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## **Business as usual: The dynamics of government-business relations in the Hong Kong special administrative region**

James T. H. Tang

# Business as Usual: the dynamics of government–business relations in the Hong Kong Special Administrative Region

JAMES T. H. TANG\*

*This is an attempt to evaluate the implications of Hong Kong's political transition to post-colonial rule for economic governance in the SAR beyond the 'Beijing versus Hong Kong' perspective. The article examines the changing government–business dynamics in Hong Kong after the reversion by focusing on three inter-related dimensions: economic ideology; institutional and policy framework; and the new political environment in post-colonial Hong Kong. By challenging the assertion that Hong Kong is returning to the pre-Patten colonial order under Chinese management, it argues that economic governance in Hong Kong has always been more complex than has been characterized in the literature. A conceptual framework incorporating the dynamic interplay of domestic and international factors is needed to comprehend the changing nature of government–business relationships in the SAR.*

## Introduction

The first Hong Kong Special Administrative Region (SAR) government under Chief Executive Tung Chee Hwa is seen to be a pro-business administration. Tung, a former businessman, won the leadership selection with the support of prominent local business leaders. His appointment has given rise to the suggestion that Beijing's promise of 'Hong Kong people ruling Hong Kong' (gangren zhigang) would transpire to be 'business people ruling Hong Kong' (shangren zhigang). Moreover, the rationale for Hong Kong's existence as a SAR and the privileges granted to the territory in maintaining a high degree of autonomy following the reversion is based primarily on economic consideration. Although the 'one country; two systems' formula is also used by the mainland government as a solution to

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bring reunification with Taiwan, Beijing would obviously like to see an economically thriving Hong Kong dominated by business interests rather than a politically active Hong Kong dominated by popularly elected democrats and grass-roots leaders.

Tung himself has repeatedly asserted that Hong Kong had become too politicized during the past decade or so of political transition since the signing of the Sino-British Joint Declaration on Hong Kong's future in 1984. He would, presumably, prefer the return of the old political order which was characterized by 'administrative absorption of politics' with the top echelon of government working closely with the business elite under the economic philosophy of *laissez faire* or a form of 'positive non-interventionism'. The government's minimalist approach in economic management is seen as a defining feature of the Hong Kong system, which the Chinese government has committed to preserve.

Prior to China's resumption of sovereignty over Hong Kong in July 1997, the territory had won the title as the world's freest economy for three times in a row in the Heritage Foundation's index of economic freedom. This assessment was well supported by the local business community. The government's role in business was ranked as the most appropriate by local business leaders according to a poll in May 1997 conducted in 10 economies in the Asia-Pacific region. In response to the question: how much influence does the government wield over business in your country, 80% of the respondents in Hong Kong said it was just enough, 10% stated that it was too much, and 5% said too little, and 5% said there was no influence at all. In Australia and Thailand, ranked second and third respectively in the poll, 38.5 and 46.3% of the respondents believed that their governments had too much influence over business. In Singapore, the Philippines, Malaysia, Taiwan, Indonesia, Japan and South Korea, half or more felt that their governments had too much influence.<sup>1</sup>

The incorporation of a free wheeling capitalist city by a large socialist country without changes is so unimaginable that many observers were not convinced that such an arrangement would work. In 1995, *Fortune* magazine even announced the death of Hong Kong as an international city.<sup>2</sup> Some also predicted cronyism and favouritism for those politically loyal to the central government and expected that labour organizations would become agents of the state rather than representing labour interests.<sup>3</sup> In the end, Hong Kong's reversion to China proved to be remarkably smooth. The British government was able to state in its first post-handover evaluation that: 'There has been no evidence of the Chinese Government trying to restrict the HKSAR's high degree of autonomy or to impose its own officials on the HKSAR Government. We saw no sign of Chinese involvement in the formulation of C. H. Tung's first annual policy address as Chief Executive, delivered in October. Chinese leaders have repeatedly stressed their commitment to the Joint Declaration and the HKSAR's autonomy'.<sup>4</sup>

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1. Asian Executive Poll, *Far Eastern Economic Review*, (29 May 1997).

2. Louis Kraar, 'The death of Hong Kong', *Fortune* 131(12), (26 June 1995), pp. 44-52.

3. Bruce Bueno de Mesquita, David Newman and Alvin Rabushka, *Red Flag Over Hong Kong* (Chatham, N.J.: Chatham House, 1996), pp. 114-117.

4. *Sino-British Joint Declaration Six-monthly Report to Parliament, July-December 1997* (London: Foreign and Commonwealth Office, 1998).

Hong Kong's liberal economic system has also continued to operate. In Heritage Foundation's first full year assessment of the Hong Kong SAR, the Foundation reported: 'There continues to be little government interference in the marketplace; taxes remain low and predictable; increases in government spending are linked closely with economic growth; foreign trade is still free; and regulations, in addition to being transparent, continue to be applied both uniformly and consistently'.<sup>5</sup> In December 1998, the World Trade Organization's first trade policy review of post-colonial Hong Kong concluded that the economic regime of the SAR had remained open.<sup>6</sup>

Contrary to most predictions, the most serious challenge for post-colonial Hong Kong was economic rather than political. The SAR plunged into an economic recession following the financial turmoil that swept through the East Asian region in the second half of 1997. With a slump in tourism, a drastic fall in retail trade, the stock and property markets collapsed and Hong Kong entered into recession. Less than 2 months after the first anniversary of the reversion the minimalist Hong Kong government launched a massive intervention in the financial markets at the end of August 1998. The Hong Kong government spent over US\$ 15 billion to acquire shares in the Hong Kong stock market to 'maintain the stability of the financial market against foreign speculators'.<sup>7</sup> Although the government has insisted that it was not a departure from the much cherished policy of 'positive non-interventionism', the magnitude and scale of the intervention was clearly unprecedented.

The SAR government defended its position as an attempt to fend off speculators who were accused of manipulating the Hong Kong currency through a double play strategy. The 'speculators', reportedly, attacked the Hong Kong currency (pegged at a fixed exchange rate of US\$ 1.00 to HK\$ 7.80) by massive selling of the Hong Kong dollar. They apparently attempted to reap huge profits by building up large short positions in the stock index futures, in anticipation of a fall in share prices when the Hong Kong Monetary Authority (HKMA) had to raise interest rates to defend the attack against the peg.<sup>8</sup> None the less, the intervention was widely seen to have violated free market principles. Although the Heritage Foundation still awarded Hong Kong the number one position as the freest economy in the world at the end of 1998, it warned that, 'we hope that Hong Kong's government will reverse this action and return to the free-market practices that made its economy so strong in the past—or its ranking surely will fall in next year's edition of the Index'.<sup>9</sup>

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5. Bryan T. Johnson, Kim R. Holmes and Melanie Kirkpatrick, *The 1999 Index of Economic Freedom* (Washington DC: Heritage Foundation, 1998).

6. *Trade Policy Review: Hong Kong, China* (Geneva: World Trade Organization Trade Policy Review Body, December 1998).

7. The amount spent (HK\$ 118 billion) on 26 October 1998 was disclosed following the first board meeting of the Exchange Fund Investment Limited. The company was set up by the government to manage the government's share holdings independently and on a level-playing field with other market players.

8. See for example a letter by Joseph Yam, Chief Executive of the Hong Kong Monetary Authority, *Financial Times*, (17 August 1998).

