_transport/index.html.

6 Transport Department on Railways: www.td.gov.hk/en/transport_in_hong_kong/public_transport/railways/index.html.

7 Hong Kong Bazaars Festival: www.facebook.com/events/897361870306873/. (in Chinese)

8 Gini Coefficient: www.socialindicators.org.hk/en/indicators/economy/11.6.

9 Figures downloaded from the Housing Department website: www.housingauthority.gov.hk/en/about-us/publications-and-statistics/prh-applications-average-waiting-time/.

10 Land use zoning: Downloadable from Development Bureau, www.devb.gov.hk/filemanager/en/content_69/P201207040369_0369_96621.pdf.

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Hong Kong's integration with Mainland China in historical perspective

Alvin Y. So

In 1997, Hong Kong became a SAR (Special Administrative Region) of China after it was a British colony for one-and-a-half centuries. China promised the former British colony a policy of "One Country, Two Systems", guaranteeing that "Hong Kong people ruling Hong Kong" and Hong Kong would enjoy a high degree of autonomy with no change of the existing political and economic institutions for 50 years.

By all accounts, the 1997 transition in Hong Kong was pretty smooth. Even though Hong Kong people worried about the imposition of communist rule on Hong Kong, and foreign media (like the *Fortune* magazine) proclaimed "The Death of Hong Kong after 1997", Beijing did largely keep its promises, adopted a position of non-interference towards Hong Kong affairs, and allowed Hong Kong to have a high degree of autonomy during the 1997 transition. In addition, Hong Kong people began to develop a trust of Beijing and identify themselves as Chinese nationals up to the mid-2000s. In this respect, it seemed Hong Kong's integration with China was pretty smooth too.

However, a militant anti-China movement suddenly emerged in Hong Kong since the late 2000s. Mainlander tourists were denounced by a new group of Hong Kong localists as "locusts". In 2016, these anti-mainland sentiments and movements further led to the formation of new political organizations such as the Hong Kong National Party and Demosisto, which declared that political independence of Hong Kong should be openly discussed and considered. Naturally, Beijing labeled these new organizations as separatists which are threats to national security (Buddle, 2016; Fung, 2016).

What explains the emergence of anti-China movements and pro-independence organizations in Hong Kong? Why did Hong Kong's integration with China suddenly go astray in the late 2000s?

The aim of this chapter is to look into the above research questions. It proposes the following framework to analyze Hong Kong's integration with China. First of all, this chapter distinguishes the term "unification" from "integration". Unification refers to the political dimension. Hong Kong is said to have undergone national unification when China resumed sovereignty over Hong Kong in 1997. The literature on Hong Kong's future is largely unification studies, which focus on the political and legal aspects. However, this chapter argues we have to examine not only the political and legal aspects of the unification process, but also the broader integration process.

Integration refers to the political, economic, social, and cultural aspects of the process of bringing Hong Kong back to the mainland. Examining integration allows a comprehensive understanding of whether the political unification process is working. After all, colonial Hong Kong was not only political separated from mainland China, but it was also economically, socially, and culturally separated from the mainland as well. The two territories did not only have two divided states, but also had two divided economies, two divided societies, and two divided cultures and identities.

Second, this chapter traces the long historical processes through which Hong Kong's integration with mainland China emerged, evolved, and ran into problems. Integration is conceptualized as a dynamic process which involves the interaction between Hong Kong and mainland China. For example, Lui (2015) argues that the "One Country, Two Systems" institutional framework – which was designed to guide the integration process between Hong Kong and mainland China – is highly problematic because Hong Kong was expected to be largely secluded from the mainland. Thus, in order to understand what went wrong after the 1997 transition in the 2010s, we need to examine the historical process of integration both before and during the 1997 transition.

Third, in order to simplify the discussion, this chapter focuses on the major turning points of the historical process which help us to distinguish different phases of integration between Hong Kong and mainland China. Thus, this chapter identifies 1842, 1949, 1997, and 2003 as the major turning points.

Using a dynamic historical approach, this chapter studies the changing pattern of the integration process between Hong Kong and mainland China over the past two centuries. Although Beijing assumes that more direct intervention and quicker integration would help bring Hong Kong people closer to the motherland, this chapter, however, shows that such state-led integration process since 2003 have backfired and produced a new wave of anti-mainland sentiments and movements. To understand why the integration process went wrong, let's start with the period when Hong Kong was under colonial rule.

Hong Kong under colonial rule

Looking back in history, Hong Kong was separated from China through two phases. In the first phase (1842–1949), Hong Kong was ceded to Great Britain in 1842 after China lost the Opium War. Britain turned Hong Kong into a British colony and used Hong Kong as a British outpost to promote trade and investment in China. Subsequently, Hong Kong became a flourishing *entrepot* and built up a strong shipbuilding and ship repair industry in the territory.

Fluid border and partial separation

During this initial phase (1840s–1940s), Hong Kong was still closely integrated to China socially, economically, and culturally even after the territory had become a British colony. Most of the Hong Kong population were migrants from South China. Since there was no formal border separating Hong Kong from the mainland, mainland Chinese could come and go freely across the border. They were attracted either by the opportunities for trade and employment in the colony or by Hong Kong's role as a refuge of political stability during wars and rebellions on the mainland. As a result of immigration from mainland China, colonial Hong Kong's population grew very rapidly, from 5,000 in the 1840s to around 1.6 million just before the Japanese invaded Hong Kong during World War II in 1941 (Siu, 1996). However, these migrants tended to return to the mainland when the situation improved or they had amassed enough capital to retire or buy businesses. Thus, these migrants identified themselves as Chinese, and Hong Kong was only a place of transit, and few felt that it was their home.

Border erected and separation deepened

However, after the Chinese Communist Revolution in 1949, the nature of Hong Kong-China integration had transformed into a new phase of development. On the one hand, over a million Chinese entered Hong Kong after the 1949 Communist Revolution, and these "refugees", unlike the earlier migrants, could not go back to communist China (Hambro, 1955). To stop the coming of these refugees, the colonial state quickly erected fences along the Hong Kong border. Formal documentation was required for border crossings, and direct train service was suspended. On the other hand, the communist government wanted to seal off South China from the "imperialistic-bourgeois evil" influence of colonial Hong Kong through barbed wire and strict border controls. Afraid of capitalist contamination, the Chinese communist state also closed itself off from Hong Kong, making it difficult for Hong Kong Chinese to return to their native villages through vigorous border controls and interrogations (Chan, 1995). Thus, the social integration between Hong Kong and mainland China was considerably reduced.

Aside from strengthening the Hong Kong-mainland China border, the colonial government of Hong Kong also carried out the following two "de-nationalization" policies in order to consolidate its control over Hong Kong. First, there was a de-linking with the Chinese economy. Hong Kong's economy was changed from *entrepot* trade oriented towards China to export-led industrialization oriented towards the global market. This outward shift of orientation was necessary because the Korean War had dealt a decisive blow to Hong Kong's flourish *entrepot* trade. In June 1951, the war prompted the United Nations to impose an embargo on Chinese trade, which crippled the Hong Kong economy (since China was the colony's largest trading partner). As Hong Kong's trading houses and shipping companies were decimated, thousands of workers were displaced from employment. Fortunately, the arrival of a large number of "refugee capitalists" from Shanghai and "refugee labourers" from south China provided the colony with an excellent opportunity to pursue a new model of export-led industrialization (Youngson, 1982; So, 1986).

Second, despite having a liberal label, the colonial state was quite active in suppressing communist infiltration in Hong Kong. It banned the operation of the Chinese Communist Party in Hong Kong. In education, English was maintained as the prestigious language of instruction, while Chinese was downgraded. The colonial University of Hong Kong was the only one that was seen as legitimate, while various universities set up by mainland refugee or missionary professors were seen as illegitimate, and they received neither funding nor recognition from the colonial state.

In the post-WWII era, a new generation of "Hong Kongers" emerged in Hong Kong. This generation, which grew up in the Cold War environment and the colonial education system, identified themselves as "Hong Konger" and were quite critical to the communist government in China (Ku and Pun, 2006).

In sum, Hong Kong's separation from mainland China was deepened after the 1949 Chinese Communist Revolution. Not only was Hong Kong politically separated as a British colony, it was also economically, socially, and culturally separated from the mainland as well. Hong Kong's economy had been delinked from the Chinese economy, and Hong Kong's society began to develop a separate identity, lifestyle, and culture from the communist mainland during the 1950s–1970s. Given the two territories' polity, economy, society, and culture were so completely divided, how could the national integration process ever get started?[1]

Negotiation crisis and the "One Country, Two Systems" policy

Although the island of Hong Kong was permanently ceded to Great Britain, a large part of its hinterland – the so-called New Territories – was only leased to Britain for 99 years. Since this

lease would expire in 1997, Hong Kong capitalists were reluctant to make long-term investments in the New Territories. London was therefore under pressured in the early 1980s to enter into negotiations with Beijing to renew the lease so as to boost business confidence in the colony. During these negotiations, London was shocked to find that Beijing not only would not renew the lease of the New Territories but also wanted to take back the entire Hong Kong territory (Scott, 1989).

Since Beijing had re-entered the capitalist world-economy in the late 1970s, it felt little need to maintain Hong Kong's colonial status. Moreover, national unification was taken as the top priority of the Chinese government; the aging Beijing leaders took it as a calling for them to see the Chinese nation unified in their lifetime.

With London and Beijing repeatedly assured Hong Kong continued economic prosperity and political stability no matter what the negotiation outcome would be, and although 1997 was still 15 years away before the New Territories lease expired, the very fact that negotiation process over the future of Hong Kong started in 1982 had already triggered a crisis of confidence in Hong Kong (So, 1993).

In the economy, for example, there were sudden irrational fluctuations in the financial markets and massive emigration of financial and human capital in the early 1980s. There were a currency crisis and a banking crisis, with the Hong Kong dollar falling sharply from HK$6 to a US dollar in 1982 to HK$9.6 to a US dollar in 1983. Volatility of economy quickly led to political instability. In January 1984, there was a violent riot in the city involved looting, burning, and looting of a police station. This riot was followed by a taxi driver's strike and a metro rail worker's strike in early 1984.

At the beginning of negotiation in 1982, Hong Kong society was highly optimistic about British position (Cheng, 1984): it was felt that the lease of the New Territories would be renewed because China just started the Four Modernization reforms and it wouldn't want to alienate the London government and kill the goose that laid the golden egg (Hong Kong earned about 40–50 percent of foreign currency for China). Consequently, Hong Kong society was shocked to find out that Beijing had adopted a hard-line position: no lease renewal and no continuation of British rule. Instead China would resume sovereignty over Hong Kong in 1997.

During this period of heated negotiation and overt conflict between London and Beijing, public opinion in Hong Kong was overwhelmingly for the renewal of the lease (Cheng, 1984). The mass media was conservative, pro-capitalist, and pro-British, while the pro-Beijing, left-wing newspapers did not have large circulations. The pro-British media generally presented two arguments in favor of the British position to renew the lease: the "Economic Card" argument that Hong Kong's economic prosperity and business confidence depend on a continuing British presence and the "Public Opinion card" argument that Hong Kong people wanted the status quo and did not want communist rule.

It was under this historical context of an acute confidence crisis and the need to win over public opinion in Hong Kong during 1982–1984 that Beijing articulated a new policy to calm down the fear in Hong Kong society. Aside from its previous position of "Sovereignty Resumption", Beijing now presented a new policy, the so-called "*One Country, Two Systems*" policy, which has the following key ingredients (Wong, 2004):

- Hong Kong can keep its capitalist system separated from the communist system on the mainland; thus, the policy was called "One Country, Two Systems".
- Hong Kong will have a high degree of autonomy in running its economic, cultural, and political affairs. The territory can even keep its own police and armed forces, its currency, its capitalist social habits (like horse racing), and institutions, and Hong Kong will have its own

laws and courts. Mainland laws and regulations will not be applied to Hong Kong. Beijing and other local governments on the mainland will NOT interfere in Hong Kong affairs except those concerning foreign diplomacy.

- Hong Kong people ruling Hong Kong (*gangren zhigang*). The government of Hong Kong will be elected by Hong Kong people; Beijing will not send any officials to run the Hong Kong government.
- The "One Country, Two Systems" will be kept unchanged for 50 years after mainland resumes the sovereignty over Hong Kong in 1997

This "One Country, Two Systems" policy was very well-received in Hong Kong society. It helped to sway public opinion from the pro-British position of lease renewal to the pro–Beijing position of sovereignty resumption. Sensing the wide support of the Chinese position after Beijing promulgated the "One Country, Two Systems" policy, London quickly backed down on its position of lease extension on the grounds that developing a long-term relationship with China had higher priority (Scott, 1989).

For Hong Kongers, even though they didn't like the communists, they identified themselves as Chinese, and they were not dead set against national unification. Thus, the "One Country, Two Systems" institutional framework seemed to be a perfect compromise because Hong Kong could keep its capitalist system and Hong Kongers could keep the existing status quo for another 50 years.

In 1984, Britain signed the Joint Declaration with China, agreeing to return sovereignty over Hong Kong by July 1, 1997. On that date, Hong Kong would become a Special Administrative Region of China, with its social and economic system, its way of life, its status as a free port, and its currency remain unchanged. The Joint Declaration further specifies that Hong Kong will draft its own Basic Law (the mini-constitution) to protect its autonomy from Beijing. With the guarantees of "One Country, Two Systems" formally written into the Joint Declaration, the panic in Hong Kong society quickly stopped, emigration waves gradually died down, and irrational currency fluctuations swiftly disappeared. Since 1984, Hong Kong has started a new wave of economic expansion by seizing the opportunity of regional integration across the border.

