

# Introduction

## Exceptionalism and Hybridity

### 1969 and 1979

The years 1969 and 1979 were both critical to Hong Kong's contemporary governance, public administration, and political development. In 1969, two years after the outbreak of anti-British riots in 1967 by local pro-Communists, which lasted for eight months, the British administration introduced the City District Officer (CDO) scheme in urban areas, modelled on District Offices (DOs) that had long existed in the leased New Territories. This marked a change of governing strategy by the colonial administration to reach out to the predominantly local Chinese population. The new-style CDOs, accommodated mostly in rented commercial premises easily accessible to the local communities, were tasked with monitoring and reporting community opinions and sentiments, as well as handling public inquiries and explaining government policies and measures.

The new scheme was preceded a year earlier by another move—the change of name of the then Secretariat for Chinese Affairs to Secretariat for Home Affairs, within the ambit of which CDOs were to function.<sup>1</sup> Such a change in nomenclature was significant as it marked the beginning of a gradual process to re-orient a government that had hitherto adopted indirect rule over the local Chinese population, treating them as a residual part rather than the mainstream of the community. Later, under a new Governor, Murray MacLehose, who assumed office in 1971, Hong Kong entered a golden-era decade of social and administrative reforms,<sup>2</sup> which served to modernise and transform the government, taking away many of its colonial wrappings.<sup>3</sup>

In 1979, in the aftermath of the devastating Cultural Revolution (1966–1976) that ended after the death of Mao Zedong in September 1976 and the subsequent fall of the 'Gang of Four', the old guards led by Deng Xiaoping (鄧小平) returned to power. At the Third Plenum of the 11th Central Committee of the Chinese Communist Party (CCP) in December 1978, it was decided that China would launch economic reform and opening-up, which eventually transformed the whole of the country. Hong Kong's industrialists and businesses were the first batch of external investors into the Mainland, proving to be a key element of China's process of modernisation that extended from economic to social life, paving the way for the present rise of China in the global arena.

Also in March of 1979, Governor MacLehose made his first official visit to Beijing, partly to gauge the latest economic development of the Mainland and restore Hong Kong-Mainland links which were either broken or made uncertain by the anti-foreign fervour of the Cultural Revolution, but more importantly to find out the attitude of the new leadership towards the future of Hong Kong when the 99-year lease of the New Territories expired in 1997. He met with Deng Xiaoping and returned with Deng's message to ask investors in Hong Kong to put their hearts at ease as the Chinese leaders attached great importance to the value of the city in China's modernisation. What MacLehose did not disclose was Deng's insistence that China would resume sovereignty over Hong Kong in 1997 as a matter of national policy. That encounter alerted the British government of the need to prepare for negotiations between the two governments. After his Beijing trip, MacLehose began to hasten the pace of district administration reform by establishing partially elected District Boards with advisory functions at the local community level to shore up the colonial government's people base.

## **The best of times, the worst of times**

There were divergent objectives and strategies between Britain and China over the future of Hong Kong. Initially, the British government aimed at persuading the Chinese side to allow Britain to continue to govern Hong Kong under alternative arrangements, such as an extension of the New Territories lease, returning sovereignty in exchange for administrative power, or British presence and link of some kind (including the possibility of trustee administration).<sup>4</sup> However, Chinese leaders under Deng Xiaoping were determined to resume sovereignty over Hong Kong by 1997, and for them, sovereignty and administration were inseparable. The British side engaged a strategy of insisting on the international legality of the treaties (deemed by China as 'unequal' treaties) whereby Hong Kong Island and Kowloon Peninsula were ceded to Britain after the two Opium Wars in the nineteenth century (1839–1842 and 1856–1860), while also seeking from the Chinese side clarifications and reassurances on how to maintain Hong Kong's post-1997 stability and prosperity (including the protection of local and foreign business interests) before finally conceding on the matter of sovereignty in 1984.