9. Preface in Bryan T. Johnson, Kim R. Holmes and Melanie Kirkpatrick, *The 1999 Index of Economic Freedom* (Washington DC: Heritage Foundation, 1998).

The government's action not only tarnished Hong Kong's reputation as the freest economy in the world and generated intense debates about the government's motivation, but also raised two other important questions. The first concerns the competence of the administration in managing the economic crisis. The second, which is the focus of this article, concerns the model of economic governance in Hong Kong. The discourse on the government's role in economic management cannot be meaningful without reference to the political context. Although the local business community has been supportive of the government's action, and the share prices of major local companies bounced back following the government's buyout, many prominent local businessmen complain that the business environment in Hong Kong has deteriorated because the SAR has become too politicized. The Director of the Hong Kong General Chamber of Commerce went as far as to state that Hong Kong was moving away from capitalism to socialism not because of pressure from Beijing, but because of internal political pressure for more welfare and labour rights.<sup>10</sup>

Chief Executive Tung has insisted that things have remained unchanged in the SAR after the reversion, but his views about the politicization of Hong Kong echo those raised by prominent figures in the business community. It is clear that the old colonial model of economic governance characterized by close government-business relationships is under stress and that the departure of the British does not simply represent the replacement of one group of business elite by another. This article is an attempt to evaluate the implications of Hong Kong's political transition to post-colonial rule for economic governance in the SAR beyond the 'Beijing versus Hong Kong' perspective. The article examines the changing government-business dynamics in Hong Kong after the reversion by concentrating on three inter-related dimensions: economic ideology, institutional and policy framework, and the new political environment in post-colonial Hong Kong. By challenging the assertion that Hong Kong is returning to the pre-Patten colonial order under Chinese management, it argues that economic governance in Hong Kong has always been more complex than has been characterized in the literature. A conceptual framework incorporating the dynamic interplay of domestic and international factors is needed to comprehend the changing nature of the government-business relationship in the SAR.

## **Economic ideology**

Hong Kong's minimalist approach to economic governance, which comes from the 19th century British tradition of allowing free play to market forces, has guided the government's economic policies ever since the establishment of colonial Hong Kong. In the classic model of a free economy, as Milton Friedman explained,

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10. Businessman Ronnie Chan Chi-chung suggested that the business community has become less influential because of the growing concentration of power in the hands of political parties and interest groups, see *South China Morning Post*, (12 December 1998). One of Hong Kong's most famous businessman, Li Ka-shing, declared that he intended to pull out of a HK\$ 10 billion project because he was not pleased with the political environment in Hong Kong, where some members of a political party attacked him for suing buyers who had defaulted on flat purchases developed by his company, see *South China Morning Post*, (23 December 1998). Remarks by Eden Woon Yi-teng of the General Chamber of Commerce were reported in *South China Morning Post*, (24 December 1998).

economic activity is organized primarily on 'voluntary exchange through the market'. Writing at the end of the 1970s, Friedman described Hong Kong as the best contemporaneous example of such a society.<sup>11</sup>

The champion of free market has this to say about the role of the government in Hong Kong: 'It has no government direction of economic activity, no minimum wage laws, no fixing of prices. The residents are free to buy from whom they want, to sell to whom they want, to invest however they want, to hire whom they want, to work for whom they want'. The role of the Hong Kong government, according to Friedman, is limited to: law and order enforcement, providing a means for formulating the rules of conduct, adjudicating disputes, facilitating transportation and communication, and supervising the issuance of currency. He suggested that: 'Although government spending has grown as the economy has grown, it remains among the lowest in the world as a fraction of the income of the people. As a result, low taxes preserve incentives. Businessmen can reap the benefits of their success but must also bear the costs of their mistakes'.<sup>12</sup>

What Friedman and some other free market advocates did not address was that although colonial Hong Kong was a minimalist state in the management of its economy, it was a strong state in terms of its institutional capacity and political dominance. Formal political powers were concentrated in the hands of the Governor and the administration ruled in coalition with the major business corporations with the support of prominent local Chinese.<sup>13</sup> Whilst economic development had generated a strong political demand for democracy in some other East Asian states, the Hong Kong state was not challenged politically until the Sino-British talks on the future of the territory began in the early 1980s. When political turbulence swept through neighbouring countries during the era of independence in the 1950s and 1960s, Hong Kong stayed politically stable under colonial rule. Politically, liberalization in Taiwan and South Korea during the early and mid-1980s did not stimulate strong political demands in colonial Hong Kong either. Contrary to works which suggested that pro-market developments would facilitate the growth of democracies, economically liberal Hong Kong remained undemocratic under British rule.<sup>14</sup>

The political arrangements for Hong Kong's reversion to China, negotiated between the Chinese and British governments during the mid-1980s, were designed to maintain the old colonial model of economic governance. Under this model the administration worked closely with the business community to maintain a free and stable economic environment through which Hong Kong managed to prosper in the past. Some scholars have described Hong Kong as a colonial welfare state because of its massive public housing programme, providing a comprehensive system of public education, public health, and subsidized public transport and social services.

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11. Milton Friedman and Rose Friedman, *Free to Choose* (Hamonsworth, Middlesex: Penguin Books, 1980), pp. 47-54.

12. *Ibid.*, p. 55.

13. A comprehensive account of how Hong Kong was governed is given in: Norman Miners, *Government and Politics of Hong Kong* (5th edition with post-handover update by James T. H. Tang) (Hong Kong: Oxford University Press, 1998).

14. A comparative study of the different paths of economic and political development in East Asia is Anek Laothamatas, ed., *Democracy in Southeast and East Asia* (Singapore: Institute of Southeast Asian Studies, 1997).

But even the revisionist interpretation acknowledges that the colonial state's involvement in economic affairs was far more subtle and indirect compared with other East Asian economies.<sup>15</sup> Indeed, few would question that the Hong Kong government genuinely believed in a free and open economy, even if its policies had not always been consistent with that economic philosophy.

The colonial administration's last annual report stated that, 'the government advocates free and fair competition. Business decisions are left to the private sector, except where social considerations are over-riding. It is considered that the allocation of resources in the economy is best left to market forces. Adopting this free-market philosophy, the government has not sought to influence the structure of industry through regulations, tax policies or subsidies'. The government also kept a low tax regime and contained the growth rate of public sector expenditure.<sup>16</sup> A recent analysis of the strength of the Hong Kong economy made the following observation: 'The clear separation in Hong Kong between the role of the government as referee, and the role of private companies as active players in the economy, is unique in Asia and rare world-wide'.<sup>17</sup>

At the time of the political handover in July 1997, the arguments that Hong Kong's economy would continue to prosper under the old colonial model of economic governance were very powerful. Although the Chinese economic system is officially socialist, socialism with Chinese characteristics clearly embraces principles of a free market economy. The new administration's more pro-business outlook as well as Beijing's economic interests in Hong Kong should also ensure that the political transition would not bring economic disruption. The Hong Kong economy remained robust, the economic fundamentals were strong. The ideology for a free market economy would continue to guide an executive-led and SAR government more interested in the creation of wealth than in democracy. The major concern seemed to be arising from the growing presence of mainland enterprises in the SAR and whether the administration could maintain the integrity of its legal system without special privileges for Chinese enterprises in the territory.<sup>18</sup>

The constitutional arrangements for the Hong Kong SAR, as promised by the Joint Declaration, and confirmed by the Basic Law are meant to ensure the continuation of the existing systems in Hong Kong. The Basic Law stipulated: 'The socialist system and policies shall not be practised in the Hong Kong SAR, and the previous capitalist system way of life shall remain unchanged for 50 years' (Article 5).