Rapid economic integration between Hong Kong and Mainland China

When the uncertainty of the future of Hong Kong was settled (China would resume the sovereignty over Hong Kong in 1997), Hong Kong people turned their energy from politics to the economy; they found that regional integration with the mainland provided an excellent opportunity to solve the limitations of export-led industrialization.

By the 1970s, rapid industrialization in the post-World War II era had led to labor shortages, rising real wages, escalating land prices, the emergence of urban movements, and the tightening of government regulations over the abuses of labor practices and the worsening of the environment. All these factors served to push the cost of production to a higher level, making Hong Kong industries less competitive in the global market the 1970s.

In order to survive in the shrinking global market, Hong Kong capitalists needed to find a new way to secure an abundant supply of cheap labor, a large supply of land, and to escape from their governments' regulations. These factors help to explain the industrial relocation of Hong Kong's labor-intensive industries across the border in the 1980s. Geographical proximity was highly attractive, as the mainland was very close to Hong Kong, and it had an almost unlimited supply of cheap labor force and land. The mainland's local governments were very eager to attract Hong

Kong's investment because they were permitted to keep part of foreign exchange earnings earned through exports for their local economies (So, 2001).

Therefore, soon after the Joint Declaration was signed in 1984, there started a new phase of economic integration between Hong Kong and the mainland. By June 1991, Maruya (1992) estimated that 20,000 Hong Kong garments, plastics, textiles, and electronic factories had already relocated across the border to Guangdong province. These Hong Kong factories employed up to 5 million workers in Guangdong, which were more than ten times of the manufactured workers that they employed in the colony in the mid-1990s (Sung, 1997).

This new phase can be called *asymmetrical integration* because it was mostly about Hong Kong's industrial relocation across the border to South China. The flow of capital, people, and values were mostly one-way, i.e., from Hong Kong to mainland China, but seldom in the opposite direction. In the 1980s, this one-way flow was perceived as a process of modernization through which modern Hong Kong lent a hand to assist backward China to modernize its outmoded communist economy.

During this period, since the colonial government was scheduled to end its rule in 1997, it largely took a hands-off attitude toward Hong Kong's integration with the mainland. It did not oppose the integration process, but it also failed to promote the integration process enthusiastically like those local (provincial, city, county, village) mainland governments across the border. Thus, asymmetrical integration was mostly the efforts carried by Hong Kong businessmen who mobilized their social network to facilitate their economic investment in the rural communities in South China (Smart and Smart, 1991).

However, it must be pointed out that the first phase of integration between Hong Kong and mainland China was not that entirely smooth. There were many forms of conflict between Hong Kong and the mainland. For example, Guangdong residents suffered from high inflation rate (over 30 percent) in mid-1993. This sharp increase in price was not only a result of Beijing's removal of price controls on food, rent, and service fees in early 1990s, but was also the result of the massive Hong Kong investment (which led to an overheated economy and caused a rapid increase in price in raw materials, food, and real estate industry in Guangdong).

In Hong Kong, asymmetrical economic integration has led to the de-industralization of Hong Kong. In only 10 years, almost of the manufacturing relocated out of the colony and Hong Kong's old industrial towns were left with empty factories. The number of Hong Kong manufacturing workers was drastically reduced from 892,140 in 1980 to 375,766 in 1995 – a loss of almost more than half a million jobs. Subsequently, the proportion of the Hong Kong labor force that worked in manufacturing dropped from 47 percent in 1971 to only 14 percent in 1996 (Chiu and So, 2004: 204).

In Hong Kong, this first phase of "*informal, social asymmetrical integration*" had also resulted in a vast increase of smuggling, armed robbery, stolen cars, and gang activities committed by recent mainland immigrants to Hong Kong, leading to a new cultural conflict in which Hong Kong people blamed their cross-border Chinese cousins as uneducated, not willing to obey laws and regulations in Hong Kong, and tending to commit armed robberies (Mathews et al., 2008).

Tiananmen crisis, democratization, and Patten's electoral reforms

However, although economic integration between Hong Kong-China took place rapidly during the 1980s, political integration suffered a setback. In 1989, there was the Tiananmen Incident in China. Thousands of students protested at Tiananmen Square for a democratic government in China. Even though the protests were peaceful, the Communist Party declared them illegal and

subversive and sent armies and tanks to suppress the student protests, resulting in bloodshed and casualties.

Although the student protests took place in Beijing, they sent shock waves to Hong Kong society. Thanks to high-tech communication, the suppression of the protests could be watched live on Hong Kong TV. The Tiananmen Incident made Hong Kong people worry again and triggered another confident crisis. Hong Kong people figured that, if the Communist Party could send tanks to suppress peaceful protests of students, what could prevent the Communist Party from sending tanks to Hong Kong? If the Communist Party showed no respect to citizen protests, the written statements in the Joint Declaration and the Basic Law were worthless and could not be used to protect Hong Kong. The Tiananmen Incident quickly shattered any trust that Hong Kong people had on Beijing's "One Country, Two Systems" policy.

In retrospect, the Tiananmen Incident produced the following impacts in Hong Kong (So, 1999). First, it led to a series of large-scale protests in Hong Kong against the Communist Party's suppression of student protests in Beijing. In May 1989, on two occasions, more than a million people flooded the streets to show their support for the students and to protest against the declaration of martial law in Beijing.

Second, the Tiananmen Incident triggered a tidal wave of emigration in Hong Kong. Hong Kong people were seen lining up at various embassies to apply for visas to leave Hong Kong. The most popular destinations were the US, Canada, and Australia. Studies reported that educational professionals (teachers, social workers, lawyers) were over-represented among the foreign passport applicants. It was estimated that 50,000 people had emigrated out of Hong Kong annually during the early 1990s before the handover (Skeldon, 1994).

Third, for those who could not afford to emigrate or those who preferred to stay, they put up resistance in Hong Kong. Thus, *the democracy movement* had suddenly been revitalized after the Tiananmen Incident. Whereas Hong Kong's democracy movement could draw only a few hundred or, at most, a few thousand people to protest before 1989, a much larger crowd (in the range of 50,000–100,000) showed up in democracy movements after the Tiananmen Incident (So, 1999). In the post-Tiananmen Incident era, democracy became a hot topic in Hong Kong society. Many books on Chinese democracy appeared; the mass media devoted their front pages to reporting democratic events in Hong Kong, China, and overseas; the Hong Kong legislature held many lengthy debates on speeding up the democratization in the territory. It was during this fervent climate that a new Democratic Party was born. The Democratic Party was highly popular in the 1990s; it won landslide elections in Hong Kong because it adopted a democratic unification platform and put forward a slogan that democracy is the best institution for national reunification because only democracy could protect Hong Kong from Beijing imposing its authoritarian rule in the territory (So, 1999).

Facing many large-scale protests and a new wave of anti-Beijing democratization in the aftermath of the Tiananmen Incident, Beijing perceived Hong Kong as a base of subversion against the Chinese government. Beijing responded by tightening *the Basic Law* and inserted a new clause, Article 23, at the last minute before the Basic Law was passed in the NPC (National People's Congress) in 1990.

Article 23 was designed to provide a legal foundation for the future SAR (Special Administration Region) government in Hong Kong to suppress "any act of treason, succession, and subversion against the Central government" (Ma, 2005). However, in the midst of strong anti-Beijing sentiment in 1989, Beijing was willing to compromise with the democrats to allow Hong Kong to "*enact laws on its own*" for an unspecified period. By making the laws in Hong Kong to conform the laws on China, Article 23 serves to undermine the spirit of the "One Country, Two Systems" policy, thus sowing the seeds for further crisis in Hong Kong in the near future.

Pressured by the democratic activists in Hong Kong, the last Governor Chris Patten proposed a controversial democratic reform package in the mid-1990s so as to add more "popular" element into the restricted democracy model. However, since the Basic Law was already promulgated by Patten's predecessor, Patten's democratic reforms could not possibly go beyond this constitutional framework. Subsequently, Patten reinterpreted the wording and exploited grey areas and loopholes in the Basic Law to fit his purposes. Patten redefined "functional constituency" in such a way that it would broaden the voting franchise from a few thousand corporate bodies to around 2.7 million people, and he suggested those elected in local elections would elect the 10 members in the Legislative Council (So, 1997). Patten's last-minute electoral reforms had intensified the conflict between Beijing and London. Beijing simply declared that the last Legislative Council elected under Patten's electoral reform would be dissolved immediately after the handover on July 1, 1997.

Observing the tidal wave of emigration, the large-scale democracy protests in the aftermath of the Tiananmen Incident, and the intense conflict between Beijing and London on Patten's democratic reform package, foreign mass media tended to report a very pessimistic picture with regard to Hong Kong-China national reunification. For instance, Fortune magazine proclaimed "The Death of Hong Kong after 1997" in its headline (Kraar, 1995).

Hong Kong SAR since 1997

The smooth 1997 transition

During the transition period to 1997, Hong Kong was filled with all sorts of predictions of "politically pessimism, economic optimism" (Chan and Lin, 2008). "*Politically pessimism*" because there were indeed deep worries about the imposition of communist rule on Hong Kong; people were so worried that they wanted to get out of Hong Kong in time before the communist arrived in 1997. There was also a resistance movement in the form of democratization protests. On the other hand, there was also "*economic optimism*" because Hong Kong economy was indeed doing very well during the transition period (1984–1997), due to the fact that industrial relocation across the border had served to strengthen her economy. Abundant supply of cheap labor and the huge mainland market had greatly increased the competitiveness of the Hong Kong industries.

However, it turns out both the "politically pessimistic" and the "economically optimistic" predictions about Hong Kong's 1997 transition were wrong. Politically, it seems 1997 was merely a false alarm of authoritarian rule. Although there were several disputes in regarding to what extent could mainland laws be applied to Hong Kong citizens, and whether the mainland's National People's Congress (NPC) should reinterpret the Basic Law when the NPC does not agree with the ruling of Hong Kong's final court of appeal (Wong, 2004), Beijing did largely keep its promise of "One Country, Two Systems", adopted a position of non-interference towards the Hong Kong affairs, and allowed Hong Kong to have a high degree of autonomy. While the democrats in Hong Kong were afraid they would be put into prison when the communist took over after 1997, no arrest of democrats was ever taken. In fact, the democrats were allowed to voice their views freely (include those views that condemned the Communist Party of bloody suppression in the Tiananmen Incident in 1989). In the new Special Administrative Region (SAR) government of Hong Kong, anti-communist protests (like those organized by Falun Gong) were allowed, the mass media was also free, and there is the continuation of democratic elections in Hong Kong after 1997 (Ma, 2007; So, 1999).

The "optimistic" economic prediction was wrong too. Although pundits predicted the economic growth of Hong Kong would continue after 1997, Hong Kong's economy was in a terrible shape right after Hong Kong has become a SAR region of China. The downturn of Hong Kong's economy, however, was mostly a result of the Asian financial crisis rather than a result of the 1997 transition. At the height of the financial Asian crisis in 1998, Hong Kong's GDP contracted by about 5 percent (compared to a 5.2 percent real growth in 1997), property prices dropped by 50 percent, and stock market prices also dropped considerably. Unemployment hovered at a record high of 6 percent, wages had fallen, many businesses closed down, and consumer demand remained weak (Lui, 2002).

During this period of economic downturn (1997–2003), the Hong Kong SAR government was still reluctant to push forward for more economic integration with mainland China because the Democratic Party, which was still very popular in the late 1990s, wanted the SAR government to minimize the integrative process in order to preserve the "distinctiveness" of Hong Kong. The Democratic Party assumed that more integration would cut down the distinctiveness of Hong Kong, turning Hong Kong into just another Chinese city like Canton and Shanghai. The Democratic Party argued that Hong Kong must keep its distinctiveness (especially democratic election, free civil society, independence of Judiciary, etc.) so as to preserve its global city status (Loh, 2006).

Since Beijing adopted a position of non-interference and allowed Hong Kong to have a high degree of autonomy to run its own affairs, it seems the "One Country, Two Systems" policy was working smoothly in Hong Kong up to 2003.

The 2003 turning point: Beijing started a new state-led integration process

The SARS epidemic in 2003 caused the United Nations to issue an international travel warning to tourists coming to Hong Kong, making Hong Kong suddenly a "dead port", and its tourist industry came to a halt. Because the SAR government did not have any effective policy to get Hong Kong out of the Asian financial crisis, the Hong Kong economy hit rock bottom in 2003 during the SARS epidemic crisis.

What made the matter worse is that the Hong Kong SAR government made the wrong strategic move to enact Article 23 (the anti-subversive law) in 2003. According to Wong (2006), Hong Kong took that move because of the pressures of the Beijing whose tolerance of the various anti-communist activists in Hong Kong (e.g., the protests of Falun Gong and the anniversary gathering to commensurate the victims of Tiananmen Incident on June 4th in Victoria Park) began to wear out.

Since Article 23 covers seven areas of offenses, including treason, secession, sedition, subversion, theft of state secrets, foreign organizations, and police investigative powers, it has wide ranging implications for professionals (teachers, journalists, lawyers, and librarians) and for civil liberties in Hong Kong (Ma, 2005).

