

# PROMARKET

## Politics, Inconsistent Economic Policies, Destructive Dissatisfaction: The Roots of Hong Kong's Malaise

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I was born and raised in Hong Kong. Like many others, my extended family stayed on while I have been living abroad for several decades. Hong Kong is my home in my heart and spirit. Hong Kong has been a globally admired city. From being a British colony to being a part of China, it has developed and maintained its rule of law and international financial hub status. It ranked 4<sup>th</sup> in the World Bank's 2018 Human Capital Index and 5th in the Ease of Doing Business Index. The Cato Institute reported that Hong Kong's Individual Freedom in 2019 was among the world's top three nations. Hong Kong's per capita GDP has climbed to 15<sup>th</sup> in the world, ahead of Germany, France, and the UK, according to the IMF World Economic Outlook (Oct 2019). Hong Kong has the world's highest life expectancy and an enviable universal public hospital care system.

In short, Hong Kong's achievements are evident and undeniable.

Shockingly, the proposal to amend an existing extradition bill in February 2019 triggered social unrest that has already lasted for more than a year; and many "peaceful" protests ended in unthinkable violence.<sup>1</sup> In addition to significant economic hardship, experienced especially by the lower-income classes, Hong Kong has become a deeply fractionalized society: yellow (anti-government and anti-China) vs. blue (anti-protesters and pro-establishment).<sup>2</sup> Almost everything is politicized.

Hong Kong's future, and even its governability, may be jeopardized. For example, the City's effort to battle the Covid-19 pandemic, including the government-sponsored "free test" offer with assistance from Mainland doctors, is hindered by a distrust of the government and an openly anti-Communist Party of China (CPC) attitude harbored by many in the younger generations. There are now many public discussions on whether the judiciary exhibits politically biased court decisions; the debates threaten judicial independence. Political polarization is expected to continue in the up and coming Legislation Council session in 2020.

The current discordant atmosphere in Hong Kong has been decades in the making.

### Opposition Politics, Hong Kong Style

The Sino-British Declaration of 1984 committed Britain to return Hong Kong to China in 1997. It also committed Beijing to preserve Hong Kong's system and let Hong Kong people run Hong Kong. The Basic Law, Hong Kong's mini-constitution, was approved by the Standing Committee of the National People's Congress in China in April 1990.

The Basic Law's Article 1 stipulates that Hong Kong is an inalienable part of China. Article 5 states that the socialist system and policies shall not be practiced in Hong Kong, and the previous capitalist system and way of life shall remain unchanged for 50 years. Note that the article is silent as to whether China will fully absorb Hong Kong after 2047; the option is in China's hands.

The Basic Law promises that only Hong Kong citizens run Hong Kong: the Chief Executive would be a Hong Konger, as would be the appointed ministers. It preserves the Common Law system in Hong Kong and has actually given Hong Kong more judicial independence than before. (The improvement is that the Final Court of Appeal with adjudication rights now resides within Hong Kong instead of outside of Hong Kong, e.g., in the Privy Council in London.) Article 45 promises gradual and orderly progress towards universal suffrage in selecting its Chief Executive and Legislative Council members. (The Legislative Council is now an elected body.) Article 27 guarantees freedom of speech and association in Hong Kong.

However, Article 23 stipulates that Hong Kong would not be a base for subversive activities and that it has to set up national security laws. (This is a CPC stance which the British government accepted and cooperated with during the colonial time.) Article 104 states that the Chief Executive, principal officials, members of the Executive Council and the Legislative Council, judges of the courts at all levels, and other members of the judiciary swear to uphold the Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China and swear allegiance to the Hong Kong Special Administrative Region of the People's Republic of China.

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### **The Mission and the Hurdles**

The Basic Law liberated Hong Kong from more than 150 years of colonial authoritarianism at the 1997 handover. It established in Hong Kong a democratic balance of power between the Executive Branch and the Legislative Council and elevated Hong Kong's judicial independence. This is the one country, two systems arrangement that will last until 2047, after which China has no further explicit contractual obligations. Following the Basic Law is the only way to preserve “one country, two systems.”

China's strategic intent is likely final full integration. Back in 1997, Hong Kong was already a first-world city with a per capita GDP 35 times that of China's. China was still trying to develop its market system. The CPC technocrats could only hope to learn from Hong Kong about how the market works, the rule of law, a high level of civil rights, and how to preserve political stability. The journey would be challenging because China was and still is, ultimately, the “boss.” Moreover, Hong Kong's 6.5 million people were less than 0.5 percent of China's population. However, its GDP per capita was 35 times of China's in 1997. This is an intriguing human experiment.