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15. Manuel Castels argued that the level of intervention in Hong Kong is as significant as in other East Asian states, and described it as a colonial welfare state, but he conceded that the Hong Kong state's involvement was more subtle and indirect. See his 'Four Asian tigers with a dragon head: a comparative analysis of the state, economy, and society in the Asian Pacific rim', in Richard P. Appelbaum and Jeffrey Henderson, eds, *States and Development in the Asia Pacific Rim* (Newbury Park: Sage, 1992), pp. 45–49.

16. Hong Kong 1997 (Hong Kong: Information Services Department, 1997), p. 64.

17. Michael J. Enright, Edith E. Scott and David Dodwell, *The Hong Kong Advantage* (Hong Kong: Oxford University Press, 1997), p. 30.

18. See for example, Yasheng Huang, 'The economic and political integration of Hong Kong: implications for government–business relations', in Warren I. Cohen and Li Zhao, eds, *Hong Kong Under Chinese Rule: The Economic and Political Implications of Reversion* (Cambridge: Cambridge University Press, 1997), pp. 96–113.



The legal framework of economic governance as provided for under the Basic Law included the following elements: independence, preservation of the present economic and legal framework, and development of appropriate policies to maintain the current financial system which is both liberal and highly open, with maintenance of the existing international network. They are stipulated by various articles in the Basic Law:

- The Hong Kong SAR shall have independent finances. It shall use its own financial revenues without contributing to the central government. The central government also cannot levy taxes in the SAR (Article 106).
- The SAR shall practise an independent taxation system and continue to pursue the low tax policy (Article 108).
- The Hong Kong SAR should provide an appropriate economic and legal environment for maintaining Hong Kong's status as a financial centre (Article 109).
- The Hong Kong SAR shall formulate its own monetary and financial policies, safeguard the free operation of financial business and markets with proper regulations (Article 110).
- The Hong Kong SAR shall ensure that currency shall continue to be freely convertible with no foreign exchange control, and the free flow of capital in and out of the territory (Article 112).
- The Hong Kong SAR shall maintain its status as a free port and remain as a separate custom territory, and pursue a policy of free trade (Articles 114, 115 and 116).

In a study of the legal order of the SAR, one of Hong Kong's most prominent public law experts suggested that 'the intention in the Basic Law was to entrench the existing capitalist system'.<sup>19</sup> The reference to previous/existing practices and policies suggests that the SAR government would have to operate within the economic framework prior to the time when the Joint Declaration was signed between the two sovereign governments. While the legal framework as stipulated by the Basic Law has guaranteed the independence and liberal orientation of the economic system in Hong Kong, the SAR would still be able to pursue such broad objectives using different instruments and with varying degrees of involvement in its macro-economic management.

After the political handover, the administration maintained its commitment to carry-on the *laissez faire* tradition. In fact there was little to worry about on the economic front. The SAR inherited a very strong economy. In 1997 Hong Kong was the world's 5th largest banking centre for external financial transactions; the 5th largest foreign exchange market; the 7th largest stock market; the 7th largest trader; and the busiest container port. It was ranked as the second most competitive economy in the world in 1997 (after Singapore) by the World Economic Forum and reclassified as an advanced economy by the International Monetary Fund. In the words of Donald Tsang, the first Financial Secretary of the SAR, 'Hong Kong is

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19. Yash Ghai, *Hong Kong's New Constitutional Order: The Resumption of Chinese Sovereignty and the Basic Law* (Hong Kong: University of Hong Kong Press, 1997), p. 152.

already the best place in the world in which to do business. The Government is totally committed to ensuring that it remains so'.<sup>20</sup>

A product of joint Sino-British consultation, Hong Kong's 1997-98 budget confirmed that the Beijing government had no intention of making Hong Kong socialist. The commitment to Hong Kong's role as an international business and financial centre with a guarantee of financial prudence was demonstrated by the administration's decision not to increase business and profit taxes. In 1998, when the Financial Secretary announced tax cuts and increased benefits for the public in the first budget that was prepared wholly for the SAR, he also maintained that the SAR government remained small and efficient, with total public expenditure kept below 20% of GDP.<sup>21</sup>

The financial turmoil which hit the Asian region in 1997 eventually also brought economic difficulties to Hong Kong. Outlining some of the economic problems that Hong Kong could have to weather in 1998 and 1999, the Financial Secretary still remained optimistic about the SAR's economic situation in early 1998. Acknowledging the economic pain for the SAR as a result of a sharp decline in stock market value and the property market, he remained positive about the economic outlook. While the government recognized that the financial turmoil would damage the territory's trade, and warned of the likely rise in unemployment, the Financial Secretary forecast a modest yet positive GDP growth of 3.5% for 1998. He also predicted a solid 4.8% growth in the export of goods and a 3.5% growth of exports in services as well as an inflation rate at around 5%.<sup>22</sup> In choosing 'Riding out the storm: renewing Hong Kong strengths' as the title of his speech, the Financial Secretary maintained that he was guided by two principles: assurance of continuity matched with incentive for new growth. The Chief Executive affirmed that, 'we practise sound macro-economic policy of small government, with strong support for the free market'.<sup>23</sup> This seemed consistent with the economic policy of previous administrations. In short, the new SAR government indicated that it would continue with a pro-business and laissez faire economic policy, i.e. 'business as usual'.

The economic downturn, however, proved to be far more severe than the SAR government had anticipated when in May the government revised its estimate that GDP could fall by 2% in real terms in the first quarter of 1998.<sup>24</sup> The government's response to the intensification of the economic problems in mid-1998—spending massive public funds in financial markets, introducing new regulatory measures and tightening discipline in the market—put a question mark to the government's commitment to a liberal economic ideology. Defending the government's August intervention, Joseph Yam, the Chief Executive of Hong Kong Monetary Authority,

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20. Donald Tsang, *The 1997-98 Budget: Continuity in a Time of Change*, 12 March 1997 (Hong Kong: Hong Kong Government, 1997).

21. *Ibid.*; Donald Tsang, *The 1998-99 Budget, Riding Out the Storm: Renewing Hong Kong Strengths*, 18 February 1998 (Hong Kong: Hong Kong Special Administrative Region Government, 1998).

22. *Ibid.*, pp. 8-9.

23. Speech by the Chief Executive, Tung Chee Hwa, at a lunch hosted by the Hong Kong Trade Development Council and the Conseil National du Patronat Francais International (French Employers' Association), in Paris, Wednesday, 11 March 1998.

24. Full details of the economic situation in early 1998 can be found in the government's *First Quarter Economic Report 1998* (Hong Kong: HKSAR government, May 1998).

maintained that the government had not changed its approach to economic governance in Hong Kong. Referring to remarks made by Sir Philip Haddon-Cave, a former Financial Secretary who coined the term “positive non-interventionism”, Yam argued that the government had always intervened in the economy when there were imperfections in the market.<sup>25</sup> Sir Philip clearly believed that the administration did have a role in the management of Hong Kong’s economy, but his view was that the government would provide the basic legal framework and infrastructure to facilitate the operation of market forces.<sup>26</sup> While the Hong Kong government may have responded to a crisis using extraordinary measures, Yam’s argument that the intervention was consistent with Hong Kong’s free market principle is clearly debatable.

