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**Research Report**

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## Hong Kong under New Leadership

One Country versus Two Systems?

*Kay Möller*

On 21 June 2005, the government of the People's Republic of China (PRC) appointed Hong Kong's top official, Donald Tsang Yam-kuen, new leader of the former British colony. Tsang replaces former shipping magnate Tung Chee-hwa who had resigned under Peking's pressure two years before the end of his term after a series of misjudgements. In 2003, Tung's approval rating had dramatically fallen amidst the backdrop of a continued recession and unsuccessful attempts to amend the territory's internal security laws. Whereas Hong Kong's economy has since recovered, contradictions inherent in the "one country, two systems" formula between the PRC leadership's interest in an apolitical city under central control on the one hand and the "high level of autonomy" granted the territory on the other have not been reconciled.

In April 2005, the Standing Committee of China's National People's Congress (NPC) decided that Tsang's leadership would be limited to the two remaining years of Tung's term of office. Earlier, the government of the Hong Kong Special Administrative Region (SAR) had for the third time called on the Standing Committee to interpret the territory's 1997 Basic Law that normally provides for a five-year term for the chief executive. Representatives of the democracy movement within and outside the Democratic Party voiced their concern that the shortened term would make the successor particularly beholden to Peking.

Because of his popularity and administrative experience as a former colonial official and head of the SAR civil service, Tsang had been the chosen candidate of the

PRC leadership from the beginning. In June, he was declared chief executive after his two opponents (the leader of the Democratic Party and a stockbroker and member of parliament) had failed to secure nomination by an appointed election committee. Critics have emphasised the undemocratic character of the proceedings and have demanded to select the chief executive through free and direct elections in 2007. Whereas the Basic Law would allow such a reform as a matter of principle, Peking, as early as 2004, had decided not to invoke the respective clause in 2007.

### Re-Politicisation

In Hong Kong, a broad public debate on the fate of the democratisation process

launched by the last British governor, Chris Patten, had abated following the handover to China on 30 June 1997. Peking had revoked Patten's electoral reforms and had ensured that "pro-China" parties supported by conservative business interests and certain trade unions would hold a majority in the SAR's Legislative Council (Legco). At the same time, amidst the backdrop of the East Asian crisis, public interest shifted from the China issue to economic and social topics that had hitherto been neglected by pro-democracy forces. However, Chief Executive Tung Chee-hwa did not live up to the challenge either. Once employment and property prices had fallen—first as a consequence of the regional contagion and structural change, and then in response to the 2003 SARS epidemic—a single misstep was sufficient to transform the commercial hub into the very "political city" that Peking least wanted to see. This became clear in the middle of the year when Tung, confronted with mass demonstrations and criticism from among his own supporters, had to withdraw drafts for stricter security laws that had been demanded by China. In November 2003, representatives of the democracy movement won two-thirds of all seats in district elections. In September 2004, and an unfavourable election system notwithstanding, they secured twenty-five of thirty directly elected mandates in the sixty-seat Legco. Since then, practically every initiative launched by the Hong Kong government became a topic of controversial public and parliamentary debates. In December, China's head of party and state, Hu Jintao, on the occasion of a visit to Macau, publicly criticised Tung Chee-hwa, thus sealing his fate.

The democracy movement had made use of the dispute to demand free elections of the chief executive and the Legco at the earliest possible dates, i.e., 2007 and 2008, respectively. In August 2004, the NPC's Standing Committee interpreted the respective clause in the Basic Law as meaning that it alone would be entitled to decide on the necessity of free elections. Whereas Donald

Tsang has committed himself to Hong Kong's "freedom and equality" as a matter of principle, he has avoided making comments on the issue at hand. Whether or not the Democrats will be able to further strengthen their position over the next two years with the help of the constitutional debate basically depends on two things: macroeconomic trends and the image that Tsang can project of himself as an efficient mediator between Hong Kong and Peking.

### **Economic Recovery**

Having moved most of its own manufacturing activities to the mainland since 1997, Hong Kong has lost its privileged position as China's entrepot-trader since the PRC's 2001 accession to the World Trade Organisation. Tung Chee-hwa's attempts to attract new high-tech and "creative" industries were only partly successful. In the meantime, the territory has transformed itself into a services hub. Structural change and related developments (such as the decline in property prices as a result of purchases made by Hong Kong citizens in neighbouring Shenzhen and the relative overvaluation of a Hong Kong dollar pegged against the US dollar) resulted in growing unemployment and a five-year deflation.

The latter was subsequently prolonged by the 2003 outbreak of the SARS lung disease that claimed the lives of some 300 residents. At the same time, the Hong Kong government, as owner of all land, registered an increasing budget deficit that was further aggravated by growing expenses for social security and the civil service. The economy came to a halt in 2001, and it was not until 2004 that growth resumed at a rate of 8 per cent.

