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HONG KONG: THE PERILS OF SEMIDEMOCRACY

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At the time of Hong Kong's 1997 transition from British to Chinese rule, the world saw the city as a laissez-faire enclave that took care of itself, while an able but mostly hands-off civil service did minor maintenance. A successful transition would mean little more than a changing of the guard, with local functionaries replacing colonial functionaries. There was, in this widely held view, no need for any larger reform of the economy or polity.

Beijing and London, together with the local business establishment, planned a government that they all hoped would combine representative deliberativeness with authoritarian decisiveness. The byword for this was "executive-led government." The 60-member Legislative Council (Legco) would be elected but the Beijing-chosen chief executive (CE) would have power to implement needed programs. The legislature itself was a carefully engineered body, chosen through complex, multilayered procedures designed to ensure that it would be dominated for at least ten years by economic and managerial experts who would steer well clear of anything resembling economically risky populism.

Both British and Chinese officials saw powerful justifications for such a government. What holds together Hong Kong's disparate, unequal society of former refugees is its superior economic performance—its ability to give everyone a job and a chance, through hard work, intelligence, and luck, to rise from rags to riches on the model of billionaire Li Ka Shing. Beijing's willingness to tolerate Hong Kong's "peculiar" institutions and autonomy was and is completely dependent

on its superior contribution to the mainland's economy. This was why the Politburo had restrained Mao from overrunning it in 1949, and why Beijing chose to grant it 50 years' autonomy starting in 1997. Hong Kong has so far fully justified this view. Though it boasts fewer than 7 million inhabitants, it has invested far more in China (US$149.7 billion from 1991 to 1999) than Japan, Europe, and the United States combined.

The designers of the post-turnover institutions were clear about their goals:

- To ensure a peaceful, turmoil-free handover of sovereignty from Britain to the People's Republic of China.
- To preserve Hong Kong's freedoms and institutions, including freedom of speech, of the press, of British-style legal processes, and many others. The British honored these as values in themselves, while Beijing considered them essential to Hong Kong's continued economic success.
- To preclude the emergence of a Hong Kong that would threaten the Beijing regime and arouse "antisubversive" reprisals.
- To ensure that the executive had enough authority to implement needed policies.
- To avert the emergence of political parties.
- To ensure that long-range, expert viewpoints and business interests would dominate a Legislative Council that would willingly follow the chief executive's lead.

In short, the idea was to get the benefits of representation without sacrificing a certain authoritarian capacity for dispatch and decisiveness. Singapore was the leading example of what the transition's architects hoped to build.

All the peculiar characteristics of Hong Kong's current political institutions become intelligible when viewed in light of these aims. Thus the old British "governor" was to give way to the new "chief executive" because, in the view from Beijing, Hong Kong is one large business proposition. Likewise, all those (to Beijing) peculiar freedoms and institutions became acceptable not because Beijing loves capitalism and freedom but rather because they seem to have something to do with Hong Kong's economic success.

Along with geographically elected members, Legco contains "functional" representatives chosen from Hong Kong's lawyers, businesspeople, accountants, and so on—the goal being to minimize the kinds of personal rivalries and demagogic grandstanding that beset, to take one example, the Congress of the Philippines. To avert patronage-influenced mismanagement of the budget, legislators are not allowed to propose bills that affect budgets and policies without prior approval from the CE.

And yet, in a departure from all but the last few years of the colonial period, the legislature is elected. It has the right to scrutinize the budget and other bills, and to summon civil servants to explain their policies. And the public has broad rights to be informed and to be consulted. These arrangements exist because they are deemed good not just for the people but also for business.

In the negotiations over Hong Kong's future that began in the early 1980s, the British pushed for more democracy (but not too much more, for the British also feared populism) and got agreement on a ten-year (1997–2007) plan for making the legislature broadly representative.

Hong Kong's transition turned out to be a smooth one—there were no disruptions, period. Although controversies have occurred over the precise meaning of "one country, two systems," Hong Kong's freedoms and judicial system are substantially intact. The judges are the same judges and are chosen the way they were before. Demonstrations are freer than under the British. The British penchants for omnipresent wiretapping and using the Independent Commission Against Corruption to circumvent due process have been curtailed. Some newspapers have practiced self-censorship out of ambition to extend their businesses into the mainland and have even fired people like popular humor columnist Nury Vittachi and cartoonist Larry Feign. But nobody accuses Beijing of orchestrating this, and the journalists have just moved to livelier Hong Kong publications; Vittachi and Feign are as popular and controversial as ever.