While the government has continued to declare its commitment to a hands-off approach to economic governance, the degree of governmental intervention in the Hong Kong economy has deepened since the 1970s. With the growing sophistication of the Hong Kong economy, rising protectionism and the intensification of competition from neighbouring countries, the liberal economic ideology of the administration has been eroded over the past two decades.<sup>27</sup> It has been argued that the notion of ‘positive non-intervention’ marked the transformation of Hong Kong from an administrative state to a provider state in response to both challenges to the legitimacy of the colonial regime and an expansion of public services and more active approach to physical and human capital investment. By the late 1980s and early 1990s both government functions and services had expanded. The administration also stepped up regulatory actions and provided more support to local industries and widened the scope of participation in the political process. In 1995 the Financial Secretary Hamish Macleod signified the government’s new thinking with the term ‘consensus capitalism’ in his budget speech.<sup>28</sup> Reflecting growing pressure on the government to assume a more active role in regulating economic activities and supporting local businesses, the Hong Kong 1997 yearbook proclaimed that the government’s policy was ‘minimum interference and maximum support’.<sup>29</sup>

In his first policy speech as Chief Executive of the SAR, Tung suggested that under his leadership Hong Kong’s development strategy would be based on free market economy and a prudential fiscal policy. But he obviously considered that a new and more coherent economic strategy would be required to push Hong Kong forward. He set up a Commission on Strategy Development to ‘conduct reviews and studies on our economy, human resources, education, housing, land supply, environmental protection, and relations with the Mainland, to ensure that our

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25. Joseph Yam, ‘Intervention true to guiding policy’, *South China Morning Post*, (24 August 1998).

26. Norman Miners, *The Government and Politics of Hong Kong* (Hong Kong: Oxford University Press, 5th edition, 1991), p. 47.

27. For an analysis of the impact of protectionism on the world trading system see: Jagdish Bhagwati, *The World Trading System at Risk* (Princeton: Princeton University, 1991); a useful survey of economic developments in East Asia is given in Iyanatul Islam and Anis Chowdhury, *Asia-Pacific Economies: A Survey* (London: Routledge 1997).

28. For a brief discussion of the Hong Kong government’s changing role see Anthony Cheung, ‘Why there is more government intervention after the change of sovereignty?’, *Policy Bulletin* of the Hong Kong Policy Research Institute, No. 6, (July 1998).

29. *Hong Kong 1997* (Hong Kong: Information Services Department, 1997), p. 64.

resources are well used, and that we keep up with the world trends in competitive terms, and that we maintain the vitality of Hong Kong's economic development'.<sup>30</sup>

Tung further outlined his new vision for Hong Kong's economic development in 1998. In his second policy speech, the Chief Executive targeted industries which placed importance on technology and multi-media applications as priority industries in the government's economic strategy. Endorsing recommendations by the Commission on Innovation and Technology, he identified seven areas in which Hong Kong would like to position itself: as a leading city for the development and application of information technology; a world class design and fashion centre; a regional centre for multi-media-based information and entertainment services; a world centre for health food and Chinese medicine; a leading international centre for supplying high value-added products; a regional centre for supplying professional technological talents and services; and the market place for technology transfer between the Mainland and the world. In order to realize the goals, the government set up an Innovation and Technology Fund with an initial amount of HK\$ 5 billion to support 'mid-stream research'.<sup>31</sup>

Thus while the Tung administration preaches the fundamental beliefs of the economic ideology of the old colonial model, he obviously also wants to adopt a more pro-active approach in developing specific economic strategies for Hong Kong. If the SAR government is still committed to maintaining the openness of the economy, the erosion of the government's commitment to a liberal economic ideology has continued even more rapidly since the reversion.

### **Institutional and policy framework**

One major theme in the study of government-business relationships has been the concept of state-strength. Many works on major industrializing Northeast Asian economies, such as South Korea and Taiwan, have emphasized the existence of effective states with a well-developed bureaucracy capable of formulating economic policy without being captive to rent-seeking societal groups. While the political elite did form alliances with business interests, their relationship was highly unequal with the state acting as the dominant partner. Most of these states have been described as 'strong states' which were willing to coerce the business groups to move towards economic objectives formulated by the state.<sup>32</sup> The Hong Kong state, widely seen as a minimal state, has not been regarded as a dominant partner in its infamous alliance with the business community.<sup>33</sup>

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30. *Building Hong Kong for a New Era*, Address by the Chief Executive the honourable Tung Chee Hwa at the Provisional Legislative Council meeting on 8 October 1997 (Hong Kong: The Hong Kong Special Administrative Region of the People's Republic of China, 1997), paragraph 16.

31. *From Adversity to Opportunity*, Address by the Chief Executive The Honourable Tung Chee Hwa at the Legislative Council meeting on 7 October 1998 (Hong Kong: HKSAR government, 1998).

32. See discussions in Andrew MacIntyre, ed., *Business and Government in Industrializing Asia* (Ithaca: Cornell University Press, 1994), pp. 3-4. The standard work on the subject is: Frederic Deyo, *The Political Economy of The New Asian Industrialism* (Ithaca: Cornell University Press, 1987). See also Yu-han Chu, 'State structure and economic adjustment of the East Asian newly industrializing countries', *International Organization* 43(4); Stephan Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries* (Ithaca: Cornell University Press, 1990).

33. Norman Miners, *Government and Politics of Hong Kong* (Hong Kong: Oxford University Press, 1994), p. 46.

In fact the business elite had been very much an integral part of the system of governance in colonial Hong Kong. Business representatives were invited to serve the colonial government by an administration headed by a governor appointed by London from the ranks of the colonial service and, after the demise of the Colonial Office, the Foreign and Commonwealth Office (Chris Patten being the only exception). Local business elite exercised influences over government through representation in the territory's highest advisory body—the Executive Council, and its law-making body—the Legislative Council. Until the late 1980s members of both councils, dominated by top-ranking bureaucrats and representatives of major business interests, were all appointed by the government. The colonial administration also set up a consultative system in the form of committees to advise the government on matters related to the economy. While state–business relationships in colonial Hong Kong were far more delicate and complex than the East Asian economic model in which the state is always firmly in the driver's seat, the administrative state of Hong Kong also adopted corporatist strategies in maintaining its political position. Moreover, colonial Hong Kong was served by a well-developed and highly efficient bureaucracy and successfully went through its industrialization stage during the 1960s and 1970s.

The Hong Kong 'state', however, could hardly be considered as a 'weak state' in terms of its autonomy against society and its terms of its organizational capacity and its effectiveness in implementing policies. It has been described as such because it has kept government involvement in the economy to a minimum in the past. The weakness of the Hong Kong state was therefore the result of a policy choice guided by a liberal economic ideology and other political considerations. In terms of resource and capacity the bureaucratic machinery of Hong Kong is by no means weak.<sup>34</sup> Hong Kong's well established economic philosophy of 'positive non-interventionism', was therefore an outcome of not simply a pro-business agenda, but also a deliberate choice by a colonial administration whose *raison d'être* was almost completely commercial.

