

## Beware of the Headlong Rush to Provincialism

By Fred Armentrout

In the nine years since the reversion of sovereignty over Hong Kong to the People's Republic of China, the single most significant trend in the new Special Administrative Region (SAR) has been the territory's headlong rush to become just that: a provincial outpost of progress within a vast continental economy and polity. Put in its most negative light: just another Chinese city. Put in its most positive: China's first contemporary "World City."

Hong Kong has always relied upon either exploiting the mainland's weaknesses for profit or assisting its central government to overcome certain of those weaknesses, exploiting its access to foreign investments and markets. What's new is a dramatic shift from an arms-length relationship, reaching across land and sea borders hermetically sealed by mutual consent, to an urgent economic embrace of the Pearl River Delta (PRD) and a rousing effort to establish the credentials of its Chinese "patriotism".

It has attached itself, with Macau, to a mix of local polities seeking to become identified as part of the "greater" delta region. Sensing that the economic and governance advantages of this is a temporary phenomenon, its business and government elites have also moved, to lesser extent of success, to declare a self-designated, Beijing-blessed, "Pan Pearl River Delta" region, encompassing China's nine southernmost provinces. This replaces an earlier notion of an evolved "Greater China" that included Taiwan as well.

This Greater PRD is what visiting Harvard business school professor, Michael Enright, calls a newly-evolved "polycentric region", a complex of complementary manufacturing and service clusters that is maturing from historically decentralized developments in about a half-dozen PRC cities and Special Economic Zones (SEZs). Limited to the east bank of the Pearl River estuary, such as the cities of Dongguan and Shenzhen, they seek, at Beijing's prompting and Hong Kong's initiation, to harness their legendary productive power as the "world's workshop" into a self-conscious region built upon their inherent economic complementarities. (See *Regional Powerhouse, The Greater Pearl River Delta and the Rise of China*, John Wiley & Sons, 2005).

This is similar to the U.S. "Northeast Corridor" and other key urban centers that see more virtue and gain in cooperation than in cutthroat competition. However, anyone who's lived in this corridor of regional prosperity knows that joint achievements are rare and predatory competitive practices remain instinctual on all sides. Despite this, the fruits of this research are disseminated by a Hong Kong government promotion agency for luring foreign investment, called InvestHK.

This presumes China municipalities and provinces willingly accept Hong Kong as their imported source of service support, but Enright's and other studies suggest otherwise, that these entities' ultimate goals are to provide their own services. And they're demonstrably

succeeding, albeit from a negligible base. And there is no international quota system, like the former Multi-Fiber Arrangement, to check the wholesale outflow of Hong Kong's service sector, as happened with the 1980s migration of its manufacturing sector to cities north of the border. Services now constitute about 90% of Hong Kong's GDP and employment sources. In the 1970s, manufacturing constituted almost 40% of that total.

Enright's interpretations of his research suggest that the successful economic clusters now have a kind of unstoppable, self-fulfilling magnetism, if allowed to flourish unhindered by state-imposed artificial constraints. And it is true that this cluster phenomenon already has occurred in the Pearl River delta, with his statistics describing the state of things in 2003.

But this phenomenon is not new and Enright correctly made that point clear in an earlier, 1997 study. Nor was it centrally organized. Beijing created its Special Economic Zones contiguous to Hong Kong to tap Hong Kong's strengths. Hong Kong companies tapped into the special tax holidays and other favors granted by the Chinese government to 'foreign direct investors,' without direct help from Hong Kong save for furious infrastructure building to increase growth capacity.

How these cross-border strengths evolved into ad hoc partnerships and economic complementarities was built upon private sector navigation of a confusing array of hand-outs and 'hands-off' (or 'blind-eye') policies from multiple layers of governments, on both sides of the border. Business success most often meant playing perceived self-interests of municipal and township administrations off against each other, as often happens in countries like the United States and elsewhere.

Enright's articulations of a manifest destiny are used often by the Hong Kong government to suffocate alternative views. But does the logic of "what exists today" necessarily inform the future? Are these 2003 numbers an exercise in self-delusion about the ease of making future policies designed to create a more interwoven "greater" PRD or even Pan-PRD? Even the optimistic Enright concedes that the Greater PRD political administration, "is among the most complex found anywhere in the world."

Or are they just a smokescreen conjured by local vested interests to lure potential investors into a region that is indisputably at its peak, but perhaps also past its prime as the foreign direct investment center of China? All this economic rationalization and division of labor is happening as the north lures white collar jobs away from Hong Kong and drives it into ever-narrower ranges of profitable business activity, mostly in the highest value-added levels of management, coordination, financial and information activities. That offers great opportunity for a few, but dislocation for many.