On July 1, 2003, an estimated 500,000 people protested on the street against Article 23 because the Article would threaten the freedom of association and expression, threaten the freedom of information and the free press, and endanger the freedom of speech and religion. This 500,000-person protest is the largest protest in Hong Kong after the territory became a SAR (Special Administrative Region) of China (So, 2008). The July 1, 2003, protest is significant because it started a new phase of Hong Kong-China integration.

Since the new Hong Kong SAR government was seen as incapable, Beijing decided to take the lead in solving the economic and political crisis in Hong Kong. Soon after the historic, half-million-person protest in 2003, Beijing started a new *formal, state-led integration* process to speed

up and to deepen Hong Kong's integration with the mainland. This state-led integration process involved the following formal agreements and new policies:

(1) In the so-called "Individual Traveller's Scheme":, residents in nine Chinese provinces can visit the two cities (Hong Kong and Macao) on a personal basis. Previously, mainland tourists had to come to Hong Kong and Macao on official tours and go through a complicated application process, which could take months. The individual traveller's scheme aimed to boost the tourist industry of Hong Kong, which suffered a severe downturn during the SARS epidemic in 2003.

(2) Hong Kong and Guangdong governments also signed the CEPA (Closer Economic Participation Arrangement). The first CEPA in 2003 provided 1,087 Hong Kong-made products with tariff-free entry into the mainland China market, accounting for 67 percent of manufactured goods exported to the mainland (Kynge and McGregor, 2003). CEPA is aimed to open the huge mainland market for the manufactured industry of Hong Kong. Two years later, CEPA II in 2005 allowed not only Hong Kong manufactured products, it also allowed Hong Kong services to enter the mainland market, including law, accountancy, medical, banking, insurance, transportation, tourism, education, and social welfare services (Asian Wall Street Journal, 2005; Black, 2007).

(3) Beijing wanted to construct a better infrastructure framework to link Hong Kong with the mainland in order to deepen socio-economic integration. It is hoped that, when the transportation network between Hong Kong and the mainland is more direct and more efficient, there will be a larger flow of human traffic and products across the border. Thus there is a plan to construct a new Hong Kong-Macao-Zhuhai bridge, linking Hong Kong to Macao and to the West Pearl Delta. This plan was approved in 2008 with a completion date in the late 2010s. Also, there are plans to build a high-speed train and many new freeways connecting Hong Kong to the small cities in the Pearl River Delta and to other big cities in Northern China. Currently, 150,000 people cross the Hong Kong-Shenzhen border daily, but checkpoints are only open 17 hours a day. These mega infrastructures and the proposed 24-hour border crossing are ways to increase the flow of people and products between Hong Kong and China to a higher level than the present figure (Li, 2007). All these state-led mega infrastructure projects are aimed to strengthen Hong Kong's position as a logistic center of South China.

(4) Aside from the above mega infrastructure projects and policies to deepen the socio-economic integration, Beijing also began to intervene politically in Hong Kong affairs.

In 2008, Cao Erbao, director of the research section of Beijing Central Liaison Office in Hong Kong, wrote an article in which he said that Hong Kong has, in fact, two government teams: one is the establishment team of the Hong Kong SAR government; the second consists of Chinese government authorities responsible for Hong Kong issues on the mainland (Cao, 2008). For Hong Kong citizens, Cao's article indicated a new Beijing policy, interpreted as tightening its grip and increasing interference in Hong Kong affairs.

This suspicion was further confirmed in the following events. In the 2012 election of the Chief Executive, Beijing was reportedly to have handpicked Leung Chun-Ying for the post because Leung has very strong ties with the Chinese government. In fall 2012, Leung's government quickly introduced a new national education curriculum in secondary school on the grounds that "many young people haven't been able to get used to the fact that Hong Kong is a special administrative region of China. They grew up with a lack of national education, coupled with sentiments against the Communist Party of China" (Wan and Zhao, 2015).

In mid-2014, Beijing released a White Paper on Hong Kong stating that Beijing has "complete jurisdiction" over the territory and is the source of its autonomy; and National People Congress (NPC) further decided on August 31, 2014 that China will tightly control the nomination of candidates for the election of Hong Kong's chief executive in 2017.

The above policies show Beijing has violated its promise embodied in the "One Country, Two Systems" policy and started to assert its influence in earnest, signalling a new phase of integration process with Hong Kong. This new phase is characterized not only by its formal nature (i.e., it is formally initiated by the mainland China), but it is also distinguished by the two-way flow between Hong Kong and mainland China.

The previous phase is characterized as asymmetrical integration because the flow of capital and people is mostly one-way, i.e., from Hong Kong to China. The post-2003 integration process, however, can be labelled *symmetrical integration* in the sense that the flow now becomes two-way, both from Hong Kong to mainland and from mainland to Hong Kong.

It is this state-led, symmetrical integration that has led to the emergence of a new wave of anti-mainland protest and the formation of new pro-independence organizations in Hong Kong since 2003.

Anti-mainland protest in the 2010s

Anti-mainland protests first started in a rally in September 2012 held at Sheung Shui railway station near a border crossing to mainland China. The rally was aimed to express Hong Kongers' anger over throngs of mainland traders (locally called parallel traders) who pour in each day by train to buy baby formula, cosmetics, and other goods for sale back on the other side of the border. In 2014 the event was widely report in the mass media because the protesters used a catch-word "*locust*", denouncing mainlanders as "locusts" eating up the city's resources, holding up signs that read "Go Back to China" and "Reclaim Hong Kong". Protests became more frequent and radical in early 2015, as they started staging weekly rallies against parallel traders in Shatin, Sheung Shui, Tuen Mun, and Yuen Long – the areas most affected by the growing influx of mainland shoppers.

It must be pointed out that anti-mainland protests are not confined to mainland tourists and shoppers, as they have also spread to other areas. For example, In June 2015, localists organized a rally to protest the presence of mainland Chinese street musicians and another rally to protest against mainland parents sending their children to schools in Hong Kong. Their choice of persuasion was a banner displaying Chinese characters that read "Go back to the mainland, *locust* children" (Fung, 2015).

This new wave of anti-mainland protests is different from the previous wave of anti-mainland protests. First of all, whereas previous protests were targeted against the communist party-state at the top (mostly against its violation of human rights and authoritarian polices), recent protests are targeted at the common people at the bottom, namely, mainland tourists and mainland immigrants, on the grounds that mainlanders exhibit "uncivilized" social behavior to disrupt the social order of Hong Kong and they take away precious resources (like apartments in public housing, school places, hospital beds, and daily necessities like baby formula) from the local Hong Kong people.

Second, whereas previous anti-mainland protests were quite peaceful and orderly (like the June 4th commemoration in Victoria Park), recent anti-mainland protests can be labeled as "militant" because they often involve clashes and violent confrontations with mainlanders, counter-demonstrators, and the police. In recent anti-mainland protests, protesters are often arrested, prosecuted, and jailed after they clash with the police and the mainlanders (Lo et al., 2015).

Third, whereas previous anti-mainland protests usually took place in the center of Hong Kong (like Causeway Bay and Admiralty), this new wave of anti-mainland protests often takes place in the New Territories (like Sheung Shui, Tai Po, Tuen Mun, Yuen Long). Whereas participants of the previous anti-mainland protests usually came from the educated middle class, participants of this new wave of anti-movement protests often come from the grassroots, working-class population.

Fourth, whereas the previous anti-mainland protests relied on social networks, the mass media, and formal political organizations (like the Democratic Party or the Hong Kong Federation of Students) to mobilize their participants, this new wave of anti-mainland protests rely upon "e-mobilization" to mobilize their supporters. Usually an announcement on Facebook is sufficient to jumpstart a protest. This recent wave can be labeled as "disorganized" protests because protest organizers usually do not know how many strangers will show up at a particular protest, and they have little control over their participants' behavior.

Finally, whereas previous anti-mainland protests got favorable reporting in the mass media, recent anti-mainland protests have generally received negative reports from the reporters, who often label the protests as "xenophobic" and condemn the protesters as trouble makers. Reporters from the mass media also accuse them of engaging in "uncivilized behavior" like insulting the tourists, kicking tourists' luggage, as well as stereotyping mainlanders as "locusts" (Lo et al, 2015; FlorCruz, 2014).

In short, this new wave of anti-mainland protest is characterized by its target against mainland tourists and immigrants, its militancy, its protest location in the New Territories, its grassroots participants, its e-mobilization, and its poor image in Hong Kong mass image. What then explains the emergence of this new wave of anti-mainland movement in Hong Kong after 2012?

This new wave of anti-mainland movement is a product of the complex interplay among the following trends and events over the past decade, namely, the influx of immigrants and tourists, the growing social inequalities, and the setback of the democracy movement.

Influx of immigrants and tourists

As Ma (2015) explains, the "One Country, Two Systems" model sought to insert mechanisms of separation between mainland China and Hong Kong after the handover. However, increasing mainland-Hong Kong integration and the influx of mainland immigrants and tourists since 2003 made this separation difficult.

For immigrants, each day, 150 mainlanders would get one-way entry permits to legally reside in Hong Kong after 1997, many of whom are wives and children of Hong Kong residents. This amounted to about 55,000 mainland immigrants every year or 0.55 million mainland immigrants every decade.

For tourists, after a new "*Individual Traveler's Scheme (ITS)*" was introduced in 2003: mainlanders in nine Chinese provinces can visit Hong Kong independently without joining an official tour. ITS was meant to boost tourism and consumption in Hong Kong, still ailing from the 2003 SARS (Severe Acute Respiratory Syndrome) epidemic. In 2004, the number of individual tourists from mainland China was only 4.3 million, but the number of tourist has quickly jumped tenfold to 47 million in 2014. This massive influx of tourists and immigrants has sparked new social tensions in Hong Kong society (Ma, 2015).

A lot of "hot money" also followed mainland immigration and tourism, pushing property prices to record levels. In December 2016, for example, mainland conglomerate HNA Holding Group outbid 20 Hong Kong rivals to win its second residential site in Kai Tak for a record HK$13,600 per square foot. This influx of mainland hot money has led to a 201 percent increase in the cost of residential land in the area from HK$4,913 per square foot in June 2013 to HK$13,600 per square foot in December 2016 (Li, 2016).

Many Hong Kong workers and middle-class professionals complained that they could not afford to buy homes due to the mainlander housing bubble. In addition, when mainland shoppers arrived in droves to purchase luxury goods (e.g., jewellery and brand-name items), major shopping malls saw a mushrooming of high-end boutiques catering to this influx of nouveau riche wealth and consumption habits, driving up rents and knocking small local shops out of business. Mainland visitors were also very interested in other basic necessities (e.g., drugs and milk powder), believing that Hong Kong had better quality control. When mainland China was plagued by the tainted baby milk scandal in 2008, mainland visitors descended on Hong Kong supermarkets and drug stores, causing a temporary shortage (Ma, 2015).

Hong Kongers complained that they were subsidizing the costs of mainland tourists (in terms of crowding in public transport and long lines at bus stations) while only the large chain stores were reaping the financial benefits from tourism. Chiefly among their worries were rising housing prices, particularly the cost of housing and rising rent over the past few years. In addition, Hong Kongers said they were forced to pay higher "tourist prices" at local restaurants and other goods as a result of the influx of mainland tourists.

Hong Kongers also accused mainland tourists of violating certain codes of civility that they have long taken for granted. Mainland tourists, they say, jump lines, defecate in the street, and talk loudly in public places. Furthermore, Hong Kongers complained of stores catering only to the needs of mainland tourists who flood their local neighbourhoods. Thus, Hong Kongers advocated the preservation of local communities, local style of life, and local values in response to the devastating onslaught of mainland tourists.

Furthermore, the competition for scarce resources has aggravated hostility against mainlanders. For years, pregnant women were allowed to give birth in Hong Kong hospitals, regardless of their nationality, after paying a surcharge. The child would automatically acquire Hong Kong permanent residence status, even if neither of the parents was a Hong Kong resident. After the "Individual Visitor Scheme" was introduced in 2003, tens of thousands of mainland mothers came to Hong Kong to give birth, to take advantage of better medical facilities, and to make their children eligible for all the welfare benefits accorded to permanent residents in Hong Kong. In 2011, there were 35,736 children born of non-Hong Kong parents, leading to an outcry about the invasion of mainlanders who would drain public resources in the future (Ma, 2015: 47–48).

Growing social inequalities

In the first decade of the twenty-first century, Hong Kong workers have been facing the problems of declining numbers of manufacturing jobs (which were relocated across the border to mainland China) combined with a massive influx of new immigrants. The neoliberal policies of the Hong Kong SAR government, like cutting the welfare budget, elimination of long-term civil servant positions for new hires, and privatizing public utilities further aggravated social inequalities and poverty in Hong Kong. As a result, Hong Kong became one of the most unequal places in the world. Sze (2007) observed that the living conditions of those at the bottom have been deteriorating over the last decade, and the income and wealth gap between the haves and the have-nots has widened. Similarly, Lui (2007: 222) points out that

> issues concerning poverty, growing income inequalities, and the emergence of the so-called 'working poor' have become public concerns. . . . Social tensions are growing. Increasingly, people are becoming anxious, self-protective, and insecure in the face of growing competition for scarce resources.

Naturally, the young generation, so-called "the post-90s generation" was hit hardest by declining employment opportunities because this generation does not have any bargaining power in the job market.