The Chief Executive of the SAR took over a powerful bureaucratic machinery when he assumed office on 1 July. Political power was always concentrated in the hands of the governor under colonial rule. The governors were advised by the Executive Council and implemented government policies through the policy branches, which were in turn supported by government departments and agencies. A parallel network of statutory bodies, many directly answerable to the governors, also existed to support or implement government policies when direct governmental control was regarded as inappropriate. When the SAR government came into existence in 1997 there were 15 policy and resources bureaux,<sup>35</sup> 71 government departments and agencies plus a number of statutory

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34. See section on different state characteristics in the discussions of government–business collaboration by Ben Ross Schneider and Sylvia Maxfield, 'Business, the state, and economic performance in developing countries', in Sylvia Maxfield and Ben Ross Schneider, eds, *Business and The State in Developing Countries* (Ithaca: Cornell University Press, 1997), p. 21.

35. Broadcasting, Culture and Sport Bureau; Civil Service Bureau; Constitutional Affairs Bureau; Economic Services Bureau; Education and Manpower Bureau; Finance Bureau; Financial Services Bureau; Health and Welfare Bureau; Home Affairs Bureau; Housing Bureau; Planning, Environment and Lands Bureau; Security Bureau; Trade and Industry Bureau; Transport Bureau; and Works Bureau.

bodies.<sup>36</sup> The government employed over 180,000 civil servants, or about 6% of the labour force in Hong Kong. Until the 1980s, the legislature was an appointed body dominated by the civil service and business representation. The formal governmental and public agencies or corporations were supported by 500-odd boards, councils and advisory committees composed of civil servants and members of the public appointed by the government.

It is not my intention to provide a comprehensive review of all the institutions involved in the economic governance of Hong Kong. This section highlights the role of some of the more important institutions and assesses the impact of Hong Kong's political reversion on the institutional framework. Of the three major categories of public institutions (government departments, public agencies and advisory committees), government departments play the leading role not only in carrying out economic policies but also in formulating policies. Unlike career civil servants elsewhere, Hong Kong's top civil servants also have policy-making roles as policy secretaries. Government Departments in charge of fiscal and economic policies include: Economic Services Bureau, The Finance Bureau, Financial Services Bureau, Trade and Industry Bureau, and Works Bureau. The Financial Branch plays a critical role, being responsible for overall resource planning including drawing up and applying of overall public expenditure guidelines.<sup>37</sup>

The Trade and Industries departments under the Trade and Industry Bureau are key bodies in Hong Kong's economic governance. Proclaiming its mission to be a driving force in world trade liberalization, the Trade Department, for example, has

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36. Agriculture and Fisheries Department; Architectural Services Department; Audit Department; Auxiliary Medical Services; Buildings Department; Census and Statistics Department; Civil Aid Services; Civil Aviation Department; Civil Engineering Department; Civil Service Training and Development Institute; Companies Registry; Correctional Services Department; Customs and Excise Department; Drainage Services Department; Education Department; Electrical and Mechanical Services Department; Environmental Protection Department; Fire Services Department; Government Flying Service; Government Laboratory; Government Land Transport Agency; Government Property Agency; Government Supplies Department; Health Department; Highways Department; Home Affairs Department; Hospital Services Department; Housing Authority; Housing Department; Immigration Department; Industry Department; Information Services Department; Information Technology Services Department; Inland Revenue Department; Intellectual Property Department; Labour Department; Lands Department; Land Registry; Legal Department; Legal Aid Department; Management Services Agency; Marine Department; New Airport Projects Co-ordination Office (Hong Kong Airport Core Programme); Official Receiver's Office; Official Language Agency; Planning Department; Post Office; Printing Department; Public Records Office; Radio Television Hong Kong; Rating and Valuation Department; Regional Services Department; Registration and Electoral Office; Royal Hong Kong Police Force; Royal Observatory; Social Welfare Department; Student Financial Assistance Agency; Telecommunications Authority; Office of the Television and Entertainment Licensing Authority; Territory Development Department; Trade Department; Transport Department; Treasury; Urban Services Department; Water Supplies Department; Airport Authority; Hong Kong Broadcasting Authority; Consumer Council; Employees Retraining Board; Equal Opportunities Commission; Hong Kong Arts Development Council; Hong Kong Council for Academic Accreditation; Hong Kong Council on Smoking and Health; Hong Kong Examinations Authority; Hong Kong Export Credit Insurance Corporation; Hong Kong Industrial Estates Corporation; Hong Kong Industrial Technology Centre Corporation; Hong Kong Monetary Authority; Hong Kong Productivity Council; Hong Kong Sports Development Board; Hong Kong Tourist Association; Hong Kong Trade Development Council; Hospital Authority; Independent Commission Against Corruption; Independent Police Complaints Council; Kowloon-Canton Railway Corporation; Legal Aid Services Council; Mass Transit Railway Corporation; Occupational Safety and Health Council; the Ombudsman; Port Development Board; Privacy Commissioner for Personal Data; Office of the Public Service Commission; Securities and Futures Commission; Standing Commission on Civil Service Salaries and Conditions of Service; University Grants Committee; Vocational Training Council.

37. The official version of the roles of the Bureau is given in its website, Hong Kong Government Information Centre: <http://www.info.gov.hk/fb>.

not only been active in the promotion and protection of Hong Kong's economic and trade interests, but also in ensuring compliance, and safeguarding the credibility of Hong Kong's trade regime. The department has to make sure that Hong Kong industrialists and traders observe the textiles control policy in accordance with the World Trade Organization Agreement on Textiles and Clothing. It also imposes licensing control for pharmaceutical products and medicines on health and safety grounds and the availability of essential foodstuffs for emergency situations. For ozone depleting substances, it also exercises licensing control over local consumption of controlled substances as agreed under the 1987 Montreal Protocol on Substances that Deplete the Ozone Layer, as well as having licensing control over strategic commodities to prevent Hong Kong from being used as a conduit for the proliferation of weapons.<sup>38</sup> The Industry Department, responsible for facilitating the further development of manufacturing and service industries, has become more active in developing closer relationships between government, business, education and training institutions, and industrial support bodies.<sup>39</sup>

In recent years the Hong Kong government's role in macro-economic management has become far more visible. A large number of government departments or other public corporations have been set up to regulate the economy, provide more support to local industries and to ensure the territory's compliance to international agreements. In 1989, for example, the government established the Securities and Futures Commission to regulate the trading of securities, futures and leveraged foreign exchange contracts in response to the exposure of deficiencies of regulatory framework following the market crash of 1987.<sup>40</sup> The market crash of 1997 also prompted the government to conduct a comprehensive review of the financial markets in Hong Kong. Although the report maintained that the economic system in the territory was sound and the regulatory mechanism had worked during the financial crisis, it also made specific recommendations to tighten the regulatory framework further.<sup>41</sup> Following the August intervention in 1998, the government announced a series of further measures to 'restore market order' including a 30-point programme to 'tighten up the disciplines in the securities and futures market'.<sup>42</sup>

Another example is the Intellectual Property Department. As intellectual property becomes an important element in the world trade regime, the government established the department on 2 July 1990. It is the focal point in the review and enforcement of Hong Kong intellectual property legislation. The department also administers the system of registration of trade marks and patents in Hong Kong.<sup>43</sup>

Of the numerous institutions established in recent years in economic governance,

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38. Details of the Trade Department's work are given in the department's website, Hong Kong Government Information Centre: <http://www.info.gov/trade/department/>.