For China, taking back Hong Kong was to end a history of national humiliation since the First Opium War. In addition, it wanted to take advantage of recovering Hong Kong, then already a booming metropolis and financial centre, to help support the Mainland's modernisation. As such, preserving Hong Kong's status quo would kill two birds with one stone. Before Sino-British negotiations formally commenced after British Prime Minister Margaret Thatcher visited Beijing in September 1982, the Chinese Government had already begun sounding out local business leaders and social notables about their concerns and ideas on a 1997 solution for Hong Kong. By January 1982, the Chinese leadership was able

to promulgate a novel 'One Country, Two Systems' formula for both Mainland-Taiwan reunification (known as cross-strait reunification) as well as the return of Hong Kong to the motherland.<sup>5</sup> The Sino-British negotiations on the future of Hong Kong lasted for two years. At first, both sides stuck to their respective positions on the issue of 'unequal treaties' and failed to reach an agreement despite five rounds of talks. In March 1983, the British government finally recognised that China had sovereignty over Hong Kong all along. A consensus on all issues was reached after 22 further rounds of talks, leading to the initialling of the Sino-British Joint Declaration on 26 September 1984.<sup>6</sup>

Those two years were a tumultuous period. Paraphrasing the famous quote from Charles Dickens's *A Tale of Two Cities*, the 1980s 'was the best of times [and] it was the worst of times'. China reiterated its intention not to upset Hong Kong's existing way of life as it highly valued the city as a golden goose that laid golden eggs, an economic force to help the motherland reform and modernise, and a model to learn from especially in economic and public service management.<sup>7</sup> Later, Deng even called for the building of more 'Hongkongs' on the Mainland. Hong Kong's success as a thriving market economy with a small yet efficient government was regarded as key to maintaining its unique capitalist system different from the socialist system of the Mainland even after 1997. As China gradually rejoined the world market, Hong Kong's instrumental role in terms of capital intermediation (including the raising of capital for Mainland economic development and the facilitation of the Mainland's external trade) was deemed invaluable by Beijing.

However, Hong Kong people were caught in anxiety and worry over the prospect of handover to a communist regime from which some of them had fled in earlier periods. There was a crisis of confidence, not only among businesses, the professions, and the civil service but also ordinary people who questioned if returning to China in 1997 would mean the erosion of Hong Kong's long-enjoyed freedoms and rule of law. On 24 September 1983 ('Black Saturday'), upon rumours that Sino-British talks had come to the verge of a breakdown because of strong disagreement, the local currency fell to an all-time low of HK\$9.6 against the US dollar (compared to about HK\$6 a year earlier) and caused great panic.<sup>8</sup> Facing both a currency run and nervousness about the soundness of several banks, Black Saturday induced the colonial government to quickly adopt a currency-board system on 15 October 1983 of pegging the Hong Kong dollar to the US dollar at a fixed exchange rate of HK\$7.80=US\$1 in order to stabilise the market and restore business and public confidence. This 'Linked Exchange Rate' has since become the basis of Hong Kong's monetary system.<sup>9</sup>

In the run-up to the reunification, what China wanted from Hong Kong was an 'economic city' with minimum political disruptions. Yet Hong Kong on its part had already become, by default if not by design, a city of politics, embroiled not just in agitations for a democratic system after 1997 but also mass sympathy for the 1989 pro-democracy movement in China that ended in tragedy with the

Tiananmen crackdown in June. Political backlash and pessimism quickly set in. However, the fatalist sentiments accompanying the handover had proved to be unnecessary though they underlined the vulnerability of the local psyche. When Hong Kong came closer to its return to China, the international magazine *Fortune* ran a report predicting ‘the death of Hong Kong’ after 1997.<sup>10</sup> In 2007, it had to openly admit it was wrong—Hong Kong was hardly dead.<sup>11</sup>

By the time of its restoration to Chinese sovereignty, Hong Kong was a developed economy and affluent society, with advanced legal and administrative systems, and active media and civil society, yet bound by a rather anachronistic political system originating from the nineteenth century even though it gradually liberalised during the transition. Here laid the inherent contradiction, or to put it more positively, the ‘hybrid’ nature of contemporary Hong Kong—the co-existence of the colonial and the modern and that of the Chinese and the English. Under British rule, Hong Kong had not lost its Chinese cultural heritage and ethnicity while acquiring British institutions and the English language. In the words of the last Governor, Chris Patten, Hong Kong ‘is a Chinese city, a very Chinese city with British characteristics’.<sup>12</sup> Some had expected such hybrid charm to continue after 1997 to make it an ‘English’ city under Chinese rule. Despite the wish from all sides to have minimal change and maximum continuity, no society and polity could stay put for a prolonged period. The regime change was followed by new social and political dynamics not seen before under colonial suppression and management. Institutional incompatibilities began to unfold. Mainland-Hong Kong relations also underwent shifts not fully anticipated in the 1980s.

