Hands On or Hands Off?

The Nature and Process of Economic Policy in Hong Kong

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— Britta Erickson, *The Art of Xu Bing*

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Economic Background

Prosperity and trade

Few people would challenge the assertion that Hong Kong has been a success story in terms of economic performance. In terms of gross domestic product per head, Hong Kong ranks either 27th or 8th in the world, depending on the method of currency conversion (see Table 1.1). One recognises, of course, that this is not a precise measure of standard of living, and does not necessarily reflect happiness or quality of life, but it remains one of the most widely accepted, uncomplicated bases for comparing economic performance.

In absolute terms, with a population of only some seven million, Hong Kong sits at only 35th or 40th place in rankings of economic size (again depending on the details of the calculation). This tends, however, to underestimate Hong Kong's importance to the international economy because of its disproportionately large role in trade. In that sense, Hong Kong is one of the world's most open economies, and, if statistics were available to compare not only openness in trade but also openness in finance, Hong Kong's significance on the world economic stage would undoubtedly be accentuated further.

An instructive comparison can be made with a country such as Switzerland, which ranks next to Hong Kong in terms of population, as well as in terms of the size of the economy judged by purchasing power, but which is, according to the calculations in Table 1.2, only about one quarter as 'open' in terms of external trade. This means that Switzerland is a relatively more self-contained economy, and is therefore less important to the rest of the world than is Hong Kong, and less dependent on it.

Table 1.2 Openness: Selected economies

Economy	Openness in trade
Australia	20
Austria	49
Belgium	83
Canada	36
China	34
Denmark	46
Finland	39
France	27
Germany	38
Hong Kong	192
Ireland	72
Italy	27
Japan	11
Luxembourg	149
Netherlands	66
New Zealand	29
Norway	37
Portugal	33
Singapore	227
Spain	28
Sweden	45
Switzerland	45
United Kingdom	28
United States	13

Source: *International Financial Statistics (IMF)*. Openness is measured by the average of imports and exports, of goods and services, as a percentage of gross domestic product. The figures mostly refer to 2005.

The China connection

The data in Table 1.2 underscore Hong Kong's role as an entrepot centre, and Hong Kong is essentially an entrepot for China, as illustrated in Table 1.

Table 1.3 Hong Kong's trade with China

Percentage of Hong Kong's total trade (imports plus exports and re-exports) which is with mainland China	
1938	42.7
1954	18.5
1970	10.6
2006	46.4

Source: *Hong Kong Statistics 1947–67*, *Hong Kong Annual Report 1980*, and web site of the Census and Statistics Department, Hong Kong government.

3.

The figures in Table 1.3 serve as a reminder that Hong Kong's modern economy was largely founded on the China trade, which had reached some 43% of all Hong Kong's trade in goods just before the Second World War. The interruption of that war, followed by the communist revolution in China, followed a few years later by the Korean war and the associated embargos on certain forms of trade and financial dealings with China, caused Hong Kong's trade with China to slump. This downtrend continued through the upheavals of China's Great Leap Forward of 1958–62, and the Cultural Revolution which racked the country for some ten years from 1966. By 1979 China accounted for little more than 10% of Hong Kong's trade. That was the point at which Deng Xiaoping began to open up China's economy, and in 1980 the Shenzhen Special Economic Zone was established. Since then, the interdependence between Hong Kong and China has resurged, and by 2005 the share of mainland trade had at last surpassed the level at which it stood before the Second World War.

With the interruption, from the 1940s to the 1970s, of the previous dynamic economic relationship with the Mainland, and as a result of the flight of Chinese entrepreneurs to Hong Kong, Hong Kong developed its own flourishing manufacturing sector. During the 1960s and 1970s Hong Kong enjoyed a lead in the provision of cheap manufactured goods — clothing, toys and certain household products — to Western markets. Other southeast Asian countries joined Hong Kong in this, while Japan tended to focus more on cars and electrical goods. China was not yet a significant competitor. Over the last 20 years of the twentieth century, however, China emerged to dominate the very manufacturing in which Hong Kong had been specialising, and Hong Kong's own manufacturing businesses began to migrate across the border. In 1980, 23% of Hong Kong's GDP was being generated by manufacturing, and 68% by the service sectors. Today, little more than 3% comes from manufacturing, while services account for 90%. This contrast is particularly relevant when it comes to discussing the Hong Kong government's attempts to steer the development of the economy.

