

NEEDED IN HONG KONG: A POLICY VISION

By Leung Chun-ying
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Much energy has been spent – and probably wasted – in the past year on how Hong Kong is threatened by Shanghai as a financial centre. At various times in the past two decades, analysts have claimed that Hong Kong is under threat from Singapore or Shenzhen or some other Asian city. Fortune magazine may have been the bluntest in 1994 with its “Death of Hong Kong” cover story, but it has not been alone among international publications in forecasting Hong Kong’s demise. Those analyses painting a rosy picture for China’s economic rise have tended to claim that Hong Kong will be progressively marginalized to become “just another Chinese city”. Those painting a darker future for China have argued that Hong Kong would inevitably be sucked in. Either way, Hong Kong is seen as doomed.

Needless to say, I have little time for such analyses, which tend to oversimplify and misdepict the likely future roles of Shanghai, Shenzhen or Singapore about as much as they do Hong Kong. This is not to say that Hong Kong faces no competitive challenges, or indeed to say that Hong Kong does not have to be prepared for them. On the contrary, it faces many and some of them are serious. But these challenges do not come from other cities in the region. They come from within Hong Kong itself. Solve these, and there is no centre in Asia that will usurp Hong Kong’s potential as Asia’s “world city”. Fail to solve them, and Hong Kong is indeed likely to become “just another Chinese city”. The fate of Hong Kong’s future lies in its own hands. Our challenge is to identify and focus on our core problems and tackle them, and on our competitive advantages, and to exploit fully their potential.

Virtually all of the doom-sayers predicting the fall of Hong Kong after 1997 got it wrong. Whatever reasons they gave for believing Hong Kong would decline, they were largely mistaken. Yet Hong Kong has indeed had a tumultuous 12 years since 1997, and the reasons for the turmoil were almost entirely unanticipated – from the crash in Asia’s financial markets in 1998 and the dot.com bust in 2000 to avian flu and SARS, and to the global recession that is buffeting us today.

Two Problems of Great Consequence

Perhaps the biggest unanticipated changes in Hong Kong have been social and demographic – and these have had powerful political consequences. They account for perhaps the biggest local problems, and I will focus on two of them. Up to the eve of the handover of sovereignty, Hong Kong had been distinct as a “refugee” society. Many families, lacking confidence or certainty about the future, were hedging their bets by acquiring the right to live in countries like Canada, Australia and the United Kingdom. Outward migration stood at around 60,000 a year.

But this changed sharply just before and in the wake of the handover. As people realized the sky was not after all going to fall, the migratory flow reversed. Families returned from Canada and Australia in large numbers in 1996 and 1997. From the mainland, the “family reunion” program also created a strong inflow. For the first time in Hong Kong’s history, the people of Hong Kong no longer shared a refugee mindset. Instead, as anxieties over Beijing’s intentions subsided, they quickly came to see Hong Kong as their long term home. They identified with long range issues like the environment and protection of cultural heritage, and wanted careers and pensions and for money to be spent on improving the environment, air quality in particular. They called for better health care provision, better housing conditions and stronger social safety nets.

The other was the crash in the regional economy following the Asian financial crisis. Upward mobility came to a juddering halt. After a decade in which a booming economy had brought fast rising living standards – and where the policy of localization combined with massive emigration to give promotion opportunities to huge numbers of local people – the economic environment turned horribly negative. Many lost their jobs and, lacking any unemployment safety net, had to return to the workforce at lower salaries. For those with their own homes, the collapse of house prices compromised their only store of wealth. The immigration of low-skilled workers from the mainland has also affected the low-income groups. Data on salary developments show that a million people—about 30% of Hong Kong’s workforce—earned less in 2006 than they did in 1996. In the same decade, GDP per capita increased by 34%. Restaurant workers today earn 4% less than they did 17 years ago. Workers in fast food outlets earn 19% less. Those driving container lorries earn 30% less.