The Asian financial crisis that occurred immediately after the handover was also alarming, indicating that Hong Kong’s economic prosperity should not be taken for granted. Hong Kong was destined for more turbulent times. Identity anxieties and growing frustrations over the slow progress of democratisation led to more government-society tensions, all contributing to a steady decline in political trust. In recent years, there have been increasing media commentaries and academic writings alleging more restrictions over civil liberties and regression in the implementation of the ‘One Country, Two Systems’ principle. Criticisms and suspicions abound, premised on China as a communist authoritarian regime that disliked democracy and sought to tighten its grips over the special administrative region (SAR), thereby reducing the promised scope of autonomy.

Since the ‘Occupy Central’ rallies and Umbrella Movement in 2014, suggestions revived of Hong Kong dying a slow death.<sup>13</sup> More pessimism and fatalism have emerged during the still unending governance crisis emanating from the 2019 anti-extradition protests. The decision by the National People’s Congress (NPC) in May 2020 to enact a special national security law for Hong Kong (subsequently passed and implemented in July 2020) drew desperate outcries from the pan-democrats and some critical media outlets, who forecasted that it would mean the ‘end of Hong Kong’.<sup>14</sup> The ‘Two Systems’ relations have never seen

such stressful moments, with no clear way to break the political deadlock. Will history prove such soothsaying wrong once again? Let us put things into context by taking a historical and long-term view and re-examine how contemporary Hong Kong has made its way forward in governance and administration through the past five decades, confronting multiple dilemmas and challenges due to endogenous and exogenous factors.

## **The evolving political economy**

Politics cannot be divorced from economics. Understanding governance necessitates an appreciation of the political economy, which evolves over time. In the academic and theoretical literature, there have been incessant and inconclusive debates and contestations about whether and how politics and economics (or the state and market) could be taken together, leaving the perennial question of whether the economic foundation (infrastructure) determines the superstructure (including politics and the state system) or whether the state defines the sphere and operations of the market.<sup>15</sup> Without delving into such debates, suffice it to say that one cannot fully appraise the functions of the state and the challenges faced by governance if detached from the economy.

In the case of Hong Kong, its economic significance has been closely tied to China since early British colonial times, first serving as a strategic outpost of British imperial expansion into Far Eastern trade. In the 1950s, its mercantile role faced challenges posed by the closed-door policy of a new Communist China and the imposition of a trade embargo on it by the West during the Cold War, lasting until rapprochement in the 1970s. Hong Kong experienced its first economic transformation in the 1950s–1960s, when it was forced by geopolitical circumstances to transit from entrepot trade to manufacturing industries. The industrial take-off took advantage of the arrival of industrialists and cheap migrant labour escaping economic and political turmoil on the Mainland. It was also a time when Southeast Asia was embroiled in anti-communist armed conflict (in Vietnam, Thailand, Indonesia, Malaysia, and Singapore), and the situation in Northeast Asia was far from stable (the Korean War, military dictatorship in South Korea, and martial law in Taiwan). Under British colonial rule, Hong Kong was considered peaceful and stable for foreign investment, giving it a unique historical advantage.<sup>16</sup> Hong Kong's de facto intermediary role between China and the external world had not been diminished during these transitions.

The second economic transformation during the late 1970s–1980s had benefitted from China's open-door and economic liberalisation policy after the end of the Cultural Revolution. With the bulk of manufacturing activities relocated to the Mainland in pursuit of cheaper and more abundant labour and land, Hong Kong turned to expanding its service industries to serve the Pearl River Delta area

as an extension of the domestic economy. It quickly transformed into a service hub, enhancing its position as a financial, trading, and transportation centre in the Asia Pacific Region. Such restructuring fitted well the economic change of Mainland China. Over the next two decades, the industry sector halved from 31.7% of gross domestic product (GDP) to 15.2% in 1998 (with manufacturing down sharply from an average 22.6% in the first half of the 1980s to only 6.6% during 1996–1999); in contrast, the service sector rose rapidly from 67.5% of GDP in 1980 to 84.7% in 1998.<sup>17</sup> By 2017, the service sector's share of GDP was 92.4%, while manufacturing was only a dismal 1.1%.<sup>18</sup> There remains a cluster of industrialists in Hong Kong, but their production and investment are all outside the city—mostly on the Mainland and in lower-cost economies of Asia such as Myanmar.