In the face of the erosion of its manufacturing activity, Hong Kong focused more on its earlier strength as a provider of entrepot services such as shipping and finance, and reasserted itself as the gateway to the Mainland. Geography, culture and history gave it something of a monopoly advantage. By today, however, that advantage has been considerably eroded by the direct accessibility of China itself to and from the wider world, and by China's own progress in developing such services.

Box 1.1 Hong Kong's economic interdependence with the Mainland

(Extracts from the official *Hong Kong Yearbook* for 2005, Chapter 3, reprinted by permission of the Government of the Hong Kong Special Administrative Region.)

The strengthening economic links between Hong Kong and the Mainland since the latter adopted the open door policy in 1978 have brought substantial mutual benefits. The flow of goods, services, people and capital between Hong Kong and the Mainland and between the Mainland and the world via Hong Kong have created a remarkable growth in income and employment opportunities in both Hong Kong and the Mainland over the years.

The Mainland has long been Hong Kong's largest trading partner, accounting for 45 per cent of the total trade value in Hong Kong in 2005. Ninety-one per cent of Hong Kong's re-export trade was related to the Mainland, making it the largest market for, as well as the largest source of, Hong Kong's re-exports. Reciprocally, Hong Kong was the Mainland's third largest trading partner (after the US and Japan), accounting for 10 per cent of the Mainland's total trade value in 2005.

Hong Kong is also a principal gateway to or from the Mainland for business and tourism. Between 1996 and 2005, the number of trips made by Hong Kong residents to the Mainland more than doubled, with an average annual growth rate of 9 per cent to 63 million trips. The number of trips made by foreign visitors to the Mainland through Hong Kong rose by a cumulative 77 per cent over the same period, with an average annual growth rate of 7 per cent to 4 million trips. In 2005, these two types of trips to the Mainland rose by 5 per cent and 10 per cent respectively. The number of trips made by Mainland residents to or through Hong Kong rose more than five fold, with an average annual growth rate of 20 per cent between 1996 and 2005 to 12.5 million trips. The growth moderated to 2 per cent in 2005, reflecting the slower growth in the Mainland's outbound tourism.

Hong Kong continues to be the largest external investor on the Mainland. According to the Mainland's statistics, the cumulative value of Hong Kong's realised direct investment on the Mainland reached US$260 billion at the end of 2005, accounting for 42 per cent of the total inward direct investment there. Over the years, there has been a noticeable shift in the composition of Hong Kong's direct investment across the boundary, from industrial processing to a wider spectrum of business ventures, such as hotels and tourist-related facilities, and real estate and infrastructure development. Compared to other places in the Mainland, Hong Kong's economic links with Guangdong are the closest. By the end of 2004, the cumulative value of Hong Kong's realised direct investment in Guangdong was US$100 billion, accounting for 66 per cent of its total inward direct investment.

According to a survey conducted by the Federation of Hong Kong Industries in December 2003, over 11 million Chinese workers were employed either directly or indirectly on the Mainland by industrial ventures with Hong Kong interests. This was about 62 times the size of Hong Kong's own manufacturing workforce. Within this total, about 10 million Chinese workers were employed in Guangdong. Hong Kong's huge direct investment in the Mainland has contributed to the latter's industrialisation, and at the same time facilitated the rapid structural change in the Hong Kong economy.

The Mainland is likewise Hong Kong's largest source of foreign direct investment (excluding tax haven economies).

Nevertheless, it is the role as a business platform for China that remains Hong Kong's most compelling attraction to overseas businesses and investors. Of course, many countries still have important trading interests with Hong Kong *per se* — Germany for cars, Australia and New Zealand for foodstuffs, Japan for cars and electronic goods. But the majority of foreigners nowadays see Hong Kong as an economic adjunct to mainland China, and will therefore stay committed, in business terms, to Hong Kong if, but only if, Hong Kong continues to present a business environment which is conducive to serving as a springboard to the Mainland.

