

Moving Millions

The Commercial Success and Political Controversies of Hong Kong's Railways

Rikkie Yeung



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Hong Kong University Press is honoured that Xu Bing, whose art explores the complex themes of language across cultures, has written the Press's name in his Square Word Calligraphy. This signals our commitment to cross-cultural thinking and the distinctive nature of our English-language books published in China.

“At first glance, Square Word Calligraphy appears to be nothing more unusual than Chinese characters, but in fact it is a new way of rendering English words in the format of a square so they resemble Chinese characters. Chinese viewers expect to be able to read Square word Calligraphy but cannot. Western viewers, however are surprised to find they can read it. Delight erupts when meaning is unexpectedly revealed.”

— Britta Erickson, *The Art of Xu Bing*



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Railways as Part of the Hong Kong Miracle

Part of the Hong Kong Miracle

Railways are part of the Hong Kong miracle.¹ The Mass Transit Railway Corporation Limited (MTRC) and the Kowloon-Canton Railway Corporation (KCRC) have been much envied by their international counterparts. These two basically government-owned enterprises are among the few railways in the world that have made money, and indeed big profits, for many years. The MTRC and the KCRC have matched world-class service standards in serving over three million passengers everyday in a densely populated cosmopolitan city. The past safety records of the two railways were reasonably good with relatively few fatal accidents. They have enjoyed a high degree of operational autonomy, including totally unregulated fare autonomy not available to most railway operators around the world. The Hong Kong government is proud that it has never provided recurrent subsidies to support the daily operation of the two railways. Before 2000, both the KCRC and the MTRC were statutory corporations. In 2000 the government restructured the MTRC into a listed company and divested about 25 percent of the government shareholding. The MTRC was the world's second government-owned railway listed on international stock markets. The MTRC way has influenced the management of other subway systems in Asian and Chinese cities. In 2007, the railway operation of both organisations were 'merged' under the MTRC, and the KCRC has become only a railway asset-owning entity. A new chapter of Hong Kong railways began.

The miracles of the Hong Kong railways are the product of a complex mix of factors — historical reasons, geographical features, decades of rapid economic growth and social modernisation, professional railway management and, above all, the government's quite internationally unique railway policies. The Hong Kong model of railways has special characteristics, some of which are seemingly paradoxical or incongruent. Hong Kong has been renowned for its *laissez faire* and small government tendencies. Yet, the two government-owned corporations did not only operate railways but also ran mixed businesses in property development, consultancy and commercial as well as electronic

money businesses in local and international markets. The KCRC is wholly and the MTRC is largely government-owned. Yet, they have been managed like commercial firms ever since establishment. They never required recurrent government subsidies for daily operations, but are in fact heavily subsidised through various ways including government capital and extensive property development rights. The MTRC and the KCRC were both vertically integrated railway organisations but each operated geographically separated and technically different railway systems. The public control mechanism of Hong Kong railways allows little public participation. Yet, the KCRC and the MTRC struggled to deal with rising community expectations, and sometimes, harsh public criticisms.

The miracle of Hong Kong's railways has not been without social costs. While they have set enviable records in profitability, operational efficiency and service quality, much of the success has been achieved at the expense of certain public interests. Indeed, the corporate history of the two successful railways in Hong Kong was a history of controversies and struggles. A wide range of public criticisms has been directed at the limitations of overall railway policies (such as an inadequate railway network, over-reliance of property financing, inadequate public accountability and transparency), political controversies over new railway development, specific cases of mismanagement of the railway corporations and so on. In particular, the KCRC was confronted with severe public controversies concerning mismanagement throughout its corporate history. The MTRC has always been well regarded in professional and corporate management but still could not escape from public criticism for being too profit-oriented and sometimes ignoring passenger interests.

The MTRC and the KCRC were like two brothers with similar genes. They were founded on similar legal-institutional principles and went through the same socio-political changes in Hong Kong during the last three decades. They operated under, in very broad terms, a similar government policy framework and government financing model. However, as this book will show, their organisational performance and operational characteristics were quite different. The KCRC and the MTRC were assigned with different tasks, confronted with different challenges, constrained by different government policies in certain aspects, and above all, characterised by contrasting corporate leadership and cultures. The listing of the MTRC in 2000 set the paths of the two railways further apart in terms of organisational characteristics and corporate priorities.

Today, the Hong Kong railways are on a new path. The government initiated a plan to 'merge' the two railway systems. After four years of deliberations and negotiations, the government gazetted the *Rail Merger Bill* in June 2006. The government plan was in fact not a merger by the

conventional definition of unifying ownership of two corporations. It was a reform package of a more complicated overall railway governance structure and partial policy changes to the original model of the railway sector in Hong Kong, a package of which certain critical policy questions are left unanswered.

The comparative study of the KCRC and the MTRC in this book will suggest that the reform will be full of challenges, and carry political costs. Regardless of the merger reform, the original Hong Kong railway model is being confronted with challenges of sustainability in future. Of particular importance, the decade-long formula of property financing and fare autonomy, which made Hong Kong railway exceptionally profitable, has been under economic and political pressures to change. The community has been demanding, quite justifiably, the railway corporations to open up the corporate governance and improve their corporate responsibilities particularly in fare determination, environmental issues and management of operational incidents.

Focus of the Book

Railway reforms are not new internationally. After the 1980s, there has been a global search for ‘new model railways’;² and many overseas railway systems have undergone dramatic restructuring of their governance arrangements. The main drivers for international railway reforms were often financial problems and economic inefficiency. Hong Kong did not perceive such problems because the railways had been financially healthy and operationally efficient. Instead, they faced a different set of issues and controversies from the perspective of sometimes conflicting public interests.

The book examines the struggles to success, controversies and dilemmas of the Hong Kong railways through the political-corporate history of the MTRC and the KCRC. In many ways, this history of Hong Kong railways reflects the socio-political struggles of the city during its modernisation over the past three decades. People in this exciting city are always busy catching up with fast-changing developments. But somehow similar issues and problems keep repeating themselves. Revisiting the past may hopefully better prepare us to embrace the challenges ahead, and help us understand the latest merger reforms in a wider perspective.

The rest of this introductory chapter explains the relevant analytical framework and concepts adopted in this book, the book’s structure and outlines the critical issues affecting Hong Kong railways. The analysis and evaluation in this book focuses on the perspectives of the public interests of railway governance.

Public Interests of Railway Governance

From the perspective of public interests, there are merits and limitations to the Hong Kong railway model. The analytical framework in this book adopts the relevant concepts of *governance*. The discourse of public governance helps identify the relevant actors, levels of analysis and specific issues of public interest for understanding the two government-owned railway organisations in Hong Kong.

Setting the scene: public governance discourse

Around the world, the ideas and practices of governance have become the subject of public attention and scholarly discussion from the 1990s in various disciplines including international development, political science, public administration and corporate management. Broadly defined, governance as a multi-dimensional phenomenon refers to *the patterns of organisational interactions involving inter-dependent actors from the state, market and civil society, underpinned by integration-autonomy tensions among the actors, with the aim of satisfying collective human needs in a changing and complex environment.*³ Of particular attention, public governance in modern societies involves interactions of actors from the state, market and civil society, each representing different and often conflicting sources of power, values and norms (Figure 1.1). This is no exception in the history of Hong Kong railway governance as a reflection of the dynamics, and even clashes, among different actors and values from the government, market and community.

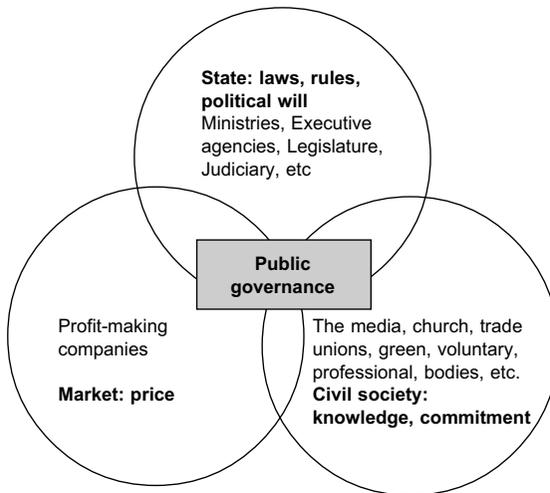


Figure 1.1 Public Governance: Influences from the State, Market and Civil Society

Public governance can be analysed at three intertwined levels of analysis — macro-level (covering territorial jurisdictions), mezzo-level (covering policy sectors) and micro-level governance (covering individual organisations). The main focus in this book is at the level of organisational governance of the MTRC and the KCRC. The macro-context of Hong Kong and the mezzo-level of railway policies will be presented in Chapters 2 and 3 to set the background scene.

Chapter 2 will examine socio-political modernisation, changing politics and changing relationships between the government, market and civil society in Hong Kong over the past three decades. Hong Kong was under British colonial administration for over a century and is now a Chinese special administrative region under the ‘One Country, Two Systems’. The corporate history of the two railway corporations was particularly affected by the colonial legacy, the diplomatic battles over new railway development in the political transition to 1997, and the impact of post-1997 political leadership on the government-railways relationship. Hong Kong shares aspirations of any other first-world societies; yet the people do not have the full rights of universal suffrage. The lack of democracy has imposed special challenges on the government and public bodies when they need to deal with the rising expectations of a community enjoying many freedoms. Chapter 3 will review the railway policies, related public transport policies, and broad railway governance arrangements in Hong Kong. Chapters 2 and 3 will highlight how the change of governing strategies after 1997 are reshaping the traditional ‘arm’s-length’ government-railways relationship and revising certain longstanding railway policies.

Inherent tensions of public enterprise management

The KCRC and the MTRC are public enterprises as one form of government-in-business. ‘Public enterprises’ (or state-owned enterprises) refers to a government wholly or partially owning a particular organisation that produces or provides goods and services to the public. Despite the worldwide trend of privatisation after the 1980s, public enterprises continue to be of global significance in numbers and GDP contribution, according to the World Bank and other institutions.⁴ The KCRC (a statutory corporation) and the MTRC (a largely government-owned company) represent two popular organisational forms of public enterprises in modern societies.