As Mainland China's economy took off in the latter part of the 1990s, becoming both the world's largest factory and consumer market, and with economic restructuring and upgrading a major goal of the central government to turn the nation into a global economic power, Hong Kong faced opportunity as well as threat. Henceforth, the economic future of Hong Kong could only be found within an expanding and globalising Chinese economy, a prospect described by Stephen Chiu and Lui Tai-lok as (re)embeddedness in order to position as 'a Chinese global city' with competitive advantage.<sup>19</sup> The key to continued success lies in its balance of being both global and Chinese.<sup>20</sup> Hong Kong's interests would be best served if it could display its distinction from the Mainland as well as its closeness to the Mainland and other parts of a booming Asia.

Hong Kong today is connected to a world supply chain supported by an international banking system of which it is a crucial player, being one of the top global financial hubs (after New York and London). However, the 1999 Asian financial crisis also exposed Hong Kong's vulnerabilities as having too narrow an economic base with its pre-1997 growth boosted by an overheating property market that finally burst during the crisis. However, this does not mean Hong Kong should return to manufacturing industries. Instead, given its relatively high land and labour costs, it should seek to groom new high-value industries with a competitive edge, which can provide better employment opportunities for its educated workforce.

In the face of globalisation, the rapid advancement of information technology and the growing integration of the Mainland into the world economy, Hong Kong has entered its third transformation towards a knowledge economy. There are advantages to support such transformation, including its institutional vibrancy, world-class professional standards, excellent infrastructure and connectivity, hub status, and free flow of capital and information, all guaranteed by the Basic Law. If successful, though, it would only create more jobs for professionals and specialists, with some services outsourced to lower-cost locations. An unavoidable outcome is income stagnancy for other sectors (most acutely among the lower-skilled and downstream occupations) even as wealth accumulates and the cost of living increases.

Such structural contradictions have already become evident. While economic growth continues, the income/wealth gap and social disparity have widened, deepening social discontent not only among the grassroots but also the young middle class who increasingly distrust a non-democratic government suspected of only favouring big business (property developers and financial capital). A continuous property boom has pushed up housing prices and rents, not only making the lives of ordinary people harder but also undermining Hong Kong's competitiveness as a financial and services hub. At the same time, the lack of government readiness to step out of the conventional policy mindset to address such structural imbalance (through more ground-breaking social reforms in housing, social security, and retirement protection) has also aggravated domestic tensions.

These different stages of economic transformation demand different roles for the government. The early mercantile and entrepot period saw a small *laissez-faire* government facilitating free trade, law and order, and the protection of property rights. Once Hong Kong entered the industrial era, the government had to ensure the proper supply of land, labour, and capital flow as key factors of production and accumulation. The colonial administration began to assume a role in education, vocational training, social housing, healthcare, and welfare, accompanied by some regulative controls over land use and the banking system. Into the 1970s, a more active and regulative state, still within the official ideology of small government and non-interventionism, was required.

As the economy moved upward to focus on tertiary services, there was an increasing need for a more regionally and globally looking government to promote trade facilitation and investment. To grow an international trading and financial services centre demanded government-directed planning and infrastructure development, underpinned by extensive global connectivity and economic and trade links, as well as participation in international organisations and agreements. All this could not be achieved by just relying on private business initiatives. The government had to work in close collaboration with business and industry in securing bilateral cooperation and reciprocity in the regional and global arenas.