Post-1997

The reversion to Chinese sovereignty in 1997 was a political milestone for Hong Kong rather than an economic one. Fears that it would lead to interference in economic policy and an erosion of the economic freedoms and free market principles for which Hong Kong had become famous have proved unfounded. The Basic Law — Hong Kong's mini-constitution — grants autonomy to Hong Kong in, among other things, economic, financial and monetary affairs. Among overseas observers who are not closely involved with Hong Kong, there may be a tendency to presume that China must surely play a significant role in directing economic policy, but polls of the people whose opinions are presumed to matter most, reveal that Hong Kong is still regarded as the world's freest economy (see Chapter 2). And the Mainland authorities appear to have been punctilious in formally respecting that autonomy granted by the Basic Law.

However, although the Mainland authorities have refrained from direct meddling in Hong Kong's economic policy, they have tended to regard economic prosperity as the key to political stability in Hong Kong — by which they mean, in effect, quiet compliance with their vision for the political evolution of Hong Kong. They do not want Hong Kong to pose any political problems for the Mainland as it pursues its own political evolution at its own chosen pace. Time and again, therefore, the Mainland authorities and the Hong Kong government have echoed one another with statements about the priority to be accorded to maintaining and increasing economic prosperity.

This, in turn, helps to explain the willingness of the Mainland authorities to exercise power and influence in order indirectly to help the Hong Kong economy, such as through the closer economic partnership arrangement (CEPA) and cooperative initiatives in the Pearl River region. Where such arrangements are likely to be mutually beneficial to both the Mainland and Hong Kong, there has been no reason for the Mainland authorities to hold back — for example, in admitting Hong Kong professionals to practise on the Mainland, as a way of upgrading the Mainland's own professional services at a controlled pace ahead of the fuller opening-up to the rest of the world which will eventually be required under China's obligations to the World Trade Organisation. But Hong Kong has found it less easy to wring concessions in areas where such steps could significantly threaten Mainland interests in terms of more intense competition, such as in the provision of local banking or telecommunication services.

At the same time, China has seen Hong Kong as a channel through which the Mainland economy can leverage its own performance. Mainland growth of the pace achieved over the past decade or so could probably not have been realised but for the role of Hong Kong in facilitating trade and development. But as China develops further its own services sector and its infrastructure, it will become less dependent on Hong Kong. This does not mean that Hong Kong will fade away, but rather that it must develop and assert its own intrinsic competitiveness.

Hong Kong itself has, of course, benefited hugely from the economic dynamism of its much larger neighbour, and been able to reap benefits from greater economic cooperation across the border. Many of the privileges which it has negotiated, such as under CEPA, would scarcely have been conceivable under British rule.

The five-year plan

The vision of the Mainland authorities remaining largely detached from economic decisions in Hong Kong needs, however, to be partially qualified by certain developments in 2006. Although Hong Kong is outside China's socialist system and therefore not subject to the planning which characterises Mainland economic policy, China's 11th 5-year plan included Hong Kong for the first time, referring to cooperation and exchanges in various fields; tacitly acknowledging the complementary role of Hong Kong in the Mainland's development, as well as the dependence of Hong Kong on China; and pledging Mainland support for maintaining Hong Kong as a centre for finance and trade. The mention of Hong Kong in the plan may be seen by some as a generous gesture of support, but by others as the possible beginnings of a more sinister intrusion. Developments so far in response to the plan tend, however, to allay any fears that it might mark the start of a significantly more hands-on approach to economic policy in Hong Kong, as is discussed further in Chapter 3.

The competitive challenge

While the prosperity of the Mainland has produced many positive spin-offs for Hong Kong, the Mainland's emergence now as an economy which can potentially compete in services as well as manufacturing has, as noted above, thrown a competitive challenge to Hong Kong. It is perhaps this, together with periods of recession in recent years, which has prompted the Hong Kong government to adopt what appears to have been a more proactive stance in managing the economy, with an emphasis on structural change. But similar structural challenges have confronted Hong Kong at different points in history — arguably almost continuously — and the government could be accused of having made too much of a meal of them in recent years. The ways in which government has been trying to direct the economy are analysed later, in Chapter 3.