Delimiting the exact contours of "one country, two systems" is a challenge that periodically raises issues. The most mismanaged one was a controversy that arose over the procedures by which people from China who claim the right of abode in Hong Kong can move there permanently. The Hong Kong government was alarmed by a ruling from the Court of Final Appeal, Hong Kong's highest, that allowed immediate rights to all such people, including those who had smuggled themselves in.

The government first launched a scare campaign, based on invalid statistical arguments, which argued that Hong Kong would be swamped by immigrants. Then it persuaded the National People's Congress in Beijing to exercise its right to interpret the law in a way that overruled the court. Civil libertarians would have preferred to amend the Basic Law, but Beijing did not wish to set a precedent of easy amendment. The Hong Kong government's handling of the problem has been distasteful, but Beijing is credible in its assurances that such interpretations will be extremely rare, and its determination not to amend the Basic Law (Hong Kong's constitution) lightly is salutary.

There have been two other noteworthy recent skirmishes along the "one country, two systems" boundary. In mid-2001, China convicted Hong Kong professor and U.S. citizen Li Shaomin of spying and expelled him to the United States. Questions arose as to whether he could return

to Hong Kong and his academic job. Hong Kong controls its own immigration, but China controls anything to do with national security and could clearly have asserted a right to bar his return. Instead, he was allowed back immediately.

The Falun Gong religious movement has also provided a major test of Hong Kong's autonomy. There was intense media speculation about potential repressive legislation, which has not materialized. The sect was granted the use of City Hall for its principal conference and was permitted to stage round-the-clock protest vigils outside the Chinese Liaison Office in Hong Kong. Chief Executive "C.H." Tung Chee Hwa called Falun Gong an "evil cult" to keep Beijing comfortable, but, other than limited exclusion of demonstrators flying in from abroad to protest during a visit by Chinese premier Jiang Zemin, Falun Gong's freedom has been complete. Problems will arise if Falun Gong organizes mass suicides or goes beyond demonstrations inside Hong Kong and seeks to use the city as a base from which to organize the mainland.

Thus, while Hong Kong has not moved forward on democratization, and may even have taken a small step back recently when its government affirmed Beijing's right to dismiss the chief executive, it has not moved backward on rights and arguably has moved somewhat forward. Hong Kong people do not feel threatened.

This smooth success has gone a long way toward calming opposition to Chinese sovereignty, and has helped to sap support for the fiery anti-Beijing rhetoric of Martin Lee's Democratic Party and Szeto Wah's Patriotic Alliance in Support of Democracy in China. Despite fears that Hong Kong would become an actual or perceived base for subversives, and hence the target of reprisals, nothing of the sort has materialized.

While these successes are significant, they are also isolated. None of the other goals has been achieved. Take the matter of forestalling party formation, for instance. Despite elaborate rules and explicit Chinese efforts dating to the mid-1980s to suppress parties, Hong Kong has not only the Democrats and the Patriotic Alliance but also the pro-business Liberal Party, the Democratic Alliance for the Betterment of Hong Kong (or DAB, which is currently the broadest-based mass party and relatively pro-Chinese), the middle-class Citizens' Party, the Frontier Party, and various others.

Nor did filling Legco with "functional" members from banking, business, or the professions prevent the rise of political and economic populism. When the government tries to raise fees in line with inflation, or to charge for sewage disposal, the functional representatives combine with the geographical ones to defeat it. The Democrats and the DAB, the two largest parties, compete to offer the greatest support to constituents who seek a continuation of socialist housing and socialist medicine. Lacking real power or the prospect of higher office, legislators have little incentive to take the long view.

Instead of following where shipping magnate and chief executive Tung Chee Hwa leads, Legco has come to see itself as his elected opposition. He returns the disdain, meeting with the legislature for less than two hours all told during a typical recent year. Among developed countries, it would be difficult to find a legislature and a chief executive so openly at odds. Executive officials complain that, with no assured party support, they must start from zero in cobbling together support for each bill.

While the legislature contains many businesspeople, this has not led to exceptionally effective advocacy of business positions. As noted, Hong Kong business representatives vote frequently for populist positions. Although election procedures ensure that they are exceptionally well-trained and successful individuals, they are overwhelmingly *not* full-time professional politicians; most have other jobs that take the bulk of their energy. Moreover, no member of the Liberals (the business party) has managed to win a popular seat in the legislature, which undermines their public stature.