This was especially crucial in relation to the opening-up of the Mainland since the 1980s. After reunification in 1997, to leverage the new and expanding opportunities for local businesses and professionals, more government-to-government consultations and cooperation have taken place, especially within the Greater Pearl River Delta and, more recently, the Guangdong-Hong Kong-Macao Greater Bay Area. In tandem with such development, the role of government is no longer limited to the conventional sense of trade and investment facilitation, but it must be a more proactive state with steering and planning capacities. Today, Hong Kong's embeddedness in the Chinese economy and its role of financial and services intermediation have become even more prominent. Thus, this book examines how the evolving political economy of Hong Kong and its changing interface with the Mainland has shaped the government's role, functions, and links to the economy and society.

## Conceptualising Hong Kong exceptionalism

History matters, as historical institutionalists like to say.<sup>21</sup> Hong Kong under British rule was exceptional in many aspects—economic, political, and social. It was neither entirely traditional/colonial nor fully modern, and neither solely Chinese nor British, but rather a special kind of hybrid created by historical circumstances. Such exceptionalism was supposed to be preserved after restoration to Chinese sovereignty in 1997. The Basic Law of the Hong Kong SAR was drafted with a considerable scope of compromise, flexibility, and ambiguity. Taken very rigidly and legalistically, it could impose a straitjacket on Hong Kong's further institutional development. However, a pragmatic approach based on the same Basic Law would also find it possible to chart innovative paths to meet new challenges and support new innovations. It is all a matter of practice. Hong Kong's governance is not susceptible to narrow conceptualisation by some conventional stereotypes such as colonialism, post-colonialism, democracy, authoritarianism, libertarianism, and autonomy. Hong Kong has a bit of all these and has always been a hybrid (hence its exceptionalism), displaying capabilities as well as vulnerabilities under both previous British rule and present-day Chinese central state authority. When someone sees pitfalls and limitations, others may also discover strengths and possibilities.

Before moving on, it is important to explain what is meant by 'exceptionalism' here because the theoretical notion of exceptionalism has a rather loose meaning in the literature depending on the context of the discussion. In common vocabulary, to be exceptional means to be different from others or unique. However, that alone cannot support an exceptionalism thesis because every country or culture can be said to be unique and special to an extent. It all depends on the level of granular description. At the lowest level (i.e., the highest level of generality), no country is unique.<sup>22</sup> What is seemingly exceptional in one country may sometimes be found in other countries as well, and some similarities between exceptionalist arguments about different countries may be derived from various factors which are peculiar to each country.<sup>23</sup>

As argued by Daniel Rogers: 'Exceptionalism differs from difference. Difference requires contrast; exceptionalism requires a rule.'<sup>24</sup> As institutions, practices, and values are so intrinsic to history, and no nation could be said to share the same historical trajectory, it would be difficult if not impossible to apply any common yardstick to measure similarity as opposed to exceptionalism. After all, as Marcel Mauss wrote in *On Civilization*: 'The domain of social life is essentially a domain of differences.'<sup>25</sup> Keith Dowding thus considers exceptionalism as a rhetorical device to make a country feel like it stands out and which 'can be used to justify either exuberance or despair over difference'.<sup>26</sup> As such, it is a kind of pride-conferring or awareness-building expression.

The United States was probably the first to assert its American exceptionalism, on the grounds of its institutional checks and balances, separation of powers, federalism, and reliance on regulation and volunteerism.<sup>27</sup> Subsequently, other



countries have also been regarded as displaying exceptionalism in different domains including political, institutional, legal, foreign and domestic policy, economic, cultural, and ideological—hence, European exceptionalism, Australian exceptionalism, French exceptionalism, Japanese exceptionalism, and so on. Exceptionalism may be understood (in a broad and weak sense) as a matter of comparison of unique features, but some detect an articulation (in a strong sense) of hegemonic assertion or ‘missionist’ exceptionalism (that unique circumstances apply and therefore ordinary rules do not apply),<sup>28</sup> sometimes rooted in a cultural, historical, or even religious legacy which defines a country’s sense of nationhood or collective awareness. Thus, it is argued that American exceptionalism is more than the US merely being special but implies an exceptionalist attitude or ideology within the global context.<sup>29</sup>