The Sense of Upward Mobility Goes Missing

Through the 1990s, the widespread sense of upward mobility and improving living standards created a highly positive social environment. But today, with upward mobility largely gone, or at least not as obvious compared to the past, the grim reality of a generally poor quality of life has hit home hard among Hong Kong families. In spite of international perceptions of an opulent society (on a PPP basis, Hong Kong is among the five richest societies in the world) the reality is that half of Hong Kong's working population earn less than US\$1,300 a month, with 5% earning less than US\$410.

To tackle worker poverty, Hong Kong's government launched in 2007 the Wage Protection Movement and appealed to employers to voluntarily bring the wages of their cleaners and security guards to median industry levels. After two years, everyone agrees that employers simply ignored the appeal. The government is now legislating for statutory minimum wage. The figures being thrown around by employers and trade union representatives range from US\$2.60 to US\$3.90 an hour. Barely a quarter of Hong Kong families share what could be described as a "middle class" lifestyle. Note that just 15% own cars, and 10% have the resources to employ a domestic helper.

Increased contact with families in fast-rising mainland cities like Shenzhen or Shanghai make it clear that the primary measure of living standards – whether you own a car and how big is – is no longer in Hong Kong's favour. Over 90% of Hong Kong families today live in homes smaller than 700 square feet – significantly smaller than the average apartment size in Shenzhen. This is not a plight confined to the poorest in the community who live in public housing – over half of Hong Kong's private apartments are less than 500 sq ft. Whether an average Hong Kong family lives in private or public housing, the chance of moving anytime soon into a less-cramped home is dim.

Put these factors together, and you quickly realize why Hong Kong families are at present so discontent, why they vote for aggressive political figures like "Long Hair" (Leung Kwok-hung, an elected member of Legco) and the League of Social Democrats, and why they so cynically imagine collusive links between the government and Hong Kong's super-rich. This is 90% of Hong Kong's population that feels entirely disengaged from the world-leading financial services economy being "challenged" by Shanghai. This is

a constituency that feels government policies focused on the “four pillars” of the economy – and the “six new pillars” – have little to do with them.

Such a politically-alienated majority may perhaps at present have little capacity to disrupt economic life or political decision-making but within 10 years, when both our Chief Executive and our Legco will be elected by universal suffrage, this will no longer be so. In short, our society ignores this massively disengaged community at its peril. And since much of this alienation is caused by long-standing land and housing policies that make homes expensive and painfully small, the sooner such land and housing policies are seriously addressed, the better. This is likely to be a massive challenge, but since it is a challenge that will not go away, every year of delay simply makes it harder to tackle.

The Challenge of the Delta

Hong Kong’s second main challenge involves its relationship with the mainland, and the Pearl River Delta in particular. Hong Kong has a ringside seat on one of the most remarkable economic transformations the world has ever seen. After decades of building up our economy with a backward and inward-looking China as our partner, the mainland has over the past two decades become Hong Kong’s primary economic driver, indeed its *raison d’être*. Hong Kong has feasted on the opportunities arising from China’s “opening up”, and whatever doom-mongers may say, Beijing recognizes and relies heavily upon the international expertise and connectivity concentrated in the city.

As the export processing model that has so powerfully driven the Pearl River Delta economy over the past three decades is transformed to serve the needs of China’s growing consumer markets – a process that has been accelerated by the massive global recession that began a year ago – so it becomes increasingly important for Hong Kong to focus on its “internal diplomacy”, or “nei-jiao”, to make sure it can put its international strengths to optimal use, and ensure Hong Kong enterprises play the fullest possible role in China’s future development. But this process has been dogged by xenophobic politics, and is hopelessly under-developed. To Hong Kong’s neighbors, its government appears to have been paralysed by paranoid local lobbies (and legislators) who even today see all contact with mainland officials at municipal, provincial or national level either as ceding Hong Kong’s autonomy, or generally sacrificing Hong Kong’s own interests.

