

Business and Politics in Hong Kong

By Christopher Jackson

Hong Kong is often rated as having the world's most open economy, and indeed has been rated that way for the past 12 years by the Washington-based think tank, The Heritage Foundation. And yet its past success owes much to a playing field that was deliberately tilted in favor of business. The gradual introduction of democracy has gone a long way to leveling the ground. Business interests are no longer afforded the priority they once enjoyed and must compete on largely equal terms with others in a political arena now dominated by public sentiment. Local businessmen worry that this may undermine Hong Kong's competitiveness in the long term.

Are they right to worry, and what can be done to ensure that Hong Kong remains the economic success story that has so benefited its people? This paper argues that the Hong Kong Government needs to articulate more forcefully the huge advantages to Hong Kong people of its pro-business strategy. For its part, the business community needs to play a more positive, proactive part in the development of Hong Kong's democratic system if it is to ensure that business considerations are woven into the fabric of Hong Kong's future governance.

Much of the credit for Hong Kong's successful economic philosophy is given to a long-serving Financial Secretary, Sir John Cowperthwaite (1961-71), who espoused the principles of Milton Friedman and a commitment to what he called "positive non-intervention". It derived from an over-riding belief that if Hong Kong was to flourish despite its lack of resources and its anomalous colonial status, it needed to be attractive to business, above all else. This translated into low taxes, no import duties and low-key government.

Less-well remembered is that the colonial government's consultative and decision-making process in Cowperthwaite's day was firmly tilted in favor of the business community. The Governor appointed key businessmen to his Executive Council and to the Legislative Council. The government developed close relations with businesses which it reckoned essential to providing the infrastructure Hong Kong badly needed. Utility companies, bus companies and the like were given franchises that almost guaranteed a profit in return for substantial initial investments and reliable services. The public housing and road-building programmes were lucrative for local construction companies prepared to work closely with government. Local banks, telecommunications, the professions and the stock exchange all occupied sheltered corners of the economy.

The rules were clear and public interest was determined by a generally benevolent colonial government supervised by an external democracy. The formula worked like magic for a while. By the late 1970s the colony was a manufacturing miracle and standards of living were rising fast.

But it was an unsustainable arrangement. The refugee mentality of the post-war years was waning. Members of the younger generation were making Hong Kong their home and

wanted more of a say in the process of government. The 1980s saw the rise of an increasingly articulate middle class, the consequent development of more open and accountable government, the growth of a sophisticated services economy and the need to attract international business. Local business interests were forced to cede influence in the face of growing public criticism of the cozy relationship between them and the government.

The past 25 years have witnessed a process of adjustment that has opened up the economy and removed the mechanisms of colonial protection. The consumer has benefited enormously and Hong Kong has attracted a huge range of foreign businesses. But the political equilibrium has been upset.

Local businesses have reacted in various ways. Jardine Matheson Ltd. felt change coming in the early 1980s and relocated its headquarters to Bermuda. HSBC Holdings moved its headquarters to London in 1991 and has gone global. Some like HK & Kowloon Wharf and Godown Co., Ltd. and Hutchison Whampoa Ltd., with traditional British ties, have been taken over by local Hong Kong entrepreneurs and done well. Others like John Swire & Sons Ltd. (The Swire Group) and China Light and Power (CLP) still seem to be searching for the right strategy. Indeed, it is companies like these last two, with heavy commitments in Hong Kong's transport and energy infrastructure, that provide some of the most obvious recent examples of the frustration which local businessmen experience with the current political setup.

Negotiations between the power companies and the government over the permitted rate of return that will apply when the current scheme of control expires have been rancorous. The government issued a consultation paper setting out various options and in the process garnered a good deal of public support for taking a very tough stance. CLP was publicly critical of the way government used public opinion to strengthen its negotiating hand in this way and privately was very unhappy.

Swire's Cathay Pacific Airways has had to bear the brunt of substantial fuel increases over the past two years and yet its applications to reflect these in a fuel surcharge on ticket prices were largely resisted. The current surcharge is much less the airline requested. It has worked hard to build itself up as "Hong Kong's airline", believes it helps to project a positive image of Hong Kong internationally and yet feels it gets little credit from government for doing so.