A Surprisingly Weak Executive

Worst of all, the executive has turned out not to have the decisive, reforming influence that the drafters of the Basic Law sought. The chief executive and his hopelessly tiny staff of five are caught in the middle of outspoken pressure groups, a legislature that resentfully thinks it has more electoral legitimacy than the CE, and a civil service that believes it can and should rule Hong Kong. The CE, chosen by a small, carefully vetted elite, lacks electoral legitimacy. Interest groups are highly articulate and skilled, but have not sorted themselves into larger coalitions that can make trade-offs and set priorities; instead they remain a congeries of particular groups, each with a penchant for loud public protests outside the CE's office.

It was ultimately unfair to expect Tung Chee Hwa to be able to manage a complex consultative system, even one without the flaws that Hong Kong's suffers. In keeping with his own background and experience, he expected to administer the new government like a business. The tasks of shaping coalitions, brokering compromises, managing bureaucrats, and speaking on television were and mostly still are foreign to him.

In short, Hong Kong has a politically undertrained CE with no base or staff to speak of, facing institutions that are broader, deeper, and more skilled, and which possess greater claims to legitimacy. It is a polity that (in the jargon of political science) is much better at articulating than at aggregating interests. Is it any wonder that the executive is so vulnerable to pressure groups and finds it hard to be decisive?

If Hong Kong lived up to its image as a laissez-faire place that largely takes care of itself with a little help from the civil service, none of this would matter for Hong Kong as an economic enterprise. But the Asian

crisis and the rude realities of self-government have belied that image. The crisis, if unaddressed, had threatened to wreck the currency, the stock market, and much of Hong Kong business. And with the colonial masters gone, Hong Kong's sharp social inequalities began to generate strong pressures not just for protection of the existing socialist housing and medical systems but also for the broad extension of welfare entitlements. Not surprisingly, local officials have proved much weaker in the face of pressure-group demands than foreign colonial officials were.

So long as one views only the foreign sector, Hong Kong is indeed the world's freest economy. But its domestic economy is riddled with monopolies and cartels, and is subject to far more government management than the U.S. economy. Such an economy and society require real governance.

Hong Kong needs drastic school, housing, and civil-service reform, and should curtail its largely government-sponsored cartel system. Hong Kong businesses now look to Beijing and Shanghai for university graduates who speak and write excellent Chinese and English. Government-owned housing shelters half of Hong Kong's population, making for one of the world's most socialized housing markets. A welter of cartels or monopolies dominates travel and transport services, auto sales, property, food, natural gas, electricity, household moving, medical care, law, teaching, banking, entertainment, and so on. As a result, for instance, Hong Kong's port-facility charges and real estate prices are the world's highest; a simple dental checkup costs about US$250; Hong Kong has lost out on becoming a regional airline hub thanks to opposition orchestrated by the local air carrier; and prescription drugs can cost eight times what they would even in a high-priced U.S. city.

Tung Chee Hwa's lack of progress on housing and school reform has hurt him the most, since much of his early popularity came from his vows to take on those issues. Every one of his attempts to encourage the provision of more abundant and less expensive housing has been blocked by some combination of real-estate developers and homeowners, while civil servants and the entrenched teachers' unions have effectively vetoed most educational reform.

Meanwhile, Shanghai's decisive reformist leaders—at the helm of what was until recently a city with a fully socialist economy—have created housing and medical systems that are less socialized, built universities that teach English far better, and attracted more expatriates. Singapore, whose economy is far more controlled (both through ownership and regulation) than Hong Kong's, has drawn up visionary plans to restructure its system. Both, particularly Shanghai, remain far behind Hong Kong. But it greatly concerns Hong Kong's cosmopolitan elite to see their city nearly dead in the water while Shanghai steams ahead.

The lesson of Hong Kong's efforts to combine the best aspects of

electoral representation and authoritarian decisiveness is that it works only under special conditions. Broadly accepted colonial rule is one such circumstance. The British moved gradually over the decades from total colonial dictatorship to a form of consultative colonialism that made most influential groups feel that they were part of the system and that their interests had been taken into account. Until China demanded Hong Kong back, this consultative colonialism was based entirely on selection, not elections. Afterward, it involved highly constrained elections to positions with limited power. Such a system only worked when the real rulers were foreigners, and it might well have proved a slippery slope even for the British had they tried to sustain it indefinitely.