Regardless of organisational form, public enterprise management is underlined by inherent tensions.⁵ The fundamental tension of managing a public enterprise lies in its being ‘public’ and ‘enterprise’ at the same time.⁶ Public enterprises such as the KCRC and the MTRC are expected to achieve multiple and conflicting objectives of economic and operational efficiency,

serve social and government policy objectives, and be publicly accountable. On the one hand, public enterprises need managerial autonomy from political intervention to achieve operational efficiency and commercial objectives.⁷ On the other hand, managerial autonomy without proper checks and balances may lead to problems of democratic accountability or may shelter mismanagement from public or parliamentary monitoring. There are good reasons for public enterprises to be subject to public controls to safeguard public interests.⁸

Governing public enterprises, therefore, requires a continuous search for the right balance of conflicting purposes and influences, the right balance of diverse interests, and the right balance between control and autonomy. In particular, different internal and external governance actors have competing ideas about the missions of public enterprises. The relevant internal actors include board chairman, members, chief executive, professional managers and staff. The external actors include the ministers, civil servants, legislature of the state; the consumers, competitors, shareholders, investment analysts, creditors and bankers from the market; and the political parties, media, consumer interest groups, environmental groups from civil society and so on.

Ideally, *corporate governance* of a public enterprise should be designed with an aim to produce the right balances. In this book, 'corporate governance' refers broadly to the governance arrangements of corporate bodies and is not restricted to the stock market concepts of defining the relationship between board, management and shareholders. Elements of corporate governance include the history of organisational transformation, ownership, legal and formal arrangements of powers and accountability, financing arrangements, board arrangements (constitution, appointment, and arrangements for chairman and chief executive), and the characteristics of corporate leadership and management. Part II (Chapters 4, 5 and 6) will discuss the corporate governance issues of the MTRC and the KCRC.

Public interests of public railways

The public enterprise governance of the KCRC and the MTRC is further complicated by the unique 'publicness' of the railway business, an integral part of a public transportation system. Railways as a public service involve major public interests and display a mixture of social, economic, political and commercial concerns.

Railways are conventionally defined as classic toll goods and monopolies. Modern railways are more complex than the traditional beliefs. The old argument in some economics textbooks that railways are natural monopolies helps explain why many governments first entered into the railway business. Today, modern railway 'monopolies', whether they are owned by the

government or private sector, are all challenged by strong competition from road transport (private cars and buses) or air transport. Railways are toll goods because of restriction to access and thus charging is feasible; and joint consumption is possible up to the point of overcrowding. However, it is also theoretically possible to rearrange railway service into a public good at zero fares. Just imagine when railways are needed for evacuation purposes during wars or emergencies.

For a well-functioning railway system, five basic tasks must be carried out, namely, infrastructure-related, rolling stock-related, operations, support services and regulatory functions. These functions can be either vertically integrated or vertically separated under different organisations. The railway networks can be either geographically (horizontally) separated or integrated in the hands of different entities. There are many possibilities of governance arrangements. In Hong Kong, the original railway governance model can be described as vertical integration and horizontal separation. Contrary to the Hong Kong model, one of the international trends of reform is to break up the railway bodies vertically or horizontally. Chapter 3 will elaborate on the theoretical concepts of railway governance, and the overall railway governance arrangements in Hong Kong in contrast to examples from some international models.

In new railway development, there are three key concerns of public interest. First, new railways are important for facilitating socio-economic development and urbanisation but construction costs are high, and often higher than road construction. Second, the land and properties along new railways generally become more economically valuable due to access to transportation, and thus planning of railway properties is a significant part of town planning. Third, after the 1990s, there has been growing international awareness to promote 'sustainable mobility' by using more railways.⁹ Railways provide efficient mass mobility and are considered as a more sustainable form of transport than road transport as they help reduce traffic congestion and air pollution.¹⁰ However, railway construction also causes immense disruption and even destruction of urban and natural environments. The public interests of *new project governance* in railway business can be categorised into (a) new railway development, (b) railway land or property development, and (c) environment or sustainable issues relating to projects. Part III (Chapters 7 and 8) will discuss the contrasting experiences of the MTRC and the KCRC in dealing with these aspects.

In the area of railway operation, passengers need affordable, safe, reliable and convenient railway service. Citizens want affordable railways so as to access the workplace, education, medical and other public services. The mechanism of determining railway fares is thus of major public interest. Passengers want a safe and reliable railway service. Railways are statistically a safer mode of land transportation than motor vehicles. In Hong Kong, there were 6,211 private

car accidents and only 19 light rail train accidents in 2006.¹¹ In the US, the fatality rate per 100,000 people of motor vehicles in 2003–04 was 1.5 but only 0.3 for the railways.¹² However, if serious accidents such as derailing, train collisions, crimes, arson or terrorist attacks happen on trains and railway premises, the potential dangers will be immense. In February 2003, an arson attack by a mentally ill person on a Korean subway in Daegu tragically claimed hundreds of lives.¹³ In April 2005, a derailment accident in Japan caused the death of many. Owing to the potential magnitude of danger and impact, railway incidents, whether they are a service disruption or an accident, often catch immense attention from the public and the media. In addition, passengers want convenience and choice in public transport, which are sometimes contradictory demands. Passenger convenience can be enhanced by better integration of different public transport modes but this may reduce competition and passenger choice. In *operational governance* of railways, the major public interest issues can be categorised into (a) the determination of railway fares, (b) operational safety and reliability, and (c) competitive and collaborative relationship between the railway and other transport operators. Part IV (Chapters 9 and 10) is concerned with the MTRC and the KCRC in these public interest issues.

Book Structure for Comparison

The relevant concepts of public governance, public enterprise and public interests of railways as discussed are cemented into a systematic comparative analysis of the KCRC and the MTRC in this book. The next two chapters in Part I will explain the context of the socio-political changes in Hong Kong over the last three decades (Chapter 2) and the railway policy environment (Chapter 3).

Part II deals with the corporate governance of the MTRC and the KCRC in three chapters. Chapter 4 will compare the establishment, legal-formal governance arrangements and history of organisational transformation of the two railway corporations. The chapter will explain that a basically similar legal-formal model was applied to both the MTRC and the KCRC but specific government policy differences put the two corporations on different paths in the years to come. Chapter 5 will review the MTRC's corporate history of struggling for financial survival to high profitability, interactions between the managing board and management, and evolution of corporate strategies under different corporate leaders. Chapter 6 will give a parallel review on the controversy-plagued corporate governance of the KCRC.

Part III is about the two railway corporations in new railway and property development. Chapter 7 will compare the strategies and experiences of new project governance of the MTRC and the KCRC. Differences in project

management strategies and political situations account for the KCRC's public controversies in railway projects. Both corporations went through an internationally unique experience during the Sino-British row over new railways; and they did not deal with those challenges in the same way for different reasons. Chapter 8 will highlight the challenges to their profitable property development model especially in the last few years, the emergence of environmental issues in new projects since the late 1990s, and how different responses from the MTRC and the KCRC led to contrasting outcomes.

Part IV focuses on passenger interests in railway operations. Chapter 9 will recount the political tug-of-war on fare autonomy, how and why in recent years the government tried to change the policy that it had defended for decades, and the changing politics of transport competition and collaboration. Again, the MTRC and the KCRC did not always respond to the challenges in the same way. Chapter 10 will compare the experiences and controversies of the two railways in operational performance and safety management against the background of an increasingly demanding and vocal public.

Part V reflects on the past and looks to the future. Chapter 11 will conclude with the key factors explaining the differences between the MTRC and the KCRC. It will discuss the dilemmas of the current railway model, introduce key reform options gleaned from international experience and finally, examine the intriguing politics and challenges of the 'merger' reform.

This book's framework implicitly suggests that there are multiple dimensions in considering the performance of public railway enterprises. When this book refers to the performance of the two railway organisations in Hong Kong, it is assessed against how the sophisticated community perceives or expects them to perform. The reality is that commercial success has been regarded only as part of the formula when the community evaluates the two railways. For passengers and the general public at large, the elements of public interest other than commercial success do matter.

Costs of the Railway Miracle

No doubt, Hong Kong should be proud of its railway miracle — the exceptional profitability, efficient and fairly reliable operation, and the ability to export railway management to the world. All these successes were achieved through struggles in just two to three decades. However, the same logic that has created the Hong Kong railway miracle also implies social costs and limitations. Examples of common criticisms from the general public and policy critics are as follows.

- *Unregulated fare autonomy*: The most popular criticism of the Hong Kong railways was regarding the unregulated fares. Many people consider transport fares too high. People accused the profitable government-owned

railways of being reluctant to lower fares during deflation and thus not fulfilling their corporate responsibility properly. Yet, unregulated fare autonomy was considered a core element of the financially viable Hong Kong railway formula.

- *Inadequate railway networks:* Railway networks in Hong Kong are not as extensive as in other modern cities. Residents living in suburbs far from the city centre demand more railways. Environmentalists have challenged the high social costs of unsustainable road transport in Hong Kong. Yet, a less-than-extensive railway network is almost by default of the government policy of applying stringent financial tests for building new railways, as another part of the Hong Kong formula to ensure economically efficient railways. That said, not all the major railway systems in Hong Kong were built to purely meet community needs. Some were constructed for political and other policy reasons.
- *Independent empires:* The KCRC and the MTRC were sometimes labelled as ‘independent empires’, having too much autonomy and too little accountability. The media, legislators and political groups consider the two government-owned railway corporations as being subject to too little public control inside (through the boards) and outside the organisations. Yet, the high level of managerial autonomy is regarded as a key element in the Hong Kong railway formula to achieve operational efficiency.
- *Too many property rights:* From the perspective of the private property market, the government-owned railway corporations enjoy special privileges as they are given prime development sites along the railways without tender. Private developers and policy observers complained about ‘unfair competition’ and advocated that the railway corporations should focus on railway business only. Yet, property financing is perhaps the single most important factor of creating the profitable Hong Kong railways.
- *Deteriorating operational performance:* There were quite a number of operational incidents prominently reported in the media that are severely criticised by the travelling public. There are questions about whether (and why) the operational performance of the KCRC and the MTRC has been deteriorating or whether the public is raising their expectations of the railway service.

The remainder of this book will recount the struggles for success, conflicts and controversies of the Hong Kong railways in addressing the issues outlined in this introductory chapter. Some of these railway conflicts are repeated time and again. It all goes back to a basic question: have the Hong Kong railways achieved the right balance in pursuit of maximum public interest?

For a long time, Hong Kong did not feel a strong need to change. By world standards, the original railway model has been exceptionally profitable and operationally efficient. The question is: can the original model be sustained

in future? Some of the elements in the current railway financing formula (such as railway property development and fare autonomy) are now under social, economic and political pressure to change. Reform is inevitable.

Any reform to the Hong Kong's railway model must address the critical questions and dilemmas to be elaborated in the concluding chapter. Hong Kong can learn from international experience of various reforms. However, there are trade-offs in all the different options, including the government's merger reform. The right solution is ultimately a question of value choice for this modern community.

The bottom line is that the well-educated and sophisticated citizens of Hong Kong deserve accountable, transparent and participative railway governance capable of producing high standards of service quality and safety.

