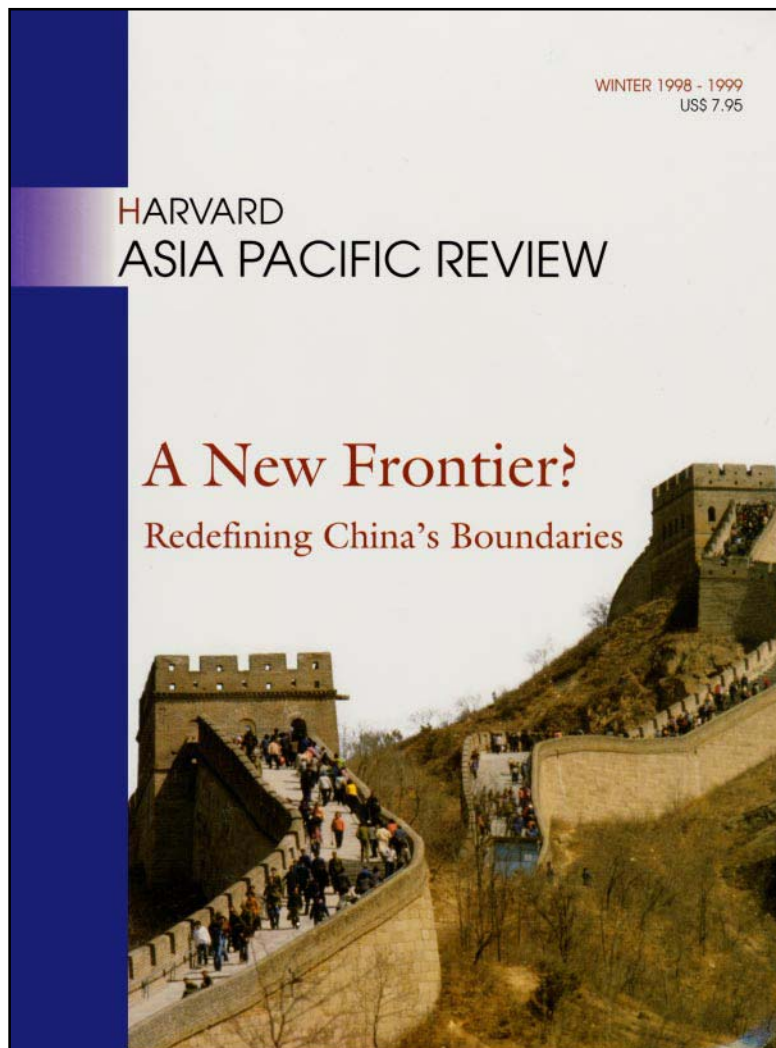


This article is reprinted from

The Harvard Asia Pacific Review

Volume 3, Issue 1, Winter 1999



Please contact the Harvard Asia Pacific Review by e-mail at hapr@hcs.harvard.edu, by telephone at (617)495-3437, by mail to Harvard Asia Pacific Review, 9 Kirkland Place, Cambridge, Massachusetts 02138, United States of America, or on the internet at <http://www.hcs.harvard.edu/~hapr/> to order a copy of this, or any of our other issues. ©1999, The Harvard Asia Pacific Review, All Rights Reserved. ISSN 1522-1113

The Next Era

KENNETH PANG

Continuity & Challenges in Hong Kong

WHEN THE PAGEANTRY AND CEREMONIES reuniting Hong Kong with mainland China unfolded in July 1997, most of the world watched with morbid fascination. Many in the West feared the worst. Would Hong Kong's spirit of freedom be crushed, its entrepreneurial ingenuity lost, and its openness become a thing of the past, or would Hong Kong continue to thrive as one of the world's most prosperous cities?

In spite of the West's dire predictions, what actually occurred in Hong Kong (now called the Special Administrative Region of China, or SAR) following the reunification turned out to be quite anticlimactic. Hong Kong's return to China has been remarkably smooth and successful. In the words of our Chief Secretary, Anson Chan, the transition elapsed "in a manner and with a style that has confounded our critics." The unspoken truth is that, for the first time in a century and a half, the people of Hong Kong are actually governing Hong Kong.

Prior to the handover, many worried that China would dominate and crush Hong Kong's independence. However, Hong Kong's government still functions with complete autonomy, largely because the Beijing leadership has honored its promise to maintain a clear hands-off policy. Official reports by the British government and

the US State Department support this fact. The State Department reported in April 1998 that "there is no evidence of interference from the Chinese central government in the local affairs. Hong Kong's civil service remains independent, and senior officers, including those who have been critical of the PRC (People's Republic of China), have been retained....The Hong Kong press remains free and continues to comment critically on the PRC and its leaders....Demonstrations—often critical of the PRC—continue to be held... and the rule of law and the independent judiciary remain in place as guarantees of Hong Kong's free and open civil society."

This forthright report has been echoed by many other governments, independent observers, and Western correspondents, and proves that the principle of "one country, two systems" is working. The main idea behind this principle is simple: China recognizes that two very different but

parallel political and economic systems should continue to be practiced in Hong Kong and China. Beijing promised to respect those differences, and it has done so, much to the amazement of its critics.