Conclusions

As China re-emerged from political and economic isolation in the final quarter of the twentieth century, so Hong Kong re-emerged as the dominant entrepot trading and business centre for China. Hong Kong is now being swept along by China's rapid growth. It may no longer possess the quasi-monopolistic advantages that it once enjoyed, when it was virtually the only gateway to China and provided a range of services for China which China was not yet in a position to provide for itself. Nowadays Hong Kong has to compete much more for its business, not least against Mainland cities. But compete it does, and very effectively. Too often the burgeoning strength of the Mainland economy is seen as a threat, whereas in fact it is Hong Kong's lifeblood and a huge opportunity. The challenge for Hong Kong is to retain its competitive attraction through the sensible execution of macroeconomic policies, and through careful attention to maintaining the attractive supply-side environment which has facilitated its dynamism over past decades.

Indeed, success would not have come to Hong Kong, historically, had not successive administrations nurtured an inviting and reasonably stable business climate. Hong Kong was once caricatured as a hotbed of unbridled capitalism. That was always something of an exaggeration, and the more so today when Hong Kong prides itself in matching the broad sweep of legal and regulatory standards expected of an advanced economy. But the government nevertheless boasts that it keeps intervention in the economy to the minimum that is strictly necessary.

Believing that minimal intervention is the best formula for both maintaining a strong economy and attracting international business, the government works hard to promote the perception of Hong Kong as a free economy, and shows great delight when ranking lists confirm it. The administration is perhaps overly self-conscious about the rankings and ratings that are conferred upon it by outsiders of all sorts, and too sensitive to criticism. The various surveys tend to confirm that, although Hong Kong may be wanting in certain aspects of quality of life, it is indeed regarded as a good place to do business, partly because of its reputation for hands-off government.

However, this hands-off image turns out to be something of an illusion. The discussion in Chapter 3 revealed that the government has, over the years, been quite heavily involved in directing or influencing, with varying degrees of success, the type of economic activity carried out in Hong Kong. Meanwhile, its much vaunted budgetary discipline is not as tight as it appears to be at first sight, principally because of give-aways of land which do not feature in the accounts. Moreover, the budget is subject to a confusing set of rules and conventions, both formal and informal, which almost certainly distort resource allocation, and consequently cause economic inefficiency. Only in the realm of monetary policy is the administration seen to maintain a sufficient degree of detachment to give full credence to the non-interventionist label. Meanwhile, in dogged defence of non-interventionism, the government for many years sought to make a virtue of minimal intervention to counteract monopolistic practices, despite this being one area which was crying out for actual intervention — a point which government now appears to have conceded.

In Chapter 3, interventionist leanings were traced back to the 1970s, paradoxically a period when the most ardent exponent of non-intervention was serving as financial secretary. From the late 1980s until the handover of sovereignty in 1997, the urge to intervene may have tailed off, most likely because the economy was faring well, partly due to the catalytic effect of a resurgent Mainland. However, after the handover, whether because of the various adverse shocks which hit the economy over the ensuing few years, causing recession and deflation, or because of the latitude seemingly offered by the Basic Law, or simply because Chief Executive Tung Chee Hwa desired to be seen as a proactive leader, interference in the economy appeared to move up a gear. There is a long list of measures and desiderata that he pronounced upon, from the grandiose and expensive to the nigh-trivial and cheap, spreading across virtually every sector.

Donald Tsang, since he took over as chief executive, and his financial secretary Henry Tang, have displayed less interventionist tendencies, at least insofar as there have been no major new initiatives and there has been evident restraint from handing little parcels of assistance to all and sundry. Against that, however, one might flag two notable developments: the reference to Hong Kong in the Mainland's five-year plan (plus Tsang's enthusiastic response to it), and Tsang's relaunch of the Commission on Strategic Development. Both, by their very terminology, conjure up visions of a greater degree of dirigisme in economic policy than would seem appropriate to Hong Kong's *laissez-faire* aspirations. However, neither has, thus far, led to any significant shift of policies in that direction. Even so, they establish a planning framework, and vigilance may be needed to ensure that the output from their processes continues to focus on improving the supply-side of the economy, and the business and social environment, rather than on specific interventions to shape sectoral activity.