Thus Enright hedges his bets about the future: *Hong Kong's economy will start to look more and more like those of other major economic cities around the world... be they New York, London, Chicago, Zurich, or Tokyo.... Major economic cities thrive on controlling or handling flows of knowledge, information, goods, and finance. China's opening allows Hong Kong a much greater scope to perform precisely these activities. The question is whether Hong Kong will perform these activities for a large enough number of local, Chinese, and multinational firms to offset the employment impact of the loss of middle-class jobs. While the vast potential of the Pearl River Delta region, China, and Asia as a whole, would seem to indicate that this is a distinct possibility, ultimately it will be an empirical question whose answer will only become clear over time.*

It is, these days, seldom noted that Enright's 2003 survey of the delta's business prospects coincided with the SARS epidemic in southern China and Hong Kong. It also was a time of serious deflation and recession in Hong Kong that had continued unremittingly for six years, reaching its nadir that year.

And there were serious fears in Guangdong that its economic impetus was being overtaken by direct foreign links to Shanghai. There also was concern that cities in its economic clusters were engaged in wasteful competition, building unnecessary and economically irrational infrastructure, and seeking more protectionism rather than local cooperation.

There was also concern in Beijing that Hong Kong needed better economic integration with the mainland, and especially with the delta, to escape recession. This led to the Closer Economic Partnership Arrangement (CEPA), a form of free trade agreement between Hong Kong and China intended to give local companies a leg up on China's plan to meet WTO trade liberalization terms. Given its limited scope and time frame, this was more form than substance but it did boost local business morale.

More significantly, such concerns led China to ease travel restrictions so its citizens could visit Hong Kong freely. The leap in tourism receipts boosted the ailing retail and real estate sectors, and continues to keep the SAR awash in mainland cash. But mainland China's tourists arrive primed to celebrate Hong Kong's return to the motherland as a patriotic exercise, to watch the morning flag-raising there, and, in those early years, to "help Hong Kong's recovery" with their purchasing power. Only then do they gaze at the wonders of what a Chinese city can be (and has become without much help from the Chinese Communist Party).

Hong Kong's "World City" status was earned by competing with Singapore to become "Asia's World City." That status has always presumed its great dependence upon its China trade, but never so exclusively as since 1997. However, ironically, as Hong Kong now competes with burgeoning Shanghai to be China's "World City" it has begun to lose focus on the Asian leadership role that helped give it so much earlier strength.

### **What's 'Red' About This Alert?**

The British administration had since 1950 done its best to "depoliticize" society and education in Hong Kong, a policy made more complicated in 1984 with the signing of the Sino-British Joint Declaration on the Question of Hong Kong. This agreement in effect denied colonial authorities any further systematic theoretical justification for their legitimacy to govern during the 13 years until they departed in 1997.

Governor Alexander Grantham clearly expressed the British colonial view in 1950: "We cannot permit Hong Kong to be the battleground for contending parties or ideologies. We are just simple traders who want to get on well our daily round and common task." (See the landmark study, *Toward Critical Patriotism: Student Resistance to Political Education in Hong Kong and China*, by Gregory P. Fairbrother, Hong Kong University Press, 2003).

By contrast, the mainland pursued "patriotism" as its *raison d'être* for Communist Party legitimacy, following the decline of Marxist-Leninist ideology in the 1980s. However, in Hong Kong, the government issued a set of voluntary "Guidelines on Civic Education in Schools" in 1985, meant to introduce the colony to self-conscious politics for the first time

in its history. In fact, from 1971 until 1990, schools were explicitly forbidden to engage in education determined to be of a political nature, which seems to have made using the guidelines counterintuitive to most teachers. Because of this, plus budget constraints and lack of requirement of their use, schools largely ignored the guidelines until after 1997.

Fairbrother summarizes the results of these contrasting policies: *In the PRC, the state wanted youth to have strong patriotic sentiments and to understand the importance of the interests of the nation as a whole. It attempted to achieve this objective by extending patriotic campaigns into the schools in the form of patriotic education. In Hong Kong, in the interest of social stability in the transition period, the state desired students who would show little concern for political matters, and in particular, would not hold strong and potentially disruptive sentiments toward China.... It promulgated a civic education curriculum which had among the objectives the preservation of social stability and the avoidance of discussion of potentially controversial political issues such as democracy and nationality. In effect, it could be said to have been promoting civic education which taught ambivalence toward the nation*

All this is about preserving an idyllic, perhaps mythical, pre-1997 status quo, something probably impossible when it involves a dramatic change in national sovereignty. The colonial system was built on Hong Kong's role as a free port whose economic success was meant to underpin land values upon which to build colonial revenues by land auctions. In 1843, Lord Stanley made it clear that, "it is occupied not with a view to colonization, but for diplomatic, commercial and military purposes." And it was built using a compradore system that consciously co-opted local business and family elites for wealth creation and crowd control, and was designed to be run by an elite civil service derived from the colonial "cadets" system.