2

Serving a Community at Change

The MTRC and the KCRC serve a cosmopolitan community that has been transformed from a small British colony and trading port into the richest and most developed Chinese city under 'One Country, Two Systems'. Hong Kong's struggle for socio-economical modernisation and political transformation after the mid-1970s is a fascinating history. As macro-background, this chapter aims modestly to survey the broad political and socio-economic changes in Hong Kong relevant to the corporate history of the MTRC and the KCRC over the last three decades, in particular before and after 1997. Of particular significance are the interrelationships between the government, public bodies (mainly the two railway corporations), market and civil society. These interrelationships are examined in four sections.

The first section describes how Hong Kong people experienced rapid modernisation and drastic socio-economic changes, and have rising expectations on all fronts, including an aspiration for more democratic participation in political and corporate institutions, which has often been denied. The second section analyses the political development and the government's core governing strategies during the colonial era, the political transition and after 1997. Interestingly, the changing pattern of sovereign-Hong Kong relationship in a way resembled the changes in the government-public body relationship. The third section focuses on the government-market relationship, in particular the pre- and post-1997 changes in public enterprises, economic development and housing policies as relevant to railways. The final section discusses the development of civil society and its relationship with the government and railway corporations in Hong Kong.

Rising Aspirations of a Cosmopolitan Community

The Hong Kong community of 6.9 million of mainly Chinese-Cantonese shares the needs and aspirations not much different from other first-world cities. Hong Kong people are endowed with substantial economic wealth generating one of the highest per capita GDPs in the world. They have westernised

lifestyles and Chinese culture, travel widely, do business internationally, and enjoy many freedoms and civil liberties, except for universal suffrage to elect their own government. Hong Kong people generally have high expectations of the government and public bodies (such as the two railways), quality of public services (including affordable and professionally managed railway systems), and they quite rightly aspire to strengthen their civic participation and formal representation in managing public affairs (including railway governance).

Modern Hong Kong has been created out of an almost total absence of natural resources except its geographical location and deep harbour, which made it an important trading entrepôt since early colonial times. In the post-war period, Hong Kong underwent tremendous socio-economic modernisation despite serious challenges such as the Korean and Vietnam wars, external economic threats (for example, currency instability and oil crises), and internal political challenges (for example, the 1967 disturbances and more severely, the 1997 financial crisis). Nevertheless, it came to be regarded as one of the 'East Asian miracles',¹ and has become one of the world's most important container ports, trade and commercial centres. Between 1961 and 1997, Hong Kong's GDP grew 180 times and per capita GDP rose by 87 times to HKD 207,194 (USD 26,500).²

During the post-war colonial era, other social aspects of modernisation flourished. The city constructed first-class infrastructure and efficient transportation systems, including the road systems, the Mass Transit Railway and electrification of the Kowloon-Canton Railway. The development of soft infrastructure was also impressive. Education standards were raised through compulsory free education, the number of professionals and managers rapidly increased, home ownership expanded, and the community generally regarded the public services such as public transport, housing and medical services as meeting modern standards. By the mid-1990s, however, a stock market boom fuelled by spiralling property prices had developed. A dangerous economic bubble resulted. During those years, inflation (and an increase in railway fares) was a bigger livelihood issue than employment or other economic issues.

In July 1997, the Hong Kong Special Administrative Region (HKSAR) government inherited from the colonial administration huge foreign exchange and fiscal reserves (the fifth largest in the world),³ economic prosperity, a vibrant stock market and a property market bubble. Just a few months after the handover, Hong Kong suffered severe blows from the Asian financial crises and speculative attacks on its currency and stock markets. Aggravated by the government's inconsistent housing and other public policies, the property market bubble finally burst in 1998. Hong Kong entered into the deepest and longest economic recession in its post-war history, whose severity was intensified by a collapse of political confidence in the HKSAR government's governing ability.⁴ From 1997 to 2002, Hong Kong's GDP fell by 6 percent, annual per

capita GDP decreased by 10 percent to HKD 185, 615 (USD 23,800). Inflation turned into deflation as the consumer price index fell from +5.8 percent to -3 percent from 1997 to 2002.⁵ By March 2005, Hong Kong's fiscal reserves had dropped by 37 percent from 1998⁶ although the foreign exchange reserves backing the Hong Kong's currency board regime remained strong.⁷ Not only had the Hong Kong people suffered a significant drop in incomes and job security (as the unemployment rate rose from 2.7 percent in 1997 to 7.9 percent in 2003), many property owners encountered negative asset problems with their mortgages. By late 2001, of the almost 500,000 residential properties financed by mortgages, 18 percent were suffering from negative equity.⁸ By the autumn of 2003, prices had fallen by 70 percent from their 1997 levels before they began to show signs of recovering.⁹ Economic recovery and mild inflation only returned gradually after 2005. During the recession, public transport fares did not fall with deflation. The community's demand for reduction of all transport fares grew.

After the handover, the Hong Kong people were generally unhappy as indicated in social surveys and the rising numbers of suicides.¹⁰ The community mood was clouded with a strong distrust in the SAR government (which had seen high disapproval rates in opinion polls and rising number of large-scale protests), against a background of economic problems and looming crises of political confidence. The community's lack of confidence in the SAR government spilled over to public bodies, which may have partly exaggerated the people's dismay at some of the KCRC's controversies to be explained in subsequent chapters.

As a small, open economy, Hong Kong has developed a strong international orientation and is susceptible to global economic changes, globalisation of business and world politics. This international trade, business and financial centre is highly reliant on overseas markets, especially the United States, and easily influenced by international capital flows. The societal development is also influenced by global trends owing to the large interflows of people (through travel, business and overseas study), information (both physical and digital) and finance with the rest of the world. The community, therefore, quite readily accepts technological innovations (such as the Octopus smartcards initiated by the MTRC, see Chapter 9) and finds it easy to benchmark public services with international standards.

While being the most advanced city and the number one foreign investor in China,¹¹ Hong Kong is very dependent on Mainland developments, policies and supplies. Since China's open door policy in 1979, market forces drove the process of Hong Kong's socio-economical integration with China and rapid economic restructuring from an industry-based to a service-based economy with a focus on financial, banking and business services. Hong Kong manufacturers poured investments (capital, technology and managerial expertise) into the Mainland in order to capture the Chinese advantages in

cheap labour and land. Hong Kong utilised its international connections and partnered with China (mainly cities in the Pearl River Delta) to conquer overseas markets. After the mid-1990s, Hong Kong businessmen increasingly turned their attention from international markets to either the booming local property market or the potentially prosperous Mainland market. The political handover in 1997 hastened the process of integration. The HKSAR government aimed to proactively forge economic integration with the Pearl River Delta¹² so as to increase the overall competitiveness in the world market. Pure market forces were no longer considered sufficient to achieve the new policy. Under Beijing's support, the HKSAR government attempted to cooperate with local governments in the Pearl River Delta (which are also Hong Kong's competitors) in economic development and planning regional transport infrastructure including roads and railways. Such regional cooperation has not been easy. Meanwhile, there were growing worries about the inward-looking trend and reduced international orientation, which might ultimately turn Hong Kong into just another Chinese city.

Railways Built in the British Colony

The Hong Kong community was in no small measure under the influence of colonial governance of 155 years following the unequal treaties signed with Qing dynasty. British engineers developed the initial railway systems in Hong Kong. Created in the colonial era, the MTRC and the KCRC have remained strongly affected by the governing strategies and policies developed at that time.

After World War II, Hong Kong gradually enjoyed a very high degree of autonomy but was an exception to the United Kingdom's post-war policy of decolonisation and self-determination for its colonies. London and Beijing seemed to share an implicit understanding that as long as Britain did nothing to violate China's interests, in particular not allowing self-government for fear that Hong Kong would follow the Nationalist government in Taiwan, China would not interfere with the colonial administration.¹³

Although London had retained almost unlimited constitutional powers over Hong Kong, it rarely exercised them. The governor was given wide executive and appointment powers on behalf of the Queen through the Letters Patent and the Royal Instructions. Since the 1960s, the Hong Kong colonial government was administratively under the Foreign and Commonwealth Office (FCO). In the post-war period, all Hong Kong governors, except for the last, had a diplomatic background. The expatriate-dominated colonial government had struggled for a high degree of political and economic autonomy unprecedented in British imperial history in order to ensure survival of the city and the administration.¹⁴ The British cabinet paid little attention to the

colony until the Sino-British talks over Hong Kong's future began. The FCO simply did not have sufficient administrative capacity to directly handle Hong Kong affairs. If the colonial administration was to effectively govern a liberal capitalist city on Chinese soil, it could not practise dictatorship even when it was constitutionally exempt from democratic checks and balances. The Hong Kong people were neither totally apathetic nor deferential as they were rapidly educated and swiftly modernised after the 1960s. Therefore, Hong Kong's colonial governance was neither fully autonomous nor subordinate. It was subject to complex state-society relations¹⁵ and the Sino-British relationship.

Under immense political constraints and thin legitimacy to rule the Hong Kong Chinese community, the colonial government was under constant pressure to deliver reasonable governance performance. The colonial bureaucracy consisted entirely of career civil servants recruited on a merit basis, with top officials usually being generalist Administrative Officers responsible for political, administrative and policy roles. During the colonial era, the centralised administrative structure had been changed very little, except that the McKinsey review in 1974 resulted in a major restructuring to separate the roles of policy-making for policy branches (such as transport branch) under the policy secretaries (mostly Administrative Officers) and policy implementation for professional departments (such as the transport department) reporting to their respective policy branches.

The British influence of public sector reforms after the 1980s was fairly limited. In March 1989, the government published the Public Sector Reform report, which focused on efficiency improvement in resource management.¹⁶ In 1991, the Efficiency Unit was established to promote more efficiency initiatives. The last governor Chris Patten introduced further reforms to promote a transparent, accountable and customer service-oriented culture of public governance.¹⁷ One of Patten's reforms was the introduction of Performance Pledges by government departments in 1992.¹⁸ The MTRC and the KCRC subsequently adopted their own Performance Pledges to increase accountability and transparency to passengers (Chapter 4). During the colonial era, these public management reforms aimed to modernise the operation and cultures of the civil service but not to rethink its basic role. This was due to a lack of external, political and budgetary pressure,¹⁹ and China's opposition to major changes during the transition.

Colonial strategies relevant to railways

The largely unreformed administration appeared to be out of date for the advanced socio-economic development stage that Hong Kong was at, especially when compared to other societies such as Singapore, where vigorous public sector reforms had been introduced. In the absence of democracy and a fully

modernised bureaucracy, one would have predicted severe governance problems. But, the colonial government survived and remained fairly popular, especially in the last decade or so.²⁰ The community's confidence was mainly founded on the rule of law and an increasingly democratic-style of governing. The colonial government relied on three major governing strategies, which directly and indirectly impacted on the two railway corporations.