That vigilance is necessary because the Hong Kong government does not always appear to have fully appreciated the distinction between policies which — to use its own words — facilitate and those which lead. A government truly committed to a market economy might have been expected to place relatively more emphasis than the Hong Kong government has on the supply side (in matters such as training and education, for example). This is not to deny that the government does indeed take such things seriously and provides considerable resources for them, but a reading of policy addresses and budget speeches, certainly during the years when Tung Chee Hwa was running Hong Kong, suggests that the main focus of policy was on picking winners, rather than on simply providing the environment in which the winners would self-select.

Whatever policies may have emerged, whether on the supply side, or the more contentious ones such as those in support of financial concessions for particular sectors or in favour of persevering with a strategy of high land prices, they must have originated from somewhere. But where? Part III surveyed the institutional framework and the possible channels of influence on policy. It reached the conclusion that the entire process was, not unexpectedly, somewhat amorphous. A worrying feature is that there does not appear to have been any mechanism for subjecting policies to a rigorous intellectual appraisal before they run too far, in order to ensure not only that they satisfy proximate criteria (such as cost-benefit analysis in the case of project spending), but also that they are consistent with broader strategic objectives.

Thus, to take a recent example, if it is proposed to grant land at a concessionary price for a logistics park on Lantau Island, a disinterested party should be required to review objectively whatever social cost-benefit analysis has been carried out by the advocates, to address the question of why a subsidy is needed for an essentially commercial venture, and to assess how such a subsidy would fit in with the government's overarching non-interventionist philosophy. The official studies, referred to in Chapter 3, did not deal substantively with those points.

By way of another example, one might consider the administration's stance on competition policy. For years it argued against a general pro-competition law, maintaining that its case-by-case sectoral approach was sufficient to deal with any problems. Now it has changed its tune and accepted (or so it seems — the process is not yet complete) the case for legislating. What has brought about that change of heart? There has not been any notable change in prevailing competitive or anti-competitive conditions across the economy. But, earlier, the IMF and, more recently, the government-appointed review body have produced analysis and intellectual arguments in favour of a new law. Yet the basic facts and arguments have been around for years. The government was doubtless aware of them, but maintained its obstinate stance, in the belief that this accorded with its *laissez-faire* credo. Whether it now accepts that it was mistaken, or is simply caving in to international opinion and popular pressure, is unclear. This episode shows a certain shallowness in strategic thinking.

The regrettable fact is that, despite the existence of the Central Policy Unit and the Commission on Strategic Development, intellectual leadership has been weak, hiding behind the veneer of mere slogans such as 'the market leads, government facilitates'. There is no sign of a coherent intellectual framework or strategic blueprint against which policies can be tested. This is as relevant when considering the nexus of fiscal rules, the pricing of land, housing policy and possible new taxes, as it is when dealing with questions of support for particular producing sectors of the economy. Rather, the impression is given of an endless process of *ad hoc* assessments. Given this situation, it has not been difficult for business interests to insinuate their ideas into the policy process, as discussed in Chapter 8.

At the same time, however, because the government continues to lack a comprehensive democratic mandate, and because of the known wish of the Mainland authorities that Hong Kong should remain tranquil, the government has some difficulty in introducing any policies which cannot command the widest consensus. Paradoxically, an executive-led government with, on paper, quite extensive powers is frequently finding itself struck with a sort of paralysis.

Need one worry about the influence of business? After all, it has long been held that 'what is good for business must be good for Hong Kong' — a view which can draw support from the economy's enviable long-term performance. The answer to that question comes in three parts.

First, there is no way of knowing how the economy would have performed under some different set of circumstances, such as with less sectoral aid, fewer government efforts to support manufacturing or new technologies, and a budgetary system less dependent on land premiums, less skewed towards capital projects or more geared towards income redistribution.

However, secondly, one could be fairly certain that dilution or banishment of the business elite from the corridors of power would lead to a change in the mindset of the administration. It might be spared much of the special pleading — and hence the pressure to provide direct or indirect support for particular sectors. It might feel freer to indulge in some blue-skies thinking about land supply and prices. It might feel less inhibited about increasing social and welfare provision, or extracting higher tax revenue from those most able to pay. It might find it easier to tackle some of the more egregious economic scandals, such as the power companies' guaranteed monopoly profits. All in all, the process of running the economy would become more objective and be freer of the influence of vested interests. That ought to result in better policies and an improved allocation of economic resources.