39. Industry Department website, Hong Kong Government Information Centre <http://www.ingo.gov.hk/id/>.

40. For a brief official history of the Hong Kong Securities and Futures Commission see the Commission's website: <http://www.hksfc.org.hk/eng/about/backgrnd.htm>, 'Historic Background to the SFC', June 1997.

41. *Report on Financial Markets Review* (Hong Kong: Hong Kong Special Administrative Region Government, April 1998).

42. 'Measures to tighten up securities and futures markets', *Daily Information Bulletin*, (7 September 1998).

43. Hong Kong Monetary Authority website, Hong Kong Government Information Centre: <http://info.gov.hk/hkma/>.

however, the most important one is HKMA. Established on 1 April 1993 by merging the Office of the Exchange Fund with the Office of the Commissioner of Banking, the primary monetary policy objective of the HKMA is to maintain exchange rate stability within the framework of the linked exchange rate system. The authority also promotes 'the safety and stability of the banking system through the regulation of banking business and the business of taking deposits, and the supervision of authorized institutions; and to promote the efficiency, integrity and development of the financial system, particularly payment and settlement arrangements'.<sup>44</sup> In defence of the Hong Kong currency in October 1997, the HKMA adopted measures which led to increased interest rates in the territory. The attack on the Hong Kong currency has prompted debates in Hong Kong about the link system. While the majority of Hong Kong analysts and the public supported the system, some economists have argued that the HKMA should not rely solely on interest rate to defend the Hong Kong currency. But after the HKMA's review of the currency defences, the government decided to continue with the existing linked exchange rate mechanisms.<sup>45</sup> The government, however, did an about turn in August 1998 and adopted many of the measures recommended by the academic community following its massive intervention in the market in 1998.

The government's efforts at building up institutional capacity in economic governance are also reflected by the establishment of organizations such as the Hong Kong Industrial Technology Centre Corporation, the Hong Kong Industrial Estates Corporation, the Software Industry Information Centre and Cyberspace Centre, together with efforts in promoting research and development as well as the establishment of the Government Task Force on Services Promotion. The financial sector was supported through the introduction of legislation to permit the development of captive insurance industry and a Mortgage Corporation commenced operation in 1997. The government formed a Business Advisory Group on 1 December 1996, and established three sub-groups in February 1997 to examine issues such as deregulation, cost of compliance assessment and transfer of services to the business sector. The Business and Services Promotion Unit was formed in May 1997 to provide executive support. A one-stop Business Licence Information Centre in the Industry Department was opened in September 1997.

The Financial Secretary's 1997-98 budget provided more resources in strengthening the institutional capacity of the government in support of the manufacturing, services and financial sectors, as well as infra-structural support.<sup>46</sup> The government earmarked funds for Science Park Phase I, and began planning for a second Industrial Technology Centre. They also began planning work for a fourth Industrial Estate; and created funds to support applied research and development schemes in order to support technology ventures with \$250 million seed money. In the area of services promotion, the government announced the formation of a new Services Promotion Strategy Group. The Export Credit Insurance Corporation also

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44. *Ibid.*

45. For a discussion of the issue see *The Hong Kong Dollar Link* by Joseph Yam (Chief Executive, Hong Kong Monetary Authority), Speech at Hong Kong Trade Development Council Financial Roadshow in Tokyo, (3 March 1998).

46. Donald Tsang, *The 1997-98 Budget: Continuity in a Time of Change*, (12 March 1997).



introduced a specific insurance policy for small and medium enterprises. Under the Services Support Fund, the government committed \$28 million to help 14 projects. The Trade Development Council was to spend another \$30 million in 1997–98 to promote exports of services.

Thus the last colonial administration not only set in motion a more pro-active approach to economic governance, but also the expansion of an institutional framework which was more complex and wider in scope than before. Instead of limiting the government's role, the Tung administration committed more funds to 'support the commercialization of research in information technology and other high technology fields' and to 'finance initiatives which help sustain and improve the competitiveness of the service sector'. The government also moved ahead with the development of the Science Park at Pak Shek Kok, and the establishment of a second Technology Centre as well as a fourth industrial estate in Tuen Mun, and explored the need for the establishment of a business park.<sup>47</sup> In 1998 the government set up a Film Service Office to promote the local film industry, investigated into the feasibility of setting up a Financial Services Institute, created a new Commissioner for Tourism, and formed a new Small and Medium Enterprises Office within the Industry Department.<sup>48</sup>

Although government departments and agencies have come under pressure to enhance their productivity, it is clear that the Tung administration does not have any intention of reversing the trend of increasing governmental involvement in the economy.<sup>49</sup> In fact, the administration has sought to build more institutional capacity in managing economic affairs.

### Political interests in flux

The political landscape of the territory has changed dramatically since the early 1980s when the British and Chinese governments attempted to find a solution for Hong Kong's future. During the Sino–British talks the people of Hong Kong were often relegated to bystanders, but many did make their views known and nascent political groups were formed to champion their political demands. Political reforms in the 1980s began at the local level with the establishment of district boards with elected members to advise the government on matters affecting the welfare of the district. The government subsequently not only further broadened the base of citizen representation at the level of local and district administration, but also introduced elected seats onto the Legislative Council as the British and Chinese governments negotiated for Hong Kong's future in the early and mid-1980s.<sup>50</sup>

By the time Chris Patten was appointed Governor of Hong Kong in 1992, the

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47. *The 1997 Policy Address: Policy Programmes* (Hong Kong: Hong Kong Special Administrative Region Government, 1997), p. 308.

48. *From Adversity to Opportunity*, Address by the Chief Executive The Honourable Tung Chee Hwa at the Legislative Council meeting on 7 October 1998 (Hong Kong: HKSAR government, 1998).

49. The Chief Executive announced in his 1998 policy speech that government departments and agencies would have to deliver 5% productivity gain of their operating expenditure between 1998 and 2002.

50. For a detailed analysis of political developments in Hong Kong see discussions in Lo Shiu-hing, *The Politics of Democratization in Hong Kong* (London: Macmillan, 1997), especially chapters 2, 3 and 4.

people of Hong Kong had already taken the first steps in directly electing their representatives to the Legislative Council, which was moving towards a fully elected legislature. The people of Hong Kong cast their votes for a fully elected Legislative Council in September 1995.<sup>51</sup> Political parties representing grass-root and labour interests were able to exercise far more influence in the legislature. As the political system gradually opened up, the alliance between big business and the administration weakened, and smaller businesses and firms and labour groups have been more active in competing for political support to advance their interests. Moreover, the bureaucracy have come under greater public pressure to explain government policies to the public.

The business community has regained some of its prominence as a central political force in the SAR compared to the Patten era. Under Patten only four of the nine non-government members of the Executive Council were businessmen, compared to six out of nine in 1991 under Governor David Wilson and seven out of eight in 1986 under the Governorship of Edward Youde.<sup>52</sup> Under Tung's leadership, businessmen and professionals have been able to dominate the Executive Council again. Among Executive Council members, only Tam Yiu-chung, a trade unionist and member of the pro-Beijing Democratic Alliance for the Betterment of Hong Kong, comes from a grass-roots background.<sup>53</sup>

Beijing loyalists and those from the business community were also able to dominate the provisional legislature. While a majority of the Provisional Legislative Council members served in the 1995 Legislative Council under the former colonial administration, political dynamics have undergone significant changes. The Democratic Party, the largest political force of the 1995 Legislative Council, was out of the provisional legislature. Political parties and other groups such as the Democratic Alliance for the Betterment of Hong Kong, the Hong Kong Progressive Alliance, and the Liberal Party, which had good relations with the leadership in Beijing during the territory's transition, became dominant forces in the legislature.

