

How a Fragmented Business-Government Alliance Has Helped Change Hong Kong's Political Order¹

By Tai-lok Lui

Introduction

Post-1997 Hong Kong has been plagued by persistent social tension and frequent political rumblings. Their most dramatic expression was the mass rally of July 1, 2003, the sixth anniversary of Hong Kong's return to China, when a reported half-million citizens from all walks of life—many from the middle class—joined the protest. It symbolized the public response to the perceived poor performance of the government of the Hong Kong Special Administrative Region (SAR) under the leadership of Chief Executive Tung Chee-hwa. Similar demonstrations, though smaller, were staged on January 1 and July 1, 2004. Largely due to growing discontent, Mr. Tung resigned from his office in March 2005 before completing his term.

The protests came from diverse sources. Some saw the governance of the Tung administration as a challenge to Hong Kong society's core values. Others were critical of its unpopular initiatives in major policy domains (notably, the attempt to regulate the housing market and start the process of enacting anti-subversion laws). But what really united the critical voices from different sectors of society was the administration's failure to carry out consistent governance. Its policies swung from one side to the other, making compromises and major revisions in the face of fierce opposition even before the policies could make their impact.

More interestingly, the critics came not only from middle class and grassroots citizens who were suffering from an economic downturn, rising unemployment and a property market collapse. Discontent also was found in the business sector. The government repeatedly found itself in a crossfire caused by its own contentious political acts. It failed to build consensus and thus had great difficulty in taking action. Argument and conflict continued to haunt it even after the Tung resignation. The government, by then under the leadership of the new Chief Executive, Donald Tsang, was forced to shelve the heatedly-debated West Kowloon Cultural District project, a mega-project involving new museums and performance venues meant to become a Hong Kong landmark and

symbolize the city's turn to creative industries, after almost six years' of planning and discussion. But the problem was due to more than an individual leader's qualities or leadership. In fact, the Hong Kong SAR government faces an impasse. The more recent revival of economic confidence and the rebuilding of political authority by Mr. Tsang may ease the tension. But underlying contradictions remain, and are symptoms of more fundamental change.

A Crisis Unforeseen

While there have always been sceptics of the integration of capitalist Hong Kong into socialist China, few would have foreseen such dramatic developments after the handover. This failure involved more than failing to anticipate the full impact of the Asian financial crisis, for much was due to problems inherent in the constitutional arrangements set for Hong Kong after 1997. Few were aware that these would become a source of tension and conflict following the handover.

On the surface, the 1980s political settlement between the British and Chinese governments about Hong Kong's future was an ideal compromise that could have served the interests of all concerned. China resumed sovereignty over a city which had long been its 'window to the world', a major source of foreign exchange and overseas investment, and a conduit for modern financial and management skills. More importantly, the prosperous city itself was expected to be highly useful to China both economically (when implementing its 'Four Modernizations') and politically (for resolving a matter considered to be a historic national humiliation). Britain agreed to maintain its effective governance of Hong Kong until 1997 so the colony would not become a source of political embarrassment. It would give up this colonial rule gracefully and with dignity without really cutting off its informal influence, ranging from British investments to cultural matters. As for the Hong Kong society, the status quo would be preserved until 2047. The institutions believed to have been responsible for much of its past economic success would remain intact, and the mainland's socialism would be tightly segregated from capitalist Hong Kong.

However, after 1997 this institutional arrangement became a source of problems. It caused structural and institutional incongruities that underlay the Tung administration's failure to build effective rule in the post-colonial environment. The goal of preserving an

executive-led, bureaucratic and benevolent authoritarian system after decolonization—considered a continuation of the basic elements of colonial governance that had given Hong Kong prosperity and social stability—turned out to be problematic because decolonization had restructured the former state-society relationship. Contrary to the Tung administration’s strategy of limiting Hong Kong as an ‘economic city’ without serious politics, the government soon found itself in the midst of contending interests. The economic downturn that began in late 1997 made the situation even more difficult to handle, leading to the mass demonstration of July, 2003 that symbolized the issues at stake.