Thirdly, there is a socio-political angle. The gulf between rich and poor is wide and probably widening. Although there has been no major confrontation on this issue, the public is becoming more politically aware and increasingly willing to voice its opinions, and Legislative Council members are ready speak out on all manner of issues. Political parties and think-tanks, though they may not have made huge contributions in the past, can be expected to provide an ever-increasing dimension to public debate, despite any present feeling of impotence and exasperation at the policy-making process as it currently functions. The longer that the unholy alliance between government and business persists, which is seen by many as one of the obstacles to more redistribution of prosperity, the greater are likely to be the tensions which build up and which could lead to the sort of public expressions of dissatisfaction which the government is so keen to avoid. The government's formation of the Commission on Poverty may have defused the issue for the short term. But unless the commission produces some substantive proposals to alleviate poverty, recriminations against the elite of society and their presumed political influence may intensify. The era of quiet deference is past.

Whatever the precise influence of different groups in the policy process may be, this book has found that the government in Hong Kong has for many years been practising a rather more hands-on approach to economic policy than its own propaganda would have one believe. That itself might not matter much, if one could be confident that the policy decisions were founded on sound, thorough and objective economic analysis, within a clear and consistent strategic framework. Sadly, those conditions are seldom satisfied. Intellectual leadership is lacking. Vested interests from the business world have always been influential, but have been more so since the end of British rule. Meanwhile, because of the absence of full democracy, the government is too often frightened off by populist opposition from proceeding with its preferred policies. Regrettably, the good policies are just as likely to suffer that fate as are the bad.

Despite all the shortcomings in the nature and process of economic policy which have been identified in this book, the Hong Kong economy generally flourishes, and continues to be the envy of much of the rest of the world. Nevertheless, a number of the problems which have been identified, such as weakness in the intellectual foundation of budget strategy and the growing paralysis of the overall policy-making process, are ones which will, if not actively addressed, persist. And if they are allowed to persist, they could result in significant under-performance of the economy. The administration should put more effort into tackling these fundamental issues, even if that means spending less time on grandiose, wide-ranging action agendas, of the sort which were spawned in response to the mention of Hong Kong in the Mainland's five-year plan.

Notes

1 Government press release, 8 September 2005.
2 Government press release, 29 September 2005.
3 HKMA *Annual Report* 2004.
4 Government press release, 26 September 2005. It may be noted, in passing, that overdependence on being in the rating agencies' good books may predispose economic policies towards conservatism; this could result, for example, in severe fiscal restraint and accumulation of massive foreign exchange reserves, neither of which, though pleasing to the financial markets, would necessarily accord with optimal economic policies.
5 Government press releases, 18 April 2006 and 27 July 2006.
6 IMF Staff Report on Article IV consultations with Hong Kong, May 2003.
7 Competition policy is covered in more detail in Chapter 6.
8 Government press release, 14 February 2006.
9 "Six-monthly report on Hong Kong, January–June 2004", July 2004, Cm 6292.
10 As recorded by Leo Goodstadt in *Uneasy Partners: The Conflict between Public Interest and Private Profit in Hong Kong* (Hong Kong: Hong Kong University Press, 2005, p. 121), quoting in turn from David Lethbridge (ed.), *The Business Environment in Hong Kong* (Hong Kong: Oxford University Press, 1980), p. xii.
11 Leo Goodstadt, *Uneasy Partners*, quoting from *Hong Kong Hansard*, 26 February 1986.
12 These points are discussed in greater detail by Leo Goodstadt, *Uneasy Partners*. Drawing on *One Country, Two Systems. An Account of the Drafting of the Hong Kong Basic Law* by Xiao Weiyun (Beijing: Peking University Press 2001, pp. 419–22), he suggests that the "plain intention of the Basic Law's drafters was that the post-colonial administration should be involved more extensively in economic management than its British predecessor".
13 Quotations taken from a report in the *South China Morning Post*, 25 January 2005.
14 As depicted by Donald Tsang, the then financial secretary, during a speech in Boston, 14 June 2000.

