

Review Article

Transformation of Hong Kong After 1997: A Review

China's Hong Kong Transformed: Retrospect and Prospects beyond the First Decade. Edited by Ming K. Chan (Hong Kong: City University of Hong Kong Press, 2008), 362 pp., ISBN 978-962-937-168-5, US\$38.00.

Macroeconomic Linkages between Hong Kong and Mainland China. Edited by Hans Genberg and Dong He (Hong Kong: City University of Hong Kong Press, 2008), 344 pp., ISBN 978-962-937-161-6, US\$38.00.

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The post-1997 decade (1997-2007) has been a transformational period for Hong Kong. The change from a British colony into a Special Administrative Region under the People's Republic of China is a topic of great interest. Hong Kong did not become an independent state as did many former British colonies and its sovereignty was handed over to Mainland China on July 1, 1997. Article Five of the Basic Law, Hong Kong's mini-constitution, guarantees that China's socialist system and policies are not to be implemented in Hong Kong, and that the existing capitalist system and way of life shall remain unchanged for fifty years (1997-2047). This political arrangement was designed to ease the public worries about the city's future under Chinese rule. The first deadline for Hong Kong's transition passed smoothly on July 1, 1997. Since the Asian financial crisis of 1998, the city has fully recovered and benefited from Chinese economic growth. But the second deadline is coming up soon. By 2047, Hong Kong is mandated to be integrated into China's political, economic and social structures.

Before the current global financial crisis, it was argued that the fast-growing Chinese economy was a blessing for Hong Kong. Through cross-border political, social and economic ties, Hong Kong could look to China as a land of opportunities and the hope for its future. As China has rapidly expanded its economy and spread its influence around the world, Hong Kong is seen as having much to gain from its integration with the Mainland. Yet the global financial turmoil has challenged this sense of optimism. Since the fall of 2008, the strains of the global economic downturn have affected countries everywhere. The financial crisis has dragged China down with it, leading to slower economic growth, massive unemployment and widespread social turmoil. What further complicates the situation is the tangled relations between China and the United States.¹ As the global financial turmoil has pushed China and the United States to work closely together, Beijing and Washington have appeared to become more dependent on each other for survival and recovery. Both countries intensified government rescue efforts to support financial markets, trade and investment in both countries. They also began bilateral negotiations towards a treaty to protect their respective investments, continued trade liberalization talks, and worked to give China greater say in global organizations such as the International Monetary Fund (IMF).² Evidently both governments strongly favor

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a form of state-controlled capitalism as shown in their respective economic intervention policies. China decided to use the four trillion *yuan* economic-stimulus package unveiled in November 2008 to restructure its economic and social infrastructures.³ But the future of the Chinese economy remains uncertain. Seen from this perspective, people in Hong Kong need to evaluate the impacts of the current economic meltdown on the city itself and on its relations with the Mainland in the years leading up to 2047.

The two books under review were published before the financial turmoil on Wall Street escalated into a global economic crisis in fall 2008. This terrible timing makes the books extremely relevant for understanding the continuity and change of Hong Kong-China relations today. What follows is a critical review of their findings and insights.

China's Hong Kong Transformed brings together contributions by scholars, legislators, business leaders, community activists and diplomats who took part in two respective symposiums held at Hong Kong in April 2007 and at Stanford University in November of the same year. By covering a wide range of perspectives, this edited volume examines the political and economic transformations of Hong Kong from 1997 to 2008 and raises questions about the eventual merger with Mainland China in 2047. In particular, it focuses on the negotiations between Hong Kong and Beijing over the process of democratization. In the political context of Hong Kong, the term "democratization" usually refers to the implementation of universal suffrage towards the election of the city's chief executive and legislators as guaranteed in the Basic Law. Because China refused to lay out the specific details of the election, the timing and mechanism of universal suffrage have been hotly debated among politicians in Hong Kong. For the purpose of analysis, the politicians in Hong Kong are classified into the "pro-democratic" and "pro-Beijing" camps. The pro-democratic camp, known in the local Chinese media as "Hong Kong democrats" or "pan-democrats," is a loosely organized coalition of political parties, civic groups and community organizations. What brings these groups together are their calls for universal suffrage (i.e. "one-person, one vote") to choose the city's chief executive and legislators and their critique of China's authoritarian system. These ideological issues distinguish them from the pro-Beijing camp as represented by the Democratic Alliance for the Betterment and Progress of Hong Kong. But on the economic and social issues, most pro-democratic and pro-Beijing politicians have much in common. They all defend Hong Kong's free market economy, its social welfare net for the poor, and the growing economic links with the Mainland.