The main objective of the Basic Law, the Chinese legislation that serves as Hong Kong’s de facto constitution, was to ensure continuity of the social, economic and political systems. On the one hand, the plan of ‘deep freezing’ Hong Kong’s politics was intended to meet China’s expectations. The city was expected to continue serving Chinese economic interests without posing new threats (such as by challenging the mainland’s authoritarian system) or triggering undesirable changes to the socialist system’s own reforms. This was done by compromising Hong Kong’s movement toward democratization both before and after 1997. The post-1997 SAR polity, therefore, despite the promise that its citizens would master their own society via a universal suffrage system, would not be allowed to have a fully democratized legislature. Nor would the Chief Executive be popularly elected. On the other hand, the institutional design was aimed at easing local anxiety that dated from agreements of the 1980s. The policy of continuity was supposed to reassure people that the Hong Kong way of life would remain unchanged for at least 50 years.

However, immediately after 1997, this institutional arrangement was challenged on all fronts. The three pillars of the Hong Kong system – rule of law, personal freedom and bureaucratic efficiency – all came under pressure. First, the promise of continued rule of law was undermined by a controversy concerning the right of abode issue. Secondly, the issue of the rights of freedom of speech, worship and association touched the public nerve. A fear of self-censorship was a constant source of anxiety. Controversy concerning the status of Falun Gong members came to be a source of political embarrassment for the SAR government. Third, from the fiasco of the hasty opening of the new international airport to clumsiness when handling a bird flu epidemic, the Tung administration’s bureaucratic sluggishness was fully exposed. To further complicate the matter, the government itself

called for and initiated civil service reforms, and actively criticized the inefficiency and inflexibility of the bureaucracy it managed. In brief, the once-promised continuity had itself become the problem.

The Old Political Order

As noted above, one major consideration when drafting the Basic Law was to preserve the stable political order developed during British colonial rule. By retaining an executive-led polity, emphasizing the administrative strength of a politically neutral civil service and a legislature that was only partially democratized, it was hoped that Hong Kong would maintain the key features of a colonial system that helped ensure stability and effective governance. This was to result in an autonomous state that commanded respect and compliance from various social sectors, could play the role of referee in regulating competition among different interests, and keep political contention within acceptable limits. As succinctly put by one analyst, “the colonial system was maintained by the painstaking upholding of a delicate policy consent among the ruling elite. Like the SAR government, the colonial government was torn between the contradictory tasks of offering privileges to business in exchange for political support, assuming an arbiter role among competing business interests, and acting as a watchdog against rent-seeking to prevent widespread discontent.”²

The colonial system was based on certain assumptions. First, it included major business interests in the political oligarchy. Their dominance is best captured by the colonial-era saying that “Power in Hong Kong ... resides in the Jockey Club, Jardine and Matheson, the Hong Kong & Shanghai Bank, and the Governor – in that order.”³ Until the early 1980s, before any effort to introduce the concept of political representation in major decision-making bodies, politics was largely in the hands of the government bureaucrats and the powerful economic elite.

Until the late 1980s, large British companies continued to hold a dominant place in the economic structure. Not only did they occupy a central position among the major business groups, some, particularly the Hong Kong & Shanghai Banking Corp., played the role of ‘playmakers’, serving as intermediaries between those with rival interests. Equally significant, each major group had its own specific area of interest under control. While competition was inevitable, a delicate equilibrium of competing interests had been built,

with the colonial government monitoring the overall situation. In other words, the economic power structure and its corresponding representation in the formal political structure allowed the colonial government to coordinate and regulate conflict among the major vested interests.