There is now a marriage of convenience between two politically motivated power blocs, the civil service leadership and local business family elites (usually characterized locally as 'tycoons'). They are wedded more to 'stability and prosperity,' or their separate notions of the status quo, through actions involving mostly symbolic change at a glacial pace—preferably measured in decades, after which they will all be safely retired.

Their opponents represent a marriage of professionals and populists, who generally see 'change' at a robust pace as the means to long-term stability, via accelerated moves toward a fully democratic and accountable system of local governance.

At times, since 1997, the combined civil service and public agency staff sector has comprised near 10% of the workforce. It can use and has used its grip on government policy to cripple disliked policies from the past and, with a 150-year history of autocratic isolation, its members deeply resent the incessant grilling by legislators and the press. They often feel frustrated by workflow interruptions due to apparent pandering by Chief Executives to populist views, most often expressed as results of public opinion polls.

This heritage of a colonial bureaucracy was not intended to promote the collaborative process of democracy. As succinctly explained by Steve Tsang (see his *Government and Politics: A Documentary History of Hong Kong*, Hong Kong U. Press, 1995): *This strong entrenchment of the bureaucratic culture in the Hong Kong government means that the bureaucrats can keep the ship of state running on auto pilot, in the absence of the Governor or political direction either from above or from elected politicians... In order to understand the political history of Hong Kong it is crucial to recognize the primacy of the bureaucratic system, and the central importance of the Administrative Service at the core of the government.*

Their partners amongst local business and family elites are represented by the functional constituency system of corporate (vs. individual) representation in the Legislative Council. (By law, half the Legco members must be elected indirectly, and half directly.) China wooed them away from British loyalties with preferential powers that have, in both theory and practice, kept a Legco majority solidly behind nearly all government political initiatives since 1997. When it comes time to vote, government deals with a stacked deck; its legislative opponents cannot introduce their own bills without the Chief Executive's permission, nor can they effectively block any government bill without help from local business elites represented by the functional constituencies.

There have been only two notable exceptions. First was the highly embarrassing defection of James Tien, a usually pro-government Liberal Party member, over the Article 23 anti-subversion legislation introduced in 2003. His revolt was triggered by the march of more than 500,000 residents to protest the proposals, leading to government withdrawal of the bill. The second was the recent rejection of the government's proposed constitutional reform for election of the Chief Executive in 2007, which fell a few votes short of the required two-thirds majority for passage.

The 'transition' system spawned by that marriage is now running on empty. The National People's Congress approved the Basic Law that governs Hong Kong and, in line with mainland practices, has made itself the final arbiter of constitutional tests of that law, with power to override the Hong Kong common law system.

Hong Kong's system of governance has lost its compass. Its rule of law process fails to meet the authoritarian comfort zone requirements of Communist leaders in Beijing, as reflected by the increasing speed with which the National People's Congress has rushed to 'interpret' the law. Mostly recently, it bypassed the Hong Kong government altogether and preemptively 'interpreted' the Basic Law to flatly rule out direct elections in 2007 or 2008 for Chief Executive or Legislative Council, even though these were theoretically possible.

Nor does the system now meet expectations of self-identification that the Basic Law's promise of "Hong Kong people ruling Hong Kong" made to the seven million Chinese residents of this former British trading station. Street marches and prickly directly-elected legislators reflect a general frustration with a civil service that seeks to run the city on 'auto-pilot', and with an autocratic Chief Executive system headed by a leader chosen by only 800 carefully-picked SAR citizens. The fact that directly-elected legislators can criticize the government at will, but lack a constructive stake in drafting solutions for problems they uncover, adds to the frustration.

The tea leaves tell us that Hong Kong has always prospered in adversity and lived successfully through many "interesting times." The pundits tell us that a Greater Pearl River Delta cannot fail to make us all gloriously rich. But experience tells us that businesses move with their markets along paths of least resistance, and almost always do so far in advance of government planners. Since 1997, pragmatic Hong Kong people have told their government many times, in many ways, that if denied their right to rule the city they've built, they will vote with their feet.

To those of us who have been privileged to witness the rise of the great city that is Hong Kong, it remains indisputably the best city in China from whence to do business. But it is painfully apparent to close observers that only a willing Hong Kong people, marking a clear

path to a place that accommodates both stability and significantly more rapid movement toward democratic consultation and participation in governance can keep it that way. There's a reason why stockbrokers are required by law to always tell us before we buy that "past performance is no index of future success." *Caveat emptor.* ■

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