The first colonial strategy was 'administrative absorption of politics'²¹ as manifested in a large network of advisory committees and public consultations by way of green and white papers. Although the community's different political preferences could not be evaluated through democratic process, political demands were partially absorbed by forming ruling alliances with business and professional elites²² and absorbing views of government critics, professional bodies and civil society groups into public policy making, including transport and railway policies. In the administrative processes, top civil servants were assumed to balance conflicting interests and often made incremental or middle-of-the-road decisions.

Second, there was gradual democratic development through three-tier representation, namely the Legislative Council (LegCo), the Municipal Councils (namely the Urban Council and Regional Council), and the District Boards, in the last fifteen years of colonial rule. Elections to all three tiers were progressively introduced after the mid-1980s. For most of Hong Kong's colonial history, the governor appointed all official and non-official LegCo members. The first two pieces of legislation for setting up the MTRC and the KCRC were passed by the fully appointed LegCo. In 1985, some indirect-elected seats were introduced through functional constituencies of business chambers, teacher unions or professional bodies. In 1991, a few directly elected LegCo seats from geographical constituencies were introduced. In 1995, all appointed and official seats were abolished. By July 1997, LegCo was completely elected with no official members but only one-third of the seats were directly elected (20 out of 60). Although LegCo was not completely democratised, the colonial legislature in the 1990s proved to be a vigorous monitor of the government. The executive-legislature relationship was sometimes tense but generally effective through increased transparency and dialogues. The second-tier municipal councils were Hong Kong's oldest democratically formed bodies responsible for public hygiene, leisure and cultural activities. The third-tier representative councils were the eighteen District Boards formed in the early 1980s by elections and appointments. They played mainly advisory roles in district administration. Before 1997, all the municipal councils and District Boards were completely directly elected. The slow but progressive democratisation had significantly transformed the operating environment of the MTRC and the KCRC. The community's growing demands for better and affordable railway services were increasingly represented and debated in LegCo. The two railways had to deal with many more actors. For example,

they had to consult the District Boards on various district demands about the railways including the level of fares, routes, environmental impact of railway construction and operations.

Third, the colonial administration established quasi-governmental bodies and delegated or decentralised more powers to them, especially towards the end of the colonial rule, in order to partially overcome the limitations of the ‘gradually ossified’ bureaucracy²³ in dealing with new problems. The colonial government created many statutory bodies of varying degrees of legal autonomy and operational flexibility for three main reasons: (a) that operational flexibility was considered critical for the economic efficiency of government-owned businesses (such as the MTRC); (b) that public perceptions of independence were important for regulatory purposes or monitoring government activities (such as the Independent Commission Against Corruption); or (c) that semi-autonomy could facilitate public participation in key services (such as the Housing Authority). After the mid-1980s, the colonial government set up more semi-autonomous public bodies and decentralised its powers further by restructuring some government departments into statutory bodies as in the case of the restructuring of the KCR Department into the KCRC in 1982 (Chapter 4).

Of particular importance was the colonial administration’s ‘arm’s-length’ or hands-off approach in dealing with quasi-governmental bodies. Although the government, more precisely the governor, normally reserved the ultimate legal powers over the statutory bodies, such powers were ‘intended for use only in extreme circumstances’.²⁴ In practice, the colonial government mainly exercised control through appointing key executives of the public bodies. By convention, bureaucrats let public body managers do their jobs freely with little ex-ante intervention, except for ex-post monitoring or periodic reporting. Unless there were public controversies (such as those of the KCRC), colonial officials usually saw no need to interfere with the management of quasi-governmental bodies. Interestingly, this arm’s-length relationship between the government and statutory bodies resembled the London–Hong Kong relationship — superiors were self-restrained in exercising control over subordinates who strived for autonomy. Accordingly, the legal and operational autonomy of the MTRC and the KCRC flourished during the colonial years.

The Long Political Transition and Railways

About half of the corporate history of the MTRC and the KCRC occurred during Hong Kong’s political transition, which was perhaps the longest transition of sovereignty without violence in human history. This was an exciting but frustrating period. During that time, Hong Kong prospered and the railway business flourished. But Hong Kong was confronted with many

political and social frustrations, often arising from Sino-British tensions over future arrangements, including new railway development.

The special chapter of history began with Governor MacLehose's visit to Deng Xiaoping in 1981 to ask about the New Territories lease ending in 1997. The Sino-British talks on the issue of Hong Kong started after Margaret Thatcher's failure in 1982 to persuade Deng on the issue of sovereignty.²⁵ At China's resistance, the Hong Kong government could not be separately represented and had to participate as part of the British team in the talks. In 1984, the Sino-British Joint Declaration was signed and officially marked the thirteen-year transition of sovereignty over Hong Kong. The Joint Declaration promised that Hong Kong would be a special administrative region of China enjoying 'a high degree of autonomy . . . vested with executive, legislative and independent judicial power'.²⁶ The Sino-British diplomacy continued through the Joint Liaison Group to negotiate all major matters with post-1997 implications, including infrastructure projects such as the MTRC's Airport Railways and the KCRC's West Rail (see Chapter 7).

The Sino-British relationship over Hong Kong was uneasy and sometimes bitter, especially after Beijing's June Fourth crackdown of the 1989 democratic movement. Beijing preferred to keep everything basically unchanged (especially political reforms) and minimise financial commitments for the future SAR government (such as in the new airport railways). The Hong Kong government was caught between complex diplomacy between its current and future sovereigns, and at the same time faced the community's continuously rising aspirations for political, social and economic progress. As its autonomy was constrained, the colonial administration was sometimes labelled as a 'lame-duck'.²⁷ The strained tripartite relationship soured further when Beijing became furious at last governor Chris Patten, who openly proposed modest democratic reforms in 1992 without seeking the Chinese government's prior consent. Chinese officials denounced Patten as 'the sinner of thousand generations'.²⁸ Despite hard diplomatic struggles and local pressures, the Hong Kong government could carry out most of its intended new policies and projects, including the airport railways, before 1997 albeit often after much frustration.

As subsequent chapters will show, the MTRC and the KCRC were affected by transition politics in three specific ways. First, they had to deal with a number of transition-related institutions. Under the Sino-British Joint Liaison Group (in which Hong Kong officials participated as part of the British team), there was the Land Commission for negotiating matters of land sale and allocation, including land use for railways. In 1991, the Joint Liaison Group Airport Committee was set up to negotiate the new airport and related railway projects. After Governor Patten proposed political reforms, Beijing retaliated by appointing, without British consent, a Preliminary Working Committee

comprising of Mainland officials and pro-Beijing elites in 1993. Not surprisingly, the members of this working committee were highly critical of the Hong Kong government’s policies and new railway projects including the Airport Railways and West Rail. In 1996, Beijing appointed the Preparatory Committee, a body recognised by the Joint Liaison Group, comprising Mainland and Hong Kong members to make preparations for the SAR government. China also decided that the legislature elected before 1997 could not ‘ride a through train’ beyond the handover and thus appointed the Provisional Legislative Council from July 1997 to 1998.

Second, the MTRC and the KCRC had to learn to deal with the political divisions that developed inside Hong Kong during and beyond the transition. The local political landscape was split into what the media labelled as the pro-Beijing and pro-democracy factions, as reflected in the drastically changed LegCo composition (Table 2.1). Last but not least, the two railway corporations were under a series of confidence crises and mood swings in the community. Hong Kong society was filled with frustrations over unfulfilled democratic aspirations, disappointment at the Sino-British quarrels, and dissatisfaction about the long delays of the new airport and Airport Railway projects. Political considerations were often primary in policy making in the transitional years.

The experience of the MTRC and the KCRC in handling delicate politics during the Hong Kong transition was unique for any public railway enterprise in the world. Despite all the political debates, the community consistently trusted the Hong Kong government much more than London or Beijing. Governor Patten enjoyed stable popularity till the end of the British rule according to the tracking opinion polls.²⁹

Table 2.1
Pre- and Post-1997 LegCo Composition by Political Affiliation

Political affiliation	1995–30 June 1997	2000–2004
‘Pro-democracy’ legislators	Up to 32	22
• Democratic Party	19 [12]	11 [8]
• Democratic groups	6 [2]	6 [6]
• Independent democrats	5 [2]	5 [3]
• No clear affiliation but tend to be pro-democracy	2	0
‘Pro-government’ or ‘pro-business’ conservatives	28	38
• Beijing-affiliated party (DAB)	6 [2]	10 [6]
• Liberal Party (business party)	9 [1]	8
• Beijing-affiliated conservatives	13 [1]	20 [1]
Total:	60	60

[no.] — no. of members from direct elections

‘One Country, Two Systems’

On 1 July 1997, Hong Kong returned to China. Transitional politics supposedly ended. However, Hong Kong SAR faced more serious problems in governance and politics that affected the railway corporations directly and indirectly. China’s basic policy towards Hong Kong is ‘One Country, Two Systems’, originally used as a slogan to dispel fears in Hong Kong about the return of sovereignty. In brief, Hong Kong continues to practise capitalism within a socialist China for at least fifty years until 2047. The political experiment of ‘One Country, Two Systems’ was innovative; however, the concept is inherently contradictory and means all things to all people. With China’s economic transformation, the distinction between the capitalist and socialist systems is quickly narrowing. Instead, the sources of conflict are fundamentally rooted in the contrasting constitutional and legal systems, political systems and practices, and different values and expectations about modern governance between Mainland and Hong Kong.

China promised to adhere to the principle of ‘Hong Kong people ruling Hong Kong’. According to the Basic Law, established under Article 31 of China’s Constitution, Hong Kong should enjoy the high degree of autonomy already practised in the colonial era. The mini-constitution was drafted by the Basic Law Drafting Committee composed of 36 Mainland members and 23 Hong Kong members³⁰ and promulgated by the National People’s Congress in April 1990. As compared to the Letters Patent, the Basic Law is a more detailed constitutional document of 160 articles, covering all major policy areas from the central-HKSAR relationship to fundamental rights and duties of residents, political structure, economy, social services, culture and external affairs. In practice, however, problems concerning Hong Kong’s semi-autonomy could easily arise. The Basic Law is subject to different interpretations according to the legislative intent and political objectives of the Central Government in contrast to the common law understanding in Hong Kong. After all, Britain is a parliamentary democracy while China is a one-party authoritarian state.

