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Abstract

Socioeconomic and political developments in Hong Kong always hang on a balance of contending interests as well as a skillful management of tensions and contradictions inherent in a delicate social system that promised to accommodate capitalism vs. socialism and authoritarian Beijing vs. liberal Hong Kong. Given that One Country, Two Systems (OCTS) was an outcome of a political compromise, it would be difficult to meet all the expectations of different parties. Indeed, there are gaps and missing pieces in OCTS. And there is unfinished business as well. This paper is an attempt to analyze the current impasse of Hong Kong society from a longer perspective and to unravel the tensions and contradictions in the OCTS design.

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Introduction

The proposal and subsequently the acceptance of the idea of 'One Country, Two Systems' (OCTS) as an institutional arrangement to facilitate the retrocession of Hong Kong to the People's Republic of China on July 1st, 1997 is an outcome of a political compromise. Hong Kong (together with Macau) was removed from the list of colonial territories under the terms of reference of the Committee on Decolonization of the United Nations (U.N.) in 1972, upon the request of the People's Republic of China (PRC). It was understood that the settlement of the political future of the British colony would be under the sovereign right of the PRC and the Committee's commitment of granting independence to colonies and their people would not be applicable. With the understanding from the U.K. and the U.S.A (both had not raised objection in the U.N., and they were eagerly working towards establishing new diplomatic relationship with the PRC), China would call for a settlement of Hong Kong's future when the time is ripe.

Such an understanding prescribed the way Hong Kong's political future was managed. Right from the beginning, the agenda was not about Hong Kong moving towards independence. The PRC had never recognized the so-called unequal treaties and when and how Hong Kong would

be returned to its nation was to be her own decision. The topic of Hong Kong's post-1997 status was brought up by MacLehose, the colonial governor then, during his visit to China (and more specifically, during his meeting with Beijing leader Deng Xiaoping) in 1979 (Lui, forthcoming). It was underlined that, with bankers' practice of issuing fifteen years' mortgage at that time, Hong Kong would need the assurance of business as usual beyond the 1997 timeline by 1982 the latest if business confidence were to be maintained. Technically, the strategy was to blur the 1997 deadline (Tsang, 1997: 84). Instead of keeping the expiry date of the lease, through which the British acquired the New Territories in 1898, it was proposed to use the phrase "as long as British administration continues". Deng showed no compromise on the question of sovereignty. During the conversation, he bundled the question of Hong Kong with that of Taiwan. Furthermore, he vaguely conveyed the idea of granting Hong Kong a special status for maintaining its capitalist economy while it would be under China's sovereignty. This constituted the skeletal framework of the Chinese approach to Hong Kong's future.¹

The rest was history. Formal negotiations between Britain and China started after Mrs. Margaret Thatcher's visit to China in 1982. Hong Kong society reacted to the prospect of returning to China with panic. Waves of migrants coming from China to Hong Kong during the civil war, after the revolution in 1949, and during various political campaigns in the 1950s and 1960s (most notably the Great Leap Forward and the Cultural Revolution) wanted to stay away from Chinese communism. The possibility of Hong Kong becoming a part of China would mean to them going back to their starting point: once again, they would need find a safe and stable environment for their families. Some chose to emigrate. Many reluctantly stayed and hoped the status quo would be maintained. In September 1983, the value of Hong Kong Dollar drastically dropped, leading to the establishment of the Hongkong-US Dollar peg in the following month. Shelves in supermarkets were emptied and there were even worries of a pre-mature takeover of the colony by China as negotiation reached a stalemate. Diplomatic talks resumed upon the premises of the British's acceptance of the transfer of Hong Kong's sovereignty and administration to China. In December 1984, the Joint Declaration on Hong Kong's future was signed by the two concerned governments. Hong Kong would become a special administrative region (SAR) of the PRC on July 1st, 1997, under which "The current social and economic systems in Hong Kong will remain unchanged, and so will be the lifestyle."

With this agreement between Britain and China, Hong Kong entered its extended period of political transition – no longer "a borrowed place living on borrowed time" (Hughes, 1976), Hong Kong had its political future settled but how capitalist Hong Kong would continue to grow and develop vibrantly within the national framework of Chinese socialism remained uncertain. Uncertainties, and the resultant anxieties, had never really subsided as Hong Kong moved towards becoming an SAR under OCTS (Lui, 1999a). The future of Hong Kong continued to rest on a balance of contending interests as well as a skillful management of tensions and contradictions inherent in a delicate social system that promised to accommodate capitalism Vs socialism and authoritarian Beijing Vs liberal Hong Kong. The Umbrella Movement of 2014 and political confrontation triggered by the Extradition Bill in 2019 seemed to have brought all the issues and problems onto the table. The precarious balance that had long been upheld was disturbed. Beijing's responses and interventions, no doubt, will re-define the political parameters of OCTS.

