

The Business City Revolts Against Business

By Michael E. DeGolyer

As the repeat winner of awards from both the Heritage Foundation and the Frasier Institute as the world's freest economy, Hong Kong has long been a Friedmanite's Mecca. But in the September 2008 Legco elections, while the overall numbers of the pro-government coalition and the pro-democracy bloc in the Hong Kong legislature appeared little changed, in reality an earthquake occurred.

That earthquake was less in terms of overall results than in terms of expectations versus outcomes, and of one outcome in particular: The pro-business Liberal Party lost both its seats in the geographic constituencies and even one of its long-held functional constituency seats, chosen by interest groups. In terms of expectations *The Standard*, a local English-language daily, initially headlined it a "Disaster for Democrats" due to a low voter turnout and the fact that the democrats usually fare badly in such situations.ⁱ There was reason to expect that outcome. The campaign season in May with high approval ratings for both the government and the pro-government Democratic Alliance for the Betterment and Progress of Hong Kong (DAB), and near historically low ratings for the pan-democrats' longtime flagship, the Democratic Party of Hong Kong (DP). Expectations were that democrats might not even retain the 21 seats needed to block the government's future constitutional reform proposals. But something happened on the way to electoral disaster, and it was instead delivered to a wholly unexpected party, the Liberals, leaving it, the government and the media stunned.

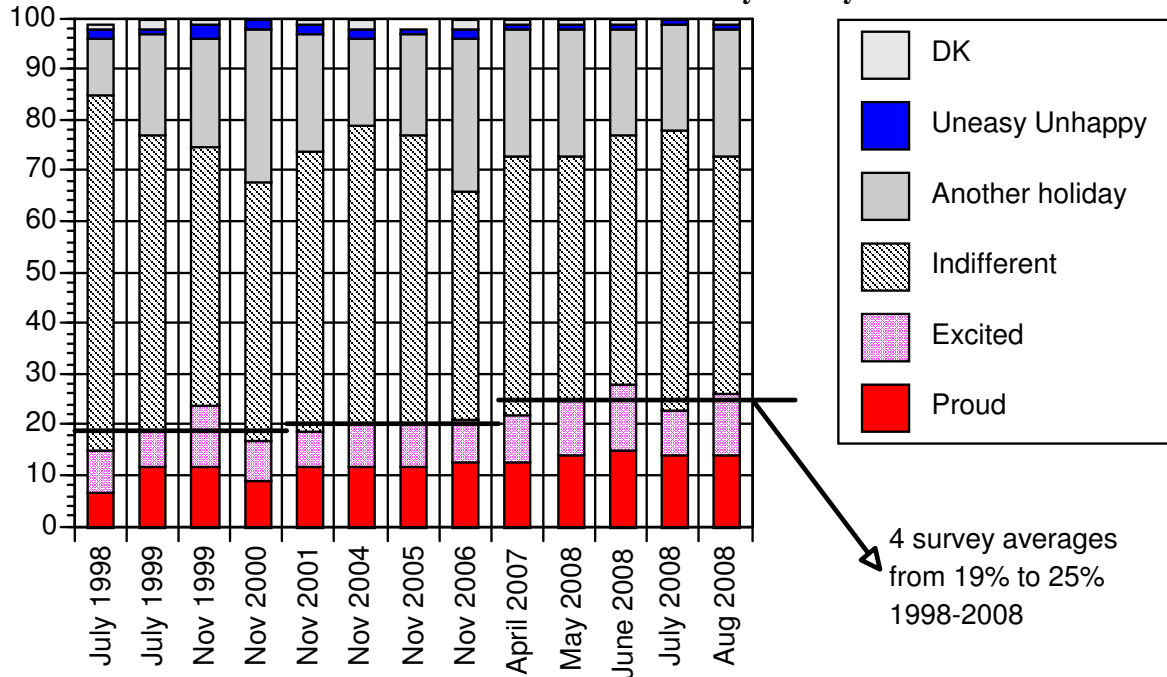
The low voter turnout, plus increased patriotic sentiment following the spectacular Beijing Olympics, normally would be expected to bring pro-government gains. Instead, democrats gained a seat in the geographic constituencies, which fill the 30 legislative places (of 60) chosen by universal suffrage. This contradicted nearly all forecasts.ⁱⁱ The December, 2007 decision of China's National Peoples Congress that set a timetable allowing, but not requiring, direct election of the Chief Executive election in 2017 and all 60 members of Legco in 2020 had undercut the major political demand of the pro-democrats. Worse, pro-democracy parties which had coordinated their campaigns in 2004 fragmented into competing lists in 2008. Thus democrats feared a massacre at the polls, not unlike their drubbing in the November 2007 District Council elections.