Beijing has reasons to intervene into Hong Kong affairs in addition to nationalist sentiments. Politically, China is seriously concerned that speeding up democracy in Hong Kong would influence its one-party rule. The economic well-being of the Mainland and Hong Kong is closely linked. Thus, the Central Government has a practical need to coordinate inter-provincial matters with the HKSAR. If things had developed according to China’s original expectations, Beijing would have been prepared to let the HKSAR government enjoy a high degree of autonomy, except in political development or sensitive issues such as visits of China dissidents to Hong Kong. In the first few years after 1997, the Central Government did restrain itself from intervention.

Unfortunately, China soon found that it had to interfere, contrary to the wishes of the Hong Kong community. The HKSAR government did not display the same determination to struggle for autonomy as the colonial administration did. Public trust in the government deteriorated. In addition to external shocks (such as the Asian financial crisis, bird flu and the outbreak of the SARS epidemic), the political system and governing strategies of the post-1997 government accounted for its decline in governing capacity and legitimacy, which had either direct or indirect impact on the MTRC and the KCRC.

SAR Governance Problems and Railways

Fundamental problems stem from the HKSAR's political system. The Central Government intended to preserve the conservative political design since the colonial period by ensuring an executive-led government, a weak LegCo, and appointment of a chief executive trusted by Beijing. The chief executive enjoys wide constitutional powers similar to that of governor. He or she is indirectly elected by an Election Committee formed by only hundreds of electors (400 in 1997 and 800 after 2002). The composition of the Election Committee is biased towards big businesses or pro-Beijing organisations; most electors are expected to vote according to the Central Government's preferences. Beijing can also exert its political influence in Hong Kong through party newspapers, various organisations (such as the Federation of Trade Unions, banks and schools), and Beijing-affiliated politicians (such as National People's Congress delegates).

After 1997, the already limited democratic representation was further weakened. The electoral methods were changed from a first-past-the-post to semi-proportional system to facilitate Beijing-affiliated candidates and pro-government conservatives to win seats. Democratisation of LegCo was slow. Only half of the legislature was directly elected in 2004, seven years after the transition. The Basic Law restricted LegCo powers. In effect, it cannot introduce private members bills.³¹ Passing non-government (and non-binding) motions have been made more difficult through a split voting system.³² Democratic representation at the second and third tiers went backwards. The HKSAR government abolished the two municipal councils in 1999 and added back one-third of appointed membership to the District Councils (former District Boards).

The colonial strategy of co-opting political critics has been distorted. Major appointments of advisory boards mostly went to pro-chief executive or pro-government personalities; even those who attended less than 25 percent of meetings were often reappointed.³³ The first chief executive Tung attended

LegCo question-and-answer sessions less often and was loath to communicate with democratic legislators. The incumbent chief executive Donald Tsang declared in LegCo that political favouritism (*'qinshuyoubie'*) was a reality and that the (non-elected) SAR government is closer to certain political parties but distant from the 'opposition', the pro-democracy groups.³⁴

Public confidence in the government's commitment to the rule of law declined after a series of political incidents and controversial court cases.³⁵ In 1999, the HKSAR government invited the Standing Committee of the National People's Congress to re-interpret the Basic Law in order to legalise an immigration policy already ruled unconstitutional by the local Court of Final Appeal.³⁶ Since then, Beijing has interpreted the Basic Law a few times, mostly on political development. The HKSAR government's determination to uphold the rule of law and autonomy has been seriously doubted. In addition, various studies have consistently portrayed the post-1997 administration as less transparent, unwilling to consider public opinion, less willing to allow meaningful public participation in policy-making, and abandoning consumerist sensitivities.³⁷

Under a twisted political system without sufficient checks and balances and equal representation coupled with controversial governing attitudes and strategies of the political leadership, the LegCo-government relationship soured. Unconstructive gridlock politics resulted. The political situation made the lives of the MTRC and the KCRC more difficult than before 1997. There has been a lower level of public and political tolerance of any problems occurring in the government-owned railways, including operational incidents and fares.

Facing governance problems inside the administration or public bodies, the HKSAR government responded by reversing another colonial administration strategy in the latter's final years. It recentralised powers from and increased intervention into quasi-governmental bodies. The HKSAR government abolished the elected municipal councils and re-centralised the councils' power to government departments. In 2002, the government replaced the non-official chairman of the Housing Authority with the policy secretary for housing. There were also controversies about the government's intervention in the Independent Commission Against Corruption and the Equal Opportunities Commission.³⁸ While the HKSAR government recentralised powers, in parallel it speeded up marketisation and privatisation of public services by way of contracting out and private-public partnerships. Such an inconsistent approach led to new dilemmas in public services, and greatly affected the two railway corporations. For example, after the government ownership of the MTRC had been divested, the government tried to intervene in MTRC's fare and property policies (Chapters 4, 8 and 9).

More crises after ‘accountability system’

The MTRC and the KCRC were further affected by the HKSAR government’s political reform of superseding the bureaucratic polity inherited from the colonial administration by a political appointment system, known as the ‘Accountability System for Principal Officials’ (POAS). Chief Executive Tung Chee-hwa considered such a reform the only way to improve his governing capacity. Shortly after 1997, his administration experienced economic recessions and a number of unforeseen crises. Not only did the HKSAR government fail to overcome the crises effectively, there were blunders (such as the confusions on how to deal with the bird flu in 1997 and the bungled opening of the new airport in 1998).³⁹ The good reputation once associated with the civil servant–formed administration soon dissipated. Public criticism of government leaders and civil servants took on a more strident tone. Tung tried to push forward radical civil service reforms by such things as reducing the size of the civil service, freezing or cutting salaries and hiring more contract staff.⁴⁰ Civil service morale suffered but little improvement in governance and public confidence could be seen. At that time, almost all the HKSAR principal officials were civil servants from the colonial administration.

In April 2002, Tung decided to introduce the POAS by appointing a layer of political appointees as principal officials (nicknamed ‘ministers’) on top of the former layer of senior civil servants, whose title was now changed to permanent secretaries. With Beijing’s approval, in July 2002, he appointed all 14 ‘ministers’, five of whom were from non-civil service backgrounds. One was Secretary for Environment, Transport and Works Sarah Liao, who formerly ran an environmental business. Supported by the chief executive, Secretary Liao tried to reform certain old policies, including a review of the public transport and railway fare mechanism (Chapter 9).

The POAS was intended to enhance government accountability and performance.⁴¹ Nonetheless, it failed to restore public confidence for many reasons. The ‘accountability system’ was not meant to develop democratic accountability but to strengthen personal accountability of ministers to the chief executive⁴² and weaken the powers of civil servants. The new system was implemented with insufficient preparation and no public consultation.⁴³ In the meantime, public expectations for better government performance had been raised. When the performance of new system failed to meet the expectations, the legitimacy problem was accentuated.

Shortly after the POAS, the situation got worse when more government blunders and scandals such as the Penny Stock saga and ‘Lexus-gate’ occurred.⁴⁴ In early 2003, mishandling of the SARS epidemic claimed the highest number of deaths (299) in any city in the world.⁴⁵ Then, the Article 23 controversy ignited the political time bomb of prolonged tensions between the community and the government since 1997. The government tried to rush through in a

heavy-handed manner a national security law under Basic Law Article 23. The public was worried about losing freedoms and was angered by the way the government tried to bulldoze the law through the legislative process.⁴⁶ On 1 July 2003 over half a million people marched in protest against the Tung administration and the national security bill.⁴⁷ This encouraged more large-scale demonstrations in 2003 and 2004 to demand for direct election of the chief executive and the entire legislature in 2007–08.⁴⁸ The HKSAR government's trust ratings plunged further from 48 percent in April 2002 to 25 percent by November 2003.⁴⁹

A legitimacy problem

The peaceful 1 July protest attracted considerable international attention, and marked a political turning point for Hong Kong. Beijing ended its minimal-intervention policy on the SAR. Vice-President Zeng Qinghong was tasked to oversee Hong Kong policy. Beijing's administrative machinery for managing Hong Kong affairs expanded. In April 2004, Beijing suddenly announced without prior consultation with the HKSAR to interpret the Basic Law so that there would be no universal suffrage in 2007–08. Public confidence in 'One Country, Two Systems' plummeted.⁵⁰ The disapproval rate of the HKSAR government reached 58 percent in April 2004. The approval of the chief executive was only 13.7 percent in February 2004,⁵¹ but Beijing continued to strongly support him through the most serious political crisis.

In March 2005, Beijing accepted Tung's sudden resignation. Many believed that the new Chinese leadership under President Hu Jintao decided to change its policy for Hong Kong. Tung's deputy and chief secretary Donald Tsang, a former career civil servant of over thirty years, was blessed by Beijing to be selected unopposed as the current HKSAR chief executive. Tsang, a knighted Catholic who was once thought to be an impossible choice for Beijing, presented a different personal style from his former boss. A new governing strategy is legitimacy from polls, but not votes. Popularity ratings are considered important for the HKSAR government's policy making. In the first year of Tsang's administration, he enjoyed high popularity ratings. However, the problems of gridlock politics and poor executive-legislative relationship showed little sign of improvement. The demands for democracy and better public governance continued to run high. The HKSAR government's tendency to avoid any controversial new policies or reforms gradually started to harm its popularity. By late 2006, the poll ratings of Tsang and his administration continuously declined.

After the return to China, the HKSAR government, which is constitutionally designed to be 'executive-led', has ironically suffered from a series of legitimacy crises. As major public bodies, the MTRC and the KCRC

have been adversely affected by the negative public mood towards the HKSAR government. The two railways must also adjust their relationship with new political leaders and deal with the government's governing strategies and public policies that are often still in a state of flux, not only in political but also economic and business matters.

Hong Kong Government in Business

The government's market philosophy and business policy is critical to the operation of government-owned railways. The MTRC and the KCRC always operated under commercial market principles since establishment in the 1970s and 1980s. Their business autonomy flourished under the Hong Kong-style *laissez faire* of the past.

Laissez faire, Hong Kong style

Authoritative economists and historians have regarded the former British colony as a classic example of *laissez faire* and 'the last bastion of unfettered capitalism'.⁵² Former financial secretary Hadden-Cave of the colonial administration coined a term better than suggesting a government of doing nothing — 'positive non-interventionism'. After World War II, *laissez faire* was more a political formula for effective governance than a dogmatic economic philosophy. For the small colony in precarious international politics during the Cold War, Hong Kong's economic survival relied on being a free port to all traders and investors. Internally, the colonial administration had to refrain from intervening between competing business interests so as to maintain stable governance and avoid public criticisms of allowing businesses to 'pillage the public sector and exploit the community'⁵³ though the British 'hongs' (major companies) did enjoy the advantage of political access. Behind the minimal business intervention policy, however, is a strong pro-business mentality as illustrated in the government's resistance to bring in fair competition laws despite oligopolies in the property, port, supermarket and energy markets.