It was on that basis that the colonial government was able to forge a ‘substantive consent’ within the ruling elite.⁴ As one political scientist argues:

“This substantive consent involved the inseparable components of allowing business domination in the power oligarchy while upholding a policy against preferential treatment for selected business interests. Under this consent, besides the privilege of sharing policy-making power, the oligarchical interests were guaranteed that their profit-making would be protected and facilitated by the government. This was realized by a range of pro-business policy measures, including low profits tax, limited social welfare provisions, minimal labour protection, free enterprise, and free capital inflow and outflow. All worked to facilitate profit maximization – a policy goal that was proudly admitted by the government. At the same time, the ruling elite agreed to constrain their privileges by accepting a policy of non-intervention. This meant that the government refrained from using public resources to assist or protect individual business sectors and enterprises. This avoided rent-seeking by individual elite groups, ensuring that policy outcomes were acceptable to the less powerful and to the wider population of players.”⁵

The so-called positive non-interventionism practised by the colonial government was an outcome of such a compromise, with both sides accepting certain limits on their action.⁶ As long as the economic outcomes were pleasing, this pact allowed the colonial state to enjoy a high degree of autonomy in managing social, economic and political affairs.

Changing State-Business Relations

The rise of local Chinese business groups since the 1970s and the consolidation of their economic power in the 1980s by taking over or merging with declining British companies began to upset the status quo, create a new balance of power and gradually restructure relations among the economically powerful. The cohesive business elite of the

early 1980s had disappeared two decades later due to decolonization and deregulation. Chinese business groups rose while the British ones, compared to their previous dominant position, declined. Also, the structure of the new Hong Kong business elite became increasingly nucleated and cellular. Each Chinese business group was, in fact, a conglomeration of economic activities run by a family. At the centre of each family business there were family-based interests and concerns, and the groups grew and evolved around these family concerns. They branched out into different areas of investment and diversified their businesses without creating inter-familial alliances. To a large extent, each family group, rather than specialize, tended to sprawl and trod the turf of other groups. The rise of those with mainland connections also contributed to the fragmentation of this network.

So while the earlier business structure gave rise to dominant players like the HSBC Corp. and the Jardine Group, since the 1980s there has been much decentralization. The rising Chinese groups have worked hard to consolidate, and then expand, their ‘family kingdoms’. In addition, deregulation also affected the Hong Kong economy during the 1990s. Under the pressure of globalization, Hong Kong gradually relaxed its regulations on certain monopolistic sectors. In particular, public utilities were subject to increased competition from new entrants—notably in telecommunications. While there was only one service provider in earlier years, the 1990s saw the introduction of competition in that sector first through multiple operators in mobile service and later in the provision of fixed line services. In transport, such as ferries and bus services, competitors also were allowed to enter hitherto monopolistic sectors. Major business groups, keen to enter the telecommunications sector, began competing head to head, upsetting informal market-share understandings they had previously enjoyed. The overlapping of interests and inter-group competition are commonplace in the business world, and fragmentation by itself is not an issue of concern. Intriguing, however, is how such fragmentation challenged the established order worked out years ago by leading British companies and the colonial administration.

As noted earlier, in colonial days the leading British and other major business interests had more or less found their own operating areas and were quite happy to be left to pursue their own economic interests in an environment that was pro-business and had

minimal government intervention. As long as the government remained 'neutral' (i.e. in general pro-business but not favouring individual groups or sectors) and refrained from becoming intrusive, government-business relations were largely peaceful and collaborative. Such an alliance secured business support for pro-growth strategies, such as infrastructure construction and facilitation of trade and commerce. Equally significant, "the colonial administration converted its non-interventionist precepts into practical protection for the public interests".⁷ The fortunes of business appeared to be dependent on market forces rather than on a business-biased environment, and positive non-interventionism was perceived as an approach to economic management that would guarantee fairness and uphold a competitive spirit.

Such a strategy helped produce stability and prosperity. But the de-centralized structure of the 1990s upset this established order. Growing inter-group, and often head-to-head, competition restarted turf wars in the business world. It is worth noting that the consolidation and expansion of Chinese business groups in the 1990s coincided with more than globalization and the resulting push for market liberalization. It was also triggered in part by advances in technology, plus deregulation of major services including telecommunications, energy and public transportation. The opening of new opportunities intensified competition and created the need to find a new balance of economic power among the leading business groups. And once government-business relations have to be restructured, the state found itself swamped by new claims from many players in the business world.