They entered the contest holding 26 seats. They reached this high-water mark after taking 25 seats in 2004 on the heels of massive anti-government demonstrations in July 2003 and 2004, then adding former Chief Secretary for Administration Anson Chan to their ranks in a 2007 by-election. That vote had pitted former Secretary for Security Regina Ip, backed by pro-government parties and groups, against a pro-democracy coalition that supported Anson Chan (who did not seek re-election). In similar fashion, democrats had coordinated their campaigning in the 2004 Legco contest to prevent splitting the vote, but fractured into bitter competition during District Council elections three years later. Then they lost dozens of council seats to a pro-government coalition reinvigorated after discredited Chief Executive Tung Chee-hwa was replaced by veteran civil servant Donald Tsang, who subsequently won his own full term in March 2007. These divisions among democrats proved impossible to repair despite their trouncing in the council elections and their temporarily-unified campaign that delivered Chan's victory. When this year's Legco campaign opened, two new pro-

democracy parties—the Civic Party and League of Social Democrats—plus assorted pro-democracy independents, such as former legislators Cyd Ho and Lo Wing Lok, fought to take votes away from the flagship Democratic Party and the veteran Frontier Party. In May, democrats appeared headed for certain defeat.

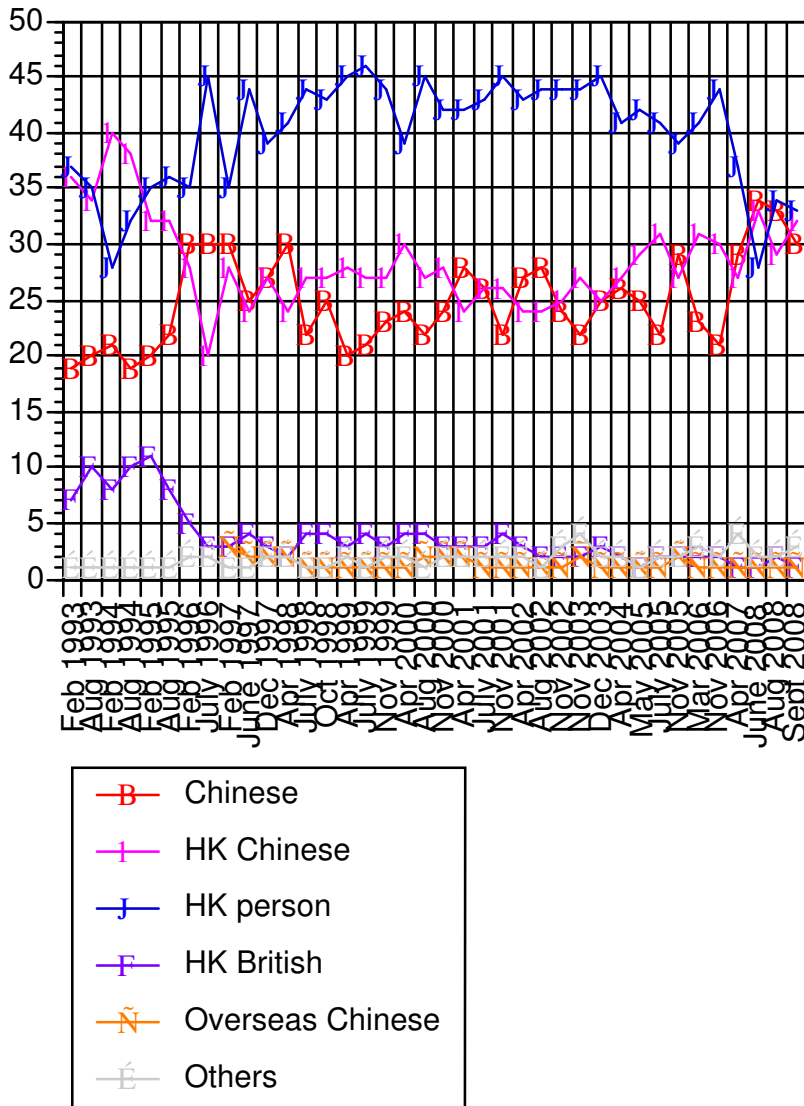
On the other hand, the pro-government coalition of the DAB, the Federation of Trade Unions (FTU), the Liberal Party and assorted independents appeared to have the wind in their sails and their stars aligned. They had won back many seats lost in earlier District Council elections. The Olympic Games had brought a surge of patriotism and pride in being Chinese, as seen in Charts 1 and 2.