There were challenging hurdles even before the journey began.

The Basic Law drafting committee was formed in 1985 and comprised of prominent leaders in Hong Kong and members from China. Unfortunately, the crackdown on the June 4<sup>th</sup>, 1989 Tiananmen Square protest created a considerable distrust of the CPC; some very prominent Hong Kong representatives resigned from the committee. They formed the core political opposition, trying since their resignations to attain their preferred changes in Hong Kong.

The political reform led by the last British-appointed Governor, Chris Patten, cemented the development of a hardcore coalition. Since 1997, the Coalition has been challenging the Executive Branch's policies and opposing Hong Kong's integration with China. They have been pursuing their vision of a future Hong Kong.

Meanwhile, the reforms developed by the British Hong Kong government since the mid-eighties liberalized mass media communication. A generous welfare program introduced in 1993 attracted many economic immigrants from the Mainland, which negatively affected Hong Kongers' perception of Chinese immigrants.

The Hong Kong government was inexperienced in the newly-created opposition politics. Before 1997, Hong Kong had a colonial-style concentration of power. The British government appointed a governor without consulting Hong Kong's population. The Appointee led the Executive Branch. He chaired and controlled the largely non-elected Legislative Council. Also, the legal adjudication rights and final interpretation rights resided in Privy Council based in London. The government had tight laws controlling the mass media. It had a strict Sedition Ordinance, which was consolidated into the Crime Ordinance in 1972. In this era, Hong Kongers were mostly apolitical; the British-Hong Kong government deported rebels. Hong Kong's civil servants merely followed and implemented orders and had little experience dealing with public sentiment. These civil servants are currently leading the Executive Branch.

### **Inconsistent Policies and Economic Grievances**

The post-1997 Hong Kong government saw two decades of tug of war between the executive branch and multiple interest groups. The result was many inconsistent policies that caused ordinary Hong Kongers immense economic grievances, especially the younger generation. For instance, while the government had a liberal approach toward attracting immigrants from China, it failed to provide affordable housing and increase the supply of doctors.

The Opposition in the Legislative Council drove this inconsistency. It objected to the Executive Branch's plan to curtail the influx of immigrants. It then objected to the Executive Branch's plan to increase the supply of affordable housing. It also objected to plans to reduce the hurdle for highly-qualified foreign university-trained doctors to practice in Hong Kong,

Yet, the Executive Branch and its supporters practiced very liberal pro-market policies harmful to inclusive growth. It fully liberalized rent controls in 1998, which the British Colonial government dared not do before. However, it did not mitigate monopolistic behavior by dominant developers. Furthermore, the surge in land value and housing cost came just as China started its post-WTO (2001) strong growth. Since then, manufacturing jobs have all but moved to the Mainland while the financial sector has surged.

Hong Kong's open market policy in financial and human capital flow (except the professional society controlled sector like the medical sector) pushed up real estate prices further, hollowed-out job opportunities in the middle, and intensified competition for human-capital-intensive jobs.

The economic policies made Hong Kong China's financial center—it is to China what Manhattan is to the rest of the US.

However, Hong Kong's Opposition Coalition forestalled efforts to allow smooth human traffic between Hong Kong and the Mainland. It also imposed constraints in preparing Hong Kong's younger generation for the rising Chinese economy. Some of them fostered a "Hong Kong First" identity, attempting to differentiate Hong Kongers from the Chinese. Hong Kong's education system did not make Mandarin a core language subject. It demoted Chinese Literature and History from the core to elective subject status in its Diploma for Secondary Education Exam.

Two decades of inconsistent policies created deep-seated economic grievances: widening income gap, sky-rocketing housing cost, hollowing out of economic opportunities, and a declining delivery in education. At the same time, they failed to utilize economic opportunities in China, particularly the Pearl Delta's Greater Bay Area. Currently, the pandemic and unrest raised Hong Kong's unemployment rate from 2.9 percent in Oct 2019 to 6.5 percent in August; the youth unemployment rate shot to 18.5 percent. These are terrifying statistics in Hong Kong's economic history.

One cannot help but lament that underneath Hong Kong's world-class international financial center status, top-ranked per capita GDP, and universal free hospital care, is a generation of squeezed youth. They are the victim of accountability-lite politics: polarized politicians pursuing their own visions but not inclusive growth and a better economic future for Hong Kong's less-than-privileged. How would the dissatisfaction manifest itself? At whom would the victims vent their frustration? We shall turn to these intriguing questions in Part II.