But it would still be premature to jump to the conclusion that OCTS has already come to its own end. This paper is an attempt to analyze the current impasse of Hong Kong society from a longer perspective and unravel the tensions and contradictions in the OCTS design.

A Precarious Balance and a Political Compromise

When Governor MacLehose brought up the question of the Lease of the New Territories during his 1979 visit to China, the understanding was that China adopted a pragmatic approach to matters concerning the status of Hong Kong and Macau.² This pragmatic approach evolved out of contingency and strategic consideration. That the People's Liberation Army had not pressed further when Guangzhou and its surrounding areas were liberated in late 1949 was largely because the newly established communist regime was eager to consolidate its victory over the Nationalist and did not want to create unnecessary antagonism with the U.K. and the U.S.A. Instead of upholding national integrity, pragmatism prevailed. As time went on, Beijing increasingly recognized the significance of Hong Kong as its 'window' to the world outside the Soviet Bloc. The colony served as a backdoor to get access to essential supplies and technology; it was also a channel for China to earn its much-needed foreign currencies after it had closed its door to the capitalist world economy. The outbreak of the Korean War, when embargo was enforced, further enhanced the importance of Hong Kong to China. To capitalize on the multi-functions performed by the colony, Beijing was happy to treat Hong Kong "for longer term consideration and fully utilizing the advantages offered" (*chanqi dasuan, chongfen liyong* 長期打算, 充份利用). Even during high radicalism in the Cultural Revolution, when the political authority of the colonial government was challenged by the local communists, Hong Kong's political status was kept intact.

Hong Kong was being left alone and continued to survive as a colony mainly because different parties were not interested in upsetting the delicate balance of the status quo. As noted above, China secured her desired benefits by not bringing up the question of territorial integrity and holding back nationalist radicalism within the colonial territory. The U.S.A took Hong Kong as a part of the overall containment strategy during the Cold War and later saw the colony having a special role to play to lure China back to the capitalist world economy. Regarding Britain, despite occasional pressure from the parliament with queries questioning the conditions of labor and the openness of the colonial government (Lui, 2017), the maintenance of administration of the colony had been a rather smooth ride. For the local population, anti-colonialism had not been a popular theme of political campaign (Tsai, 2001). Most of the people showed little interest in making drastic changes to the existing social system, though the gap between the rich and the poor was glaring, and the colonial political system did not allow for much meaningful participation. The meanings of the status quo varied according to the interests of the concerned parties. But maintaining the status quo seemed to be the 'largest common factor' of all the interests at stake in the equation of Hong Kong's future.

It was upon such a precarious balance that a political compromise was made to deal with Hong Kong's political future in the 1980s. For China, the main objective of resuming its sovereignty over Hong Kong was not to liberate the British colony. Still recovering from the

political fervor of the Cultural Revolution, post-Mao China looked for a new route to rebuild the nation. It was decided to re-open its door, at that time only partially though, to the outside world. Hong Kong was of enormous strategic value as a source of new investment, a “window” to the world economy and new technological and management know-how, and an interface for boosting economic reform in specifically designated districts called Special Economic Zones. To resume sovereignty over Hong Kong without changing its status of being a capitalist economy was a major concern in the design of OCTS. In China’s eyes, Hong Kong’s return to its motherland was a matter of national pride. But it was also part of a larger project for her modernization and longer-term socioeconomic development. The recognition of Hong Kong having a different (capitalist) system did imply a compromise in the sense that (socialist) China would not be able to administer the SAR in the same way as it managed Shanghai or other Chinese cities. It was also a compromise for the purpose of pacifying the fear of the local people and to address the concerns of a skeptical international community.

It was a compromise for Britain because it had to surrender its sovereignty over Hong Kong in an environment of international politics wherein attitude towards the authoritarian socialist state was skeptical and distrustful. This was done by, in exchange, having China to promise allowing the SAR to enjoy a “high degree of autonomy” so that Britain could hand Hong Kong over to China gracefully.

For Hong Kong society, it was also a compromise in the sense that OCTS offered a preservation of the pre-existing socioeconomic system, with an emphasis on retaining free market capitalism, personal freedom, and the rule of law, after its return to China. It was promised that “horse racing and ballroom dancing,” signs of Hong Kong’s capitalist decadence, would be allowed to continue, despite the fact that they were different from the social values and morals in socialist China. How OCTS would be put into practice remained unknown but at least there was no imminent threat of the colony being reverted to China at any time before 1997. Uncertainties remained (and that was the reason why large-scale emigration, with 20,000-60,000 people departing annually from the mid-1980s to mid-1990s, was witnessed) and a sense of uneasiness lingered (Lui, 1999a). However, the scene was set for Hong Kong’s formal return to China.