The decolonization process also re-embedded the state into the socio-economic structure. For ordinary people, the issue of political legitimacy, once rarely raised, became contentious. After 1997, when the government failed to ensure economic prosperity and its performance was found unsatisfactory, political authority was challenged constantly. For leading capitalists, because the state needed to rebuild its relationships with the business sector, there began a competition to stake out their rival claims. Previously, the dominance of British business interests was taken as a part of colonial rule, and the colonial administration was able to rise above diverse interests to maintain effective governance. However, decolonization in a way returned the Hong Kong SAR government to the world

of real politics. The government had to strike new deals with the business sector, reassuring its leaders that they would get their fair share of the economic action.

This is exactly what the Tung administration struggled to achieve. To be fair, it must be admitted there was not much room for political manoeuvring. The growth of Chinese business groups and the fragmentation of the economic power structure had changed the established order, and the Tung administration could not simply repeat the winning formula of colonial times. This meant the Hong Kong government had to work out its own alliance with the business world through a different set of players and within different parameters. In a way, it was forced to test its relationship with major business interests via a new attempt at reaching a tacit understanding and collaboration. This gave the Tung administration an almost impossible situation because it had to find new arrangements without upsetting other potential candidates.

Concluding Remarks

The colonial political order was built on a solid coalition of the territory's government and big business. It was made possible thanks to a cohesive business community composed of a dense network of major corporations. A business consensus on major policy issues, positive non-interventionism prominent among them, was the foundation of sound colonial governance, making it easier for that administration to win social support for its policies. Since the 1990s, however, this cohesion has crumbled, firstly due to the rise of Chinese business groups and secondly due to the process of deregulation which led them to intrude into each other's market space. While the colonial state could appear to be an impartial arbiter between conflicts of interest involving major players, the SAR government does not have that luxury. Instead, it has been dragged into rivalry among these groups whenever it sought to intervene in the economic sphere.

Accusations of government-business collusion have popped up from time to time because whenever the government chose to back a major project, it would inevitably find itself aiding one group at the expense of its rivals. The recent debate over the alleged demise of the "positive non-interventionist" approach to economic management illustrates the double bind in which the government is caught. While it has been trying its best to articulate a viable strategy and carve out a new direction for Hong Kong's economy, it has been caught in the cross-fire of conflicting demands and interests. Such conflicting

demands do not emanate merely from the process of democratization or from popular demands for participation and welfare programs. They also are symptoms of the underlying change in the power structure. To construct a viable governing coalition that supports the quest for good governance, the administration must find a way to overcome the fragmentation of business interests and forge more broad-based support for its major development policies.

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¹ Discussion here is based on the empirical analysis in Tai-lok Lui and Stephen W.K. Chiu, "Governance Crisis in Post-1997 Hong Kong." *The China Review*, Vol.7, No.2, 2007.

² Tak-Wing Ngo, "Money, power, and the problem of legitimacy in the Hong Kong Special Administrative Region," in *Politics in China: Moving Frontiers*, edited by Françoise Mengin and Jean-Louis Rocca (London: Palgrave, 2002), p. 112.

³ Richard Hughes, *Borrowed Place Borrowed Time* (London: Andre Deutsch, 1976), p.23.

⁴ Tak-Wing Ngo, "Changing Government-Business Relations and the Governance of Hong Kong," in *Hong Kong in Transition: The Handover Years*, edited by Robert Ash, Peter Ferdinand, Brian Hook and Robin Porter (London: MacMillan Press, 2000), pp.26-41.

⁵ Ngo, 2000, p.32.

⁶ A similar argument could be found in Stephen WK Chiu. 1996. "Unravelling the Hong Kong Exceptionalism: The Politics of Industrial Takeoff." *Political Power and Social Theory* 10: 229-256.

⁷ Leo Goodstadt, *Uneasy Partners: The Conflict Between Public Interest and Private Profit in Hong Kong* (Hong Kong: Hong Kong University Press, 2005), p.121.