In sum, the livelihood of the Hong Kong people, especially the grassroots population and the post-1990s generation, is threatened by growing social inequality, declining social mobility in Hong Kong, rising cost of living and shortage of public services caused by the influx of mainland immigrants and tourists.

The setback of democracy movement

In the beginning, many anti-mainland movement activists identified themselves with the pan-democratic camp because such a movement could promote grassroots democracy at the community level. Like other pan-democratic groups, anti-mainland protesters still hoped to democratize the Hong Kong government and turn the HKSAR into a government for the Hong Kong people. The recent setbacks to the democracy movement in the 2010s, however, have shown that the democracy path is a dead end street.

The failure of the 79-day Umbrella Movement in 2014 has further convinced the anti-mainland protesters that they can't trust the Hong Kong and mainland governments anymore, while peaceful protest and rational dialogue with Hong Kong and mainland officials cannot solve their grievances. Instead of adopting a peaceful, law-bidding route like "The Occupy Central Movement", they increasingly turn to a more "militant" stand to defend Hong Kong's autonomy in order to protect Hong Kong's interests and way of life. The urban riot in Mong Kok during Chinese New Year in 2016 was the first manifestation of this trend of militant protest. Joshua Wong (2015), a student leader of the Umbrella Movement, further laments that "Hong Kongers should not only focus on universal suffrage, but also fight for the city's right to self-determination. We should, through civic referendums, determine our own pathways and political status after 2047." Wong argues that Hong Kongers should launch a movement for self-determination before the expiration of the "One Country, Two Systems" policy, so Hong Kongers will have the right to determine their city's future.

In 2016, new political organizations openly advocating for independence suddenly emerged in an election year. In August 2016, a 2,500-person rally – dubbed the "first pro-independence rally in Hong Kong" – was held at Tamar Park, outside the Hong Kong government headquarters in Admiralty (Ng et al., 2016). This defiant rally was soon followed by the electoral victory of several pro-independence Legislative Councilors in the September election.

Implications on integration between Hong Kong and mainland China

Needless to stress, this new wave of anti-mainland protests has exerted a profound impact on Hong Kong politics and the integration process. It not only deepens the socio-political polarization in Hong Kong society, but it also threatens the prospects for national reunification with Greater China.

Deepen the socio-political polarization in Hong Kong society

Although Hong Kong society was pretty polarized as a result of growing social inequality in the twenty-first century, the emergence of this new wave of anti-mainland protests has further deepened the socio-political polarization process, especially within the democratic camp.

Identifying themselves as "localists", anti-mainland protesters openly condemn the traditional movement activists and the pan-democrats as "left rubbers" (or "Greater China sympathizers") and criticize the latter's peaceful, democratic method as out-dated and useless. Instead of paying attention to the democracy movement in mainland China, anti-mainland protesters argue that the pan-democrats should re-orient its focus on Hong Kong's local affairs. In other words, the pan-democrats should, following the path of anti-mainland protesters, put forward the slogan "*Hong Kong First*" or "*Hong Kong Priority*". To show their displeasure towards the pan-democrats, anti-mainland protesters refuse to join their annual June 4th commemoration at Victoria Park.

To the pan-democrats, anti-mainland protesters are obviously a divisive force to weaken the democracy movement. Thus, the pan-democrats also tend to agree with the pro-establishment organizations which label the anti-mainland protesters as "rightists", "racists", or "fascists".

In addition, this new wave of anti-mainland protests has triggered pro-establishment forces to step up their own patriotic movement organizations to fight against the anti-mainland protesters. In this respect, Hong Kong society is increasingly divided into two big camps: an anti-mainland camp versus a pro-mainland camp. Every policy (immigration, housing, education, population, welfare, etc.) is interpreted in this spectrum between anti- and pro-mainland. Subsequently, socio-political polarization in Hong Kong society allows very little political space for any political organization (like the moderate pan-democrats) to take a middle-of-the-road position and engage in a rational dialogue on the issues in Hong Kong-mainland China integration.

Threaten the prospects for national reunification in Greater China

It seems that the integration process has reached another turning point in the mid-2010s. Anti-mainland sentiments and movements seems to be growing in strength after the failure of the Umbrella Movement in 2014, and anti-mainland organizations have begun to appear in Hong Kong politics as a formidable force. New political organizations like the Hong Kong National Party and Demosisto have injected the issues of referendum and "the right of self-determination" into Hong Kong politics.

It is reasonable to predict that anti-mainland forces will become stronger when Hong Kong's young generation is getting more involved in Hong Kong's political process. If such a tendency continues in the future, Hong Kong's integration with mainland China will become increasingly problematic and turbulent.

Since this chapter has identified (1) mainland China's state-led symmetrical integration process, (2) the recent influx of mainland immigrants and tourists, and (3) the setbacks to the democracy movement as the underlying socio-political factors that sparked a new wave of anti-mainland protests over the past few years, it seems the solution to the newly emerged integration problem in the late 2010s lies in slowing down (or reversing) the above three processes. In other words, if the mainland wants a smooth national integration with Hong Kong, Beijing should follow the spirit of "One Country, Two Systems" wholeheartedly and stop intervening in Hong Kong affairs; the number of mainland tourists and immigrants should be considerably scaled down; and Beijing should review the National People's Congress (NPC)'s August 31, 2014, decision in order to grant genuine democratic elections in Hong Kong.

Acknowledgements

Note

1 It must be pointed out that Hong Kong-mainland separation during this period was only deepened, but not total. During the economic embargo era in the Cold War, the communist government still conducted many economic activities in Hong Kong, and we all know that some Hong Kong merchants assisted China in securing their much needed goods. Hong Kong was also not culturally separated from China, because the mainland ran many schools, newspapers, and magazines in the colony.

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Lost in competition

Rethinking Hong Kong, Shanghai, and Shenzhen as a new triangle of China's global cities and regional hubs

Xiangming Chen

Introduction

For over 150 years since 1842, Hong Kong has occupied a special, if not unique, position relative to China. Over this long period of time, Hong Kong has risen from a fishing village on China's southern coast to the world's No. 3 financial center, after New York and London. While these tremendous strides were mostly made under British rule, Hong Kong's fate and fortune has always been intertwined with China's internal turmoil through 1949, its international isolation through 1979, its subsequent opening to the outside world, its reclaiming of Hong Kong in 1997, and its acceptance of Hong Kong as a special administrative region until 2047. These key years have marked and will continue to mark the twists and turns of Hong Kong's history, but always keep Hong Kong fundamentally tied to China.

Much has been written about Hong Kong's inseparable connections to China. As these connections are varied and complex, they have kept our views and understanding of Hong Kong largely through a lens that locks in on what these connections mean and why they matter to the relative well-being of the two parties, despite their incomparable size differentials. Unlike the China–Hong Kong focus, less thought has been given to how Hong Kong has fared against other key Chinese cities that have become more directly linked to Hong Kong and functionally like it. Shanghai is an exception, especially for two relatively short time spans. Much larger and economically more important during the 1920s, Shanghai drew comparisons to Hong Kong then. The post-1990 "rise" of Shanghai has made this comparison more frequent and pertinent. Yet this very limited city-level comparison has yet to generate broad insights about Hong Kong's gradually shifting position and roles relative to the more recent transformations of the few comparable Chinese cities. This represents an area of improvement in Hong Kong studies.

This chapter aims to put the study of Hong Kong in comparison to more comparable Chinese cities firmly on the agenda. Shanghai and Shenzhen form a pair of most suitable and meaningful cities for this purpose. The two cities are used for two analytical purposes in a coupled framework. In the first approach, I examine the temporal shift of both the status and roles of all three cities in the global, national, and regional contexts of China. Second, a relational approach looks for direct and indirect ways to understand Hong Kong's varied ties with Shanghai and Shenzhen.

The combination of both approaches rests on an increasingly clear premise that Hong Kong, Shanghai, and Shenzhen form a trio of top Chinese cities exerting strong influences on each other, China's most important geo-economic regions, and their global standing and connectivity. Without placing Hong Kong in a comparative context that fully engages Shanghai and Shenzhen, we risk losing a valuable opportunity to advance Hong Kong studies beyond its current state.

Why this trio of cities?

With a quick look at the top of China's urban hierarchy, it is easy to see why and how Shanghai and Shenzhen stand out as fitting candidates for improving our understanding of Hong Kong through a three-way comparison. On the surface, Shanghai and Shenzhen, as two of the four first-tier cities in China with Beijing and Guangzhou, should be in the same league with Hong Kong for their top ranking in population size, administrative status, and economic importance. Beijing and Guangzhou could present relevant points of comparison to Hong Kong from a longer historical perspective and a closer geographical vintage point, respectively. However, they offer a narrower and less meaningful range of comparability versus Hong Kong with regard to the dimensions of comparison to be addressed below. To further justify leaving out Beijing and Guangzhou or any other city, we focus on highlighting the real rationales for comparing Hong Kong to Shanghai and Shenzhen.

Shanghai has been mentioned in the same breath with Hong Kong a lot more than any other Chinese city. While the rapid takeoff of Shanghai after 1990 triggered the beginning of a potential comparison with Hong Kong, the latter's return to China since 1997 has gradually raised the decibel of this narrative that Shanghai will first challenge and eventually overtake Hong Kong. While this nascent comparison of sorts might be reasonable given the huge momentum of growth of Shanghai, it carried an assumption that Hong Kong's prominent economic position and power would gradually erode under Chinese sovereign rule despite its considerable autonomy as a special administrative region for 50 years. Reinforcing the validity of this assumption about Hong Kong's relative erosion was the clear policy of the national government to build Shanghai up as China's new global city, even though there was little evidence that Beijing was prepared or planning to make Hong Kong less of a global financial center serving China's interests. What has actually sustained this comparative talk is that Shanghai's phenomenal growth in economic size and global influence has closed a large gap with Hong Kong and is approaching the latter's leading stature and role.

Two temporal attributes of Shanghai, one historical and one more recent, provided the starting points for comparing to Hong Kong. Historically speaking, Shanghai had reached the status of a top-tier international city and become known as the "Paris of the Orient" by the 1920s. Shanghai then ranked as the world's sixth largest city behind London, New York, Tokyo, Berlin, and Chicago. More importantly, it had become China's most dominant financial, industrial, shipping, and cosmopolitan city. From 1886 to around 1930, Shanghai consistently handled about half of China's foreign trade. It absorbed 34.3 percent of China's total foreign investment in 1931. By 1933, Shanghai accounted for more than half of China's total industrial output. By 1936, Shanghai had half of China's banks, money stores, and trust companies, both foreign and domestically owned (Chen, 2009). Shanghai overshadowed Hong Kong then if there was comparison to be made.

Fast forward to the 1990s and through the 21st century, Shanghai experienced the fastest economic growth of any megacity from the early 1990s, averaging 12 percent annually. Shanghai attracted over US$120 billion in total foreign direct investment (FDI) after 1992, including US$14.6 billion in 2006, or 23 percent of China's total FDI. More FDI flew into Shanghai alone

than into any other developing country every year, twice the amount invested in the whole of India (Chen, 2009). All this fuel pushed Shanghai's GDP past Hong Kong's around 2010. With this second peak of Shanghai or its renaissance, at least based on the striking statistics on growth rate and current economic size, the Shanghai–Hong Kong comparison stressing their increasing competition rose to a prominent level in journalistic and business reporting. While any comparison based on few aggregate statistical indicators only is highly limited, they are sufficient to place Shanghai firmly in a comparative light versus Hong Kong.

Relative to Shanghai, the Shenzhen–Hong Kong comparison appears much less expected and justified. A much younger city that has grown to a megacity from a small special economic zone around 1980, Shenzhen does not have Shanghai's glorious past to seed or ground any comparison with Hong Kong. It is Guangzhou, located much closer to Hong Kong than Shanghai, that was much more comparable to Hong Kong than Shenzhen. Linked by one of Asia's first modern railways that began operating in 1910, Hong Kong and Guangzhou began their long lasting ties. Hong Kong not only surpassed Guangzhou as a trade hub but also absorbed almost a million people who fled Guangzhou for the former British colony during the China's war against Japan. This earlier lead aside, Guangzhou has gradually lost its suitability to Shenzhen as a more comparable city versus Hong Kong since Shenzhen reaching a truly transformed and competitive status in the 21st century.

Two features of Shenzhen, one temporal and one spatial, stand out and warrant a comparison to Hong Kong. While the much longer history highlighting the 1920s anticipated the Shanghai–Hong Kong comparison in the 21st century, Shenzhen's short history, in both a similar and different way, has turned this former special economic zone into a compelling case for comparing to Hong Kong. No other city anywhere in the world has gained more population than Shenzhen since 1980, from less than 100,000 to over 15 million today. After averaging about 35 percent annually for its GDP growth through 1995, Shenzhen kept its annual growth at around 14 percent through 2014. As a result of this slow but sustained high growth, Shenzhen's GDP per capita in 2014 reached around US$25,000, the highest of all Chinese cities. At this pace, Shenzhen's GDP per capita is expected to hit $36,000 in 2020, equaling the 2012 figure for Hong Kong (Chen and Taylor, 2017). With this more explosive growth than Shanghai, Shenzhen not only has more than doubled Hong Kong's population but also is approaching Hong Kong in economic standing, making the Shenzhen–Hong Kong comparison inevitable.