During colonial times, *laissez faire* in Hong Kong meant a low tax base; no government economic development plan; basically no minimum wage law; no price controls (with limited exceptions); no bailout of sunset industries; no favours to specific industries; minimum government regulation and a largely level playing field for most businesses. The colonial administration refrained from managing the economy or offering direct support to individual business sectors. The civil service had developed a certain ethos in economic governance — that the government should maintain a level playing field under the rule of law, and should carefully avoid any 'perception' of government intervention or favouritism.

Nonetheless, the classic model of *laissez faire* was largely a myth. Hong Kong's phenomenal economic growth was partly a 'government-supported process'.⁵⁴ The colonial government played critical roles in public services to satisfy the community's growing practical needs.⁵⁵ It indirectly facilitated private sector development through government-sponsored institutions such as the Trade Development Council. It has directly provided or funded education, public housing, health and social services since the post-war era. The government directly owned, financed and managed most of the infrastructure: railways, roads, airport, tunnels, and waterworks.

The Hong Kong government offers public and business services in various organisational forms, each displaying particular characteristics of managerial autonomy and government roles (Table 2.2). The colonial administration preferred the use of statutory bodies. After 1997, the SAR government shifted to the tool of government companies so as to avoid LegCo scrutiny. However, government companies often pose greater potential conflict with the non-commercial aspects of public services than statutory bodies. The organisational restructuring of the KCRC (from government department to statutory corporation) and the MTRC (from statutory corporation to government company) mirrored the above historical trends regarding the choice of organisational forms of the Hong Kong government-in-business.

The 'interventionist' HKSAR government

After 1997, the Hong Kong style of *laissez faire* began to dissipate. The HKSAR government aimed at taking a more proactive approach in economic development but has so far yet to develop consistent principles. In his first two policy addresses of 1997 and 1998, Tung revealed his economic vision for Hong Kong to become a knowledge-based society, an innovative high-technology centre, an international centre for Chinese medicine, a fashion and design centre, an Internet hub, and so on.⁵⁶ The government's intervention in the stock market in 1998 led to international criticism.⁵⁷ Later, the financial secretary pledged to foster the development of the 'four pillars' of Hong Kong economy, namely finance, tourism, logistics and professional services.⁵⁸ The HKSAR government abandoned the slogan of 'positive non-interventionism'. In 2002, former financial secretary Antony Leung redefined the overall policy as 'big market, small government' and that the government should be a 'proactive market enabler' who takes 'appropriate measures to secure projects beneficial to (the) economy as a whole when the private sector is not ready'.⁵⁹ In 2004, Financial Secretary Henry Tang coined another new term of 'market leads, government facilitates'.⁶⁰ In 2006, Chief Executive Donald Tsang proclaimed that 'positive non-interventionism' was 'past tense' for Hong Kong. Tsang's remark raised many eyebrows locally and

Table 2.2
Major Models of Government-in-Business in Hong Kong

Model	Description	Examples
Departmental Model	<ul style="list-style-type: none"> • <i>Government department owns, funds, produces and provides public services. Least autonomous form.</i> • Trading fund is a flexible variant of the model (e.g. Hong Kong Post). 	Social Welfare Department, Hong Kong Police
Statutory Authority	<ul style="list-style-type: none"> • <i>Government-owned statutory authority produces and provides public services.</i> • Typically established by a specific-purpose ordinance. • Introduced in the colonial era and was the preferred form for quasi-governmental bodies before 1997. • Statutory authorities may have self-financing sources such as public service fees and rentals. The government funds a significant part of operations or provides capital for projects. Often administratively linked to a policy bureau. 	Hospital Authority, Housing Authority
Statutory Corporation (First commercial model)	<ul style="list-style-type: none"> • <i>Government-owned statutory corporation produces, provides and operates services under commercial principles.</i> • Introduced in the colonial era and often used for services of mixed public and commercial characteristics. • Wholly government-owned statutory corporation is often established by a specific-purpose ordinance as an incorporated body with a high degree of operational (and usually financial) autonomy. They should operate under commercial principles and strive for self-financing. 	KCRC, MTRC before 2000, Hong Kong Export Credit Insurance Corporation, Hong Kong Arts Centre, Airport Authority
Government company (Second commercial model)	<ul style="list-style-type: none"> • <i>Government or publicly/privately owned company produces and provides services under commercial principles.</i> • Introduced during the colonial era but used less frequently at that time. The HKSAR preferred the company to statutory forms. • A company limited with a divisible shareholding is established by its own constitution under the Companies Ordinance. The government usually holds all or a majority of the shares. Some such as the MTRC are subject to organisation-specific ordinances. 	MTRC after 2000, Hong Kong Cyberport Development Holdings Company Limited, Hong Kong International Theme Parks Limited ('Disney')
NGO-partnership	<ul style="list-style-type: none"> • <i>Government funds and NGO provides service.</i> • Government-subsidized NGOs, though being independent organisations, are financially reliant on and subject to administrative controls of government departments. 	NGO schools and service agencies
Build, Operate and Transfer (BOT)	<ul style="list-style-type: none"> • <i>Government franchises to private companies to build and manage an infrastructure. The ownership is transferred back to the government at the end of the franchise.</i> 	East and West cross-harbour tunnels

internationally, including from Nobel Laureates Milton Friedman, Edmund Phelps, and a famous economist from the Chinese Academy of Social Sciences.

Apparently, the HKSAR's official economic vision departed from the colonial tradition of refraining from articulating any economic direction. Irrespective of what the top officials had in mind about this new vision, the HKSAR government was constrained in what they could deliver to promote the economy. The bureaucracy lacked experience, expertise and public confidence to do so. The government is constitutionally constrained as Basic Law Article 107 requires it to achieve fiscal balance. Meanwhile, it was confronted with a growing deficit until 2005 and a shrinking civil service. At the same time, the Basic Law restricts the HKSAR's macro-economic policies by requiring a balanced budget, low taxation, free port and the free-market principles. As a result, the new economic vision was often translated into inconsistent policies and subsidies (in the forms of project funds, project sponsorship and training funds) to selected sectors (such as the information technology industry, film industry and tourism) usually after lobbying by corresponding business leaders. This led to public accusations of collusion with big businesses in the examples of the Cyberport saga in 1999,⁶¹ Harbour Fest in 2003,⁶² and the dispute over building a mega cultural district in West Kowloon.⁶³ In tourism, the government signed a deal of partnership with Disneyland in 1999. In the deal, the government committed to providing the land, infrastructure development and a railway for the theme park. The government tasked the MTRC to construct the Disney rail link, a project not expected to meet the company's financial targets (Chapter 7).

Economic integration with China is the single most important area where the HKSAR government has put in consistent effort and resources. Apart from requesting policy favours from Beijing (such as the Closer Economic Partnership Arrangement (CEPA) and entry of Mainland tourists as individual visitors), the government encouraged local businessmen to invest in priority development areas in the Mainland, including the remote northwest of China. Beijing helped the HKSAR government to coordinate with competing provincial governments in the Pearl River Delta to plan new transport infrastructure, including a possibility of new cross-border railways. But so far, no concrete plan for a regional railway has been agreed upon.

Housing policy problems for railways

Of all the HKSAR government's inconsistent economic policies, the two railways-cum-property-developers were most affected by problematic housing policies. At the all-time peak of the property market in 1997, Chief Executive Tung announced that Hong Kong would produce 85,000 housing units each

year. The government would build 50,000 public housing units and the private sector 35,000. In 1998, the property market bubble burst. By 2003, property prices had fallen by as much as 70 percent, leading to severe wealth contraction and severe problems of negative assets for tens of thousands home owners on mortgages. The '85,000 policy' was widely blamed (though not totally justified) for the property market recession. Property developers lobbied the government and public bodies to withdraw from the housing market.

In June 2000, Tung suddenly said the target of 85,000 had not existed since 1998.⁶⁴ The public was astonished. Even the housing policy secretary said in public he was not aware of the policy change. Since then, the government attempted to boost the property market by postponing land sales and by giving direct financial subsidises to new homebuyers. In September 2002, the chief executive said at an international forum that he wanted to push the property prices 'a little bit'.⁶⁵ In November 2002, the new secretary for housing, planning and lands Michael Suen⁶⁶ launched nine housing measures, including immediate cancellation of all government land sales for one year, an immediate halt to selling and building all public subsidised housing (the 'Home Ownership Scheme'), and postponement of all MTRC and KCRC property projects for one year. The new policies practically meant that the government would withdraw from the property market (except for rental housing for the low-income class). The property market continued to plummet until a gradual pick up in 2005 in view of the shrunken housing supply and slowly recovering economy. The implications of the inconsistent housing policy on the two railways will be discussed in Chapter 8.

Civil Society and Railways

Owing to the executive dominance in Hong Kong governance, civic participation in public policy-making is relatively low by international standards. However, this does not mean the civil society has no part to play. Because of its civil liberties, the Hong Kong civil society has always been vibrant and influential in many aspects of socio-economic development. The rural community was among the earliest civil society forces struggling against the 'barbarian' British⁶⁷ and forced the colonialists to preserve indigenous villagers' rights till today. Later, churches and local Chinese charity groups were pivotal in developing social services and education. From the 1970s, most NGO schools and social service agencies had become government-subsidised. By the 1990s, 'Hong Kong possessed all the institutions and culture of civil society' as former governor Patten recalled.⁶⁸ However, the civil society's development in democratic politics and policy-making had proved to be a more difficult path to travel.

From pressure groups to political parties

Some of the political groups existing today developed from Beijing-linked trade unions that grew active in the 1950s during anti-colonialism activities and confrontations with pro-Taiwanese camp (such as the 1966 and 1967 riots during China's Cultural Revolution). The 'leftist' trade unions, mainly the Federation of Trade Unions (FTU), became the forerunners of pro-Beijing political parties in the 1990s.

From the 1970s, local pressure groups emerged to lead various social movements.⁶⁹ Many pressure group activists were driven by an ideal to correct social evils, improve social justice and people's livelihood under colonial rule. They came from different professions: home-grown trade unionists, teachers, academics, social workers and professionals. Many were local university graduates. The pressure groups were generally small, loosely organised and had little resources. They were action-oriented but many focused on single issues only. They often formed ad hoc alliances or loose networks for organising protests in social movements. They advocated for social reforms such as the rights of the working class and anti-inflation measures. Some ad hoc alliances or district-based groups monitored public utility issues. An example was the Joint Committee for Monitoring Public Utilities led by trade unionists Lau Chin-shek and Lee Cheuk-yan, who later became elected legislators. The Joint Committee has been vocal about transport and railway fares till today. Some pressure groups later became forerunners of pro-democracy political groups.