Chart 1: How does the celebration of 1st Oct National Day make you feel?ⁱⁱⁱ



As Chart 2 indicates, in June 2008 for the first time more Hong Kong residents chose to identify themselves as Chinese than for any other identity. In previous surveys, those who made this choice tended to support pro-Beijing parties and the Hong Kong government.

Chart 2: The following is a list of how you might describe yourself. Which is the most appropriate description of you?



But that sense of certain victory may have set the stage for setback. The pro-government camp split as badly as the pro-democrats, with the DAB and Liberals bitterly fighting in both the functional and geographical constituencies. Even the pro-Beijing Federation of Trade Unions fell out with the DAB. The DAB had merged earlier with the older Hong Kong Progressive Alliance (HKPA), a relic of Beijing’s class-based united front strategy. (Originally, the DAB was established to attract the middle classes, while the FTU wooed the unions and workers, the HKPA aimed at business and the New Century Forum tried to attract professionals, educators and intellectuals.) The merger brought in several hundred wealthy business people who, though boosting the DAB coffers, also tilted the party away from middle class and working folks. This meant the FTU found it increasingly hard to stand up for working class issues as a new ally of the very business people who opposed the minimum wages and worker rights the unions demanded.

Meantime, a surge of inflation left the working poor in a desperate state, and forced government to enact an emergency supplementary spending bill of HK\$11 billion (US\$1.4 billion) to help those in distress. Because the FTU could not compromise its pro-worker

stance with the middle-class-oriented DAB, they put up competing slates in several districts. In addition, the New Century Forum could not reconcile its views with those of either the increasingly pro-establishment and pro-big business DAB or the pro-working class trade unions, so it ran its own winning candidate, attorney Priscilla Leung, in Kowloon West and unofficially backed Regina Ip on Hong Kong Island, who also won. These divisions contributed to the net loss of a seat from for the pro-government side. But 2008's biggest losers were those who been such surprise winners in 2004.