A political compromise was also made within Hong Kong societies among social groups of different interests. China launched its united front strategy (Xu, 1993), aiming at calming down the capitalist class because capital and investment flight would not only significantly undermine its bargaining power vis-à-vis the British during the negotiations, but also adversely affect the prospect of stability and prosperity after 1997. It won the capitalist class’s support by reassuring them of the protection of private properties, engaging them in the drafting of the Basic Law (Goodstadt, 2000), the “mini-constitution” for the implementation of OCTS, and offering them investment opportunities in the Mainland.

Middle class professionals, managers and administrators were never fully convinced by China’s friendly gestures. Their careers and achievements were embedded in the pre-existing socioeconomic system and any change would pose the menace of a reversal of their fortunes. While some (like lawyers, social workers, and teachers) took up the newly released political opportunity and participated in electoral politics, many decided to seek “political insurance” by acquiring

foreign passport (Salaff and Wong, 1994: 220). Their strategy was “exit” or “quasi-exit” (Lui, 1999b), finding a backdoor for themselves if the post-1997 situation deteriorated and returning to the SAR if its economy prospered. For the rest of the population, their preference was to have the status quo maintained. It was out of a balance of diverse interests that OCTS was taken on board to guide Hong Kong’s navigation to 1997.

But being a compromise, it also meant that no one particular party among all the stakeholders would find OCTS having all the features it had wished for. A compromise was necessarily more of a pursuit of a satisficing, rather than satisfying, outcome. Each of the stakeholder parties found something missing in the outcome. Beijing found its control over Hong Kong, by 1997 would be a part of China, compromised. Hong Kong would be a SAR, and this implied the acceptance of a separate economic system and a different set of legal practice. More significantly, China would have to learn how to deal with a relatively open political system (only partially democratized, though) and a rather vibrant civil society with freedom of press and freedom of assembly. Hong Kong expected herself to enjoy “a high degree of autonomy” and yet the autonomy could only be relative as the reach of the Central Government’s national governance covered the SAR as well. To assume the Mainland and the SAR to be two segregated places with limited interactions between them was not realistic. Equally naïve would be the view of seeing OCTS as a well worked out solution that requires little attention and management. Because it was an outcome of political compromise, issues and noises that had been tacitly put aside would again crop up in the course of implementation. More importantly, what were once found agreeable and/or unproblematic, under different circumstances and with a change in mindset, might become new sources of disagreement. Indeed, as time goes by, the inherent tensions and contradictions in the implementation of OCTS in Hong Kong unfold.

So, being a compromise, OCTS necessarily had many incomplete items and unfinished business to be sorted out after the handover. From Beijing’s perspective, it was stated in Article 23 that “The Hong Kong SAR shall enact laws on its own to prohibit any act of treason, secession, sedition, subversion against the Central People’s Government, or theft of state secrets, to prohibit foreign political organizations or bodies from conducting political activities in the Region, and to prohibit political organizations or bodies of the Region from establishing ties with foreign political organizations or bodies.” That the Hong Kong SAR would enjoy “a high degree of autonomy” did not really imply that it would be totally free from Beijing’s control, especially in the area of national security. However, as shown in popular reactions to Article 23 legislation (see below) in 2003, the question of national security was a topic that would touch the nerves of Hong Kong people and arouse widespread anxiety. Yet, it is difficult to see how this question can be put aside or swept under the carpet and expect Beijing to be happy to leave it as it is.

From Hong Kong’s perspective, post-1997 economic downturn and the fall of popularity of the newly established SAR Government gradually shifted people’s attention from economic and livelihood matters to governance issues of the Tung Chee-hwa administration. The failure of securing people’s support by the government triggered popular query of the institutional basis of the legitimacy of the SAR Government. To what extent had the Chief Executive, whom was elected by a very restrictive circle, really obtained the political mandate to carry out his unpopular