Political parties began to emerge after direct elections were introduced to LegCo in the 1990s. Today, the three largest parties are the pro-Beijing Democratic Alliance for the Betterment and Progress of Hong Kong (DAB), the pro-democracy Democratic Party and the pro-business Liberal Party, all of a relatively short history, small to modest membership and limited research support. The development and organisation of all Hong Kong political parties is in no way comparable with those in mature democracies.

The Democratic Party was established in 1994 from a merger of two former democratic groups.⁷⁰ Many leaders started as pressure group activists. Until the elections in 2004, it was the party with the largest number of directly elected legislators. But its party membership remains small (about 400 members). China has long regarded the Democratic Party as a dissident party owing to its open opposition to the June Fourth crackdown. Apart from barring party leaders from entering China, Beijing often subjected the Democratic Party to severe political criticisms. The Democratic Party maintained reasonable working relations with the last colonial government. But after 1997, the HKSAR government fostered much closer relationship with the DAB and the Liberal Party. Established in 1992, the DAB was developed from the FTU and other Beijing-sponsored groups. In 2005, the DAB became the largest

political party in membership by merging with another Beijing-supported political group of conservative businessmen. Business elites who founded the Liberal Party in 1993 were partners of the colonial administration and loyalists of the HKSAR government. The Liberal Party legislators occupied mostly functional constituency seats and had limited experience in direct elections. After 1997, many DAB and Liberal Party members were appointed to the District Councils and major advisory committees. The Liberal Party and DAB leaders were appointed to the Executive Council after July 2002. Despite the superior access to the government, the leaders of both parties complained about their limited influence in policy-making.

The political parties appoint spokesmen on transport issues. As at 2006, they were Lau Kong-wah (DAB), Miriam Lau (Liberal Party) and Andrew Cheng (Democratic Party), all legislators sitting on the Legco transport panel. The political parties are overall weak in transport policy research as in other policy areas. In comparison, the Democratic Party had the most specific transport policy agenda. In its election platform in 2000,⁷¹ the Party urged the government to implement all major railway projects in the government's railway strategy papers, promote sustainable transport, and set up an independent and widely represented authority to monitor public transport fares, safety standards, service quality and consumer interests. The DAB's party manifesto mentioned in only a few sentences that the government should attain a balance between the interests of consumers and investors, and review the current regulatory and advisory structures for public transport.⁷² The Liberal Party did not prepare any party platform on transport policies⁷³ even though its vice-chairman Miriam Lau was elected from the transport industry representing transport companies (excluding self-employed drivers). In early 2006, a new pro-democracy party, the Civic Party, was founded by barristers, academics and professionals. It was the only party not associated with the 1980s politics and was more a product of a new wave of political/civil society activism since the 1 July protest in 2003. Its transport agenda is currently limited but is generally supportive of a sustainable and environmental transport policy.

Rise of green advocacy

After the 1990s, civil society advocacy groups emerged to lobby for specific policies. There were a few successful examples of civil society lobbying in the final colonial years. Of relevance to the railway management were more stringent environmental protection laws and anti-discrimination laws mandating provision of access for people with a disability to public transport (see also Chapters 8 and 10). After 1997, 'green' advocacy emerged as a new force. Some green groups successfully challenged environmentally damaging decisions on railway plans as in the KCRC's Long Valley saga in Chapter 8.

Others successfully overturned the government's reclamation plan in the judicial reviews.⁷⁴ A civil society think-tank Civic Exchange co-founded by former directly-elected legislator Christine Loh has been committed to advocating sustainable transport policies. The MTRC sponsored the think-tank and academics to conduct studies on sustainable transport policy (Chapter 8).

Critical media on railways

Under limited democracy, an open press should ideally play a prominent role of monitoring the government. The Hong Kong press is commercially vibrant. Market competition is intense among a large number of newspapers. The Hong Kong media is regarded as highly influential in shaping local politics and opinions through vigorous reporting on the government and public bodies, providing a platform for competing opinions and lobbying, and serving as a channel for public complaints. The ecology of the Hong Kong mass media has changed drastically in the last three decades.

During the colonial era, the leading English newspaper, *The South China Morning Post*, was the most influential paper within official circles. The local community predominantly read Chinese papers, whose political inclinations were broadly divided into pro-Beijing, pro-Taiwan and neutral. Before the 1980s, journalists were far less aggressive in reporting than their counterparts in advanced societies. Investigative reporting was very limited. During the political transition, the media industry flourished partly due to local and international interest in the Sino-British negotiations over Hong Kong and partly due to the growing need of an increasingly affluent society for a diversity of information. From the 1990s, a few mass Chinese newspapers such as the *Apple Daily* and *Oriental Daily* grew in popularity (but not in credibility). Radio phone-in programmes became popular. Investigative reporting emerged, often through unofficial leakage. Journalists reported more aggressively and critically. New political divisions emerged as public opinion was split into pro-Beijing and pro-Hong Kong (or pro-democracy) camps. A few Beijing-sponsored papers (such as the *Wen Wei Po*, *Ta Kung Po* and the *Hong Kong Commercial Daily*) were regarded as the colonial government's biggest critics.

After 1997, English papers declined in political influence. Pro-Beijing papers reversed their role to become staunch supporters of the HKSAR government. Other newspapers became strong critics of the unpopular government and former chief executive Tung. Radio phone-in programmes and complaints to the media surged as a popular channel for the public to redress grievances when both the government and Legco were considered ineffective. More investigative reporting and reports on scandals emerged (often through leakages from official or semi-official sources). Media criticisms of government officials could sometimes be brutal. Media opinion has become

a key factor in shaping the government's responses. The government spent a lot more resources on public relations. But, the credibility of popular newspapers was sometimes questioned (such as exaggerated reporting). Only a few long-established papers were regarded as fairly credible. After 1997, there has clearly been a growing trend of self-censorship when it comes to commenting on Beijing or business tycoons, which is not surprising given Hong Kong's commercial-oriented media market.⁷⁵ As Beijing's proactive policy on Hong Kong became obvious from mid-2004, the mood of self-censorship appeared to grow stronger, especially after the sudden (and not totally explained) departure of the most popular radio hosts just before the LegCo elections in 2004. Currently, many media opinions tend to be sympathetic or supportive of the government leadership.

The media situation in Hong Kong is not conducive to producing an ideal media monitor of the rich and powerful. Nonetheless, the media is determined to be critical when it reports on public bodies. To the KCRC and the MTRC, the media has always been more a critic than a friend. Major railway scandals (mainly of the KCRC) were all first exposed in the press.

Changing Railway Politics

Over the past three decades, Hong Kong has experienced many ups and downs, fortunes and frustrations on its path to becoming a first world city. So have the MTRC and the KCRC in developing world-class and profitable railway business. The development of the two railway corporations was inseparable from the political, social and economic challenges to the Hong Kong community. The MTRC and the KCRC were created as the government's innovative solutions to practical problems at the time. All government-owned enterprises in the world are subject to changing government policies and politics. But the political challenges for the two local railway corporations were internationally unique due to the regime change of Hong Kong from an exceptionally autonomous British colony to a Chinese SAR of gradually compromised autonomy. The government's governing strategies and policies, the government-market relationship and civil society influences have all changed while community demands for better public governance and public service keep rising. The only thing remaining unchanged has been the authority's reluctance to open up public participation and representation — in short, democracy, whether in the political system for Hong Kong or the corporate governance structure for public railways. This salient dilemma sets out the macro-context for the two railways' struggles in their course of development, leading to stories of both success and controversy. The next chapter will zoom in on the Hong Kong railway sector: the main features of railway governance and policy issues.

Endnotes

CHAPTER 1

1. Hong Kong was described as one of the East Asian economic miracles by many authorities, e.g. World Bank 1993.
2. Dunn and Perl 2001.
3. A literature review of the academic discussion about the scope, concepts and definitions of governance can be found in Au 2005.
4. In the mid-1990s, the share of state-owned enterprises in GDP in developing countries was 11 percent and in developed economies was 7 percent while the share of employment was about 9 percent. See World Bank 1995, pp. 29–33.
5. More discussion in Yeung 2005a.
6. O Nuallain, Thynne and Wettenhall 1996.
7. Farazmand 1996, p. 16; Peres 1969; Thynne 1991.
8. Seidman 1983; Wettenhall 1968.
9. Examples in Banister et al 2000; Barron 2001a.
10. Barron et al 2002; Vigar 2002, p. 11.
11. HKSARG, Transport Department (TD) 2007, *Monthly Traffic and Transport Digest January 2007*.
12. Statemaster.com (<http://www.statemaster.com/statistics>).
13. *Korea Herald*, 19 February 2003 (<http://www.koreaherald.co.kr/archives/result.asp>).

CHAPTER 2

1. World Bank 1993.
2. Hong Kong dollar is under the ‘linked exchange rate’ at USD=HKD 7.8. The GDP per capita figures are from the *Census and Statistics website*, ‘Gross Domestic Product, Implicit deflator of GDP, and per capita of GDP 1961–2002,’ April 2004 (http://www.censtatd.gov.hk/hong_kong_statistics/statistical_tables/index.jsp?tableID=030).
3. USD 82.9 billion, including the Land Fund, which was created during the political transition to reserve half of the revenues from the land sold for the HKSAR government after the handover. The fiscal reserve figures are found in the Hong Kong Monetary Authority (HKMA). Press release on 24 July 1997 (http://www.info.gov.hk/hkma/eng/press/1997_f.htm).
4. Goodstadt (2002) argued that the post-1997 economic recession was different from other post-war economic crises in Hong Kong in the sense that people lacked political confidence in the government’s ability to meet the challenge.