Pro-democratic forces such as the Democratic Party, the Frontier and the Citizen Party managed to return to the first SAR Legislative Council following the May 1998 elections, but the number of Democratic Party members in the legislature went down from 19 to 13, and the overall political strength of the pro-democracy forces was less than one third of the legislature (see Table 1 for a breakdown of political party strength in Hong Kong's legislature). The dominance of pro-Beijing forces, well-represented in the functional constituencies and Election Committee seats, have not lost their influence in the legislature. Moreover, as the Basic Law stipulates, Legislative Council members are divided into two voting categories—those elected from functional constituencies and those elected from geographical

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51. For discussions on the 1995 elections see Kuan Hsin-chi, Lau Siu-kai, Louie Kin-sheun and Timothy K.Y. Wong, eds, *The 1995 Legislative Council Elections in Hong Kong* (Hong Kong: Hong Kong Institute of Asia-Pacific Studies, The Chinese University of Hong Kong, 1996).

52. See Norman Miners, 'Consultation with business interests: the case of Hong Kong', *The Asian Journal of Public Administration* 18(2), (December 1996), p. 254.

53. Members of the SAR government's first Executive Council are: the Chief Executive, Tung Chee Hwa; Chief Secretary for Administration, Anson Chan; Financial Secretary, Donald Tsang; Secretary for Justice, Miss Elsie Leung; Sze-yuen, Chung (convenor); Nellie Fong; Rosanna Wong; Henry Tang; Charles Lee; Tam Yiu-chung; Yang Ti-liang; Leung Chun-ying; Anthony Leung; Raymond Ch'ien; and Chung Shui-ming.

**Table 1. Ranking of political party/group strength in Hong Kong's legislature**

Party name	Legislative Council (1995–1997)	Provisional Legislative Council (1997–1998)	First SAR Legislative Council (1998–2000)
Democratic Party	19	0	13
Liberal Party	10	10	9
DAB/FTU	7	11	10
ADPL	4	4	0
HKPA <sup>a</sup>	2	6	5
LDF <sup>a</sup>	1	3	NA
NHKA	1	2	NA
123 DA	1	0	0
Citizen Party <sup>b</sup>	NA	NA	1
Frontier <sup>c</sup>	NA	NA	3
NWSC <sup>d</sup>	NA	NA	1
Independents	15	24	19
Total	60	60	60

DAB: Democratic Alliance for the Betterment of Hong Kong.

FTU: Federation of Trade Unions.

ADPL: Association for Democracy and People's Livelihood.

HKPA: Hong Kong Progressive Alliance.

LDF: Liberal Democratic Foundation.

NHKA: New Hong Kong Alliance.

123 DA: 123 Democratic Alliance.

NWSC: Neighbourhood and Workers' Service Centre.

<sup>a</sup> HKPA and the LDF merged on 26 May 1997.

<sup>b</sup> Citizen Party, formed in May 1997, did not take part in the Provisional Legco elections.

<sup>c</sup> The Frontier, formed on 26 August 1996, did not take part in the Provisional Legco elections.

<sup>d</sup> The NWSC candidate was also a Frontier member but decided to run under the NWSC.

Source: compiled by the author based on electoral results released by the government.

constituencies. Motions, bills or amendments of government bills introduced by individual Legislative Council members can only be passed with the support of a majority of members from both categories. This imposes severe limitations on the powers of the Legislative Council in making policy initiatives or challenging government policies.<sup>54</sup>

With more pro-Beijing businessmen gaining political prominence, and as mainland China becomes one of the leading investors in Hong Kong, a key question is: will various mainland China-related enterprises and other business ventures funded by mainland China-related organizations become the new princely *hongs* (large British trading houses which once dominated Hong Kong)? By the mid-1990s the number of mainland-backed enterprises registered in Hong Kong had reached 1756, with an estimated total asset value of US\$42.5 billion. The Bank of China and its 12 sister banks are now the second largest banking group in the territory after Hongkong Bank. Since May 1994 the Bank of China has also become a Hong Kong dollar note-issuing bank. There are 18 Chinese banks in total operating in

54. Details of the elections are well covered by the local press. See for example, *South China Morning Post*, (25 and 26 May). Official election results are given in *Daily Information Bulletin*, (25 May 1998).

Hong Kong.<sup>55</sup> Mainland enterprises listed in the Hong Kong stock market and or those seeking listing have attracted wide support in the local market. The red chips achieved record highs in the run up to the handover. In fact, share prices for blue chips went up whenever rumours about the injection of capital from mainland enterprises were reported. Some observers therefore described them as pink chips. The expansion of mainland businesses in Hong Kong and their penetration of the economy has been extensive in the board rooms of Hong Kong's corporate world, but also in well-established public institutions including advisory boards and committees.

One example is the Exchange Fund Advisory Committee. The reserve from the Fund is a key element in maintaining Hong Kong's financial stability. The reserves from the bank of the Exchange Fund are managed by the HKMA which at the end of 1996 reached HK\$535 billion (almost US\$ 69 billion), or HK\$83,316 (US\$ 10,682) per person in the territory. As the Exchange Fund represents a very significant store of value for the people of Hong Kong, the HKMA has to adopt a prudent investment strategy to ensure that the investment management process follows international practices. According to the Exchange Fund Ordinance, the Financial Secretary exercises control of the Fund in consultation with an Exchange Fund Advisory Committee chair by himself and with other members who are appointed by the Governor. The Committee advises the Financial Secretary as controller of the Exchange Fund on general policy relating to its deployment.<sup>56</sup>

While the Committee members sit in a personal capacity, they represent major banks in the territory, including the Hongkong and Shanghai Banking Corporation, the Bank of East Asia; Standard Chartered Bank; the Chase Manhattan Bank; Hang Seng Bank; and the Bank of China. With the exception of Liang Xiaoting from the Bank of China, all have spent most of their career in the territory.<sup>57</sup> As mainland enterprises become more active, a larger number of representatives from major mainland banks and other enterprises are expected to be more closely involved with economic governance in Hong Kong. The formation of the Hong Kong Chinese Enterprises Association in 1991 gave such enterprises a collective and distinct political voice. It is perhaps not surprising that more representatives from some of the more powerful enterprises will be appointed to major advisory bodies and become more influential.

However, the mainland Chinese enterprises are unlikely to enjoy the same degree of privileges as those enjoyed by the British *hongs* in colonial days. These firms or corporations, owned and managed by British business interests, have been on the decline since the 1970s. The domination of British business interests was evident in the earlier days of colonial rule. In 1965 over one third of the seats of the Executive, Legislative and Urban Councils were occupied by British businessmen. In 1976 all but two of the major business groups were owned and controlled by expatriate business families. By 1986 Chinese businessmen such as Li Ka Shing

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55. Economic Information on Hong Kong and China, Hong Kong Trade Development Council, 5 June 1997. For an analysis of mainland China-Hong Kong economic relations also see: Yun-Wing Sung, *The China-Hong Kong Connection* (Cambridge: Cambridge University Press, 1991).