Unlike Shanghai, Shenzhen's geographical location bordering Hong Kong has further elevated their comparability. As China's first special economic zone and leader for economic and political reforms, Shenzhen has been institutionally closest to Hong Kong and thus magnified its unique geography. Shenzhen's megacity status and economic dynamism makes its location at Hong Kong's doorstep more prominent. With the Hong Kong–Shenzhen border becoming more open and porous, Shenzhen has begun to press Hong Kong more as a close-knit transboundary metropolitan region. Instead of blurring their separate administrative statuses, spatial and economic integration only crystalizes the high-level positions and roles of Hong Kong and Shenzhen for a meaningful comparison.

Justifying a comparison of Hong Kong to Shanghai and Shenzhen separately lays the foundation for assessing their relative competitiveness. Yet it is not the same as creating a broader comparative context in which all three cities should and can be examined both relative and in relation to each other. For this purpose, I propose a triangular framework to guide a two-tier comparative analysis (Figure 29.1). The first compares Hong Kong with Shanghai and Shenzhen in turn to understand their relative competitive positions and roles. The second takes into account the cooperative dimension to the three cities' competition with one another in both the national and regional contexts. This combined comparison facilitates an assessment of the relative balance
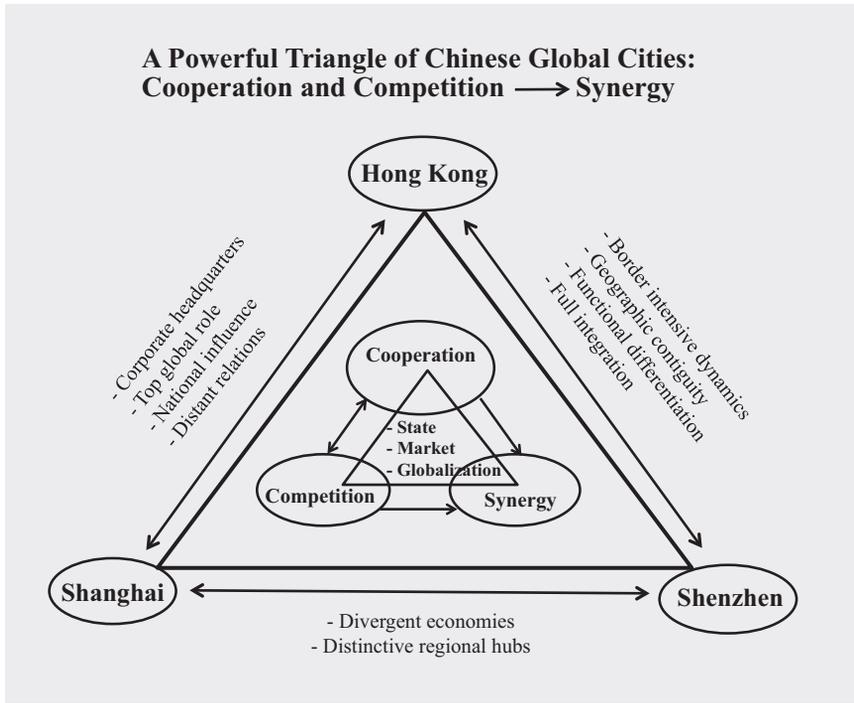
Figure 29.1   A powerful triangle of Chinese global cities: competition versus cooperation → synergy

Source: Conceived and drawn by the author.

between competition and cooperation between Hong Kong and Shanghai and between Hong Kong and Shenzhen. This in turn leads us to explore any complementarity among the three cities that can produce synergy among the trio and from them to China's continued development. A three-way comparison of Hong Kong, Shanghai, and Shenzhen in our framework may also offer food for thought in emerging research on the theoretical and policy implications of China's model of urban growth, especially of its megacities, for cities of the global South (Chen, 2014).

Hong Kong versus Shanghai: expected comparison and unnecessary competition

Like all global cities, Hong Kong's and Shanghai's internal strengths and external influence stem from their long trajectory of change and adjustments in their economic foundations. Both cities have undergone a transition from manufacturing to services over the past few decades, but at different points and uneven paces. Despite being a trading outpost from the outset, Hong Kong has prospered from a period of strong labor–intensive and export-oriented industrialization from the 1950s through the 1970s. Its manufacturing as a share of GDP stayed around 27 percent until the early 1980s (see Figure 29.2) when its factories began to move across the border to Shenzhen and the rest of the Pearl River Delta (PRD) in droves. With manufacturing contributing less than 10 percent of GDP since 2004, Hong Kong has consolidated itself as a service–dominant economy. In comparison, having built up a solid manufacturing base before 1949, Shanghai became a more dominant industrial city under central planning from 1949 to around 1990 when
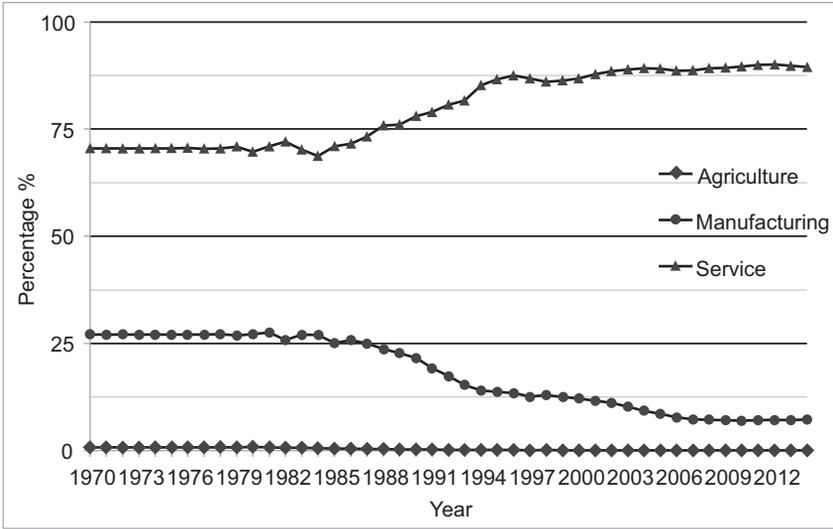
Figure 29.2   Shares of agriculture, manufacturing, and services in Hong Kong's GDP, 1970–2014

Source: Calculated and graphed from knoema at http://cn.knoema.com/UNNAMAD2015/national-accounts-main-aggregates-database?location=1000690-china-hong-kong-sar.
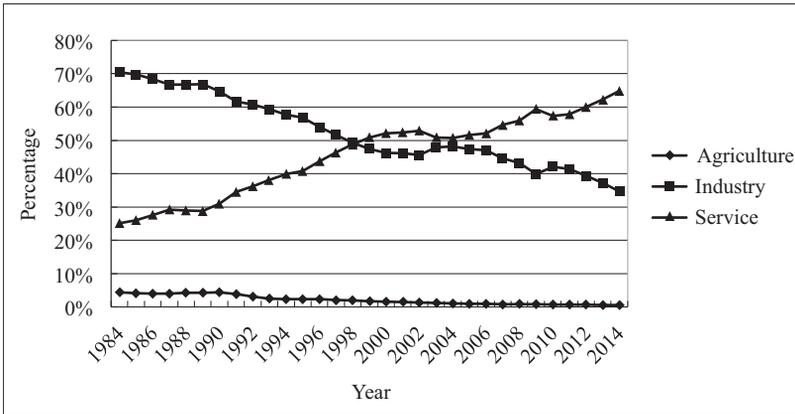
Figure 29.3   Shares of agriculture, manufacturing, and services in Shanghai's GDP, 1984–2014

Source: Graphed from various Shanghai Statistical Yearbooks.

the manufacturing share of the city's GDP peaked at 65 percent. It dropped to 35 percent in 2014 when services rose to 65 percent of GDP (see Figure 29.3). Although Shanghai has closed some distance with Hong Kong in transitioning to a service economy, it remains relatively balanced between manufacturing and services, although the latter's weight is expected to grow further.

The overwhelming contribution of services to Hong Kong's economy reflects the concentration and strength of producer services such as banking that are high value–added. Hong Kong as a major center of Asian trade and finance originated with the founding of the Hongkong and Shanghai Bank (modern HSBC) in 1864/65 and expanded with the subsequent entry of other international banks from France, Japan, and India (see Chapter 23 in this volume). Over the past
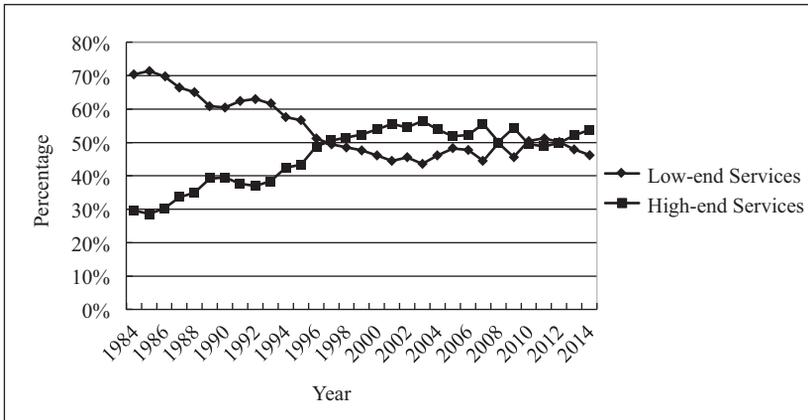
Figure 29.4 Shares of low- versus high-end services in Shanghai, 1984–2014

Source: Graphed from various Shanghai Statistical Yearbooks.

century and a half, Hong Kong's historical role in Asian regional trade and finance has scaled up to the top of global centers. For Shanghai, as its service sector's share of GDP has reversed with manufacturing, its high–end or producer services like finance, insurance, and real estate (FIRE) have grown faster than low–end services like retail (see Figure 29.4). Similar to Hong Kong's long history in banking, Shanghai today has recreated the financial hub role that it played prominently in the 1920s. Back then, Shanghai's international banks of British, French, Russian, Japanese, and Thai origins were housed in the low–rise European–style buildings along the Bund. Now major international banks like HSBC, Citibank, and huge state banks such as The Bank of China and The Industry and Commerce Bank of China operate from their modern glass towers in Pudong. Despite their very different physical environs, these banks define and symbolize Shanghai as a global financial center that can rival Hong Kong, at least on the surface.

The banking strength of both Hong Kong and Shanghai would not have been as great if they had not developed into globally oriented national and regional trading hubs. Trade grew steadily during Hong Kong's early years. Before 1842, the British East India Company expanded into Hong Kong through the opium trade. In 1844, Jardine, Matheson & Co, which had been trading in opium, cotton, tea, silk, and other goods, from its beginnings in Canton (modern-day Guangzhou), established its head office in the new British colony of Hong Kong. In 1863, British merchant John Duflon Hutchison founded Hong Kong and Whampoa Dock, which, together with Hutchison International formed in 1877, merged into the trading and shipping powerhouse of Hutchison Whampoa. All these companies also extended their presence from Hong Kong to Shanghai by the 1920s. Hong Kong's trading role was singularly important for China after 1949. It served as the only trading outlet during China's international isolation that lasted through the late 1970s. In the 1980s and 1990s, Hong Kong was the primary gateway and transit for international and Chinese manufacturing companies, especially those in the Pearl River Delta to trade with world markets including the critically important re-export. Hong Kong has lost some of its functionality as a trade intermediary since the 21st century when some of its shipping business began to move from its world-leading port to Shanghai and Shenzhen (see Wong, 2011 and below). Yet Hong Kong continues its important regional trading role by accounting for 22 percent of Guangdong province's international trade value and 36 percent of its export value as recently as 2014 (Chapter 22 in this volume).

In trade, Shanghai then and now plays a disproportionately large role in handling China's overseas trade and domestic regional trade. Given the weaker competing trading outlets along the coast in early 20th century and Shanghai's dense cluster of trading houses, Shanghai became the premier trade center for China, benefiting from its unique central location along the eastern seaboard. There was a distinctive regional dimension to Shanghai as China's international trade center. From the month of the Yangtze River, Shanghai received, redistributed, and exported agricultural and industrial goods flowing down on boats from the smaller cities and towns in the lower Yangtze delta and further west including Wuhan in central China and Chongqing in southwestern China. While maintaining its role as the undisputed regional trade hub, the post-1990 Shanghai has elevated itself to a much stronger center for China's expanded global trade. This has much to do with Shanghai's greatly enhanced port capacity. From the 25th spot in 1994 and outside the world's top 10 ports by 2000, Shanghai in 2003 passed the Korean port city of Pusan and the Taiwanese port of Kaohsiung in the number of 20-foot equivalent unit (TEU) containers to become the world's third-busiest port. With the opening of the Yangshan deep-water port in 2005, Shanghai passed Hong Kong in 2007 and Singapore around 2010 to become the world's largest port, and has since sustained this top ranking (Chen, in press).