5. *Census and Statistics* website.
6. The fiscal reserve dropped to about HKD 303 billion (USD 38.8 billion). See Financial Secretary's Budget Speech 2005–06 by Henry Tang.
7. It was USD 123.8 billion, remaining as the world's fifth largest. HKMA, Press release on 7 April 2004 (http://www.info.gov.hk/hkma/eng/press/category_f.htm).
8. Government Information Services (GIS), 7 November 2001, Speech by Stephen Ip, Secretary for Financial Services.
9. GIS, 17 October 2003, Speech by Tung Chee-hwa, Chief Executive.
10. Parry, Simon, 'Alarm at increase in middle-age suicides' *South China Morning Post (SCMP)* 5 May 2004; *Apple Daily (AD)* 15 June 2004 新加坡公司調查顯示 亞洲區港人最不開心.
11. Sung 1998.
12. Chief Executive's Policy Address 2000, para. 40–41 and Policy Address 2001, para. 26–28
13. Miners 1995, p. 6, 23.
14. See a detailed account of the mentality of colonial officials in governing Hong Kong in Goodstadt 2005, pp. 19–70.
15. Ngo 1999, p. 10.
16. Finance Branch 1989, *Public Sector Reform: A Sharper Focus*, Hong Kong Government.
17. For instance, Patten published from 1993–94 the Policy Commitments and the Progress Report on previous year initiatives, and later introduced an administrative Code on Access to Information and a management guide for civil servants. See Efficiency Unit 1995, *Serving the Community: A Management Guide for Civil Servants*.
18. An evaluation of the Performance Pledge reform is found in Anthony BL Cheung 1996.
19. This is admitted by former secretary of treasury and now HKSAR Chief Executive Donald Tsang (1995).
20. Public Opinion Programme (POP) 1997, p. 81.
21. King 1973.
22. See Goodstadt 2005; Miners 1995; and Scott (ed) 1998, p. 7.
23. Scott 2003.
24. Finance Branch 1989.
25. See Margaret Thatcher's (1993) personal account of the visit in her autobiography, pp. 260–262.
26. Joint Declaration, Article 3(2), 3(3), Annex I (I).
27. The media used the phrase 'lame duck' widely. Early examples included: Editorial, 'A challenge that must be faced' *SCMP* 4 January 1985; Yeung, Chris, 'Britain and China clash over voting' *SCMP* 4 February 1987; Lee, Martin, 'Taking a bumpy road to autonomy' *SCMP* 18 July 1987.
28. See Jasper, Chris, 'Lu lights the stove: China brands Patten as "criminal of history"' *Windows* 19 March 1993; Cheung, Tai-ming, 'Frontal assaults' *Far East Economic Review* 1 April 1993.
29. POP (1997) found in January 1997 that the public trusted the Hong Kong government (69.7 percent) much better than the British (33.6 percent) or Chinese (31.6 percent) governments.
30. Miners 1995, p. 10.

31. Basic Law Article 74 restricts LegCo members from introducing private members bills relating to ‘public expenditure or political structure or the operation of the government’, unless the chief executive consents in writing. There was no such restriction before 1997.
32. According to the Basic Law Annex II, any motion proposed by legislators can only pass if it passes separate voting in both the categories of geographical and functional constituencies. This is not applicable to the government motions or bills.
33. SynergyNet 2003, p. 69.
34. Cheung, Jimmy and Leung, Ambrose, ‘Broadside by Tsang turns up heat on opposition’ *SCMP* 15 May 2006.
35. Prominent examples of public concerns over rule of law included the Sally Aw case and Beijing’s reinterpretation of the Basic Law Article 24 (note 36). In the Sally Aw case in March 1998, the secretary of justice decided not to prosecute Aw, a prominent businesswoman and Chief Executive Tung’s friend, in a conspiracy of producing fraudulent newspaper circulation records despite evidence obtained by the Independent Commission Against Corruption (ICAC).
36. In May 1999, the chief executive requested the Standing Committee of the National People’s Congress in Beijing to re-interpret Article 24 of the Basic Law so as to in effect ‘overturn’ the Court of Final Appeal’s previous ruling which would have given a right of abode to many Hong Kong residents’ children in Mainland. The legal community expressed strong concerns. Hundreds of barristers staged an unprecedented silent march in black.
37. See Commons 2001, p. 135; and a summary of opinion surveys in SynergyNet 2005.
38. For example, the chief executive replaced in 2003 a former Equal Opportunities Council chairwoman, who sued the government over a discriminatory education policy in court, with a conservative retired judge, who resigned a few months after a series of scandals. Two ICAC commissioners were replaced. One had insisted on pursuing the Sally Aw case and another defended arrest of a corrupt senior police officer after the Police’s open challenge.
39. See examples in Huque et al 2000; Lau (ed) 2002.
40. Civil Service Bureau 1999, *Civil Service Reform Consultation Document: Civil Service into the 21 Century*, Hong Kong Government.
41. GIS 17 April 2002, *Translation of the Address by Chief Executive Mr Tung Chee Hwa at the Legislative Council on the Introduction of the Principal Officials Accountability System*.
42. Civic Exchange and NDI 2002.
43. The implementation of the POAS was apparently hurried. The chief executive announced the POAS on 17 April 2002 and had no list of appointees. Reportedly, several candidates refused in the last few days before the political appointments were announced on 24 June. The code of practice for principal officials was prepared only after LegCo urged for it.
44. The first post-POAS blunder was the Penny Stock Saga, in which a lack of coordination between the ministers, the regulator and stock exchange in introducing a new policy led to a sudden slump in the stocks market. In March 2003, the Lexus-gate scandal was exposed. Financial Secretary and former banker Antony Leung bought a Lexus car shortly before he announced to triple the registration tax of luxurious cars and did not declare his interest to ExCo. More details and other blunders can be found in SynergyNet 2003.

45. During the SARS outbreak in 2003, the secretary for health denied the outbreak at first and preventive measures in hospitals were inadequate or inappropriate. The chief executive initially appointed the health minister to head the investigation team on the SARS saga and was strongly criticised by the public as tasking the minister to investigate into his own performance. See SynergyNet 2003.
46. In the controversy over the national security law, the government refused strong public demands for public consultation by way of a White Bill. The secretary for security was strongly criticised for provoking public anger by unfairly categorising and manipulating public opinion submissions. See SynergyNet 2003.
47. *SCMP* 1 July 2003, Headline: ‘500,000 take to the streets’.
48. Cheung, Jimmy and Lee, Klaudia, Headline: ‘The protest goes to LegCo’s doorstep’ *SCMP* 10 July 2003; Leung, Ambrose and Yu, Verna, Headline: ‘20,000 join rally for universal suffrage’ *SCMP* 14 July 2003. On 1 January 2004, about 100,000 people marched to demand universal suffrage. The second 1st July protest in 2004 also attracted many thousands of participants.
49. POP 2003 (<http://hkupop.hku.hk/>).
50. *AD* 27 April 2004, Headline: “北京出手摧毀香港民主”; Cheung, Gary and Cheung, Jimmy, ‘Beijing’s last word on elections in 2007 and 2008 “HK has enjoyed unprecedented democratic rights . . . universal suffrage shall not be applied”’ *SCMP* 27 April 2004.
51. POP website, April 2004.
52. Friedman 1980; Endacott 1988.
53. Goodstadt 2005, p. 118.
54. Castells 1986, p. 69.
55. Commons 2001; Castells 1986; Islam et al 1997; Sung 1998; Vogel 1989.
56. Chief Executive’s Policy Addresses 1997 and 1998.
57. In August 1998, the international community queried Hong Kong’s commitment to free market after the government had invested billions to stabilise the stock market under speculative attacks.
58. The Financial Secretary’s Budget Speech 2002–03 by Antony Leung, para. 18–30.
59. *Ibid*, para. 42.
60. The Financial Secretary’s Budget Speech 2004–05 by Henry Tang, para. 7–8.
61. In March 1999, the government awarded the Cyberport project without open tender to the Pacific Century Group owned by Richard Li, son of influential tycoon Li Ka-shing. The government sponsored the project by granting land and constructing infrastructure, and was strongly criticised by other property developers and general public as unfair and cronyism.
62. After SARS, the government gave nearly HKD 100 million to sponsor the American Chamber of Commerce to organise large-scale international rock concerts to boost tourism. The concerts were poorly organised: only one-third of seats were sold, artists failed to turn up, higher artist fees than usual, etc, leading to severe public criticisms and negative international press coverage.
63. With little details made known to the public and LegCo, the government pre-selected three property consortia and planned to award to one of them a mega cultural district project occupying 40 hectares.
64. *Ming Pao (MP)* 30 June 2000 董：八萬五已不存在當前重要目標是穩定樓價。

65. *Hong Kong Economic Times (HKET)* 14 November 2002 董「落重藥」緣何熬足兩個月.
66. Secretary for Housing, Planning and Lands Michael Suen was a long-serving career civil servant and an administrative officer before the political appointment.
67. Chiu and Hung 1999, p. 74.
68. Patten 1998, p. 24.
69. Lui and Chiu 1999.
70. They were the United Democrats and the Meeting Point.
71. Democratic Party 2000 (<http://www.dphk.org/2003/basicinfo/index.asp?iCommentID=149>).
72. DAB July 2003 (<http://www.dab.org.hk/>).
73. Liberal Party April 2004 (http://www.liberal.org.hk/liberal_dev/default.htm).
74. *Hong Kong Economic Journal (HKEJ)* 9 July 2003 保護海港協會反對灣仔填海勝訴.
75. Anne SY Cheung 2003.

CHAPTER 3

1. Kwong 2001, p. 17.
2. Transport Department (TD) 2007, *Monthly Traffic and Transport Digest January 2007* (<http://www.td.gov.hk>).
3. In 1997, the total daily passenger trips were 11.63 million, of which 0.93 were private vehicles. Wilbur Smith Associate 1999, *Third Comprehensive Transport Study: Final Report*, Hong Kong: Government Printer.
4. Chin 1998; Perry et al 1997.
5. TD 2007.
6. TD 2007.
7. Dunn and Perl 2001.
8. Nash 1997; Shaw 2000.
9. ECMT 1997.
10. Thompson 2002.
11. Sánchez (2001) analysed the cost data of twelve European railway companies between 1973 and 1990. He found a strong complementary relationship between infrastructure and operation such that operation costs will be significantly affected when important decisions on infrastructure are made.
12. Bernick and Cervero 1997; Chin 1997; Phang 1997; Land Transport Authority (www.lta.gov.sg); Ministry of Transport (www.mot.gov.sg); Singapore Mass Rapid Transit (www.smrtcorp.com); SBS Transit (www.sbstransit.com.sg); Singapore Government, Ministry of Transport (MOT) 1996, *White Paper: A World Class Land Transport System*; Land Transport Authority of Singapore Act, revised edition 1996.
13. Taipei Department of Rapid Transit System (www.dorts.gov.tw/english); Taipei Rapid Transit Corporation (<http://english.trtc.com.tw>); Department of Transportation (www.dot.taipei.gov.tw).
14. Seoul Metropolitan Rapid Transit Corporation (SMRTC) 2002, *A Leader in Building 21st Century Seoul*, Seoul: SMRTC; SMRTC (www.smrt.co.kr); Seoul Metropolitan Subway Corp (www.seoulsubway.co.kr); Metropolitan government (<http://english.seoul.go.kr>); Ministry of Construction and Transportation (www.moct.go.kr).
15. Glover 1998; Preston et al 2000; Nash 2002; UK Strategic Rail Authority (SRA) (www.sra.gov.uk/sra/about/); Network Rail (www.networkrail.co.uk); Office of

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