This recovery was mainly due to the government's gradual withdrawal from low-cost housing projects and new incentives for the China trade. The latter were the result of Peking's decision, taken in the aftermath of the 2003 demonstrations, to facilitate Hong Kong tourism by mainlanders and to further integrate the territory's

economy into the booming Pearl River delta by reducing tariffs for a great number of products while according equal treatment to providers of services. Even though real estate and stock market speculation may have played important roles in the economic recovery, overall trends would signal an early end to the process of structural change. Unemployment fell from 8.7 per cent in the summer of 2003 to 5.7 per cent in May 2005, thus probably hitting the structural ground.

### Political Uncertainties

With an increasing dependence on the mainland economy, Hong Kong's "international" character, frequently referred to by Donald Tsang, will undergo further adaptation. A regional or international centre for business and finance depends on the rule of law and freedom of the press to a far greater extent than any other big Chinese city. Whereas both principles have survived the 1997 handover, journalists critical of the government have repeatedly been threatened, and there have been instances of media self-censorship. Amidst the backdrop of the 2004 campaign for greater democracy, official media in Peking and pro-Chinese newspapers in Hong Kong emphasised the precedence of "one country" over "two systems" while demanding that the territory should be led by "patriots." Similar contradictions with the autonomy principle had emerged during the debate on the security legislation through which the central government, among other things, had tried to introduce the fact of subversion, previously unknown in Hong Kong's common law.

Prior to the 1997 handover, the British government and the liberal wing of the local elite had been hopeful that a professional and independent civil service would protect Hong Kong's autonomy from excessive Peking pressure. This expectation has been disappointed to some extent. Following criticism of some of his policy decisions by key officials, Tung Chee-hwa appointed

a cabinet in 2004 on criteria of political merit, thus trying to contain civil-service influence.

Donald Tsang was a civil servant himself. However, as a cabinet member he was also responsible for some of his predecessor's misjudgements. Tsang has announced his intention to keep Tung's "ministers," thus signalling a continuity that will be applauded in Peking more than at home.

China has been concerned about a re-politicised Hong Kong becoming a thorn in its side. Tsang therefore will have to address a legitimacy problem that had weakened his predecessor both at home and in the capital. This problem consists in the co-existence of a non-elected chief executive with an (albeit both directly and indirectly) elected Legco, to which the former is partly accountable. As a matter of principle, the PRC leadership can feel secure for as long as the present electoral system is being maintained in which thirty of sixty Legco seats are indirectly awarded through elections within (mostly conservative) business and professional associations, with proportional suffrage being applied to the remaining thirty, resulting in instances of democrats competing with fellow democrats. At the same time, both the pro-Chinese and democratic camps have courted local middle classes that tend to blame economic instability on the aforementioned contradictions while viewing a meaningful autonomy as being conducive to stability. In this regard, one can easily imagine new conflicts between Hong Kong and Peking in the event, for instance, of the central government insisting on reintroducing the security legislation. Tsang has said he was opposed to a second try and may be a better communicator than Tung was in such situations. Should the PRC leadership find it necessary, however, to once again discipline the SAR, Tsang would appear as the local executor of an authoritarian capital and thus quickly lose his credentials as a defender of freedoms.

## International and Regional Implications

The fact that developments in Hong Kong are not merely PRC domestic problems can be seen from British and American protests voiced in 2004 against the possible undermining of the territory's autonomy, and from US appeals to move ahead on democratisation (the Washington administration is legally bound to annually report to Congress on the state of the SAR's autonomy. In case of doubt, it can withdraw certain privileges from Hong Kong). In 2003, the European Parliament supported free elections of the chief executive and the Legco in 2007 and 2008, respectively, while appealing to the SAR government to forthwith abstain from asking Peking to interpret the Basic Law. At the same time, the EU presidency said the fate of the security laws was an important test for the "one country, two systems" principle while recommending further democratisation as a reassurance against abuse.

At the regional level, there is a linkage between the Hong Kong and Taiwan issues. Deng Xiaoping had initially conceived the "one country, two systems" formula with a view to Taiwan. However, the number of Taiwanese supporters of a unification with China has been shrinking ever since, and the Hong Kong model of submission to central authority has been extremely unpopular in the island republic. In this respect, Peking, by applying a hard-line position vis-à-vis the SAR in 2004, also risked further alienating Taiwanese voters. This became obvious in March, when President Chen Shuibian was returned to office after having announced his intention to promote the island's legal independence. At the same time, China had tried to limit the damage by successfully pressuring the Bush administration to publicly admonish Chen while making less use of the Hong Kong formula in a Taiwan context.

If only because of their massive business presence, Germany and Europe hold stakes in the preservation and expansion of Hong Kong's autonomy. Furthermore, the ques-

tion as to whether an economic and cooperative imperative has replaced the old politico-revisionist imperative in Peking can best be answered when looking at a "Greater China" consisting of prospering coastal provinces, Taiwan, and Hong Kong. This area partly escapes central control and has become the potential core for the PRC's own peaceful evolution. Should Donald Tsang fail as dismally as Tung Chee-hwa did when trying to mediate between the old and the new China, doubts about the sincerity of Peking's policies of opening and integration would be justified. It is therefore important to continuously observe Hong Kong developments while responding to challenges to the territory's autonomy in consultations not only with the PRC, but also within Europe, across the Atlantic, and possibly in European-Asian as well as international frameworks and institutions.

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