

## NOT BAD SO FAR, BUT GREATER CHALLENGES LIE AHEAD

By Shiu Sin-por

Hong Kong is busy preparing for the 10th anniversary of its return to Chinese sovereignty, and its government has set up a special office to organize events around the July 1 celebrations of next year, with Chinese President Hu Jintao rumored as the guest of honor. If so, it would be his first visit since assuming the highest position in the Chinese political hierarchy. In fact, since President Jiang Zemin attended the handover ceremony in 1997, no Chinese president has set foot in Hong Kong. This is a telling story. Sensitivity about China's involvement and its role in the running of post-1997 Hong Kong is still a grave concern in Hong Kong and is being closely watched by the international community. It is also an issue for the leadership in Beijing. Tight restrictions still apply to anyone within the senior political echelon of the party or central government who wants to visit Hong Kong.

Partly as a result of this restraint, mainland authorities have enjoyed an all-time high support and acceptance by the Hong Kong public during recent years, with poll ratings higher than those for Hong Kong's own government. Winning the Olympics for 2008 and putting a man in space has also helped, of course. But the irony is that this changing image of the Chinese authorities has done little to alleviate public apprehension about post '97-governance in Hong Kong itself. Faith in its future ability to enjoy a promised high degree of autonomy and self-government is still weak and fragile. Interference from the north is still a battle cry for the political opposition and the media. And there was no shortage of such criticism during the run-up to the December 10 balloting for the 800 members of the election committee that in March will choose the next Chief Executive.

But why so much criticism when everyone thinks the March outcome is pre-determined? According to political analysts from all sides, the result is a foregone conclusion. The incumbent Chief Executive, Donald Tsang, will win by a big margin even though there is a contest. The opposition candidate, barrister Leung Ka Kit, has no chance of victory. In fact, it was not certain in advance that he would gain support from enough committee members to put his name on the ballot.

Another story illustrates public attitudes about post-'97 Hong Kong. The government's chief secretary, Rafael Hui, casually raised the question about the possible marginalization of Hong Kong due to the mainland's rapid rise, both in terms of its economy and its international position. This drew an immediate rebuttal from Beijing, which vigorously denied doing anything to marginalize Hong Kong. Then came an announcement by the international shipping giant Maersk, which said its Hong Kong logistics center would move to Shenzhen, just across the border. This reflects the fact that Shenzhen has set a target of container throughput in its port at 50 million TEUs (twenty-foot equivalent units, a standard

measure in cargo handling) by 2010, only a few years away—more than twice the volume that Hong Kong now moves. The trade consensus is that Shenzhen will overtake Hong Kong in terms of the number of containers handled during 2007. Simultaneously, a government report forecasts the inevitable decline of the local container port by suggesting Hong Kong should put its hopes in the airport if it wants to maintain its position as a transportation hub—hardly an answer to the problem.

It is true that there is no Chinese policy intended to sideline Hong Kong. In fact, China went out of its way to help Hong Kong escape from the economic jam created by a SARS outbreak a few years ago. The Closer Economic Partnership Arrangement (CEPA), which eliminated import duties on Hong Kong shipments to China and opened the Chinese services market to Hong Kong professionals, is well under way. Meantime, mainland residents have gained greater freedom to visit Hong Kong, to the dismay of many rival Southeast Asian tourist centers, and the number of Chinese visitors is at a record high. Hong Kong's Disneyworld caters mainly to them, for example.

But China also must develop and, in that process, Hong Kong risks losing many of the regional roles it acquired due to China's past inadequacies. The container port is only one example. Hong Kong became the biggest port because China did not have the needed facilities as export and import trade surged following the economic reforms of the 1980s. Yet Hong Kong has no competitive advantages in terms of labor or land costs in shipping, and its management and technology advantages are easily transferable. In fact, many of its mainland competitors are run by the same international operators that dominate Hong Kong trade. The past successes of its container port derive mainly from a historical mismatch that cannot last forever.

The question of how to position Hong Kong as the Chinese economy expands, or—to put it more bluntly—its possible marginalization, has rapidly become a public worry despite authorities' efforts to downplay the issue, and has caused ongoing concern and discussion within business circles for years. But few would concede or openly discuss the problem for fear of being seen as putting down Hong Kong. However, the problem has become obvious with the Chinese currency, the RMB, gaining value and reaching par with the Hong Kong dollar. This may be a good thing in disguise for Hong Kong, as it would lower the relative cost of doing business there. But the public does not read it that way; for most people, a strong currency always means a strong economy. So there is increased public concern about the implications of this development, and the only thing local authorities can do is to reaffirm that the Hong Kong dollar's peg to the US dollar will not change.