15 Information note by the Government Secretariat for the Legislative Council, October 1999.

16 Government press release, 8 July 2005.

17 The Hong Kong Jockey Club is the body which runs horse-racing in Hong Kong and has a monopoly on all forms of gambling (e.g. horse-racing, soccer, and the weekly 'mark six' lottery). Its profits, after payment of betting duty to the government, are spent on charitable projects in the spheres of education, medical care, sports and recreation, community services, etc.

18 The government's director of audit, in his report no. 48 of March 2007, criticised the ASTRI for over-generous staff pay and expenses, and for deficiencies in project planning and monitoring. He also queried expenditure on fung shui consultants.

19 Richard Wong and Alan Siu, "Reviving Hong Kong's competitiveness", Hong Kong Institute of Economics and Business Strategy, April 2004.

20 The reference to the supply side deserves some elaboration. It has never been intended that the concept of non-interventionism should proscribe policies aimed at freeing up markets (of which the Closer Economic Partnership Arrangement is a particularly relevant example), raising educational standards, providing public infrastructure, ensuring necessary (but not excessive) regulation, and so forth. These may broadly be termed 'supply-side' measures, as distinct from attempts to manage aggregate demand or interventions directed at particular industries or sectors.

21 Proceedings of the Legislative Council (*Hansard*), 1 June 2005, columns 7970–71.

22 Government press release, 18 May 2006.

23 Chief executive's address to the summit; government press release, 11 September 2006.

24 See *Report on Economic Summit on "China's 11th Five-Year Plan and the Development of Hong Kong"*, accessible at www.info.gov.hk/info/econ_summit/eng/action.html.

25 Thus far, the Mainland authorities have been commendably 'hands-off'. A notable exception has occurred in financial policy, where the Mainland has, in effect, dictated the pace of development of renminbi banking business in Hong Kong, even though banks in Hong Kong are in principle free to develop foreign currency business as they wish, subject only to the constraints of prudent banking.

26 Budget speech, 6 March 2002.

27 In this context 'recurrent' is synonymous with 'current' (as opposed to 'capital'); the recurrent balance is also commonly referred to in Hong Kong as the 'operating' balance.

28 Unless the architects of the Basic Law intended that the Hong Kong government should count borrowing as revenue, as it has been doing in its accounts. But this is a highly eccentric practice, which would not be recognised as best accounting practice, and which contradicts agreed international standards for government accounts laid down by the International Monetary Fund.

[29] With the exception of the site of St John's Anglican Cathedral, which is held as freehold.

[30] Information Note, "Land supply in Hong Kong", *Legislative Council Secretariat*, IN20/05-06.

[31] Statement on housing policy, 2002.

[32] See, for example, Richard Y. C. Wong, "Public housing reform and its effects on the private housing market", HKCER Letters, Vol. 71 July/August 2002, and James Lee and Lawrence Lau, "Restructuring housing assistance: Benefits for housing, budget and economy", www.hongkongbetter.com.

[33] "Broadening the tax base; ensuring our future prosperity".

[34] For a fuller historical account, see Tony Latter, "Hong Kong's exchange rate regimes in the twentieth century: The story of three regime changes", Hong Kong Institute for Monetary Research working paper no. 17, 2004, www.hkimr.org.hk.

[35] If sterling notes were used in the colony, they had to be bought from the Issue Department of the Bank of England with funds which could then be invested by the Bank of England, on behalf of the British government, to earn it a profit. When a colony issued its own notes, the local colonial administration could itself earn a profit from the sterling investments which it held as backing.

[36] In fact, the proportion has persistently exceeded 5%. It was above 11% at the end of 2006. Of course, because of movements in the stock market, a target for equity holdings cannot be met precisely.

[37] Details about the history and operation of the Tracker Fund can be found at www.trahk.com.

[38] The official stance has shifted somewhat over the years. In January 2000, the chief executive of the Monetary Authority, Joseph Yam, wrote thus "for the time being the answer I am inclined to give to the question of how much foreign reserves we need is 'the more the better'." At that time Hong Kong had the fourth largest reserves of any economy in the world, having been third in 1997. In June 2006, as Hong Kong slipped from seventh to eighth position in that ranking, he admitted: "The build-up of official foreign reserves is not necessarily a good thing, despite the comfort of having more ammunition in the monetary armoury." Both quotations are from Joseph Yam's weekly 'Viewpoint' column, viewable at www.hkma.hk.