Shanghai's ascent to the pinnacle of the world's ports reveals in part a corresponding or parallel shift that is may be partly captured and partly masked by the relative decline of its manufacturing that seems to move in the direction of Hong Kong's current position. This shift pertains to a more differentiated repositioning of Hong Kong and Shanghai with regard to the location of corporate headquarters and various other key corporate functions. According to a study in 2011 by the European Union Chamber of Commerce in China (cited in Lui, forthcoming), Hong Kong was ranked second, slightly behind Singapore, in terms of the attractiveness to multinational corporations for setting up their headquarters in the Asia-Pacific. This ranking denotes Hong Hong's persistent appeal as the top location for multinational corporations in the Asia-Pacific, especially those dealing with their China business that goes all the way back to the 1980s. But Shanghai emerged as an attractive new business hub for Asia at some expense to Hong Kong. Fifty-five multinational companies set up regional headquarters in Shanghai after 2003. The American Chamber of Commerce memberships in Hong Kong (and Singapore) declined. Three business groups under General Electric (GE) moved their Asia–Pacific regional headquarters from Hong Kong and other Asian cities to Shanghai. Chipmaker Advanced Micro Devices (AMD) moved its South Asia–Pacific headquarters (which is responsible for sales and marketing in Australia, Greater China, India, and Southeast Asia) from Hong Kong to Shanghai in 2002 (Chen, 2009). This comparative evidence illustrates a significant aspect of Hong Kong and Shanghai's relative competitive positions for hosting corporate headquarters (see Figure 29.1) as both cities offer shifting location advantages and opportunities for various corporate functions at the local, regional, and global scales and across their boundaries.

Shanghai has gradually sharpened its geographic advantages not only for a growing number of regional corporate headquarters but also high value-added functions and activities, especially for increasingly regionalized production systems spanning the Yangtze River Delta (YRD). Research and development (R&D) stood out among these functions. By the early 2000s, GE built an R&D center in Shanghai, which became one of its three largest global centers. Alcatel Shanghai Bell R&D was one of its three largest global R&D centers. Rockwell Automation Shanghai Research Center was one of its four global R&D centers. Roche R&D center in Shanghai was its fifth R&D center in the world and the first in developing countries (Du, 2005). GM's R&D center in Shanghai grew from about 100 employees in 1996 to over 1,000 by 2007 (Chen, 2007). As Shanghai moved up the value hierarchy, it began to lead and control a more regionally organized and geographically specialized division of labor across a wide range of industries such as clothing, laptops,

cars, and semiconductors that encompasses key, nearby, second-tier cities and third-tier cities located at the outer edges of the YRD. As GM in Shanghai has come up with more new models for the China market, its supply chains have extended far and wide across the YRD and beyond. Moreover, as more multinational corporations have relocated, a larger and longer segment of the production chain to the YRD given its industry-specific regional agglomeration, Shanghai has down-shifted some higher value-added functions to key manufacturing hubs like Suzhou. Using the YRD's clustered assets with around half of China's integrated circuit (IC) design firms and 55 percent of its IC manufacturing firms, Samsung moved its R&D from Shanghai to be with its primary manufacturing facility in Suzhou (Lee and Rodrigue, 2006). This has allowed companies like Samsung to use Shanghai more strategically for other high value-added backend functions like marketing and post-production services. As these examples illustrate, Shanghai has become a primary hosting city for both the front and back of varied global production networks as they become more rooted and extensive within and beyond the YRD.

If we look at Hong Kong again through this regionalized global-local lens, we see some similarities to and yet important differences from Shanghai. Since beginning to invest across the border in the PRD, many Hong Kong companies have kept high-level services like advanced R&D, manufacturing management, and offshore trade in their local headquarters. Over time, they have relocated some operations of a service nature such as R&D, design, prototype manufacturing, and logistics to the PRD. Some large service firms like major banks in Hong Kong have also moved their back-office functions to Shenzhen and Guangzhou. As Shanghai has helped elevate nearby Suzhou through concentrated investment in manufacturing there, Hong Kong has played a crucial role in launching Dongguan as a PRD manufacturing hub via clustered investment in low-end manufacturing. This was aptly characterized as "Hong Kong as the shop window and Dongguan as the factory floor". Hong Kong has continued to control the two high value-added ends such as design and sales of any across-border production chain. This more traditional division of labor disproportionately favoring Hong Kong left Dongguan stuck in the labor-intensive and low value-added manufacturing middle (Chen, 2007). The risen land and labor costs, especially since the 2008 financial crisis have challenged Dongguan even more in its industrial upgrading. The small and medium-sized enterprises (SMEs) from Hong Kong that have relied heavily on lower production costs in the PRD have fallen behind in making R&D investment for the long run. In addition, given the growing level of competition from locally funded enterprises and subsidiaries from transnational corporations or regional conglomerates in the PRD, Hong Kong-financed SMEs have entered a new competitive environment and are increasingly marginalized (see Chapter 22, this volume).

Hong Kong versus Shenzhen: unexpected comparison and emerging competition

If Hong Kong's strong integration with the PRD has gradually eroded its dominant position as the primary source of investment and export outlet, it has a lot to do with the rapid rise of Shenzhen across the border, perhaps much more than the overall growth of smaller PRC cities. Relative to the rest of the PRD, Shenzhen occupies a unique position in both connection and competition with Hong Kong. And it has reached its position in a dramatic way, having climbed from way down in China's urban hierarchy to stand side by side, geographically and in some functional areas, with Hong Kong. This is the basic rationale for seeing Shenzhen like Shanghai in their competitive positions versus Hong Kong (see Figure 29.1), but from drastically different origins and development trajectories.

Compared with any other city anywhere in China and the world, Shenzhen stands alone as the only megacity today that started as a very small, administratively designated and spatially restricted special economic zone over three decades ago. It has gained more population from the smallest base faster over the shortest period of time (see Figure 29.5). Relative to any other large city in China, Shenzhen has maintained the smallest proportion of its population (only about 30 percent) as officially registered with *hukou* or local household registration. Besides the approximately 70 percent or 8 million long-term residents included in Shenzhen's total popula-tion, there are as many as several more million short-term residents in Shenzhen, bringing the total to around 18 million. This qualifies Shenzhen as China's largest immigrant city. Despite its unusually tremendous scale and fast speed of in-migration, Shenzhen reminds us of Hong Kong's and Shanghai's strong, but slower, immigration histories. Shenzhen's compressed explosive demographic growth was fueled by the accelerated expansion of manufacturing. As Figure 29.6 shows, manufacturing took off in the first decade and sustained its majority share of GDP over
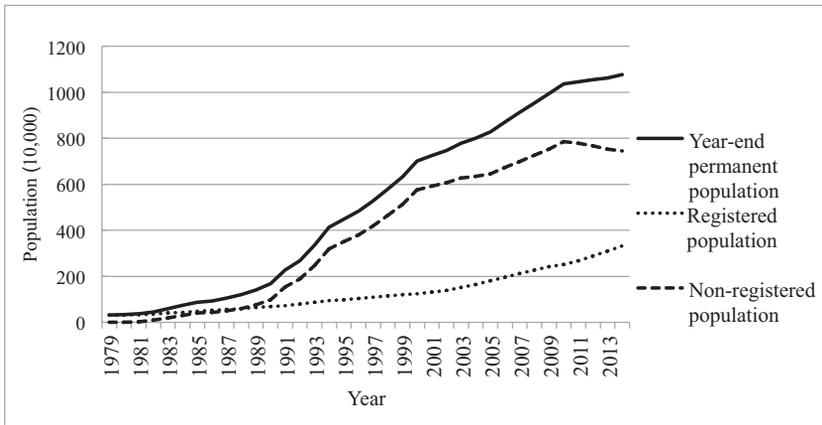
Figure 29.5   Shenzhen's population growth, 1979–2014

Source: Graphed from various Shenzhen Statistical Yearbooks.
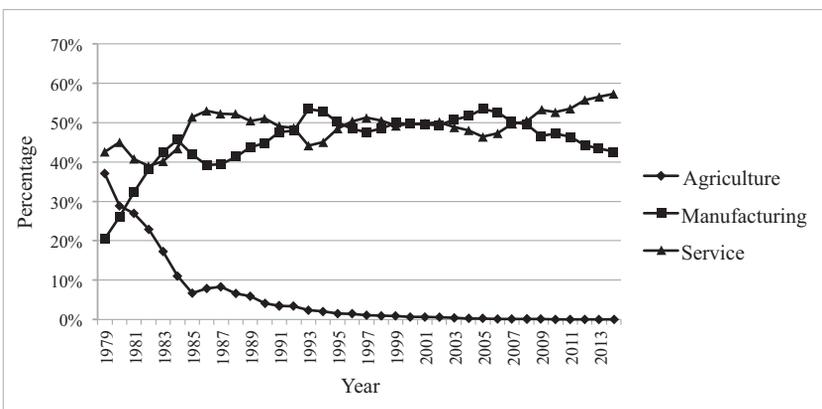
Figure 29.6   Shares of agriculture, manufacturing, and services in Shenzhen's GDP, 1979–2014

Source: Graphed from various Shenzhen Statistical Yearbooks.

the second decade. Despite its relative decline over the most recent decade, manufacturing still accounts for over 40 percent of Shenzhen's GDP. Compared to Hong Kong (see Figure 29.2), Shenzhen's manufacturing began to lose its relative strength much later and less dramatically. Unlike Shanghai, Shenzhen never underwent a dominant period of manufacturing and has experienced a later and slower phase of relative decline (see Figure 29.3). However, like Hong Kong and Shanghai in their direction, Shenzhen has begun to become service-oriented, and eventually service-dominant.

Shenzhen's still strong manufacturing share of GDP is no longer driven by the labor-intensive and low-tech assembling industries that dominated the earlier phase of its economic development. Similar to Shanghai in nature and different in degree, Shenzhen's manufacturing has become increasingly high-tech, new-tech, and clean-tech favoring such industries as new information technology, biotechnology, new energy, new materials, numerical control tools, and robotics. With this shift, the value added of these new industries as a share of GDP rose from 28.8 percent in 2010 to 35.6 percent in 2014 (Chen and Ogan, 2017). Regarding this crucial economic dimension, Shenzhen, more than Shanghai, stands in sharp contrast with Hong Kong. The contrast stems primarily from Shenzhen's true distinction as a combined destination of risk-seeking young immigrants and private sector-based economy with an active and efficient local government that has pursued purposeful industrial policy. This set of advantages, reinforced by its location bordering Hong Kong, has differentiated Shenzhen's special competitiveness over Hong Kong.

Shenzhen is most competitive over Hong Kong in the spatial concentration of innovative firms. In a recent comparative study (Chen and Ogan, 2017), we profiled four such companies representing different industries that share an underlying emphasis on innovation through strong R&D. The world's largest maker of rechargeable batteries and electric cars, BYD relies on its 16,000 R&D engineers and state-of-the-art manufacturing techniques. In 2010, *BusinessWeek* ranked BYD the 8th most innovative company in the world, ahead of Ford, Volkswagen, and BMW. The world's largest maker of consumer drones, DJI has about 40 percent of its staff work in R&D and has opened an R&D center in Palo Alto, California. DJI's gimbal, a mechanism that allows the camera to move on a fixed axis to create a stabilized image, is also incredibly advanced. As the world's largest manufacturer of telecommunications equipment and leading global information and communications technology (ICT) solutions provider, Huawei has over 170,000 employees, around 76,000 of whom are in R&D. It has 21 R&D institutes in China, the US, the UK, Germany, Sweden, Columbia, India, and Turkey. Tencent is a leading provider of Internet value-added services in China and is one of the largest Internet companies in the world. More than 50 percent of Tencent employees are in R&D. In 2007, Tencent invested more than RMB100 million (about US$15 million) in setting up the Tencent Research Institute, China's first Internet research institute, with campuses in Beijing, Shanghai, and Shenzhen.

Compared to Hong Kong, which has historically maintained a laissez-faire approach to its economy even beyond 1997, Shenzhen's government has been more interventionist, although it differs from all other municipal governments of China being smaller in size and more purposeful in industrial policy. It has played a crucial role in nurturing an ecosystem for breeding and sustaining innovative companies. In guiding the transition from a low-tech factory town to a global innovation hub, the Shenzhen government has adopted a number of measures to foster creative industries and firms. The local government has created a fund of RMB21.5 billion (US$3 billion) to support emerging industries such as new energy represented by BYD. Shenzhen has taken a clustering approach to the cultural and creative industry by creating model bases for creative design, cultural software, animation and games, new media, and so forth. It subsidizes up to 70 percent of rent for "creative" start-ups. Already boasting the largest fleet of

electric vehicles (EVs) in the world, Shenzhen has recently added 2,000 more – 1,300 buses and 700 taxis – all bought from local EV manufacturer BYD through a subsidy-type program. It is reported that, in Chinese cities, government officials walk in front of CEOs of local companies when they meet, while in Shenzhen, CEOs like Wang Chuanfu of BYD walk ahead of government officials (Chen and Ogan, 2017).

Besides a supportive government, Shenzhen's growing competitive advantages in innovative industries and companies have grown from being a dynamic city full of risk-taking and entrepreneurially minded young people with a sense of buzz in the air. The average age of residents in Shenzhen is 28.7 years old, and people aged 20 to 29 make up 35.8 percent of the city's population. In comparison, the average age of Shanghai's population is over 40, and people over 60 account for 27 percent of the city's registered population. Similar to Shanghai, Hong Kong's mean age has also climbed above 40 and is projected to reach 50 by around 2040. Half a century ago, youth and its lifestyle were important demographic and cultural ingredients in the formation of Silicon Valley. Shenzhen has reproduced the mutual reinforcement between youth, lifestyle, and immigration conducive to an innovative business environment.