Hong Kong exceptionalism, as the term is used in this book, does not follow entirely the above framework of understanding that has emanated from the construction, extension, and critique of the notion as in American exceptionalism. Hong Kong is exceptional because its historical path had been very unique—born as a British outpost, from a ‘borrowed time, borrowed place’,<sup>30</sup> left to its own imagination and local formula of growth quite distinct among the Anglo-Saxon system, towards economic and social prosperity as one of the four Little Dragons of East Asia (but distinct and an exception, again, from the state developmental path pursued by the other three—South Korea, Singapore, and Taiwan), and then becoming an SAR with a different political and social system from its motherland. Culturally, Hong Kong has been described as a city of hybridity (雜種城市) (alongside cosmopolitanism) by local cultural critic and writer Chan Koon-chung (陳冠中).<sup>31</sup>

Hong Kong was designed to be exceptional post-1997, within a highly centralised/unitary and supposedly homogenous communist party-state, given rights and autonomy unparalleled in provincial and municipal polities on the Mainland, nor states and major cities of developed democracies whether federal or unitary. Constitutionally, Hong Kong (as a city with SAR status, which is free from most national legislation and conducts its own external and trade affairs as ‘Hong Kong, China’) is more autonomous than New York and London within their respective national structure. This makes it special and unique internationally. Today, over two decades after reunification, Hong Kong remains a geopolitical hybrid, both within the broad People’s Republic of China (PRC) jurisdiction and yet outside its specific jurisdiction in terms of the application of the national system, law, and related institutions, thus creating tensions and ambiguities from time to time.

Hong Kong’s unique culture has been depicted as a ‘cultural fault-line’ in shaky geographical terrain, a ‘translation space’ between Chinese-ness and Western-ness, a ‘cultural hub’ that joins vernacular culture with cosmopolitanism, a ‘multifaceted, polyphonic culture that resists easy homogenization’, a ‘transmission zone’, and so on.<sup>32</sup> Hong Kong Chinese culture can be clearly distinguished from Mainland Chinese culture, and the city is probably the only part of China where Cantonese is the dominant language, not Putonghua (Mandarin). Hong Kong’s hybridity and

its associated dilemmas have not disappeared in substance despite the journey of political reunification and social and economic integration over the years. What makes the Hong Kong case relevant to the wider exceptionalism discourse is that Hong Kong people like to articulate their uniqueness as ‘Hongkongers’ (香港人, *hoeng gong yan* in Cantonese pronunciation), defining their identity (whether locally, on the Mainland, or overseas) so as to stand out as a matter of collective pride, bearing Hong Kong memories and core values, especially during the recent years of rising local assertiveness.

In its governance, Hong Kong has historically never been the pure-form *laissez-faire* free market that some classical and neo-liberal economists (notably Milton Friedman) liked to portray, but fluctuated between non-intervention and intervention during the post-War decades until the 1997 handover, and then between reactive intervention and proactive intervention afterwards. Its administration pursued public sector reforms in the 1990s in tandem with the global trend despite the lack of big government, administrative inefficiency, or nationalised industries, and at a time of legitimacy crisis and political change and turbulence. Throughout the 1970s–1990s, Hong Kong was an unconventional case of bold reform of the bureaucracy by bureaucratic modernisers, which again made it exceptional within the context of how the world expects traditional ‘small-governments’ to function.

As an SAR, Hong Kong has been finding its narrow way forward between local autonomy and central authority under ‘One Country, Two Systems’, and between executive government and various institutional checks and balances, to strike a delicate balance in the form of ‘durable’ governance that could work in the circumstances and amid various constraints. The end of its colonial status meant an unavoidable degree of de-institutionalisation, but new institutions with clear functional logics have yet to be groomed. Such messy context and ambivalent identity of Hong Kong are fundamental to its present dilemmas in governance.

## Some prevailing discourses

All big cities rise and fall, as history around the world has shown. Just what is represented by Hong Kong that we seek to preserve? This is part of the historical dilemma that needs to be tackled in any serious discourse about the city. Inasmuch as the past has determined and configured the present essence and interpretations, the present experience also reinterprets and even reconstructs the past. It has been pointed out that liberal-modernist historiographies of Hong Kong often tell a romanticised story about its growth from a barren rock to a capitalist paradise that, thanks to colonial non-interventionist rule and its liberal frameworks, had flourished, and ultimately created the Hong Kong ‘miracle’.<sup>33</sup> It was this idealised Hong Kong which was sought to be preserved in its return to China but is considered by some critics to have been ‘lost’ after 1997 due to the incompetence