The fourteen chapters of the book are thematically divided into several sections. Ming K. Chan, in the introduction, lays out the conceptual framework of the volume and highlights three factors that have shaped Hong Kong-China interactions over the last decade. First, the problems of governance crisis under Chee-Hwa Tung, the first Chief Executive, and the administrative incompetence of Donald Tsang, Tung's successor, have undermined the legitimacy of the post-1997 administration. Second, there has been a strong sense of economic vulnerability among people in Hong Kong after the Asian financial crisis of 1998. The current global financial turmoil exacerbates this sense of insecurity. While local politicians and community activists are collaborating with each other to fight for more welfare resources, the Hong Kong government with its undemocratic mechanisms is incapable of accommodating these social and economic grievances. Third, there is an incomplete transformation of Hong Kong's collective identity from a postcolonial city into an integral part of China. As Hong Kong becomes increasingly dependent on the Chinese economy, local officials, business leaders and middle-class professionals have yet to reposition Hong Kong as an important player in China's rise. According to Ming K. Chan, the new China-Hong Kong dynamics and the internal state-society encounters will continue to affect the future development of Hong Kong.

The four chapters in Part 1 of the book deal with political issues. Sin-por Shiu argues that Hong Kong has experienced dramatic changes “under the [Chinese] policy of no change.” One major change is the rise of contentious politics. Without an overarching national ideology and identity, it is difficult for all the different political factions to negotiate and reach consensus. Furthermore, Hong Kong is still “a vibrant civil society, with a free press and freely organized political parties.” It is indeed a serious political challenge for Beijing to manage this open and diverse society (p.57).

Next, Margaret Ng criticizes Beijing’s reluctance to implement the system of “one person, one vote” to elect the chief executive and legislators. Ng asserts that Beijing only transferred political authority to its agents in Hong Kong; it did not hand over power to the Hong Kong people and their directly elected representatives. Because Beijing refused to implement the election of the chief executive and of the legislators by universal suffrage, its handpicked agents have never gained much legitimacy in the eyes of the Hong Kong people. According to Ng, the pro-democratic camp has two options: one is to mobilize the silent majority of the population in the struggle for universal suffrage; another option is to rally popular support by politicizing the issues of environmental protection, heritage preservation and urban planning. Unlike Margaret Ng, Ronnie Chan takes a pro-Beijing view and blames the pro-democratic camp as a destabilizing force in local politics. In line with the Communist rulers in Beijing, Ronnie Chan calls for the de-politicization of Hong Kong, with the aim of keeping the city as an economic center within China.

Suzanne Pepper’s chapter is one of the most well-researched and insightful studies in the book. Pepper clearly states that political allegiance to the Chinese authoritarian state has become the prerequisite for universal suffrage in Hong Kong. Unless people in Hong Kong adopt the Chinese socialist model of governance, Beijing will never allow them to directly elect their chief executive and legislators. Pepper also points out that the Basic Law is “a political document written to ease anxieties created by the transition from British to Chinese rule” (p.121). Therefore, the interpretation of the Basic Law is contingent upon circumstances. Since 1997, Beijing has consolidated its control over Hong Kong. Through its political agent, the Democratic Alliance for the Betterment and Progress of Hong Kong, Beijing succeeded in establishing strong electoral base areas in local neighborhoods. The pro-Beijing politicians have also mastered the skills of democratic electioneering and defeated the pro-democratic camp in elections. They recently won most of the District Board elections and dominate the city’s political landscape. Such electoral victory is reminiscent of the classic Maoist strategy of guerrilla warfare, “encircling the city from the country,” which in this case involves creating new alliances with other pro-Beijing groups in order to marginalize the pro-democratic camp in the Legislative Council and District Board elections. The colonially-educated and westernized politicians in the pro-democratic camp have little knowledge of the revolutionary history of the Chinese Communist Party, and they have underestimated Beijing’s tactics of co-optation and mobilization at the grassroots level. According to Pepper, unless the pro-democratic camp publicly challenges Beijing’s agenda of totally merging Hong Kong with Mainland China in 2047, they will never rejuvenate themselves in the coming elections.