policies? While it was true to say that views on democracy and the pace of democratization continued to diverge among people and groups of different political persuasions, the question of political reform did begin to receive more attention and had become a significant item on the social agenda. This evolved into a topic of periodic debates in the decade following the mass political rally in 2003 and Mr. Tung Chee-hwa prematurely stepping down from his office in 2005. In Article 45 of the Basic Law, it was stated that “The method for selecting the Chief Executive shall be specified in the light of the actual situation in the Hong Kong SAR and in accordance with the principle of gradual and orderly progress. The ultimate aim is the selection of the Chief Executive by universal suffrage upon nomination by a broadly representative nominating committee in accordance with democratic procedures.”³ The promise of ultimately moving towards the election of the Chief Executive by universal suffrage was vague and it became a major cleavage in the political arena that separated the so-called pan-democrats from the establishment. The failure of realizing this promise in more than a decade since the handover was interpreted as Beijing’s unwillingness to honor its promise of “Hong Kong people rule Hong Kong.” This unfinished business about the SAR’s political structure gradually became an agenda item that fired political divisions and conflicts.

In this regard, OCTS was not a fully settled framework for post-1997 socioeconomic and political development in the Hong Kong SAR. The consensus on maintaining the capitalist system in Hong Kong so that “The socialist system and policies shall not be practiced” there simply would not be adequate to contain unfolding tensions and contradictions in the course of development wherein China is rising in the world economy and assuming a new profile in the global political order as well, when intensified interactions between Hong Kong and the Mainland brought both positive and negative results, and when differences in perspective and interest re-emerged. Debates and arguments inevitably would come back. Integration at the regional and national levels did not necessarily help reduce differences between Hong Kong and the Mainland and foster stronger national identification. In fact, when new challenges emerged, contradictions only became more intensified.

The Changing Hongkong-China Interface

The main theme undergirding OCTS was the idea of minimization of changes. As discussed above, maintaining the status quo was probably the most significant “largest common factor” found among different stakeholders’ interests in finding an agreeable institutional arrangement for post-1997 Hong Kong. With this understanding, the institutional features which had been accountable for Hong Kong’s success in securing economic prosperity and social stability were written into the text of the Basic Law. Free market capitalism was guaranteed: “The socialist system and policies shall not be practiced in the Hong Kong SAR, and the previous capitalist system and way of life shall remain unchanged for 50 years” (Article 5); and “The Hong Kong SAR shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product” (Article 107). British legacies that were conducive to economic success were retained: “The laws previously in force in Hong Kong, that is, the common law, rules

of equity, ordinances, subordinate legislation and customary law shall be maintained, ...” (Article 8); and “In addition to the Chinese language, English may also be used as an official language by the executive authorities, legislature and judiciary of the Hong Kong SAR.” (Article 9). An administrative state, or the so-called executive-led political system, with partial democratization that helped Hong Kong maintain a high degree of political stability and efficiently and effectively manage public affairs was largely kept intact. By keeping changes to the pre-existing institutional structure to the minimal, it was hoped that post-1997 would continue to be prosperous and stable. With hindsight, such an approach to setting up an institutional arrangement for future development was far too backward looking and did not have the courage to anticipate and to deal with future challenges. It was as if the “recipe” for Hong Kong’s success in the post-WWII decades was “kept frozen” (as written into the text of the Basic Law) and then had it “defrosted” in 1997 and be ready for application to the newly established SAR. But could the Hong Kong SAR rely on the “recipe” prepared in the 1980s to deal with problems arising after 1997 and fifty more years from then onwards?

In fact, post-1997 Hong Kong encountered a series of new challenges that the SAR was not fully prepared for. The Asian Financial Crisis and the burst of the local bubble economy with a drastic fall in property price not long after the handover came as a shock. As the economy slowed down, popular confidence and optimism began to fall. Unemployment hit the middle class as well (Lui and Wong, 2003). Then, in 2003, there was the attack of Severe Acute Respiratory Syndrome (SARS) virus. Growing discontents exposed the weakness of the SAR Government. That it lacked a solid basis of political legitimacy (because of partial democratization) placed the political leadership in the crossfires of different political camps. Indeed, from the early 2000s onwards, the question concerning the pace of democratization came to form the leading topic in social and political debates. On July 1st, 2003, it was reported that half a million people joined a mass rally to protest against the national security legislation. It was also a demonstration of people’s discontents of post-1997 governance. The sources of discontent were many. The collapse of the property market and the proliferation of cases of negative equity among middle class homeowners constituted a new area of concern (Lui and Wong, 2003). Economic restructuring and a fall in job security in a wide range of jobs were found equally worrying. The mounting economic and political pressures triggered a change in Beijing’s engagement with the SAR. Instead of maintaining the arm’s length approach to the management of SAR affairs, Beijing offered to assist Hong Kong’s economic recovery by allowing the latter to have more access to opportunities arising from the Mainland’s rapidly expanding economy. The signing of the Closer Economic Partnership Agreement (CEPA) signified the change in the direction of economic flows between Hong Kong and the Mainland. Whereas previously it was mainly a one-way economic traffic of a northbound Hong Kong’s money and investment, from 2003 onwards increasingly economic flows between the SAR and the Mainland became two-way. At the same time, in response to the political crisis symbolized by the July 1st mass rally, there was a change in the appointment of the Chief Executive in 2005 when Mr. Tung Chee-hwa, due to health reasons, stepped down from his position without finishing his term of office. Though Beijing’s intervention was rather restrained, the year of 2003 did mark the beginning of a new interface between Hong Kong and the Mainland.