In the case of Singapore, a nasty struggle with local Communists and fears of aggression by neighbors galvanized a broad-based, highly organized political party that still controls all the major resources of society and commands the loyalty of enough of the population to retain its position at the polls, though this too may change, as one can see from looking at the troubles of Taiwan's Kuomintang and Japan's Liberal Democratic Party. Hong Kong has no such history, and lacks a towering party that can aggregate interests and mobilize majority support.

Flawed Assumptions

Many of the hopes surrounding Hong Kong's transition rested on a string of assumptions: that the British would be replaced by a variety of local figures, that Beijing would mostly leave Hong Kong to govern itself, and that the territory would function pretty much as it had before.

But each of these assumptions had great flaws. The first was a failure to reckon with the size and importance of the actual British role—and the ways in which the new arrangement failed to replace it fully. Despite assorted consultative mechanisms, the British governors had basically been dictators, able to impose changes at will, and with a vast policy and administrative apparatus in London to back them up. When a currency and banking crisis threatened in 1983, for instance, Prime Minister Margaret Thatcher's economic advisor in London played the decisive role in creating the new pegged currency that saved Hong Kong's banks. When the stock market crashed in 1987, British expert Ian Hay Davison flew in and designed a wide-ranging regulatory reform. When major infrastructure projects were needed, British consultants provided designs, specifications, and oversight.

While the years leading up to 1997 saw much localization take place, and while Hong Kong people and institutions could certainly have been trained to exercise broad political leadership and to coordinate complex projects, in practice they were not. The last governor, for instance, was British; surely it would have been better to have had a Hong Kong person fill that role.

As a result, when Hong Kong did become autonomous, there was 1) no local elite with experience of broad societal and political leadership, and 2) no adequate experience with crisis management and complex project management. We have already discussed Tung Chee Hwa's lack of political skills as an example of the first deficiency. To see the second in operation, one need look no farther than the bureaucratic bungling that marred the opening of Hong Kong's new airport in July 1998. Subsequent inquiries have put on vivid display the ability of senior civil servants to avoid accountability. (The successful operation since then of what has become one of the world's most efficient, magnificent, and busy airports shows that Hong Kong does not lack talent; the problem is inherited institutional structures.)

Moreover, although the inherited system was weak, the civil service felt that it had a mandate to rule Hong Kong. The roots of this belief lay in the term of the last British governor, Christopher Patten, a politician who turned his five years in office into a permanent campaign and basically abdicated the administration of Hong Kong to the civil service. The housing and education problems spiraled out of control, but amid the political hurly-burly this went unnoticed except by frustrated average citizens.

When the handover came, the new chief executive found that the levers of administration were in the hands of a civil service that thought it knew more about policy than he did, that believed it had a right to govern, that considered resistance to reform an exercise in Hong Kong patriotism, that thought its accustomed ways of doing things needed at most marginal change, and that bitterly resented having to take orders from the CE and report to the legislature.

In discussion after discussion of the costs of Hong Kong's system of cartels, civil-service leaders start off with variants of "This system has always worked well in the past. Why change it?" Hence the anomaly of the "world's freest economy" adamantly opposing World Trade Organization requirements designed to permit more competition in the provision of goods and services.

In Hong Kong, normal bureaucratic inertia acquired a special political multiplier on account of fears that turmoil in civil-service ranks might hamper the transition. No top civil servant was changed during or immediately after the transition. Stability was guarded at all costs. Higher-ranking civil servants are paid salaries comparable to what executives in Hong Kong's most successful businesses earn. The civil service asserts a right to dominate policy, but claims the tenure and protections of a politically neutral administrative bureaucracy. Not surprisingly, top civil servants think things are fine just the way they are. Even after the great Asian financial crisis of 1997–98 showed the need for major reforms, civil-service leaders doggedly defended the status quo. As Tung Chee Hwa sought to make needed changes, his foes in the

civil service cast themselves as defenders of Hong Kong's stability in the face of challenges from Beijing and its hand-picked chief executive.