Part 2 of the book presents two essays on the implementation of the Basic Law. Wang Zhenmin clarifies the Chinese official position on the Basic Law. According to Wang, the National People’s Congress Standing Committee in Hong Kong has the “power of final interpretation” over the Basic Law, and the Hong Kong Court of Final Appeal only has the “power of final adjudication.” Whether this legal mechanism can safeguard Hong Kong’s rule of law in times of constitutional disputes remains unknown. Douglas W. Arner and Berry F. C. Hsu explore the relationship between the rule of law and economic growth, stating that

it is the well-established tradition of the rule of law, not democracy, which protects financial institutions and ensure Hong Kong's economic stability.

Part 3 has four chapters addressing economic and social matters. Drawing on the latest business statistics, Sung Yun-wing argues that Hong Kong needs to reinvent itself as a new offshore center of market capital for Mainland China in order to remain competitive in the global economy. With respect to the growth of non-governmental organizations (NGOs), Yan-yan Yip and Christine Loh discuss how these grassroots organizations succeeded in using the internet to mobilize young people in public protests, building various issue-based coalitions among the citizens, and challenging the government in court on environmental and civil rights issues.

Alvin So examines the goals, participants, organizational mechanisms and mobilizing strategies of a number of social movements from 1997 to 2007, ranging from protests for social equality and justice and the protection of local cultural heritages to protests against the World Trade Organization and sweatshops in China. These movements were highly spontaneous and lacked a unifying ideology; they relied on the Internet to mobilize young activists for action. The future of these movements will depend on their ability to work with other existing political parties and to build coalitions across the ideological and social spectrums. Tuen-yu Lau and Raymond Cheng critique the commoditization of Hong Kong media, especially the widely circulated newspapers. Because of commercial pressures and lack of editorial independence, most newspapers tend to publish sensational stories rather than engaging the public in serious debates about democratization, economic development and Hong Kong-China relations.

Part 4 of the book discusses the transformation of Hong Kong from global and comparative perspectives. Sonny Shiu-hing Lo analyzes the strategic importance of Hong Kong to China's Taiwan policy and Taiwan's leaders' perceptions of Hong Kong after 1997. As Beijing is keen to engage the Kuomintang Administration in talks about reunification issues, it will avoid imposing authoritarianism in Hong Kong in order to make the model of "One Country, Two Systems" appealing to Taiwan. Though Beijing intends to use Hong Kong as a showcase to Taiwan, Taiwan's leaders are not concerned with Hong Kong's democratization; their first priority is always the balance of power across the Taiwan Strait. Larry Diamond critically reviews all the institutional constraints of implementing universal suffrage in Hong Kong. He urges the pro-democratic camp to build alliances with other interest groups so as to achieve the direct election of the chief executive in 2017 and that of legislators in 2020 as agreed by the National People's Congress of China. James Cunningham, the U.S. Consul-General in Hong Kong, gives a positive evaluation of Hong Kong's development under Chinese rule and urges Beijing to implement universal suffrage in the city.

A major strength of this edited volume lies in its coverage of diverse perspectives and topics on Hong Kong's politics. Some chapters are more informative and insightful than others, but this book fills an important gap in the current literature on Hong Kong as China's Special Administrative Region.⁴ While most studies discuss political changes in the post-1997 era, this work challenges readers to think about the eventual merger of Hong Kong with the Mainland in 2047 and to reevaluate the relevance of the "One Country, Two Systems" model in the coming decades.