The closer economic connection between the two places and a change to two-way traffic of economic flows brought many unanticipated adjustments in the Hongkong-China nexus. Economic integration brought Hong Kong into broader and deeper integration at the regional and national level. The growth of inbound Mainland tourists summed up the scale of the changes in cross-border socioeconomic activities. The number of Mainland tourists increased from 8.5 million in 2003 to 51 million in 2018. Among these 51 million inbound Mainland tourists, over 60% of them were day-trippers. They were classified as inbound tourists mainly because, due to OCTS arrangements, Mainlanders were required to enter Hong Kong with a visa. To look at this traffic of population flow from a regional perspective, it was clear that Hong Kong had gradually become a destination of consumption activity for Mainlanders who were living in neighboring areas of two to three hours' travel time. Hong Kong was absorbed into the broader regional development as growing affluence in the region of the Pearl River Delta created new demands for leisure and consumption. On the one side, high-end brand names quickly established their flagship stores in Hong Kong in order to capture the spending spree of Mainland consumers. On the other side, between 2004 and 2013, the number of retail outlets for cosmetics and personal care products experienced an increase of 1,500% (Research Office, Legislative Council Secretariat, 2014: 9). The effects of expanding inbound tourism were not confined to the tourist districts. When there were on average about 140,000 inbound Mainland tourists per day coming to Hong Kong, services catering for their consumption needs would change the urban landscape of the city. Corner shops were closed and retail outlets for cosmetics, and watches and jewelry targeting at tourists multiplied in local communities. Increasingly, the presence of inbound Mainland tourists had become a source of nuisance. The intensity of the cross-border flows of people and money had not, as once conjectured, promoted interactions and friendliness. Contrarily, regional integration and its aftermaths (ranging from the drastic increase of babies given birth by Mainland parents in the SAR to the shortage of baby milk powder supplies due to food safety problem across the border) fueled growing hostility towards China, both the Beijing government and the Mainlanders (Kwong and Yu, 2013; Wong, Zheng and Wan, 2016). A significant change in terms of popular opinion and attitude towards China, particularly among the young people, happened around 2009-2010. Political discourse changed accordingly, and a so-called nativist rhetoric gradually began to take shape and gain support. Failure to respond to and to address the grievances behind such attitudinal changes paved the way for growing conflicts arising from regional integration in the following years.

At the same time, the flow of money and capital from the Mainland to the SAR galloped. In 2019, the share of China-related shares (i.e., H shares, red Chips and Mainland private enterprises) in Hong Kong securities' Main Board was almost three quarter of the total (73.4%) (Hong Kong Exchanges and Clearing Ltd., 2019). Investors coming from across the border also found Hong Kong's property market attractive both in terms of securing high returns because of its vibrant market and the offering of an opportunity to relocate personal wealth out of China. It was suggested by one estimation that in March 2007 – December 2017, Chinese buyers of Hong Kong private properties in the primary market in terms of value, the percentages were in the range of a minimum of 7.9% (in June 2007) to a maximum of 51.0% (in September 2011) per quarterly (Centaline Property Agency Ltd., 2018). Quite often, the percentage share fluctuated in the range of 10-20%. For Mainlanders who looked for other money management venues, many came to

Hong Kong and purchased insurance policies. For instance, in 2013-2016, “the office premium share in respect of new long term [insurance] policies issued to Mainland visitors had grown markedly from 16.1% to 39.3%” (Research Office Legislative Council Secretariat, 2019: 2). The flow of money from the Mainland to Hong Kong in quantitative terms was found overwhelming.