Yet if the outmaneuvered and immobilized CE has lost popularity, so has Democratic Party leader Martin C.M. Lee, along with civil servants, Legco, and all the major parties. It is easy to attribute this to the Asian crisis, but the crisis is past, Hong Kong's pain was far less than others', and Singapore and Shanghai suffered deeper shocks without losing faith in their leaders and institutions.[1]

Reform, Growth, and Democracy

Hong Kong's difficulty in reforming itself weakens its ability to achieve simultaneously the two goals its people badly want: rapid economic growth and democratization.

First and most important, a property system dominated by six huge firms and rigged to generate enormous government revenues to offset the revenue shortfalls of a 15 percent flat tax has created some of the world's highest real-estate prices. Hence a populace with an average income level above the EU's can afford only 460 square feet of living space for the median family, despite the fact that government-owned housing is provided to half the population. The wealth divide between those who own some property and those who do not is so great that wealthy Hong Kong's social structure is as deeply divided as any Third World country's. Much of the population feels left out and demands a list of government services that sounds more like the manifesto of an old-fashioned European socialist party than anything in keeping with the spirit of "positive nonintervention" by government in the economy. As Seymour Martin Lipset and others have shown, the absence of a socialist party in the United States and the decline of socialist parties in Europe can be accounted for by the healing of social divisions and the emergence of a dominant middle class.[2] In the absence of housing reform, Hong Kong's social divides are not healing, and major parties can scarcely resist playing to the disgruntled majority.

The failure of education reform has similar consequences. Hong Kong's vitality depends on moving up-market constantly; as it does so, those without adequate skills get left behind. As more Hong Kong people become uncompetitive, and as the top jobs go increasingly to the better-educated and better-English-speaking graduates from Beijing and Shanghai, Hong Kong's social divisions worsen, spawning even more support for populist and socialist policies.

Hong Kong also needs tax reform. The 15 percent flat income tax does not generate enough revenue, so the government depends heavily on real-estate taxes. But these are only adequate in turn if Hong Kong maintains extraordinarily high property prices, thus fostering social conflict. A narrow tax base also fosters populism and class conflict. Of

Hong Kong's 6.5 million people, fully 5.5 million pay no tax at all, and only 12,000 people pay the top tax rate of 15 percent. The wealthy take their income in dividends, and pay virtually no tax. With non-taxpayers predominating so heavily, there are few reasons not to make populist demands, and strong incentives to do precisely that.

As long as these social problems remain unaddressed, more democracy will mean more populism or even more socialism (for instance, reinforcing Hong Kong's outmoded housing and medical systems), which is the opposite of current trends in the United States and Europe. This has led a few members of the wealthy elite to demand "no representation without taxation." While only a few go that far, the society is polarized between the majority who want democratization and a powerful minority who fear that it would impair Hong Kong's market economy. The problem is real, but curbing representation is simply unacceptable to most Hong Kong people. Instead, Hong Kong needs structural reforms to reverse its current system of perverse incentives.

Ironically, the difficulty of mobilizing support for housing, school, or tax reform in the face of entrenched opposition is just the sort of thing that has led many Asian governments to advocate authoritarian and semi-authoritarian polities (Hong Kong is one of the latter) to smash through the obstacles. Hong Kong bought the argument, and the CE made smashing key blockages his platform, but so far the blockages remain.

Within Hong Kong, there is virtually universal acknowledgment of the malaise, but diagnoses and prescriptions vary:

1) Everything would be fine except that the legislature and civil service undermine Tung. This is the view of a tiny but very influential minority that includes a few leading businessmen, certain figures close to Beijing, and some of Tung's inner circle. This diagnosis is difficult to square with the breadth of disaffection that is evident in one of the world's most highly educated and well-informed societies.

2) Tung is the problem; with the right person as CE, all would be well. Although seldom voiced publicly, this is the most widely held view among top businesspeople. It is also probably the most widely held view within the community at large. But if Tung is the problem, why is every other aspect of the system also becoming unpopular? Why has disaffection with Tung not led to a wave of support for Martin Lee or for the legislature?

3) The system's problems are limited and call for no more than minor administrative repairs. This is the view of many thoughtful, modern members of the business and professional elite. This view led to the proposal that government departments should in the future be headed by political appointees, serving at the pleasure of the chief executive as in the United States, and that legislators as well as policy and management professionals should be eligible for such positions. The idea is to bridge the civil service's gaps with both the CE and Legco, and to inject

higher levels of accountability and reform-mindedness into top bureaucratic ranks.