These demographic and cultural aspects, the so-called "soft" attributes, of this system are hardened by the physical location of Shenzhen across the border from Hong Kong. Shenzhen's strategic shift to the industries represented by the four firms above has also benefited from the location proximity and relative weakening of Hong Kong. Frank Wang started DJI with his classmates from the Hong Kong University of Science and Technology. In September 2016, DJI opened a flagship store in Hong Kong that will not only serve as a retail outlet, but also provide a prominent space for the worldwide community to share its experience of flight and explore the latest drones and aerial cameras. Given its more developed institution of higher learning and well-established global financial and marking capabilities, Hong Kong serves as a convenient and suitable neighbor that initiates and sustains fast and dense cross-border flows of human talents, innovative ideas, and business activities.

Hong Kong however has lost luster in innovation as Shenzhen's star has risen. Some companies in Hong Kong have a hard time finding local programmers with both technical skills in coding and the ability to think independently and creatively. A recent university study reported that there is a widespread feeling in Hong Kong that the city has lost its can-do spirit. A more pessimistic local designer commented, "Innovation wise, Hong Kong is doomed". Is the erosion of Hong Kong's innovation expected or inevitable as the much newer and younger city of Shenzhen across the border has become so innovative? The reversed positions of the two cities on the same border only further highlight Shenzhen's ascent as an innovation centre as China's emerging "Silicon Valley" (Chen and Ogan, 2017). Given the critical importance of innovation in China's new phase of development, Shenzhen has risen as a direct challenger to Hong Kong, and at a close range. More than anything else, the innovative orientation and prowess of Shenzhen crystallizes its distinctive competitiveness versus Hong Kong in either dyadic (Hong Kong-Shenzhen or Shanghai-Shenzhen, see later) terms of the framework displayed in Figure 29.1.

Innovation as a strength aside, sharing the border points to another critical competitive arena where Shenzhen is challenging Hong Kong regarding the development and governance of cross-border cooperation and integration. Hong Kong-Shenzhen competition, imagined or real, is predated or foreshadowed by a long journey along which the two cities have rapidly grown into each other through more border openness and connections over the last 30 years, despite their contrasting origins. The beginning of this pathway was marked by the only small and shabby Luohu border checkpoint that this author waded through multiple times during the early and mid-1980s. Three decades later, six land border crossings of much larger scales and modern construction funnel around 15 million visitors to Hong Kong from Shenzhen annually. Between

then (and even farther back in time) and now have been major twists and turns in the degree of openness and connectivity that have ultimately brought Hong Kong and Shenzhen into some kind of simultaneous cooperation and competition, on an increasingly equal footing from both sides of the border.

The symbiotic historical and contemporary relations between Hong Kong and Guangdong, long before Shenzhen became what it is today, have earned the metaphoric description of "as close as lips are to teeth" or "when Hong Kong sneezes, Guangdong catches a cold". Back in the 1950s and 1960s, the Shenzhen–Hong Kong border, while heavily guarded, provided an outlet for Mainland residents to sneak illegally into Hong Kong, successfully or not. The opening and blurring of the Hong Kong-Shenzhen border have been intimately linked with the miraculous growth of Shenzhen from a tiny border town to a megacity over the past three plus decades. The Luohu crossing point has become China's busiest land port for human traffic. The number of person crossings rose from 56 million in 1997 to over 100 million today, with a daily average of over 300,000 person crossings and significantly more on holidays. Human crossings through Shenzhen's border checkpoints accounted for over half of the national total, while the traffic of cars, trucks, and boats through Shenzhen's crossing points accounted for over 70 percent of the national total (Chen, 2005).

The rapidly growing cross-border flow of people reflects the shifting economic fortunes on both sides of the border. In the old days Hong Kong residents would bring over consumer goods such as household electronics and daily necessities to their relatives and friends north of the border. In the 1980s such items included cameras and color TV sets that have since become commonplace in Shenzhen. In addition, budget-conscious Hong Kong consumers cross the border to spend more money in Shenzhen where food, goods, and entertainment are cheaper. Food consumption, cherished by Hong Kongers, accounts for roughly 85 percent of the total spending by border crossers through the 1990s, followed by the purchase of such items as clothing, health products, books, cosmetics, and shoes. This reportedly contributed to declining profits for Hong Kong's restaurant, retail, and entertainment businesses (Chen, 2005). Later in the opposite direction, the increasingly wealthy consumers from Shenzhen, the PRD, and beyond began to cross into Hong Kong to spend money as the rising income and consumer prices in Shenzhen made prices in Hong Kong look lower. To accommodate this new trend, 17 financial institutions in Shenzhen launched a new scheme at the beginning of 2003 by issuing 2.5 million debit cards to allow Mainlanders to withdraw cash and pay for purchases in Hong Kong (Chen, 2005). Serious concerns about food safety in China contributed to more buyers going through Shenzhen to focus on buying cans of baby milk powder.

Relative to daily consumer goods regarding cross-border connections, housing prices and purchases on either side have more bearing on deeper spatial integration between Hong Kong and Shenzhen and ultimately their relative competitiveness. Through the early 2000s, when housing prices were up to 10 times that in Shenzhen, a growing number of Hong Kong residents bought properties across the border, even though some of them did so for future investment and week-end uses. Despite the drop of Hong Kong's home values after the Asian financial crisis in 1997 and the subsequent rise in home prices in Shenzhen, Hong Kong's property prices remained 2–3 times those of Shenzhen, thus sustaining Hong Kong residents' buying of Shenzhen's properties. In 2001, Hong Kong residents bought 40 percent of the new commercial housing in Shenzhen, especially near the Luohu crossing point. Hong Kong residents also bought properties in other PRD cities, especially Guangzhou and Dongguan. Many of these buyers are Hong Kong businesspeople who make regular, extended trips to the PRD or are managers and supervisors in the factories in the region. In 2003, Hong Kong residents working north of the border totaled 238,000, 90 percent of whom were in Shenzhen and around the PRD cities in Guangdong, up

from 198,000 in 2002 and 64,000 in 1992 (Chen, 2005). The large amount of properties bought by Hong Kong residents, coupled with expanded cross-border daily trips and longer commutes, have considerably weakened the barrier effects of the short distance and long border between Hong Kong and Shenzhen.

The remaining barrier effect of the border shrunk further in 2003 when the China-Hong Kong CEPA (Closer Economic Partnership Arrangement), essentially a free trade agreement, was signed. In July 2003, introduction of the IVS (Individual Visitor Scheme) scheme allowed Mainland Chinese to visit Hong Kong individually as opposed to in group tours. As a result, Mainland tourists grew from 6.8 million in 2002 to a peak of 47.2 million (78 percent of total tourist arrivals) in 2014. The number of IVS visitors rose from less than 0.7 million in 2003 to over 31 million in 2014, accounting for 66 percent of all Mainland visitors and 51 percent of all visitors in 2014 (see Lui, forthcoming). More than any other city in China, Shenzhen began to benefit from this more open border in 2009 when its permanents residents could visit Hong Kong on one-year Multiple Entry Individual Visit Endorsements (M-Permit). M-Permit visitors grew from less than 1.5 million in 2009 to nearly 15 million in 2014, accounting for over 47 percent of IVS visitors in 2014 (cited in Chapter 3, this volume). In 2015, however, Shenzhen suffered a setback when its government decided to limit its residents to just one visit a week to Hong Kong, under an adjusted policy by the central government. While this decision could reduce the number of these visitors by about 30 percent (*South China Morning Post*, 11 April 2015), it is unlikely to roll back the already tight and dense flow of visits across the Hong Kong-Shenzhen border.

Regardless of how close the cross-border connection may be, the ultimate measure of Shenzhen's competition with Hong Kong is dependent on if they would become more formally coordinated and cooperative. An earlier plan called Shenzhen's 2030 Development Strategy marked the first time that Shenzhen took economic integration with Hong Kong into consideration for long-term development. One of the plan's priorities was to build a common capital market with Shenzhen's financial institutions going international through Hong Kong, while more financial institutions in latter were to set up branches in Shenzhen to expand business in the Mainland. The Shenzhen blueprint focused on six major areas, which included improving cooperation on financial systems, building a Shen(zhen)–(Hong) Kong innovation rim, improving cross-border transportation, and enhancing cooperation with Hong Kong in the high-technology and high-end service industries (Chen and de'Medici, 2012). Despite this optimistic planning, barriers existed. While the Chinese currency was in some circulation in Hong Kong, it was not fully convertible, which restricted capital flows between Shenzhen and Hong Kong. Legal systems in the two places are also too radically different to allow a common capital market. This gap in financial and legal systems across the border became smaller in 2016 when the Shenzhen-Hong Kong Stock Connect was launched, allowing foreigners to trade 881 stocks and thus have more exposure to the China's tech sector, which is traded more heavily on the Shenzhen Stock Exchange than on its Shanghai counterpart.

As Shenzhen has attempted to deepen its integration with Hong Kong with a mixture of progress and remaining hurdles, two recent significant developments appear to move this process forward. In 2010, the Authority of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone was established. China's first statutory institution, the Qianhai Authority has municipal administrative authority with independent planning status to approve projects. Located along Shenzhen's western coastline facing Hong Kong across the water, Qianhai covers an area of approximately 15 square kilometres, almost entirely reclaimed land, and is expected to be completed by 2020. It is planned to: 1) facilitate innovation in the modern service industry, 2) become a hub of modern services and modern service development, 3) be a pilot area for closer cooperation between Mainland China and Hong Kong, and 4) be a facilitator in the industrial

reform and sustainable economic development of the Pearl River Delta.[1] Like Shenzhen during its earlier years as a special economic zone, Qianhai offer a corporate income tax rate of 15 percent, compared with 25 percent in the rest of Shenzhen and China as a whole. As of June 15, 2016, there were 100,000 companies registered in Qianhai with total capital base of RMB4.97 trillion (US$11 billion), 10 times more than in 2014. But the vast majority of the registered firms, including some from Hong Kong, were not operating on site for reasons that include the yet to be completed transportation infrastructure and the limited Internet access (*South China Morning Post*, 2017b). While Qianhai is Shenzhen's most recent ambitious initiative for integrating with Hong Kong, it is a long way from fully achieving its goals.

Following the momentum of Qianhai, Shenzhen got another policy boost on April 27, 2015 when China (Guangdong) Pilot Free Trade Zone Qianhai & Shekou Area of Shenzhen was initiated. Besides the existing Qianhai part of the Guangdong Pilot Free Trade Zone, the Shekou Business District has added another 13 square kilometers of land, which is planned for developing Internet information services, technology services and cultural and creative industries. The combined area is tasked to build a legal framework and institutional system fitting its strategic positioning and in line with international trade and investment rules. The central government intends Qianhai to demonstrate financial opening up as an innovative pilot area of cross-border RMB services that will involve Hong Kong as an offshore center.[2] This tall order from the political center aside, the two rounds of Qianhai development over the last few years have brought Shenzhen and Hong Kong closer together, particularly in areas of finance and other priorities identified. In fact, however, they not only have enhanced Shenzhen's growing competitive advantages in high-tech and innovative industries but also improved its weaker industries, especially finance. Partly but not entirely due to the Qianhai initiative, Shenzhen has begun to strike a stronger and broader balance between its competitive advantages and disadvantages versus Hong Kong.

Shanghai versus Shenzhen: completing the triangle

As called for by the framework in Figure 29.1, a more limited comparison between Shanghai and Shenzhen is both necessary and sufficient for completing the triangular understanding of Hong Kong's shifting competitive position versus either Shanghai or Shenzhen. In other words, the distinctive functional and locational advantages of Shanghai and Shenzhen, revealed through a comparative lens, can be more explicitly positioned against those of Hong Kong. Relative to comparing Hong Kong with Shanghai and Shenzhen, it is a little more difficult to rationalize a full comparison between these two top Mainland megacities, but it can and should be done for multiple reasons.

First of all, while Shenzhen originated very differently with a much shorter history than Shanghai, it has caught up to Shanghai in demographic and economic size through much faster growth from a very small base over three decades. An unusual member of China's four first-tier cities or "big four", with Shanghai, Beijing, and Guangzhou, Shenzhen is the only one that has risen to the top that was not a well-established, dominant center of long and rich political, economic, and cultural histories like the other three cities. Second, Shenzhen is also the only one of the four cities with the lowest administrative status, as a sub-provincial city compared to Beijing and Shanghai being central government municipalities (or equivalents to provinces) and Guangzhou being the capital of Guangdong province. Third, Shenzhen has already achieved equal third position in total GDP with Guangzhou, not far behind Shanghai and Beijing. In per capita GDP, Shenzhen ranks first among the four cities. Shanghai and Shenzhen host the only two stock exchanges in China. So in terms of these basic metrics today, Shenzhen is on par with

Shanghai to form a comparative line to inform and enrich our understanding of Hong Kong's shifting competitive position versus both cities.

The Shanghai-Shenzhen comparison is intriguing and illuminating not only in its own ways but also for thinking about a new economic geography characterized by the evolving roles and positions of Hong Kong, Shanghai, and Shenzhen in China's globalized and regionalized contexts reshaped by Shanghai's and Shenzhen's considerably different trajectories of growth and development. Despite its much longer and illustrious history, Shanghai's more recent boom and prosperity took off only after 1990, a full decade behind the take-off of Shenzhen as China's first special economic zone and experimental site for market-oriented reforms around 1980. With the entrenched industrial foundation laid from the 1920s, Shanghai has quickly regained its most dominant economic position among all Chinese cities over the most recent quarter century. Without any existing basic economic scale and strength but through much faster growth, Shenzhen has raced to the top of the urban hierarchy comparable to Shanghai over three decades. Despite their fundamentally different starting points, Shanghai and Shenzhen, or Shenzhen following Shanghai to be more precise, have converged along and moved through an overlapped period of manufacturing-driven growth since the early 1990s (see Figures 29.3 and 29.5). While Shanghai has moved away from manufacturing earlier and faster than Shenzhen, both cities have upgraded their industries to be more capital, technology, and knowledge intensive while becoming stronger in services, especially advanced services like finance and real estate. In 2015, services accounted for 59 percent of Shenzhen's GDP, trailing only behind Beijing (80 percent), Shanghai (68 percent), and Guangzhou (67 percent). Related to this convergence and due to Shenzhen's faster growth, its GDP is now 70 percent of Shanghai's, up from half of Shanghai's in 2004. Their continued convergence in economic composition and size has firmly positioned Shanghai and Shenzhen as two of China's few top service centers.