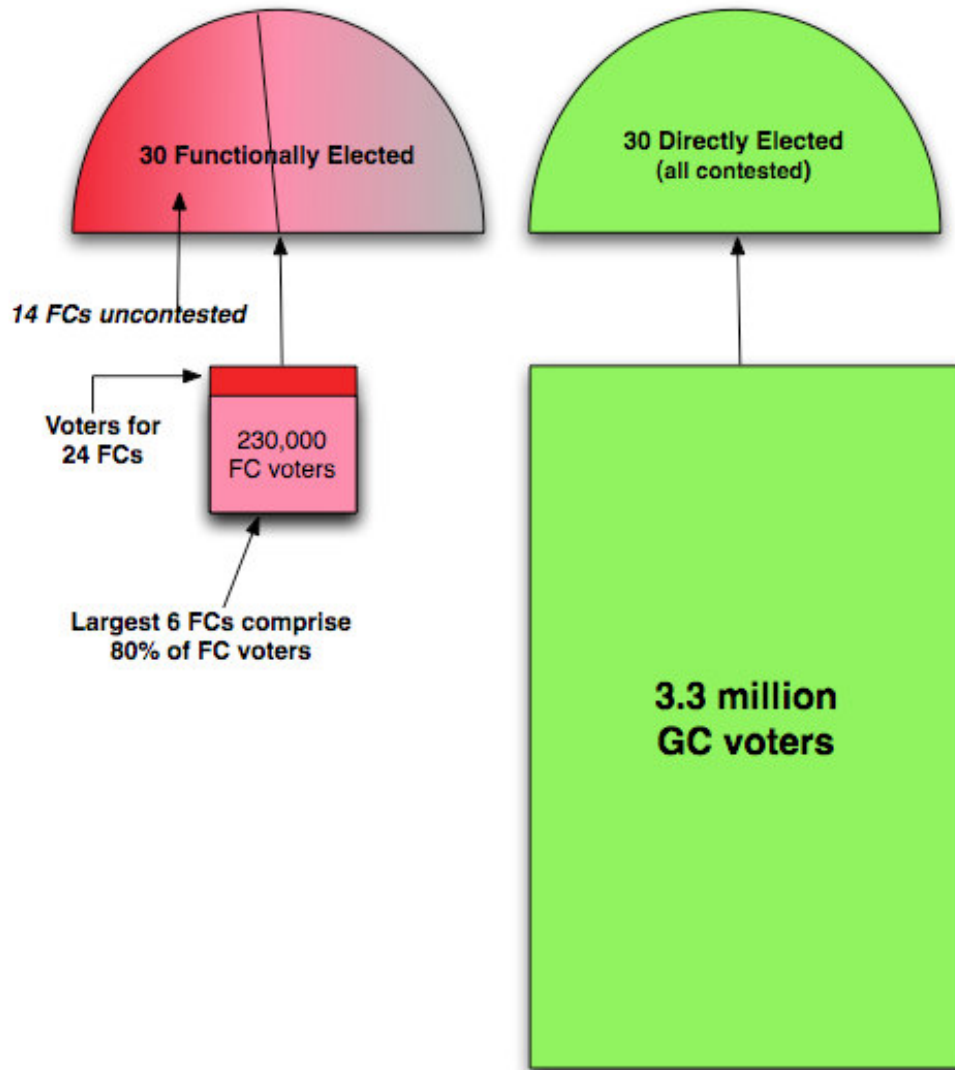
The Liberal Party, the pro-business arm of the pro-government coalition, entered the elections as Hong Kong's second largest party, with eight indirectly-elected and two directly-elected Legco seats. In 2004 it had won those directly-elected seats despite its alliance with an unpopular government because, at a crucial moment, Chairman James Tien resigned from the Tung cabinet and forced the government to withdraw highly controversial security legislation. But this time it lost both and won only seven functional constituency seats, an overall loss of three. Worse for it, an alliance with the Heung Yee Kuk (the New Territories Rural Committees of indigenous residents) broke irreparably when its head (a Liberal Party member) endorsed rival DAB candidates in New Territories West and New Territories East rather than those of his own party. This caused Chairman Tien, the 2004 winner in New Territories East, to resign even before the final votes were tallied, while deputy chair Selina Chow, defeated in New Territories West, resigned from both the Executive Council (the Hong Kong cabinet) and her party office. The party also lost what it considered a safe seat representing the tourism industry, and now appears uncertain about its future.

However, everything did not go the democrats way despite the fact that they gained a 19th directly-elected Legco seat. Results in the 30 geographical constituency contests are regarded as expressions of the public will, and suggest that the pro-democrats retain broad support. By contrast, the seven indirectly-elected seats still held by the Liberals represent only a relative handful of voters, and these may well lose their disproportionate influence by 2020 when expected political reforms are complete. When joined with other business-dominated and indirectly-elected legislators, the Liberals could yet block future reforms they believe go too far too fast. But they are now so transparently isolated and business-dominated that resisting popular opinion might be politically dangerous. In the face of public demands for freer elections, would even Hong Kong's Friedmanite government put property over populism?