4) Such reforms are fine, but the problem goes much deeper and can only be solved by substantial further democratization. In this view, as long as the chief executive is chosen by a small group of mostly elderly business executives, he or she will inevitably lack political skills. As long as the CE has a weaker base of electoral legitimacy than the legislature, and a weaker weight of historical legitimacy than the civil service, he or she will be in a relatively weak position. As long as the legislature is not a route to the pinnacle of political power, it will have every incentive to conduct itself as a populist elected opposition and little incentive to collaborate with the CE. As long as party politics does not lead to control of policy, democratic elections and freedoms will lead to ever-noisier articulation of group interests but not to the aggregation of those interests into broadly accepted policy priorities.

5) Hong Kong cannot handle electoral democracy even at its current level, and must therefore become more authoritarian. This is the view of the "no representation without taxation" lobby, but it carries little weight in either Hong Kong or Beijing.

Though probably few Hong Kong people could articulate the fourth position outlined above in describing the cause of Hong Kong's problems, polls show overwhelming majority support for increased democratization—not in some sudden, purist way that antagonizes China (such a course is just as broadly opposed), but as a firm direction and not-too-long-term goal. I myself agree, and hold that further democratization—at a prudent pace and in a prudent manner—is the correct prescription for what ails Hong Kong.

The likely implementation of some version of cabinet-style senior appointments, and the possible appointment of serving legislators to such positions, will likely improve the mechanics of the Hong Kong government. This is the favored solution of believers in further democratization, and it will help but not provide any ultimate solution.

Hopeful Signs and Succession Scenarios

A further hopeful sign was the appointment of Donald Tsang to succeed Chief Secretary Anson Chan (the head of Hong Kong's civil service) following her January 2001 announcement that she would retire 14 months ahead of schedule. Chan is a revered figure who has spoken up on behalf of Hong Kong and its freedoms—and will, one hopes, continue to do so in her private capacity. Yet she also helped to block key reforms and epitomized the determination of senior civil servants to be the real power running Hong Kong. She vigorously fought against civil-service and educational reform, competition policy, and the open-skies airline policy, among others. Former finance secretary Donald

Tsang brings to the post a somewhat broader view of policy options, a much greater willingness to work with other institutions, a far greater interest in pursuing economic reforms, and an equal commitment to Hong Kong's freedoms. Tsang's replacement as financial secretary is Antony Leung, a life-long investment banker who headed Chase's Hong Kong branch but has devoted much of his time to a crusade for educational reform. He is bringing a much-needed innovative mind from outside the civil service—notwithstanding bureaucratic hostility to his appointment.

Tung Chee Hwa's successor as CE will be chosen on 24 March 2002, by an elite group of 800 electors whose support for Tung is so evident that as of August 2001 not a single alternative candidate was visible. So far, Tung has firmly resisted talk of political reform and has gradually retreated from his early ambitions for housing and education reform. (He saw the light, however, on environmental issues and has moved forward in this area with vigor.) In principle, the succession could have one of three outcomes:

1) Tung succeeds himself (or is succeeded by someone with identical views) and remains firmly opposed to political reform, arguing both that it is not needed and that Beijing will not permit it. In this case, it is argued, improvements will occur in the policy machinery, and Hong Kong's economic performance after the Asian crisis will likely be good enough to enable his supporters to argue that everything is just fine. But faster reforms in Shanghai and indeed in much of Asia, together with the high costs of keeping the cartel system, may erode Hong Kong's relative position, in which case the political malaise will deepen even if economic performance is good.

2) Tung succeeds himself and becomes convinced of the need for political reform, just as he reluctantly became convinced of the need to attack pollution. In this scenario, which most observers regard as unlikely, Tung's popularity at home would revive, he would get more support from the legislature in a broad variety of areas outside politics, and he would undoubtedly find it easier than anyone else to persuade Beijing to be flexible. Moves toward popular election of the CE and toward broader-based elections for the legislature would give the CE badly needed legitimacy, provoke wider policy debate and greater interest aggregation, imbue the legislature with a greater sense of responsibility, and remove the current stigma inhibiting popular election of business representatives.