[39] For an official account of these events, see "Operation of monetary policy" and "Why we intervened", HKMA *Quarterly Bulletin*, November 1998.

[40] For a detailed discussion of operational intervention, see Tony Latter, "Rules versus discretion in managing the Hong Kong dollar, 1983–2006", Hong Kong Institute for Monetary Research working paper no. 2, 2007, www.hkimr.org.

[41] See www.edlb.gov.hk/edb/eng/resp/psoc.htm.

[42] Details of some of these initiatives and complaints are published in the annual reports of the Competition Policy Advisory Group (COMPAG), available at

www.compag.gov.hk.

43 "Competition policy: The key to Hong Kong's future economic success", Consumer Council, November 1996.

44 Singapore and China are not, however, without critics of their measures. For example, Singapore has excluded from the law's coverage a swathe of utilities and transport services, largely provided by the public sector. Similarly, China's legislation (though still not finalised at the time of writing), seems set not to tackle administrative monopolies, provincial and municipal barriers to competition, etc. It is feared that it may be aimed more at challenging the strong market positions of foreign companies, than promoting competition across the whole economy.

45 "Promoting competition – maintaining our economic drive", available at www.edlb.gov.hk.

46 Article 45 and Annex I.

47 Legislative Council paper, "Accountability system for principal officials", April 2002.

48 Ibid.

49 Ibid.

50 Prior to the creation of the class of principal officials, the chief executive and the three most senior civil servants were the only 'officials' on the Executive Council.

51 Articles 49 and 50.

52 The 30 functional constituencies are as follows: commerce (2 seats); industry (2 seats); finance; accountancy; labour (3 seats); social welfare; medical; health services; education; legal; engineering; real estate and construction; architecture, surveying and planning; financial services; tourism; district councils; Heung Yee Kuk (new territories village organisation); textiles and garment; import and export; wholesale and retail; transport; information technology; insurance; agriculture and fisheries; sports, performing arts, culture and publication; catering.

53 If a motion, initiated by at least a quarter of the councillors, charges the chief executive with serious breach of law or dereliction of duty and if he or she refuses to resign, the council may, after passing a motion for investigation, give a mandate to the chief justice of the Court of Final Appeal to form and chair an independent investigation committee. The committee shall be responsible for carrying out the investigation and reporting its findings to the council. If the committee considers the evidence sufficient to substantiate such charges, the council may pass a motion of impeachment by a two-thirds majority of all its members and report it to the Central People's Government for decision.

54 See *Functional Constituencies*, edited by Christine Loh and Civic Exchange (Hong Kong: Hong Kong University Press, 2006), Chapter 8.

55 Quotation from the party's policy platform at www.dphk.org.

56 Quotation from the chapter, "Achieving an affluent economy", in the DAB policy platform, accessible at www.dab.org.hk.

57 www.liberal.org.hk.

[58] www.cpu.gov.hk.

[59] Policy address 2005.

[60] *Hong Kong Yearbook 2002;* the figures of 6,000 and 500 refer to executive statutory bodies, such as the Housing Authority and Hospital Authority, as well as to the network of advisory committees. *Hong Kong Yearbook 2005* states that "over 4, 000 members of the public are serving on about 400 [advisory and statutory] bodies".

[61] Comprehensive data on the degree of disclosure via websites was provided in reply to a Legislative Council question on 18 May 2005 — see official record of proceedings. More recently, the *South China Morning Post* reported (22 February 2007) that, in a survey of some 400 advisory committees, only 67 opened their meetings to the public and only 70 posted substantive documents on the internet.

[62] The list is reproduced from the official summary of the commission's first meeting on 25 November 2005.

[63] Paper for the February 2006 meeting, www.cpu.gov.hk/english/documents/csd/csd_ec_1_2006.pdf.

[64] Government press release, 27 January 2005.

[65] www.hkdf.org

[66] www.bpf.org.hk

[67] www.hkpri.org.hk

[68] www.betterhongkong.org

[69] www.sepi.org

[70] www.civic-exchange.org

[71] www.lionrockinstitute.org

[72] www.synergynet.org

[73] www.bauhinia.org

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