By comparison, *Macroeconomic Linkages between Hong Kong and Mainland China* is a collection of policy papers on Hong Kong's economic ties with China. Featuring studies by a team of economists from the Hong Kong Monetary Authority, this book applies the latest models of quantitative analysis to examine cross-border business statistics. It cogently defines the most current economic trends in Hong Kong.

The book is composed of eleven chapters. The introductory chapter by Dong He emphasizes the importance of trading networks and financial market ties between Hong Kong and China in the post-1997 era. The next five chapters deal with the flows of commodities, services and capital between Hong Kong and China and discuss the potential of further economic growth for Hong Kong. Chapter 2 by Dong He, Chang Shu, Raymond Yip and Wendy examines a variety of economic shock scenarios that will affect the Hong Kong and Chinese economies, such as the revaluation of the Chinese *yuan*, an economic slowdown in the U.S., a trade war between China and the U.S., oil price hikes, a sharp decline in foreign direct investments, global credit crises, and banking and financial instability. The researchers point out that the economic shocks caused by a trade war and financial instability would seriously reduce Hong Kong's growth. As Hong Kong is deeply integrated into the Chinese and American economies, the city's business cycles are subject to external influences. The tangled economic relations of Hong Kong, China and the U.S. are discussed by Hans Genberg, Li-gang Liu and Xiangrong Jin in Chapter 3. Their findings suggest that as China permits capital flows across the border, any fluctuations in Mainland financial markets will have a significant impact on Hong Kong.

In Chapter 4, Li-gang Liu, Kevin Fan and Jimmy Shek present an analysis of statistical data on trade to show that re-exports of goods from China to other economies have constituted the largest item of Hong Kong's exports, and that exports of banking, financial and trade-related services from Hong Kong to China and the U.S. have been a fast-growing sector in recent years. With respect to the growth of service exports, Chapter 5 by Frank Leung, Kevin Chow, Jessica Szeto and Dickon Tam calls for the need to transform Hong Kong from a transit port for Chinese manufactured goods into an offshore financial center for China.

If Hong Kong always serves as a transit port and an offshore service center for the Mainland, how much does the city import from China for domestic use? In Chapter 6, Frank Leung and Kevin Chow address this question by showing that retained imports from China make up less than 20% of the total imports for consumption in Hong Kong. Therefore, appreciation of the Chinese *yuan* would not have a strong impact on local consumer prices.

The next three chapters investigate the scale of cross-border capital flows and the policy implications of this for Hong Kong. In Chapter 7, Joanna Shi and Andrew Tsang point out that Hong Kong has been a net investor in terms of direct investment and portfolio investment in the Mainland. This particular financial sector is a strategic area for further expansion. The Linked Exchange Rate System is examined in Chapter 8. Dong He, Frank Leung and Philip Ng suggest that American stocks still dominate the growth of Hong Kong's stock market, even though the influence of Mainland stocks is rising. Therefore, it is asserted that Hong Kong should not abandon its current mechanism of a linked exchange rate with the U.S. dollar. Through a critical study of the investment of Chinese capital in Hong Kong, Lillian Cheung, Kevin Chow, Jian Chang and Unias Li stress in Chapter 9 that the major attraction of Hong Kong to Mainland investors has to do with "its role as a platform to invest in shares of domestic [Chinese] enterprises that are not listed on the Mainland or that have higher liquidity in Hong Kong's stock market compared to the Mainland's" (p.262).

The last two chapters concentrate on the efficiency of market capitalization in Hong Kong and China. Chapter 10 by Tom Fong, Alfred Wong and Ivy Wong looks at China's financial mechanism that allows Mainland companies to issue both A shares on the Chinese stock market and H shares in Hong Kong. Their studies draw attention to the problem of disparities between A and H share prices of the same large Mainland companies and express concerns about the segmentation of stock markets in China and Hong Kong. Unless a new mechanism is created to address the price disparities between A and H shares, there will be financial instability in both markets. To follow up on this issue in Chapter 11, Wensheng Peng, Hui

Miao and Nathan Chow propose that price convergence of the dual-listed A and H shares must be achieved. Otherwise, speculative activities will exacerbate the volatility of financial markets in Hong Kong and China.