3) Younger leaders emerge and press for both political and economic reforms. Younger leaders would have to work harder than Tung to persuade Beijing, but they would probably evoke a more enthusiastic response inside Hong Kong. Taking up the cause of political reform would give the CE newfound legitimacy, and direct election would give his successors even more. That would bring the civil service into line. Legco members, sensing opportunities to influence policy and to gain

senior executive positions, would gravitate from the role of the elected opposition to a (somewhat) more responsible role, both out of self-interest and because voters would hold it to a higher standard. So far, there is no sign of the emergence of such leadership, because there is no opportunity for it. But Hong Kong is full of outstanding leaders who, lacking political opportunities, confine their energies to business.

Thus the real stakes in the ongoing succession contest are structural, not personal. At the moment, Hong Kong's economy is far ahead of its competitors. It has a more flexible economy than Singapore and lives in a better economic "neighborhood" (China versus Indonesia and Malaysia). Even with Shanghai's accelerated improvement, Hong Kong retains huge advantages over Shanghai's bureaucracy, primitive legal system, and corruption. But Hong Kong must overcome its immobilism. A few years ago it would have been difficult to imagine a situation where Shanghai's housing and medical systems were more capitalist than Hong Kong's, where Shanghai's colleges produced far better English speakers, and where foreign airlines were starting to bypass Hong Kong's protectionist system in favor of negotiations with a less protectionist mentality in China, Singapore, and other Asian neighbors. But it happened earlier than we expected.

Hong Kong, Shanghai, and Beijing

Hong Kong's post-handover successes have helped China and amplified Hong Kong's role in China. With its freedoms and rule of law intact, Hong Kong has maintained its regional economic role. It continues to direct huge flows of foreign investment into China. In the year 2000, Hong Kong and China were the world's second- and third-largest recipients of foreign direct investment, and much of the capital that came into Hong Kong was destined for China. Based on the Hong Kong experience, China has intensified its efforts to move toward a law-based system.

In addition to importing bodies of law from Hong Kong, China is increasingly tapping Hong Kong expertise. For instance, the new deputy chairman of the China Securities Regulatory Commission is Laura Cha, formerly deputy chairman of Hong Kong's Securities and Futures Commission (SFC), and the principal advisor on regulatory reform is Anthony Neo, formerly the SFC's toughest chairman. China is seeking a leading Hong Kong figure to be deputy head of China's central bank. Shenzhen, a special economic zone adjacent to Hong Kong and modeled on it, has in only two decades evolved from rice paddies into a global export powerhouse. On the other hand, Hong Kong's increasingly glaring reformist weaknesses compared with Shanghai may, rightly or wrongly, reinforce Beijing's view that representative institutions obstruct efforts to implement economic reforms and to overcome social divides.

For the rest of Asia, Hong Kong has few positive political lessons to teach. Countries in the region have found economic advantages under both authoritarian and democratic rule. Park Chung Hee's South Korea, Chiang Ching Kuo's Taiwan, Lee Kwan Yew's Singapore, post-1979 China, and British colonial Hong Kong all derived early benefits from the ability of authoritarian developmentalist governments to impose painful reforms on poor societies with simple economies, weak institutions, and potent pressure groups. South Korea, Taiwan, and Singapore have in turn gradually learned that managing complex economies and highly educated middle-class societies works better with representative institutions. Hong Kong is somewhere in between. As a diplomatic alternative to the sort of military takeover and forcible imposition of national institutions that India carried out in the former Portuguese colonial enclave of Goa, the peaceful handover of Hong Kong to China was a triumph. As an example of how freedom, order, and prosperity can coexist in a Confucian society, Hong Kong is an inspiration to China. As a developmental polity, however, Hong Kong has moved past the British empire's authoritarian ability to impose reforms but has not yet acquired democracy's ability, as best exemplified by Kim Dae Jung's Korea, to achieve a consensus among the educated middle classes and implement reforms despite formidable obstacles.

In the last analysis, one may note with hope that Hong Kong's Basic Law holds forth the possibility of moving forward, as do Beijing's increasing confidence and openness to persuasion and the unfocused but impeccably moderate and democratic views of Hong Kong's large, intelligent, and well-informed middle class.

NOTES

1. On Hong Kong public opinion, see the publications of Michael DeGolyer's Hong Kong Transition Project, based at Baptist University in Hong Kong, at *www.hkbu.edu.hk/~hktp*.

2. For the most recent overview of such effects applied to Europe, see Seymour Martin Lipset, "The Americanization of the European Left," *Journal of Democracy* 12 (April 2001): 74–87.