And the “market power” of Chinese money and capital can be disturbing. For instance, as partially a reaction to rising bond yields, “The Hang Seng Index sank 3.6 per cent to 28,980.21 points yesterday [February 26th, 2021] as 50 of 52 member stocks suffered losses and the top 15 losers fell more than 4 per cent each. ... Mainland traders turned net sellers again of Hong Kong equities, dumping HK\$7.6 billion of the shares through the Stock Connect program, according to Bloomberg data. They offloaded a record HK\$20 billion worth of shares on Wednesday [24th February]” (Zhang, 2021: B1). Increasingly, the scale of China’s impact on Hong Kong was widely felt in different layers of economic life. Instead of being a marginal player, China had sufficient resources to shape Hong Kong’s markets. Indeed, the change in the traffic of economic flows from previously a one-way direction of Hong Kong’s investments going to the Mainland to a two-way flow between the two places significantly reshaped the SAR’s economic ecology. In the 2000s we began to see a swing of policy perspective espoused by the SAR Government from one end of the extreme (e.g., a fear of being marginalized and thus not able to capitalize on the opportunities created by the fast growing Mainland economy, see Leung, 2013 for a review) to the end of the other (e.g., contrary to the long established laissez faire policy, the imposition of state regulatory measure of restricting the purchase of baby milk powder by the inbound visitors as a means to pacify strong local reaction to the influx of Mainland tourists). How regional integration was to be managed and administered remained an issue being left aside. Meanwhile, tensions and conflicts between Hong Kong and the Mainland continued to be issues that would energize the nativist political agenda.

The slow reaction to problems arising from regional integration was partly due to the fact that, despite growing complaints of nuisance brought about by the arrival of inbound tourists, there did witness a drastic increase in tourism-related services. In 2018, 225,300 persons were employed in inbound tourism-related services (about 5.8% of total employment, compared with 2.73%, i.e., 87,700 persons, in 2000). But more importantly, Hong Kong society as a whole had taken some time to make sense of the macro changes after the economic flows had changed from a one-way to a two-way traffic. Particularly relevant to our discussion in this paper is the underlying assumption of OCTS. When OCTS was first brought up as an institutional framework for settling Hong Kong’s political future, the key concern was about how to maintain capitalist Hong Kong and socialist China as two distinct socioeconomic systems without any one of them interfering the operation of the other. While Hong Kong people and enterprises were worried of inadequate legal protection of private properties and ownership under Chinese socialism, Beijing looked at Hong Kong’s capitalist culture and values with skepticism and saw them as potential sources of “spiritual pollution.” Equally significant was that implicit in the idea of keeping the two economic systems apart was the assumption that Hong Kong society would be protected by its own market mechanism. Not only would market capitalism be more efficient and thus conducive to economic growth and development, it would also enable Hong Kong’s economy and society to operate according to a set of logics and principles different from those practiced in the Mainland. State

interference from Beijing would be mediated by the market-based processes and mechanisms. Few observers were able to foresee an increasingly resourceful China, via actions taken by the state directly or through groups and enterprises in the form of investment and acquisition, would become one of the major forces in the SAR's socioeconomic development by means of market action.

How to live with a rapidly growing neighbor with a vibrant economy that can be categorized as state capitalism or authoritarian capitalism is simply a question that goes far beyond the imagination of the capitalism vs. socialism assumption embedded in OCTS. The challenge posed by China to Hong Kong SAR after the handover was not so much that of a "poor neighbor" dependent on an affluent global city for resources as well as networks to the international economy. Rather, the new challenge was that China assumed a stronger position in global business, and instead of having her to follow Hong Kong's lead to pursue globalization, the SAR was drawn into the pathway through which China goes globalizing. It was observed that "after the crisis [i.e., global financial crisis in 2007-2009] Hong Kong's economy was becoming more dependent for its overall GDP growth on financial and business services and on flows of capital and consumers from elsewhere in China, manifested in particular in the real estate, tourism and retail industries. ... In the economic and financial world, the development in Hong Kong of offshore business in China's currency, the RMB, has become an important symbol of the ways in which Hong Kong's fortunes have become more closely tied to the globalization of China's economy" (Summers, 2019: 66-67).