Chart 3: Hong Kong Legislative Council

Functional Constituency

Geographic Constituency



*** Figures proportional in size to number of voters**

As the chart shows, 80% of all functional constituency voters elect 20% of the FC seats (six), while 20% of FC voters, some 46,000 or 1.4% of the entire geographical voter franchise, elect 80% of the FC seats (24).

Democrats failed to win the accountancy, information technology or social welfare seats they had held. But in the end, they took 23 of Legco's 60 seats—compared to the 25 they won four years earlier and the 26 they held temporarily following Anson Chan's by-election win. This gives them enough seats to block future reforms they consider too timid.^{iv} In addition, they might win support from several democratically-inclined independents such as lawyer Paul Tse, who now represents the tourism industry. As the table shows, the democrats, despite the lower voter total, managed to increase their share of the vote. So did the DAB and the unions, but the Liberals had a significant drop from 2004.

Legco Election Geographic Constituency Results 2004 and 2008

Groupings	Party	Votes 2004	% 2004	GC seats 2004	Votes 2008	% 2008	GC seats 2008
Pro-Government	DAB	402,420	22.55	8	311,436	20.55	7
	FTU	52,564	2.95	1	86,311	5.69	2
	LP	118,997	6.67	2	78,633	5.19	0
	Pro-Gov IND	84,346	4.76	1	102,518	6.77	2
	<i>Total Pro-Gov</i>	<i>658,327</i>	<i>36.93</i>	<i>12</i>	<i>578,898</i>	<i>38.20</i>	<i>11</i>
Pro-Democracy	DP	423,631	23.74	7	312,692	20.63	7
	CP (Art 45)	165,008	9.25	3	207,000	13.66	4
	CTU	89,185	5	1	42,366	2.8	1
	ADPL	74,671	4.15	1	42,211	2.79	1
	Frontier	73,844	4.14	1	33,205	2.19	1
	NWSC	59,033	3.31	1	42,441	2.8	1
	LSD*	60,925	3.41		153,390	10.1	3
	Pro-dem IND	54,256	3.04	4	55,365	3.65	1
	<i>Total Pro-Dem</i>	<i>1,000,553</i>	<i>56.04</i>	<i>18</i>	<i>868,147</i>	<i>58.62</i>	<i>19</i>
	Independents		125,526	7.03		43,848	2.89
Turnout	Rate: 55.6%	1,784,406		30	1,515,479	Rate: 45.20%	30

Source: Calculated from http://www.elections.gov.hk/elections/legco2004/english/results/rs_gc_overall.html and http://www.elections.gov.hk/legco2008/eng/result/rs_gc_GC.html

In the end, a standoff continues between democrats who want faster reform and pro-business members who want less reform at a slower pace. With one exception: the Liberals now have no confidence they ever can win again in a constituency decided by popular vote. Unless pro-business voters and Liberals conclude that their failure at the polls is reversible, constitutional reform may stall even though Beijing has given permission to go forward.

Questions and Repercussions

So why did democrats win an additional elected seat? And what explains the Liberal Party's defeat? For democrats, their image as a one-issue coalition—united only by demands for direct elections—has been transformed. In voters' minds, they now also stand for government oversight, minimum wages and fair competition benefiting consumers and small business, while firmly opposing government and big business collusion. Except for those of the Democratic Party, all pan-democrat and independent candidates backed setting a minimum wage for all workers. As the table above shows, the DP vote share dropped, but the Civic Party and the League of Social Democrats emphasized minimum wage and social equity in their campaigns and saw a strong increase in support.

The Liberals opposed a minimum wage and chose instead to campaign behind the slogan “business with a heart.” Crucially for them and damaging to all pro-government allies were a series of administration scandals and mistakes. Since these parties were strongly perceived as “pro-government”, they felt the pain when the administration stumbled.

