

# **Hong Kong in the 21<sup>st</sup> Century: Sustainable Economic, Social and Political Developments**

**A Report of the Hong Kong Foundation for Social Democracy  
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Executive Summary**

## **1. Agenda**

This report focuses on the developments of “one country, two systems” in the coming one to two decades. It deals with the possible challenges that these developments may pose for the Hong Kong SAR and addresses the desirable policy responses.

## **2. Constraints and advantages**

Hong Kong has been transformed into a metropolis and an international financial and service centre. However, as a result of the syndrome of transitional politics, easy money mentality and speculative bubbles, Hong Kong has also become a very expensive city with a deteriorating environment. Its economic structure has turned lopsided.

The geographical separation of Hong Kong and China under the framework of “one country, two systems” limits factor mobility (including the mobility of labour) and hence a full-fledged division of labour between the two sides is not supposedly on the agenda. This conflict between politics and economics reduces the choices for Hong Kong’s future trajectories. Mainland’s accession to the WTO would bring new business opportunities and intermediary roles to Hong Kong. Nevertheless, competition and challenges are just around the corner. Hong Kong should still have advantages within three to five years, but the ability of other Mainland cities to catch up cannot be underestimated.

Internally, the major worry for Hong Kong is the decline in the quality of our manpower. On the other hand, Hong Kong possesses special landscape features: it is a

metropolis with hills and waters, where Eastern and Western cultures meet and interact. That is a plus for tourism.

The political confines of “one country two systems” exert strong influence on Hong Kong. A yet-to-be democratised sovereign country is over-seeing a special administrative region where democracy is half-baked. Irrespective of how great the internal autonomy of the SAR is, it would be very difficult to arrive at a political equilibrium and this factor will significantly constrain local reforms.

### **3. Several possible economic scenarios**

We have investigated the possibilities of several future scenarios for the Hong Kong economy.

(1) The first scenario is that of a relatively coherent economic structure, with a balance between industry and finance, hence providing high value-added and high employment. The chance is not high.

(2) The second is the continuation of the status quo: “super-Manhattan” side by side with third-world tendencies. Unemployment would rise, income inequality aggravate and social instability heighten. Unfortunately, unless there are significant changes in policies and social behaviour, the probability for this scenario is quite high.

(3) The third is an optimised dual economy. The first facet is the economic locomotive that creates high value-added but low employment opportunities. It is characterized by Manhattan-plus with a core of technological innovation and international services. The second facet is labour intensive albeit low in value-added. It includes tourism, cultural activities, entertainment, social and individual services. If there is consensus and concerted effort on this development model, the chance should not be low.

### **4. Optimised dual economy**

We deem that scenario (1) is near impossible. What Hong Kong people should strive for is the avoidance of scenario (2) and the realisation of scenario (3), i.e., that of an optimised dual economy.

Many of the preconditions for scenario (3) are there. Being an international business and financial centre, Hong Kong should be able to develop sophisticated financial and commercial software, Chinese medicine, environmental technologies and products based on applied material sciences. As a stepping stone to Mainland China with advanced communications infrastructure, the SAR should also be in a good position to promote itself as an arbitration and logistics management centre.

Regarding the second facet of the dual economy, tourism that focuses on the themes of “East Meets West” and ecology is particularly appropriate. Customers should include not only foreigners, but also locals. Tourism will generate multiplier effects on other labour intensive sectors. However, a precondition is that income inequality must be contained, so as not to undermine the average purchasing power of the population.

However, a diversified set of economic locomotives will not automatically emerge by actions in the private sector and the market. It requires strategic alliance among the government, the corporate and the academic community. Moreover, appropriate incentive mechanisms including tax concessions and research funding are necessary.

There are also various problems with the second facet. Expansion of tourism demand is predicated on a beautification of the environment and the improvement of human quality. This is linked to the reforms in education, the formation and strengthening of social identity and the promotion of cultural activities. Moreover, substitutability is usually low in the second facet, hence easily leading to the emergence of oligopoly or monopoly. The government should be alert to this possibility.

## **5. Economic strategies for the optimized dual economy**

The following four strategies should be considered

(1) Consensus formation. Hong Kong needs a consensus about its development under “one country, two systems”. Unfortunately, even after the 1997 transition, the financial crisis, and the constitutional impacts, there has still been no thorough soul searching that might lead to a consensus. The government has a moral responsibility in facilitating the process.

(2) Paradigm shift. An optimised dual economy requires new thinking and the

government has a crucial role to play. The new mode of thinking should include:

- (i) Redefining the role of government in promoting economic development, especially during major economic structural changes.
- (ii) Reflecting on Hong Kong's past success formula, and investigating how to use new formula such as fiscal and tax incentives.
- (iii) The government should establish a competition law to monitor and sanction unfair trade practices in the market, instead of resorting to administrative means

(3) Effective implementation. The implementation of new thinking hinges on the appointment of Executive Councilors, key Secretaries and Bureau Heads. Civil service reforms must be pushed through, and the roles of NGOs, think tanks and District Councils should not be neglected.