Hong Kong is an open society that honors and cherishes the rule of law—the city's defining ideology, according to a recent issue of *The Economist*. A legal system similar to American repre-

The unspoken truth is that, for the first time in a century and a half, the people of Hong Kong are actually governing Hong Kong.

Kenneth Pang is the Hong Kong Commissioner to the United States.

sentative democracy operates here, administered by an honest government, and tested by an independent and well-respected judiciary. In May 1998, Hong Kong held the first election for the SAR Legislative Council. A record number of voters registered, a record number of candidates stood for election, and Hong Kong experienced a record voter turnout of 53% at the polls, despite near-typhoon weather. It was a proud moment for Hong Kong.

Weathering the Storm

Nevertheless, not all is well in the Asian neighborhood where Hong Kong resides. Storm clouds loomed on the horizon as the "Asian Miracle" faltered. A history of non-performing loans, poor credit risk management, failed attempts at regulation and oversight, and shady business dealings have weakened Asia's economy. In many regional economies, business and government decisions were too closely related. As a result, currencies have collapsed, banks and industries have failed, and unemployment has risen.

For the first time in more than fifteen years, Hong Kong is facing an economic slowdown. There have been speculative attacks on the Hong Kong currency, but in vain. Liquidity has been tight and interest rates have risen. Hong Kong's stock market has dropped, and property values—once the highest in the world—have declined. People fear a rise in the unemployment rate. Hong Kong cannot escape the economic onslaught tearing through Asia and hurting even American and European economies.

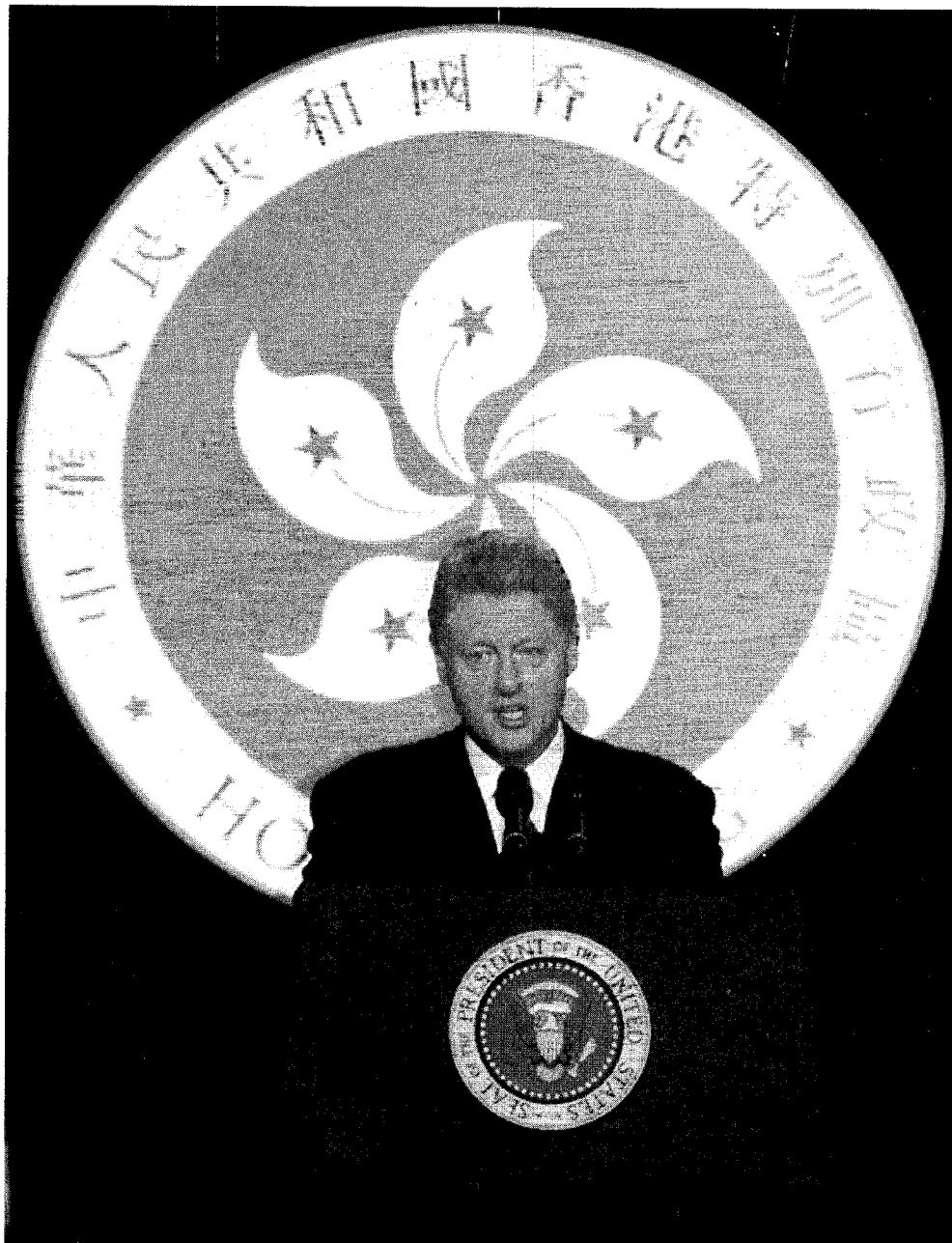
Setting the Standards

However, true to the spirit of the original capitalist, Adam Smith, Hong Kong is still committed to the practice of free market economies. We believe in the invisible hand of the free market and in