With all these post-1997 developments in the backdrop, Hong Kong found herself entrapped in emerging tensions with Beijing. At one point of time, the focus of OCTS was placed on tensions and contradictions between capitalism and socialism, and many of the potential conflicts between the SAR and the Mainland had not been directly confronted. For example, Article 23 of the Basic Law allowed the SAR to "enact laws on its own to prohibit" acts that carried national security implications. The national security concerns were there but Hong Kong was expected to handle this matter in her own way and according to her schedule. This showed the underlying distrust of socialism and authoritarianism during the preparations for the future SAR. Indeed, there were many safeguard measures built into the Basic Law: for example, "The Hong Kong SAR shall have independent finances. The Hong Kong SAR shall use its financial revenues exclusively for its own purposes, and they shall not be handed over to the Central People's Government (CPG). The CPG shall not levy taxes in the Hong Kong SAR." (Article 106); "The Exchange Fund of the Hong Kong SAR shall be managed and controlled by the government of the Region, primarily for regulating the exchange value of the Hong Kong dollar." (Article 113); "No department of the CPG and no province, autonomous region, or municipality directly under the Central Government may interfere in the affairs which the Hong Kong SAR administers on its own in accordance with this Law. If there is a need for departments of the Central Government, or for provinces, autonomous regions, or municipalities directly under the Central Government to set up offices in the Hong Kong SAR, they must obtain the consent of the government of the Region and the approval of the CPG" (Article 22). All these provisions were protective and defensive, aiming at maintaining a kind of arms-length relations with the Mainland. However, as a result of the resumption of Hong Kong's sovereignty, the SAR was necessarily a part of China and subordinate to the national authority. Largely an outcome of the political compromise then, the Basic Law did not contain many stipulations that specified the CPG-SAR relationship. The "high degree of

autonomy” enjoyed by the SAR was supposedly relative. But how this would be acted out in the One Country framework was probably the least developed section of the Basic Law.

Conclusion

In Beijing’s perspective, it expected itself to have inherited a depoliticized “economic city.” As long as the capitalist economy was being left alone and it continued to prosper, Hong Kong society would be contented. The agenda for post-1997 Hong Kong was to ensure that “the previous capitalist system and way of life remained unchanged for fifty years.” In Hong Kong’s perspective, post-handover developments were evolving as macro, meso, and micro conditions changed. Instead of staying on the conjectured unchanging course for fifty years from 1997 onwards, Hong Kong had to navigate in a new and rapidly changing environment. She could hardly rely on the old practices in the colonial days to cope with challenges arising from the changing context. In the face of new challenges, she had to ponder on restructuring in the economic, social as well as political domains. In terms of restructuring in the economic domain, Hong Kong had to look for her new engine of economic growth and development. While the growth of her professional and business services was significant, and this was important to her for sustaining its status as a global city, such development was not adequate to address the employment needs of her seven million population. This raises questions concerning restructuring in the social domain. A lot of research on Hong Kong’s changing social fabric has pointed out, similar to other global cities, she has her shares of problem of widening income inequalities and growing social polarization in her occupational structure (Chiu and Lui, 2004; Lee, Wong and Law, 2007). Opportunities available for the younger generation for upward social mobility had also become an issue of public concern (see, for example, Zheng, 2016). At the same time, closure of opportunity for private property ownership due to the inflation of property price was also regarded as a source of social discontent (Research Office Legislative Council Secretariat, 2021). Growing social discontents reshaped the public discourse and the effectiveness and legitimacy of the Hong Kong SAR Government were questioned. Every administration of the SAR Government repeatedly encountered similar kind of challenge that called for governance reform. And each of the Chief Executives found his/her popularity a matter of concern. Not only was the political mandate of political leadership being questioned, the political capacity of the Government and the effectiveness of state action were also increasingly put in doubt. With the accumulation of social and political grievances and the erosion of the political authority of the SAR Government, the political ecology of the SAR became conducive to intemperance. Instead of broadening the spectrum of political positions on an expanding social agenda in the face of serious challenges to social and economic development after the Asian Financial Crisis, SARS, and the global financial downturn, most of the discussions of public affairs boiled down to speeding up the pace of democratization or otherwise, and for or against further integration with the Mainland. Difference in political positioning in matters on political reform and democratization constituted the most salient division in all political contentions. With its unwillingness to accept a political system that would be out of its control, Beijing came to play the role of the main political agent that resisted further request of major

changes in the political institutions. Tensions between Hong Kong and Beijing piled on and the development of political events steered towards a major confrontation.

It is beyond the scope of this paper to analyze the socioeconomic and political roots of political confrontations in 2014-2019. While social discontents (such as widening income gap and nuisance brought about by regional integration) are surely critical factors in the background, it would not do full justice to Hong Kong people's desire of further political reform if the political confrontations were simply interpreted as outcomes of the government's insufficient efforts to deal with livelihood issues. Yet, blended with demands for speeding up the pace of democratization were growing hostility towards China and the Mainlanders, rising nativist attitudes, and resistance to regional and national integration. It is my contention that the complexity of the issues at stake is not reducible to any single factor in the determination of political development in the SAR after the mass rally in 2003. The changing political ecology on the Hong Kong side allowed for the escalation of political conflict as divisions among political groups and parties within the opposition camp deepened. Political rhetoric with sharp words and confrontational posture, representing the frustration of not being able to achieve major breakthrough in political reform, reshaped the popular political discourse and energized non-mainstream political action. Such changes in the political ecology weakened the opposition's ability of re-articulating the political agenda in the face of a self-confident Beijing leadership. Negotiation and compromise within the given framework were seen as signs of weakness. Also, pertinent here was that pro-democracy political parties, though still able to win seats in elections, were increasingly marginalized in the societal mobilization of political action. A new style of political opposition, with an emphasis on decentralization and decentering of political leadership, emerged. Confrontational actions came to form the new repertoire of political action. Looking back at the decade of the 2010s, consciously or unconsciously both Hong Kong and Beijing were on the course of head-on political confrontation. Both the Umbrella Movement in 2014 and the Anti-Extradition Bill Confrontation in 2019 were such head-on clashes. And the changing political environment at the international level, particularly the rivalry between the U.S.A and China, further complicated the picture.