I cannot help adding spice to the story by recounting another episode that illustrates the dilemma Hong Kong faces after nearly 10 years of self-rule. Chief Executive Donald Tsang, in a press briefing after a conference on the local impact of China's 11th five-year economic program (China no longer call it a "plan"; it has abandoned both the term and the planned economy), suddenly declared that Hong Kong's long-held theory of "positive non-interference" is no longer the guiding principle for government economic policy. This drew immediate local and international criticism from more than one Nobel laureate, including Hong Kong's free market champion, the late Milton Friedman. The controversy blew up into a discussion of the proper role of government in shaping the economy, a never-ending issue in Hong Kong. In the end, the new official guideline is that the Hong Kong economy is, and has long been, one of "small government and big market". But how does this allay worries about the future development of Hong Kong in the face of

China's rise? Does this mean the market will give us a direction, with the government having no role in determining it? The fact its officials organized a conference on the relationship between China's five-year program and Hong Kong did not seem to imply this. But what Hong Kong will do in the face of China's rapid development and changing economic course is still a question with no clear answer. In the meantime, Hong Kong's relative position worsens in many areas in the region.

This is certainly a picture of Hong Kong that few expected in the days leading up to the handover of July 1, 1997. Hong Kong faced great political uncertainty then as its sovereign status changed. But there was never much doubt about its continued economic success, its perceived near-perfect free market economy and its enviable relationships to both the region and to China.

The economy was the primary concern of the Chinese government after it decided to recover Hong Kong, and it has succeeded well in maintaining stability of the system and continued prosperity. Despite two near-disastrous attacks of outside origin, the Asian financial crisis and SARS, Hong Kong not only survived but gained respect for the way it handled these crises. Now the economy has recovered completely, unemployment is declining and the government budget once again is in a sizable surplus following many years of large deficits. The stock market and property prices break new records repeatedly. But the big unanswered question is what will happen to Hong Kong's economy next, particularly in five or 10 years?

This is not a question unique to Hong Kong; many of China's neighbors and trading partners ask it too. But only in Hong Kong is the question particularly pressing, though less anticipated and less talked about. To be fair, few had foreseen the speed of China's development. But Hong Kong has always thought itself superior and unique in the area, and a model for China—not a recipient of its handouts. This changing role is difficult for many to understand, let alone to accept.

Politically, Hong Kong is in a deadlock and limbo. To pacify the population in the run-up to 1997, China made many concessions when designing the post-1997 political system and signed many postdated checks. Now both the central government and the Hong Kong administration find the political system hard to live with. Without reliable support in the legislature, Hong Kong officials have a hard time getting their bills and spending requests passed. The Chief Executive didn't even get the usual, routine vote of thanks after his annual policy address earlier this year. Meantime, Beijing officials find it difficult to deliver on their pledge of universal suffrage in elections for the legislature and office of chief executive, as promised in the Basic Law they passed in 1990. This is not only because the business sector is largely against any move toward popular elections, but also due to Beijing's own suspicions following experience with the present system of limited popular elections. Thus post-1997 Hong Kong has experienced political tensions unseen during British rule in prior years. Because of this, many in Beijing felt cheated by both the British and some people in Hong Kong. Officials there had wanted the old system to remain intact and thought they had for the most part preserved it. But it has never worked as in pre-1997 days; many explanations have been offered, and Beijing is still trying to figure out why.

The answer probably lies in political science textbooks. Democratic development is seldom an orderly process that follows straight lines. What Hong Kong experiences is little different from what happens in any community that moves rapidly from authoritarian rule to open

elections, complete with checks and balances among different branches of government. Hong Kong is actually lucky to have had the rule of law firmly in place when democratization began. The democratic process is a messy and evolving one; not only are our Beijing friends unable to comprehend the situation, many pro-democracy politicians in Hong Kong share similar complaints about the present political system. Yet if they would look at the way democracy developed in the United States and the United Kingdom, they would see these are simply the growing pains of social change and the workings of the system itself.

Despite this, people are generally content with the status quo because both Beijing and the people of Hong Kong expected much worse in the political life of post-'97 Hong Kong. To say this is not to dismiss the growing support in Hong Kong for universal suffrage and the right to select their legislators and chief executive. But Hong Kong people are pragmatic, and put their aspirations in the proper context—giving this item a low priority. Only 5% or fewer of those polled call universal suffrage their top priority. When combined with Beijing's hesitation on the issue, and the rigidity, even the ultra-leftism of the democrats, this puts further political development in Hong Kong in limbo for a long time.

Looking back after 10 years, nobody can say Hong Kong is not a success story. It went through a lot. But the world is moving on and China certainly is no exception. The future challenge for Hong Kong might be bigger than the one it faced before and during 1997. ■

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