Their broad similarities in economic scale and structure aside, Shanghai and Shenzhen have begun to diverge in terms of the less aggregated and more meaningful types of ownership and major firms that reflect their distinctive origins and pathways of development masked by the eventual similarity in their overall scale and strength. The ownership of Shanghai's economy is more or less equally distributed in four quarters among the central government, the municipal government, foreign capital, and private sources. In contrast, private ownership accounts for around 90 percent of Shenzhen's business enterprises, making Shenzhen more like Hong Kong than Shanghai. Shenzhen's dominant market environment has nurtured internationally renowned and leading companies like BYD, Huawei, DJI, and Tencent led by entrepreneurial and innovative CEOs who were immigrants to Shenzhen earlier on. Given the spatial concentration of these innovative companies, Shenzhen has led China's top cities in the number of patents applied and granted. In 2014, Shenzhen applied for 82,254 patents, up from 42,279 in 2009, and was granted 53,687 patents, up from 25,894 in 2009 (Chen and Ogan, 2017). In 2015, Shenzhen was granted 72,120 patents compared to 60,623 for Shanghai. By 2020, Shanghai's three targets for innovation are: 40 patents per 10,000 people, R&D investment reaching 3.5 percent of GDP, and new industries' value added rising to 20 percent of GDP. Shenzhen aims to reach the more ambitious corresponding goals of 64 patents, 4.25 percent of GDP, and 42 percent of GDP. In the crucial area of innovation, Shenzhen is clearly leading Shanghai, and the gap may grow even further.

As Shenzhen has surpassed Shanghai in industrial and technological innovation, it also reveals a broader innovative thrust that has been built into its DNA since the early days when Shenzhen led the rest of China, not just Shanghai, in various reforms. Shenzhen not only pioneered land tending that triggered an extensive use of land revenues for speeding up urban construction, but also experimented with political reform leading to a smaller and more efficient government bent on incentivising and facilitating a market economy and industrial competitiveness. In guiding

Shenzhen's transition from a low-tech factory town to a global innovation hub, the municipal government has adopted a number of measures to foster creative industries and firms. The local government is spending US$3 billion on emerging industries such as new energy represented by BYD. It subsidizes up to 70 per cent of rent for "creative" start-ups. The local government also launched the first Innovation Competition of International Talents held from November 2015 to April 2016, open to all IT talents around the world, to win a total of US$880,000 bonus plus an additional US$200 million government subsidies and venture capital (Chen and Ogan, 2017). The recent Qianhai initiative (see earlier) represents Shenzhen's ambitious lead in creating China most open free trade zone, more so than the one in Shanghai's Pudong district, for integrating trade and investment services that support an efficient flow of capital in and out of China. A view favoring Shenzhen sees one of Shanghai's development priorities for being a premier shipping center as outdated in that it is designed to serve the older manufacturing sector (Wei, 2016). It is a bit ironic that Shenzhen has surpassed Hong Kong to become the world's third-busiest container since 2013, behind Shanghai and Singapore.

In more arenas than one, Shenzhen appears to be a close competitor against Shanghai, whether either side intends to or not. In finance where Shanghai used to be far ahead of Shenzhen, the gap has narrowed considerably. In the Global Financial Centres Index for 2016, Hong Kong was fourth behind London, New York, and Singapore, while Shanghai and Shenzhen ranked closely to each other as China's top two financial centers, at 16th and 19th respectively, ahead of Beijing at 23rd. Taking area size into account, Shenzhen has led all of China's top economic centers in GDP and budgetary revenue per square kilometre for several years, even though it only occupies about one-third of Shanghai's geographical area. In 2015, Shenzhen's GDP per capita was 1.5 times that of Shanghai (Wei, 2016). By these two measures, Shenzhen is generally more productive than Shanghai. Within and beyond a range of statistical indicators, it is clear that Shenzhen, a young city of 35 years in existence, is doing very well versus, and in some important ways, better than Shanghai, a much older city with over 150 years of Western-influenced commercial and industrial development, strong socialist planning, and state-directed global city construction in that sequence. More importantly, Shenzhen's rise as a growing competitor with Shanghai over only three decades is historically unprecedented. More than any other city, Shenzhen has become the most solid third member of China's trio of global economic centers that otherwise would have turned out to be only a two-way comparison and competition between Hong Kong and Shanghai.

Growing competition to potential synergy: via cooperation and complementarity

If we look at Hong Kong versus Shanghai and Shenzhen, as well as between Shanghai and Shenzhen only through the competition lens, we learn a lot about the reconfigured positions and roles of these three powerful global cities that reflect China's dynamic and geographically differentiated national and regional development, as we have done above. The comparative evidence on the growing competition among the three dyads of this triangle of Chinese global cities has shed considerable light on the popular narrative and speculation about the degree and scope of Hong Kong's competition with Shanghai and Shenzhen, especially the former. Yet the framework (shown in Figure 29.1) calls for more than just the focus on competition between each pair of the three cities. It also directs attention to two related or accompanying dimensions of inter-city competition, namely, direct ties between the competing cities and potential and real complementarities between the competitors resulting from their shifted and continually evolving positions. Moreover, the ties and complementarities between the competing cities shape the

scope and strength of their competition and potential or possible cooperation, be it direct or indirect. This overall competition–cooperation balance among Hong Kong, Shanghai, and Shenzhen is constantly molded by the relative influence of state policy, market dynamics, and global forces (see Figure 29.1). This three-way interaction in turn can redirect the momentum and power from competition toward cooperation, thus producing new conditions and processes that lead to synergy among the competing cities. It also exemplifies a broader pan–Asian range of aspiring global cities including Singapore and Dubai to appropriate and imitate one another in shaping their own path of development (Ong, 2011). I briefly identify how this dynamic permeating the Shanghai-Shenzhen-Hong Kong triangle manifests itself by way of conclusion and as a teaser for further research from this perspective.

Direct ties between Hong Kong and Shanghai go back a long way as exemplified by the migration of industrial capitalists and capital from the latter to the former before 1949. More recent Hong Kong-Shanghai connections, since the early 1990s, have been shaped by the parallel and intersected processes of state policy-making, market integration, and global restructuring. Using the Pudong initiative, the strong Chinese state launched the project of building Shanghai up as a new global city. In response, multinational corporations moved some of their talents and assets from Hong Kong to Shanghai, as discussed earlier. While this reflects a strategy to engage the China market more directly from Shanghai, many Western companies have reorganized their Greater China operations but kept the two most important anchors to Hong Kong and Shanghai. As state policies and market forces, at both the global and regional levels, have strengthened Hong Kong-Shanghai ties, the Chinese state made another bold move in 2014 when it approved the Shanghai–Hong Kong Stock Connect. Designed as a cross–boundary investment channel that connects the Shanghai Stock Exchange and the Hong Kong Stock Exchange, it allows investors in each market to trade shares on the other market using their local brokers and clearing houses. These two examples illustrate the complementary and cooperative aspects of growing Hong Kong-Shanghai competition.

While sharing a much shorter duration of comparable co-existence, Hong Kong and Shenzhen have developed more direct and physically closer ties that also range more broadly relative to Shanghai's connections to Hong Kong. Hong Kong-based local firms or multinational corporations in both manufacturing and service have relocated facilities and offices to Shenzhen, only across a much shorter distance over the border. This amounts to a corporate division of labor similar in functional nature but different in geographical distance relative to Shanghai. The Qianhai initiative launched in 2010 discussed earlier was a major state policy to connect Shenzhen with Hong Kong. In 2016, the Chinese government approved the Shenzhen-Hong Kong Stock Connect to create the same arrangement as its Hong Kong-Shanghai counterpart. The combination of these two policies is likely to further tighten and deepen the already strong and close cross-border connections that benefit uniquely from both geographical contiguity and private market complementarity between Hong Kong and Shenzhen.

Since connections between Hong Kong and Shanghai and Hong Kong and Shenzhen foster their cooperation, their complementarity based on location and shifting comparative and competitive advantages contributes to the same outcome. This complementarity is most visible and consequential along the regional dimension. Despite the fast growth of second-tier cities in the YRD and as a result of accelerated industrial upgrading, Shanghai has consolidated its undisputed regional hub status and role. Vertically, Shanghai dominates the YRD demographically and economically from the pinnacle of the YRD regional urban hierarchy. Horizontally, Shanghai has spread its physical and commuting tentacles regionally through both outward investment and expanded subway lines that have already crossed into neighboring Jiangsu province. In addition,

more extensive high-speed railway lines have further accelerated the economic and spatial integration of the YRD, benefiting Shanghai's hub role further.

In comparative parallel, Shenzhen is beginning to eclipse Guangzhou as the more important regional hub for the PRD partly due to its closer integration with Hong Kong. While Shenzhen remains largely equal to Guangzhou in demographic and economic scale, ranking higher than any other second-tier PRD city, it has been adding subway lines rapidly to track and accompany its outflowing economic influences via investment and spillover. For example, Shenzhen's regionalized economic and residential deconcentration has begun to touch the administrative boundaries of the strong manufacturing center of Dongguan to the north and the prospering city of Huizhou to the east, which rank among the top five PRD cities in GDP size, with Dongguan behind only Shenzhen and Guangzhou at 3rd and Huizhou behind Foshan at 5th. The regional dominance of Shanghai and Shenzhen was recently revealed by their sending out and taking back thick flows of migrants from their broad regional hinterlands before and after Chinese New Year in early 2017. Their regional reach contrasts with Beijing's national catchment of migrant inflows and outflows during the same time period.

Potentially again reshaping the relative strength of Shanghai, Shenzhen, and Hong Kong is the brand new, ambitious plan to create the massive Guangdong-Hong Kong-Macau Bay Area in April 2017 (although the original concept dates back to 2011) by which time the economic and spatial integration of the PRD had already been quite advanced. As reported based on an official Chinese estimate, the proposed Bay Area involves 11 cities with a combined GDP that doubles that of the San Francisco Bay area and approximates that of New York's port area, with a combined container cargo throughput of 72 million TEUs (20-foot equivalent units), around 5.5 times the combined throughput of the world's top three Big Bay areas. The obviously powerful economic scale and concentration aside, the Bay Area plan aims to further synchronize the revealed comparative strengths of the key cities by keeping research and development in Hong Kong and Shenzhen and manufacturing in Guangdong, especially the PRD cities. A related concrete measure was Hong Kong and Shenzhen signing a deal to jointly develop the Lok Ma Chau Loop border site into an innovation and technology park. A Mainland rail engineer advocated for no border checks on the new high-speed express rail link between Guangzhou, Shenzhen, and Hong Kong (*South China Morning Post*, 2017a). The soon-to-open Hong Kong-Zhuhai-Macau Bridge will add a big push to fast physical connectivity and commuting as key to the proposed Bay Area. Whether all the planned key elements of this ambitious plan will fall into place soon, a tighter nexus between Hong Kong and Shenzhen as the dual or double core of the Bay Area appears inevitable (Wan, 2017). While this may tip the competitive balance between Shanghai and Hong Kong (back) to the latter, it can foster new synergy through both competition and cooperation at the broader and more global regional level between the YRD region around Shanghai and the new Bay Area centered around Hong Kong and Shenzhen.

In conclusion, there is clear evidence of the growing competition between Hong Kong and Shanghai and Hong Kong and Shenzhen. While Shanghai's general challenge to Hong Kong is fully expected and draws more attention, Shenzhen has risen as Hong Kong's giant neighbor and has begun to perform better in areas such as industrial and technological innovation. If Hong Kong has lost some competitive advantages relative to Shanghai and Shenzhen, it reflects a gradual and complex reconfiguration of their positions and roles that has stemmed from both the faster growth of Shanghai and Shenzhen, especially the latter, and the resilience of some of Hong Kong's distinctive advantages such as banking. The clarity of competition among the three cities alerts us to see them as forming a new economic triangle.

Looking beyond Hong Kong's competition with Shanghai and Shenzhen, this analysis has yielded initial insights into the cooperative and complementary dimensions of this triangular

competitive relationship. It points to a greater need to balance future research on the scope and type of competition versus cooperation between the three cities, with the goal for understanding if economic synergy, at both the national or regional level, may emerge to benefit China's global engagement. Viewed from this vantage point, the discourse on Hong Kong's competition versus cooperation with Shanghai and Shenzhen may and should take a different course forward.

Acknowledgements

Notes

1 Qianhai's official website, www.szqh.com.cn/Why_Qianhai/Strategic_Positioning/, accessed 12 February 2017.
2 Shenzhen Government online at http://english.sz.gov.cn/economy/201608/t20160825_4323186.htm, accessed 12 February 2017.

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Index