Kowloon Motor Bus Ltd. (KMB) has also been hit by the cost of fuel increases over the past two years. The company has not raised its fares since December, 1997 and yet has been required by government to offer rebate schemes to passengers on certain long-haul routes.

The Mass Transit Railway Corporation Corp. (MTRC) provides a final example. It was partially privatized in October, 2000 with promises of autonomy in setting its fares. Two years ago government asked it to cancel a proposed fare increase in response to public pressure. It was obliged to do so and has not attempted one since despite barely breaking even on its railway operations. There is even pressure to reduce fares. The government's current attempts to encourage a merger between the MTRC and the Kowloon Canton Railway Corp. (KCRC) seem to be motivated principally by a hope that it will make fare reductions possible.

Many medium and smaller Hong Kong companies share with these larger corporations a sense that politics have swung too far towards populism. They had hoped that the 1997

change in sovereignty would tip the balance a bit towards business once more. It has not. If anything the public and media are more demanding than ever. Local business fears that because its interests are no longer given priority the bedrock of Hong Kong's economic success has been weakened.

The Government is aware of these concerns and seems to be trying to find a new equilibrium that balances the wider public interest with that of local business. However, to achieve such a balance it must take account of a Legislative Council no longer composed of reliable appointees, but elected by geographic and functional constituencies. The legislators are acutely responsive to the media and public opinion. Initiatives that appear to favor business interests are often heavily criticized, and necessary legislation is sometimes simply not advanced by the government for fear of defeat or is attempted unsuccessfully. The number of bills passed in recent years has fallen significantly.

A crisis point is approaching. The pro-business forces that have controlled the legislature since its inception have had their majority whittled away to almost nothing. Unfortunately, they have done little to build bridges to the forces of democratizing change that may form the majority quite soon. Business has allowed itself to become associated with the status quo and with resistance to political change.

This is something of a paradox when one considers that this is a business community that achieved success through a process of constant change and innovation, and that no other interest group in Hong Kong stands to gain as much from the creation of an open, accountable democratic system. Such a system, after all, has played an integral part in the development of the world's most advanced economies. On this account alone it appears to be the form of government best-suited to the sophisticated, creative population that Hong Kong needs if it is to realize its potential as a global financial centre and a source of advanced business.

A great deal needs to be done if Hong Kong is to develop its own "Made in Hong Kong" model of democracy, suited to its unique history and present political circumstances as a Special Administrative Region. The business community's help and participation will be essential. Two actions in particular are needed, one by government and the other by the Hong Kong business community.

Government needs to articulate the paramount importance which business interests have had in the development of Hong Kong and must continue to have if Hong Kong is to prosper; it needs to reassure business that its interests will be looked after; and it needs to demonstrate that economic policy will be dictated by long-term considerations rather than political whim. In short, it needs to reassure business that its interests are not about to be trampled upon in a headlong dash for democracy.

For its part, business needs to respond by involving itself in a broader spectrum of political life and by taking a positive role in the development of a more democratic system of government. Local business interests need to organize themselves more effectively in trade and industry associations; become more involved with political organizations; fund think tanks; finance studies; and prompt debate on issues relevant to business and the promotion of Hong Kong's economic well-being. They need to develop a forward-looking political philosophy and generate proposals that will take Hong Kong towards the universal suffrage provided for in its constitution. Above all they need to encourage bright young businessmen and businesswomen to become involved in politics. The time is ripe. Hong Kong has handled the change in sovereignty with sure-footedness. It has weathered seven tough years of economic restructuring. Economic growth is back

on track, unemployment is falling and inflation is where it should be. Hong Kong's government and its people know that the central issue they must now address is that of governance and the development of a system of universal suffrage suitable for Hong Kong's needs and circumstances. Together they are about to shape the political structures that will determine their future. It will be essential to the success of this enterprise that the business community be an active, imaginative and forward-looking participant. ■

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