56. Hong Kong Monetary Authority website, Hong Kong Government Information Centre.

57. *Ibid.*

and Y. K. Pao had taken over a number of British firms. Expatriates also only occupied 13% of all the council seats. The steep decline of the British businesses and their political influence reflected not only political developments in Hong Kong but deeper structural changes in the Hong Kong economy. A number of local Chinese firms have become immensely successful. The structural diversity of the Hong Kong economy which consists of international businesses, a number of large Chinese firms, numerous small and medium size enterprises and Chinese enterprises which are in turn diversified in nature, means that business interests are not always coherent. Mainland Chinese enterprises are also unlikely to occupy the same position as the British *hongs* once did.<sup>58</sup>

Although pro-China and pro-business interests will be influential forces in shaping the economic governance of the Hong Kong SAR, the diverse economic structure and fragmentation of business and pro-China interests as well as resistance within the administration should limit their influence. The introduction of electoral politics in Hong Kong also means that labour and welfare interests cannot be brushed off easily. While the institutional machinery which serves the new class of business elite in the SAR has remained powerful, Hong Kong's 'democratization' in recent years has injected new elements into Hong Kong's economic governance and constraints on the institutional capacity of the administration.

Only a few days before the political handover, the Legislative Council passed new labour laws on 25 June 1997 to provide workers with the right of collective bargaining and better conditions of work. The government was opposed to the introduction of such laws, arguing that they were not properly discussed in the normal consultative channels such as the Labour Advisory Board. The Secretary for Education and Manpower, Joseph Wong, suggested that the laws would adversely affect industrial relations in Hong Kong with far reaching consequences. The Liberal Party, which represents business interests, walked out of the Council meeting in disgust when their opposition to the bills was ignored by other legislators representing grass-roots and labour interests.<sup>59</sup>

Major chambers of commerce in Hong Kong expressed their opposition to the new labour laws in a joint newspaper advertisement. One of Hong Kong's leading businessman, James Tien, who became chairman of the pro-business Liberal Party in 1997, wrote just before Hong Kong's reversion in his capacity as chairman of the Hong Kong General Chamber of Commerce that Hong Kong had been polarized by labour issues and policies under the last colonial administration. Tien expected that, 'In the SAR era, employers and employees, instead of resorting to collective bargaining, strikes, union militancy and private members' bills will resolve their differences through reason, dialogue and compromise, and work towards a common goal—maintaining stability and prosperity for Hong Kong'. He further maintained that, 'we need to ensure the executive administration is not overwhelmed by populist politicians who entice voters with free lunches and welfare promises. The representation in the legislature needs to be more diverse

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58. Wong Siu-lun, 'Business and politics in Hong Kong during the transition', *Hong Kong in Transition 1992* (Hong Kong: One Country Two Systems Research Institute, 1993), pp. 489–514. See, in particular, pp. 491–500.

59. See *South China Morning Post*, (25 June 1997), *Wen Wei Po*, (24 June 1997), and *Ming Pao* Editorial, (25 June 1997).

and reflective of the wide range of views in our community'. He predicted that, 'In the SAR era, with economics taking precedence over politics, we will return to a more orderly and productive environment which we had during the time when our GDP growth was double what it is today'.<sup>60</sup>

When the SAR government introduced the Legislative Provisions (Suspension of Operation) Bill in 1997 to freeze seven laws passed by the former Legislative Council, including those related to labour matters, members of the Provisional Legislative Council raised objections.<sup>61</sup> The government's unprecedented move to suspend ordinances already in operation was seen as a departure from usual practices.<sup>62</sup> Provisional Legislative Council supported the administration's position on four ordinances related to labour matters with 40 votes, but not the other ordinances. The Council also extracted a promise from the government not to extend the freeze beyond 30 October 1997 without its approval.

There is little doubt that the business community has maintained its influence and indeed attempted to reassert itself as the central political force under the Tung administration. However, unlike the old colonial days, the legislature would not be completely dominated by the business elite alone. Even pro-Beijing groups such as the Democratic Alliance for the Betterment of Hong Kong, and the Hong Kong Federation of Trade Unions have to orient towards labour and grass-roots interests. The labour laws passed by the Legislative Council were the result of a coalition among groups with different positions on the Beijing government. In fact more directly elected seats will be gradually introduced to the legislature according to the Basic Law (half of the 60-member assembly will be returned from direct elections by 2004). The introduction of competitive electoral politics, even in a limited form, and a political culture of open debate and discussions, again even with constraints, have changed the political landscape of Hong Kong.

## Conclusions

The once intimate government-business alliance has become rather fragile in post-colonial Hong Kong. The conditions for the old colonial model of economic governance no longer exist. While the government still maintains a policy of 'minimum interference', positive non-interventionism has been continuously re-defined under different circumstances. Economic liberalism in Hong Kong has been eroded slowly by a deteriorating international economic environment and increased competition from neighbouring economies long before the establishment of the SAR. Although the administration is still committed to keeping the Hong Kong economy free and open, it has become more assertive than before, its institutional capacity has also become more complex and the scope of public services has been expanded.

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60. James Tien, 'Playing to our strength', *South China Morning Post*, (29 June 1997).

61. Protection of the Harbour Ordinance; Employment (Amendment) (No. 4) Ordinance 1997; Occupational Deafness (Compensation) (Amendment) Ordinance 1997; Employment (Amendment) (No. 5) Ordinance 1997; Employees' Rights to Representation, Consultation and Collective Bargaining Ordinance 1997; Trade Unions (Amendment) (No. 2) Ordinance 1997; and Hong Kong Bill of Rights (Amendment) Ordinance 1997.

62. Press release by the government, (8 July 1997).

The political framework which has emerged in the SAR is far more dynamic than in the old days. The dominance of the bureaucrats is being challenged by the pro-Beijing elite in an environment marked by the growing importance of competitive politics. Internationally, the globalized nature of the world economy has reinforced the vulnerability of an open and relatively small economy like that of Hong Kong—hence the dilemma of keeping the economic regime open and competitive on the one hand, and maintaining economic stability in a far more turbulent international environment. The Hong Kong economy has been badly shaken by external forces. The Asian financial crisis, precipitated by the collapse of Southeast Asian currencies in the second half of 1997 and subsequently leading to a wider financial turmoil in the region, crippled most East Asian economies, including Hong Kong. The transfer of sovereignty and domestic political changes have also led to the reconfiguration of economic and political interests.

While Chinese mainland enterprises are becoming more important in the SAR, they do not seem to have acquired special privileges. In the longer run, to what extent influences from Beijing would eventually alter the rules of the game in Hong Kong still remain unclear. For the time being, however, the central government, has adopted a hands-off approach to the SAR. The more immediate challenge to the Tung administration is how to respond to popular demand for improving the livelihood of the people, and at the same time face the business community's concern about Welfarism as well as their demand for greater political influences during the current economic downturn.

Government-business dynamics in Hong Kong since the reversion have evolved within the framework of changing domestic and international situations. On the one hand, the Hong Kong state became more pro-active and has deepened its involvement in the economy by identifying priority areas for development and strengthening its institutional capacity. On the other hand, the emerging post-colonial political order in Hong Kong is also imposing new constraints on the administration. One thing is clear though: Hong Kong has to adjust itself in response to a changing environment. A new model of economic governance is emerging in Hong Kong SAR—indeed it is business as usual.