This has to be dealt with for what it is – paranoid nonsense. Whatever illusions may still be nurtured by some Hong Kong people, the reality is that we are now firmly part of China, and need to build and manage our mainland relationships accordingly. Hong Kong's mission in Beijing amounts to just 30 people, while Shanghai and Guangzhou have many more in the capital lobbying for their respective interests. Even Singapore has a larger Beijing presence. We need Hong Kong representatives present in critical mass on the mainland able to present and argue Hong Kong's interests in a wide range of policy areas, not only to government officials, but through the media to the general public. This is going to be even more critical as planning begins in earnest in 2010 on the 12th Five Year Plan.

Punching Below Its Weight

There is an even stronger case for more effective representation in the Pearl River Delta. Hong Kong is one of the primary drivers of the PRD economy. The number of Hong Kong families with legs on both sides of the boundary is huge, and growing by the year. Our infrastructures are critically interlinked. Many of our challenges are shared, and need to be tackled in unison. The “Outline Plan” for reform of the PRD, published by the National Development and Reform Commission (NDRC) in December, 2008, talks at some length about the areas in need of urgent collaboration. Yet Hong Kong punches below its weight in regional decision making and planning fora. Whatever the laissez-faire economists argue, our administration needs to roll up its sleeves and get engaged in planning the future of our economic region. If we want it to be shaped in any way with our input, underpinned by the market-based principles at the heart of our government decision-making processes, then we have no choice. We could over time pay a high price for this neglect.

Failure to exert appropriate influence at decision-making tables across the mainland means that we undersell the distinctiveness, and the distinctive contributions, that Hong Kong can make to China's development. This failure to explain with adequate force what factors underpin Hong Kong's competitive advantages means that opportunities for some of Hong Kong's internationally most competitive and valuable roles are being put in jeopardy – which hurts both Hong Kong and China as a whole.

In recent years I have worked hard on building links between Hong Kong and the mainland in professional services. Of the ten major professions strongly based in Hong Kong, at least five today earn more outside Hong Kong than inside – accountancy, architecture, surveying, planning and landscape architecture. Lawyers and engineers are also fast establishing themselves on the mainland. Hong Kong needs to be able to express and exploit fully the distinctive strengths these professionals can bring to China. But as we currently resource our mainland missions, this may never happen.

The Basic Law, the mini-constitution that defines the terms of Hong Kong's post-1997 status, is often criticized and blamed for hampering our government's ability to act more decisively, to manage effectively its relationship with the legislature and for putting constraints on our links with mainland counterparties. It is true that some elements of the Basic Law have, with the advantage of hindsight, created headaches in Hong Kong's decision-making processes, but this is a matter of a craftsman blaming his tools. Some political observers have suggested that the solution to this impasse lies in giving legislators more responsibility and accountability. But the design of the Basic Law, which is supposedly "executive-led", cannot easily be amended. In any event, the legislature is made up of so many fragmented political groups and parties that both responsibility and accountability are difficult to assign.

Our society has unnecessarily allowed legislators to insert themselves between government and the Hong Kong people. Government should engage Hong Kong people directly, relate effectively with the people, and ensure people recognize that their concerns are understood and being acted upon. Government should be seen to build policies in a visionary way, and plan for the long term. It should articulate a policy vision that can be evaluated or supported by the Hong Kong population, and serve as the basis on which all policy initiatives can be understood and endorsed. In societies with party politics, this essential political role is performed by means of a manifesto, and once a party is elected into office, it inherits a mandate to implement the vision embodied in the manifesto. Hong Kong may lack a party political process to elect and then support its future governments, but this does not mean there is no need for a manifesto – a policy vision.

In many societies, such features would have serious consequences for the community and its economic competitiveness. Mercifully for Hong Kong, they have been less damaging. However, these issues have to be addressed.

Hong Kong's competitive challenges in a constantly changing competitive environment would obviously be more effectively handled if the political process were less dysfunctional. So far, Hong Kong's competitive strengths have remained clear and are well recognized, not just by Beijing but by the international business community that continues to rely on Hong Kong as its most effective operational hub in Asia. But the message is also clear: it is Hong Kong itself, not any regional competitor, that holds the key to whether it remains Asia's "world city". If politics is not part of the solution to this challenge, then it is part of the problem.

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