Beijing's reaction to these confrontation campaigns was not too difficult to predict. Whenever the issues of sovereignty and national security were touched upon, Beijing responded strongly. The publication of the policy paper entitled *The Practice of the "One Country, Two Systems" Policy in the Hong Kong Special Administrative Region* (Information Office of the State Council, 2014), stating clearly "the central government exercises overall jurisdiction over the HKSAR", did not really constitute a departure from Beijing's original understanding of its control over Hong Kong (also see Summers, 2019: 83 and 99). It was upon such premises that Beijing further asserted its position by referring "to a presumed hierarchy of political roles in relation to the overall governance of Hong Kong" (Jhaveri, 2018: 56). As stated in the earlier section, the CPG-SAR relationship had not been fully spelled out in the Basic Law. Now, Beijing came in and closed the gaps in OCTS.

In the name of improving the institutional structure of the SAR, Beijing first included relevant national security laws into Annex III of the Basic Law, facilitating the enforcement of legal action against action threatening national security even when Hong Kong had not yet

established her own legal structure according to the stipulation in Article 23. Then, oppositional political leaders were disqualified from holding their current electoral seats in either the Legislative Council or District Board. Tighter measures would also be imposed onto the candidate's eligibility to stand for election. Opposition activists were charged with subversion for organizing or participating in the pan-democrats' primary elections with an objective of securing the majority seats of the legislature and, with that political capacity, paralyzing the Legislative Council. In March 2021, the National People's Congress passed a resolution to kick start an overhaul in the SAR's electoral arrangements so that oppositional politics would be fully contained. Many of the steps already taken and those in the pipeline are regressive in the sense that they depart quite significantly from the expectation of gradually moving towards a balanced but open electoral system. At the same time, more interventions are expected in the name of managing "chaos" in the school sector and the news media during the Anti-Extradition Bill Confrontation. Beijing actively re-draws the limits and restrictions in the political domain. Such harsh measure might put a full stop to the opposition's electoral politics and/or street confrontation. But it would be a different matter to rely on such top-down measures to win the hearts and minds of the locals. Politics with a capital 'P' might well be tamed; politics with a small 'p' will continue. How this would be played out depends a lot on political strategic thinking, both from Hong Kong and Beijing.

Meanwhile, Hong Kong's stock market seemed unscathed during and after confrontations and violent actions in 2019. Its capitalist economy was well alive. There had been talks about censorship and self-censorship, probably ever since July 1997 (Lui, 1999a), and worries of the spread of illiberalism spread, yet the operation of the news media in Hong Kong was still very different than that in the Mainland. Most daily activities in the SAR continued to be mediated by market-based processes. People could make their choice by market action. The real challenge in front of Hong Kong people is the recognition that, as argued in this paper, OCTS is an unfinished business. There are gaps in the design. There are missing pieces too. How to work out the new interface, to redraw the boundary, and to renegotiate the parameters of the two Systems within the One Country framework requires a lot of strategic and tactical thinking as well as political skills. Surely, this message will not be very reassuring as no guarantee is on the table. But this is OCTS – it always rests on a precarious balance and a political compromise.

Notes

1. The discussion here is based upon archival research at The National Archive (Britain), see TNA FCO 40/1047a and TNA FCO 40/1047b. Also see Li (2015: 136-180) for a review of archival materials on the British's preparations for discussion with China about Hong Kong's political future.

2. Owen, the Foreign Secretary then, recalled in his memoir that "In early 1979 the Chinese came to an agreement with the Portuguese over Macao that sovereignty would pass to China, though Macao would continue under Portuguese administration. I felt that it was a good time to open a tentative dialogue with the Chinese over Hong Kong" (1992: 405).

3. It is also stated in the Basic Law that “The ultimate aim is the election of all members of the Legislative Council by universal suffrage” (Article 68).

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