Because of the strong manufacturing, logistical and financial ties between Hong Kong and China, the authors and editors of this book call for both governments to create efficient mechanisms to ensure financial market stability. Methodologically they draw on extensive business statistics to investigate Hong Kong's macroeconomic linkages with the Mainland, and the tables, figures and charts in each chapter provide useful quantitative data for reference.

Taken together, the two edited works provide much food for thought about the future of Hong Kong. One implication is that Hong Kong can easily translate its economic strengths into political resources in negotiating with Beijing over constitutional matters. Instead of strictly following the model of "One Country, Two Systems," Hong Kong may want to play a more proactive role in China's rise. At this time, Hong Kong is still coping with the after-shocks of the global financial crisis. The Hong Kong government is determined to minimize the damage of the economic meltdown. In the long run, it is important for Hong Kong to become China's "Wall Street" in order to manage the outflow and inflow of Chinese capital. As Hong Kong, Macao and Canton will soon be integrated into a greater metropolis in South China's Pearl River Delta, Hong Kong needs to become a regional driving force of the financial, banking, service and high-tech industries. In this perspective, the future of Hong Kong lies in its ability to contribute to China's rise in the twenty-first century. This is the only guarantee of a smooth transition in Hong Kong's eventual merger with the Mainland in 2047.

In short, these two books throw light on Hong Kong's latest political and economic developments and its changing relations with China. These works are timely and insightful, and should be of interest to scholars, journalists, economists, policy makers, and students concerned about Hong Kong today.

Notes

¹ G. John Ikenberry, "The Rise of China and the Future of the West: Can the Liberal System Survive?" *Foreign Affairs* 88, no.1 (January/February 2008), Retrieved December 28, 2008 from <http://www.foreignaffairs.org/20080101faessay87102/g-john-ikenberry/the-rise-of-china-and-the-future-of-the-west.html>; Harold James, "The Making of a Mess: Who Broke Global Finance, and Who Should Pay for It?" *Foreign Affairs* 88, no.1 (January/February 2008), Retrieved December 28, 2008 from: <http://www.foreignaffairs.org/20090101faessay88111/harold-james/the-making-of-a-mess.html>; Joseph Tse-Hei Lee, "The Dragon and the Eagle: China's Encounters with the United States in the Third World," *Asia Journal of Global Studies* 2, no.1 (2008): 2-15.

² Andrew Batson, "U.S., China pledge joint fiscal effort in global crisis," *The Wall Street Journal* (November 6-7, 2008), p.A7.

³ James T. Areddy, China says it may use yuan to help stability," *The Wall Street Journal* (November 4, 2008), p.A10; Andrew Batson and Gordon Fairclough, "Slowdown in China gets worse, increasing global woes," *The Wall Street Journal* (December 11, 2008), p.A1 and A.13; Andrew Batson, "Chinese factories, led by steel, slow to a crawl," *The Wall Street Journal* (December 16, 2008), p.A10; Jason Leow, "China leaders promise more liberalization," *The Wall Street Journal* (December 19, 2008), p.A10; James Fallows, "Be nice to the countries that lend you money," *The Atlantic* (December 2008), pp.62-65.

⁴ Joseph Y. S. Cheng (ed.), *The Hong Kong Special Administrative Region in its First Decade* (Hong Kong: City University of Hong Kong Press, 2007); Yue-man Yeung (ed.), *The First Decade: The Hong Kong SAR in Retrospective and Introspective Perspectives* (Hong Kong: Chinese University

Press, 2008); Agnes S. Ku and Ngai Pun (eds.), *Remaking citizenship in Hong Kong: Community, Nation and the Global City* (London: RoutledgeCurzon, 2004); Bernard Hung-Kay Luk, "Hong Kong's Post-1997 Transformation in Perspective: A Review Article," *Pacific Affairs* 76, no.2 (Summer 2003): 257-263; Siu-Keung Cheung, "Frozen Time, Frozen Space: Critical Messages for Post-1997 Hong Kong Studies," *Hong Kong Journal of Social Sciences*, no.34 (Spring/Summer 2008): 57-81.