maintaining a level playing field for business. We abide by the principle that business decisions should be made by business people, not by bureaucrats, and recognize our responsibility to provide infrastructure and legal systems that enable enterprises to flourish, maximize opportunities, and allow people to exercise their freedom of choice.

In order to facilitate this free economic environment, the government has focused on building fundamentals which have left Hong Kong in good shape relative to its Asian neighbors; a sound

Voicing his support: US President Clinton in Hong Kong



monetary system, a healthy banking system, tight fiscal discipline, and strong reserves still keep the economy afloat. A sophisticated currency board system protects our currency link to the US dollar, so Hong Kong's currency remains stable. The International Monetary Fund endorsed the linked exchange rate system in Hong Kong "as an important anchor for the economic stability since 1983" and affirmed that "it plays a vital role in demonstrating the commitment to an independent monetary and exchange rate policy in Hong Kong and in maintaining confidence in its status as an international financial center."

This small city represents a model of economic management that others in Asia are realizing they should follow: a free market under the rule of law; a clean government which subscribes to prudent financial management rather than directing the economy; a well-regulated and well-managed financial sector; a reputation for playing by the rules; and openness and accountability.

Few Asian countries have established an economic system that is so transparent and free-market oriented, and the world is looking to Hong Kong's example for answers to the Asian economic crisis. Hong Kong lacks the inscrutable trade barriers that have caused many difficulties through-

out the region, nor does Hong Kong have a foreign debt. Its currency reserves are the third largest in the world, and Hong Kong is one of the few Asian economies to have a working bond market as an investment alternative to stocks and bank loans. Hong Kong's asset requirements for its banks are the highest in Asia and even exceed the requirements of most Western banks.

In addition, the Hong Kong administration governs with a light touch and with little intervention. This philosophy was tested when a number of large investment houses were faced with insolvency due to the Indonesian economic crisis. Many other governments might have been tempted to bail them out, but following Adam Smith's philosophy, our government allows smart entrepreneurs to thrive and reckless ones to fail. These are the rules of the freest economy in the world.

During his historic visit to Hong Kong in July 1997, US President Clinton recognized Hong Kong's success when he said that "Hong Kong is a world symbol of trade, enterprise, freedom, and global interdependence." He praised Hong Kong for all of its efforts to help stabilize the current financial crisis, declaring that "the United States considers Hong Kong vital to the future not only



A prosperous skyline



A new allegiance: Swearing in the SAR in 1997

of China and Asia, but of the United States and the world as well.”

Postcolonial Identity

Because of its unique position as a financial center in Asia, and given its highly acclaimed policies and institutions, Hong Kong can provide effective leadership for the Asian economic crisis, recognizing, for example, that the building of a deep and liquid Asian bond market could help the region recover. Hong Kong's Finance Secretary took the lead in advocating this reform approach in last December's meeting of the Finance Ministers of ASEAN plus Six, held in Kuala Lumpur.

Hong Kong recognizes that it must shoulder a unique burden in Asia because it is a unique bridge between the East and the West. To better manage that burden, Hong Kong has been re-examining its own identity after a century and a half of colonial rule. Hong Kong's new era has been exciting but challenging, full of surprises and difficulties. The path to the future may not always be easy. It may be highlighted with joy and success, as well as littered with frustration and disappointment.

As Chief Executive Tung Chee Hwa said, Hong Kong is presently undergoing a painful ad-

justment which is essential if it is to continue to be competitive. However, with the entrepreneurial spirit of the people of Hong Kong, the expanding economy of mainland China, the prudent transitional financial management, the sound banking system, and the huge foreign exchange reserves that support a stable exchange rate, we continue to look forward to our future with confidence.

In preparation for the future, Hong Kong has established two advisory bodies. The Commission on Strategic Development is analyzing world trends and their effects on Hong Kong's economy, human resources, education, housing, environment, and relations with mainland China as a means to maintaining the vitality of our economic development.

The Commission on Innovation and Technology is advising Hong Kong on the measures necessary to make the SAR a center of innovation, where technological developments can be turned into commercial products. A multi-billion-dollar Quality Education Fund now encourages innovation, competition, and self-motivation reforms in Hong Kong's primary and secondary schools, hopefully inspiring a commitment to

Hong Kong recognizes that it must shoulder a unique burden in Asia because it is a unique bridge between East and West.

excellence in education to ensure our future development.

Challenges and opportunities have always been Hong Kong's legacy. Even with the handover now complete, Hong Kong is sure to remain a city of vitality, freedom, excitement, innovation, and hope. ■