Just after a major earthquake struck China, a series of severe storms triggered landslides across Hong Kong, cutting off some remote villages for days. While mainland

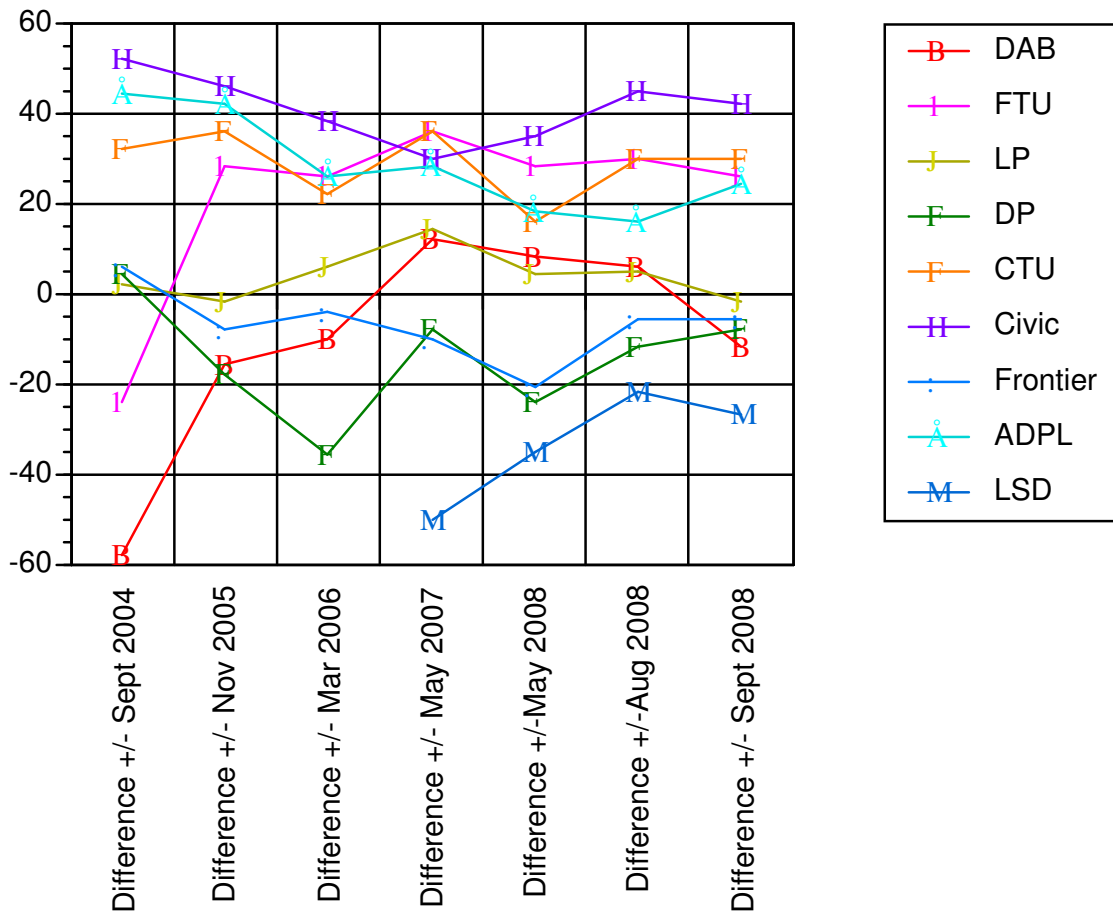
police and troops risked life and limb to rescue survivors there, police in Hong Kong told one Democratic Party legislator that, because it was night time and electric power was cut, it was “too dangerous” for them to check on elderly village residents then in their third day without communications, power or fresh water. The government was seen as incompetent, even indifferent, in handling this major natural disaster.

About the same time, controversy arose over the appointment of deputy ministers, newly-created posts intended to assist the political appointees who head major departments and bureaus. These deputies were seen as expansions of a political patronage system designed to benefit Chief Executive Tsang. But when many nominees were found to have foreign passports, making them technically able to flee elsewhere in case of future disaster or misbehavior, outrage ensued. (A police corruption case of the early 1970s that led directly to the creation of the Independent Commission Against Corruption was cited as an example of a foreign passport holder getting away with millions in bribes.) As details leaked out, some appointees were considered underqualified and overpaid for these new positions, even though Hong Kong has some of the world’s best-paid civil servants and appointees were well up that pay scale. But Chief Executive Tsang and administration officials argued that, for privacy and other reasons, passports made no difference. Eventually the government relented, released salary details and most appointees forfeited their foreign passports. Pressure from “patriotic” DAB allies and the Liberals, as well as from the democrats, had proved too much.