(4) Coordinating measures. The changes in the thinking and the action of the government need to be augmented by the support of the population and the media. The top echelon of the government should improve its techniques of political marketing and strengthen the two-way communications with the population and the media.

Other than these four considerations, manpower quality is the key factor of a dual economy. With regard to educational reforms, a balance should be maintained between popularisation, promotion of social mobility on the one hand and the effective selection of elites on the other. As far as tertiary education is concerned, the focus should not only be on putting financial pressure on the university management. The promotion of professors' role in management and internal democracy is equally essential.

Moreover, both basic research and applied and policy research should be emphasized. We recommend dividing research funding into two separate pools, and academic assessment should also be based on two different sets of criteria. The government must abandon its dreamlike preoccupation with "low and simple taxation" and should use fiscal and tax incentives to stimulate R&D.

The quality of human capital in the second facet of the dual economy depends on a number of factors: mass education, culture, media orientation, and social environment. The common target is obviously to maintain social harmony and inter-stratum mobility, so that lower income groups can still see channels of upward mobility. In the meanwhile, they would be contented to serve as employees in the

second economic facet.

## **6. The realisation of the optimised dual economy and the common stakes of Mainland-Hongkong**

Hong Kong has to face the opportunities and contradictions of the economic integration with the Mainland. The key to an optimal solution is to strike a balance between weakening or strengthening the integration process, taking the benefits and managing the drawbacks. Hong Kong should make a breakthrough in generating value-added for the locomotives of the economy, so as to arrest the equalization of factor and output prices between the SAR and the Mainland by keeping and enhancing our niche. The SAR should also avoid the one-way inward movement of population and alleviate the “caging cost” it generates.

Hong Kong has to try its best to provide incentives to the Mainland, especially the local authorities to reduce the resistance to our “self-interested” strategies. The solution is set up an “entity of common interest”. The starting point of the entity is the Pearl River Delta and Hong Kong. To enforce this, the coordination mechanism should involve not just the top officials of the SAR and the Provincial Government, but also decision makers of the major cities.

## **7. The future of social welfare policies**

A dual economy, including an optimised one, would theoretically enlarge the income and wealth gap, leading to a dual society. Such a gap, as well as poverty of the low-wage employed, would be aggravated by economic globalisation.

Looking ahead, there are several possible scenarios for social welfare under a dual economy in Hong Kong:

- (1) The continuation of the status quo, where the burden of social welfare is transferred to users and beneficiaries.
- (2) An improvement of the social welfare system under which the poor are favoured. It requires the establishment of a social security framework to provide a reasonable safety net against market failure.
- (3) The establishment of a system in which rights and responsibilities, social welfare and economic policies are mutually augmenting. The main course of action is to implement an “employment friendly” labour market policy,

and to enable more people to exit the safety net to become tax payers.

Hong Kong should pay serious reference to designs that would lead to scenario (3). Another consideration is Mainland-Hongkong coordination. Hong Kong's "caging cost" could be reduced if our old and unemployed people have chances to retire or re-start their career in the Mainland.

## **8. The second-best options for the equilibrium of political ecology in a dual society**

The political confines of "one country, two systems" and the yet to be democratised system in the Mainland are influencing Hong Kong's social ecology. Yet Hong Kong can still go for a harmonious atmosphere and generate a partial equilibrium. The key is to involve all concerned parties to create such an equilibrium, making them share the costs as well as the benefits. At the same time, upward mobility of the middle and lower strata must be kept open.

There are *a priori* constraints regarding the political design of "one country, two systems". They have led to a vicious circle of political apathy and low efficiency. To produce a genuine breakthrough, Hong Kong has to depend on elitism and meritocracy. The realisation of elitism and meritocracy implies significant changes in Hong Kong's civil service system. A certain form of the ministerial system is a protective umbrella for a "weak" CE of the SAR. The bureau heads have to be experts, and in each bureau there should be in-house research units.

If the government's decision making has the buttress of elitism and scientific research, policy advocacy by political parties will also become pragmatic and professional in orientation. Respect for knowledge will increase the intellectual contents and hence the usefulness of the discussions among the business circle, experts, and academics in advisory committees and think tanks.

Elitism and meritocracy would only partially compensate for the legitimacy of the SAR government. To generate popular support, mass communications and exchanges with the grass roots are crucial in the decision making process. The SAR government should give serious consideration to enhancing the role of District Councils. The expansion of the civil society and the encouragement of the formation and participation of NGOs will also be necessary.

This is a second-best option for a partially democratised political framework. The key is a competent government and a participative community. Together they could work, under specific historical constraints, to help Hong Kong find a way towards a dual economy with social stability.

## **9. The ultimate task of unification based on social democracy**

The framework of “one country, two systems” is based on the recognition of the common fate of Hong Kong and Mainland China as an entity. The relationship is one of mutual respect, not mutual exclusion or rejection. As to the ultimate goal of unification, the position of the Hong Kong Foundation for Social Democracy (HKFSD) is that the destiny for China is a democratic system that gains the participative endorsement of the community. It is also a system that looks after the common interest of the mass.