An even greater scandal hit in August. It involved a former permanent secretary for housing, planning and lands named Leung Chin-man, who was permitted by the administration only two years after his retirement to become deputy managing director of New World China Land, a leading real estate developer. As director of housing in 2004, Leung had sold New World a new but unoccupied government-built public housing estate at a steep price discount. Initially, New World said it would tear down the project and build new luxury flats. After a public outcry, it relented and instead extensively reworked the existing buildings. These had been built under a government policy of subsidizing public housing, only to be kept off the market in an effort to boost prices during a real estate slump. As prices continued dropping, the estate became a public embarrassment and it was sold cheaply just before prices began to soar in 2005. Leung quit his New World job, but not before charges of business-government collusion filled the air, with campaigning legislators, particularly democrats, promising an investigation if elected.

The Liberal Party thus suffered from its association with both business and government, and became the focus of discontent over alleged collusion. Other pro-government parties also took hits, with all but the FTU showing more dissatisfaction than satisfaction with its performance on the eve of the vote as seen in Chart 4.

Chart 4: Satisfaction versus Dissatisfaction with party performance, 2004-2008*



**The 0 line marks the balance of satisfaction and dissatisfaction. Positive numbers indicate that balance of satisfaction over dissatisfaction while negative numbers indicate that amount of dissatisfaction over satisfaction. Don't Know responses are removed from the results to permit comparison.*

In sum, by refocusing their policies to address the wealth gap, minimum wages, fair competition, unfairness of the decision-making process and their role as watchdogs over government, the pro-democracy parties slightly strengthened their political position. In addition, government scandals and missteps made their charges seem plausible and the government's allies appear liable. Patriotism and pride in identifying oneself as Chinese, a sentiment boosted by the Olympics, focused not on "patriotically" supporting the local government but in chastising it at the polls. Even Beijing officials had called on Donald Tsang to do a better job when they visited Hong Kong for July 1 ceremonies to mark the reunification anniversary.

And by so thoroughly trouncing the Liberals, voters showed they want a government responsive to them, not one beholden to business. Despite the popularity of the Beijing Olympics, Communist appeals for greater loyalty for its own sake may be giving way to more capitalistic ones based on performance and results. Winning the gold medal is the measure, not just being on the team. Perhaps it's no accident that the DAB, the flagship of the pro-China coalition, ran on an election slogan of "We Deliver." Clearly, in the constituencies where they are free to choose, Hong Kong voters demonstrated they now expect just that—tangible results—from their government and their political parties.



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ⁱ Results were not released until well after publication deadline.

ⁱⁱ The Hong Kong Transition Project in "Racing for the Gold," a briefing released 2 September, forecast a close to usual democratic proportion but a rise in voting for independents, which would skew results toward democrats. Reporters present asked project members if their forecast for democrats was too rosy. While calling the results right, the voter turnout forecast by HKTP of 53-55% (actual turnout 45.2%) was off due to an error inverse to *The Standard*, that is, expecting higher turnout because democrats were expected to do so well. Doing so well in the teeth of considerably lower turnout (45.2%) surprised everyone. See http://www.civic-exchange.org/eng/publication_cpsd.aspx for the report.

ⁱⁱⁱ Surveys conducted by the Hong Kong Transition Project. For survey details and additional reports see <http://www.hkbu.edu.hk/~hktp> and reports on Hong Kong political development and elections posted on the websites of Civic Exchange http://www.civic-exchange.org/eng/publication_cpsd.aspx and the National Democratic Institute for International Affairs http://accessdemocracy.org/library/2357_hk_report_080108.pdf.

^{iv} Private members bills and amendments require majorities in both the FC and GC blocs, thus 15 votes in either bloc can impose a veto. Constitutional reform requires two thirds of Legco or 40 votes, thus 21 can veto.