

Poverty in the Midst of Affluence

How Hong Kong Mismanaged
Its Prosperity

Revised Edition

Leo F. Goodstadt



Hong Kong University Press
The University of Hong Kong
Pokfulam Road
Hong Kong
www.hkupress.org

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ISBN 978-988-8208-22-7

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British Library Cataloguing-in-Publication Data
A catalogue record for this book is available from the British Library.

10 9 8 7 6 5 4 3 2 1

Printed and bound by Goodrich Int'l Printing Co., Ltd. in Hong Kong, China

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Preface

This book is the last of a trilogy which I have written in gratitude to the people of Hong Kong with whom I have spent my life since 1962. The first book, *Uneasy Partners: The Conflict Between Public Interest and Private Profit in Hong Kong*, investigated the collusion and cooperation between government and the business and professional elite. It described how the community defeated the rampant corruption within both the public and the private sectors. It traced the development of a political maturity and social discipline which made Hong Kong the most stable society not only within China but by comparison with the whole of Asia. It charted the rise of a manufacturing sector that dominated the world's textile market despite decades of global protectionism. At the same time, Hong Kong overcame 'Cold War' embargoes and worldwide currency controls to provide China with an outstanding international financial centre.

The second book told a similar story of Hong Kong's triumph over its political and economic handicaps. *Profits, Politics and Panics: Hong Kong's Banks and the Making of a Miracle Economy, 1935–1985* recounted how a city ruined first by the Japanese invasion and then by the Korean War blockade of China managed to replace its lost Mainland markets almost overnight as its factories boosted their exports by 136 per cent a year in the 1950s. High-speed economic growth continued in the decades that followed, financed almost entirely by the local banking system despite repeated bank failures, market collapses, corporate scandals, currency crises and government mismanagement. By the end of the last century, this talented community had won for itself a new lease of life because of what China's Prime Ministers in this century have described as its 'irreplaceable' role in the nation's modernisation.

Hong Kong had also emerged from the global financial crisis of 2007–09 with an enhanced reputation for financial stability and well-regulated financial institutions. So much so that I felt obliged to interrupt the trilogy to write *Reluctant Regulators: How the West Created and China Survived the Global Financial Crisis*, which highlighted how impressive Hong Kong's recent performance has been by world banking standards.

This, the final book in the trilogy, presents a very different experience of Hong Kong's prosperity. Research into housing conditions was what brought me to the University of Hong Kong. When I first arrived in 1962, most families had to make their homes in housing that was barely fit for human habitation in both the public and the private sectors. I quickly discovered that despite the squalor and lack of amenities, people were unfailingly positive, pleasant and helpful, even in the worst tenement slums. Streets were safe and crime was low. Adults were clean and healthy, and schoolchildren were immaculate. There was a confidence among ordinary men and women about finding new jobs as old industries failed and giving their children a decent chance in life, no matter what the shortfalls in educational and other social services. Most striking of all was the robust confidence that political uncertainties and economic setbacks would not halt the rise of prosperity and that the future would be even better for the next generation.

The grounds for such optimism were highlighted by the first Legislative Council proceedings that caught my attention that summer. The government declared that Hong Kong had eradicated hunger among its largely refugee population and, as a result, welfare agencies should tell their foreign donors that food relief was no longer needed. In 2008, history was reversed when the second Chief Executive asked the public to support food relief programmes.

In 1962, the government was insisting that standards of public hygiene and fire safety should be kept at the lowest possible levels for the 580,000 people living in squatter huts in order to deter families from leaving their filthy, overcrowded tenements and building shanties for themselves on the hillsides. In 2011, a senior minister adopted a similar strategy. She announced that individuals living in dangerous, dirty and usually illegally subdivided buildings would have to put up with these dreadful conditions: to relocate them would be to create an incentive for other families to move into such accommodation in the hope of being rehoused by the government.

In this century, poverty has reappeared in new forms. The supply of public housing has shrunk, and private property prices have soared. Access to social services has become more expensive, and their supply has fallen far below the community's needs. The labour force has become even more efficient than in previous decades but earnings have failed to match the improved productivity; and for the lower-paid workers, wages have declined. Instead of 'trickle down' to the community at large from the sustained economic growth, inequality of incomes (as measured by the Gini Coefficient) has increased and is now among the worst in the world.

This reversal in the fortunes of the average family demands explanation. When I first came to Hong Kong, it was a model of high-speed, sustained industrial takeoff which was unsupported by international aid and confronted by determined efforts overseas to block the expansion of Hong Kong's exports. Half a century later, life in this world-class economy has become harsher for the deprived, the disadvantaged and the disabled. Destitution has reappeared, and ordinary families have been left struggling to pay for reasonable accommodation, decent education and proper treatment for serious illnesses. The origin of these new hardships is to be found in the pursuit of fiscal austerity, the adoption of business models and other misguided and misinformed government policies and the dominant role played by business interests, this book will show.

The investigation of Hong Kong's 'new poverty' has not been completely disheartening. This book highlights how the 'economic miracle' that was formerly Hong Kong's boast has been matched by a contemporary 'social miracle'. The community is more stable and self-reliant than in the previous century despite the erosion of living standards, mistreatment of the workforce and the government's retreat from responsibility for the community's social wellbeing. Doctors, nurses, teachers and social workers have managed to raise standards even after their budgets have been squeezed and working conditions have deteriorated. The quality of public services as a whole improved significantly in this century despite the strains caused by the poor performance of so much of the government's leadership and its denigration of the civil service and its efficiency.

'Of all things in the world, people are the most precious,' said Mao Zedong in 1949, 'as long as there are people, every kind of miracle can be performed.' Hong Kong's 7 million people are very special, and they have not yet run out of miracles. They have kept their city a haven of hope today not just by comparison with the rest of Asia — as was the case 50 years ago — but when measured against the quality of life in most of the world's leading cities.

Hong Kong has been made all the more pleasant for me in the 21st century by the kindness and hospitality which my friends and former colleagues at the Central Policy Unit so generously offer me. Among those I can acknowledge here with gratitude are Barry Cheung, Helen Cheng, T. L. Tsim, Dr Rikkie Yeung, Professor Cecilia Chan and their families who take such good care of me.

It is a pleasure to renew my thanks to Dr Christopher Munn of Hong Kong University Press. Once again, he has been the best kind of editor: patient, pleasant and with all the academic expertise that a book on Hong Kong public affairs needs most.

Acknowledgments

In the course of writing this book, I was fortunate enough to be selected for a substantial award from the WYNG Foundation Ltd, for which I am most grateful. The Trustees and their team have been a constant source of encouragement and support throughout the last two years, which I found invaluable. I deeply appreciate the commitment which the Foundation has shown to the needy and the vulnerable of Hong Kong. Its 'Poverty Project' has been both innovative and inspirational in raising awareness of social responsibility within the community, and I am proud to be associated with it.

I am indebted to the Hong Kong Institute for the Humanities and Social Sciences at the University of Hong Kong which has provided me with generous use of its facilities. The Institute is the ideal environment in which to do research, which enabled me to complete this volume between October 2011 and March 2013. My special thanks are due to the Director, Professor Angela Leung Ki Che, for all her help and for her personal interest and kindness. I must also thank the Institute's staff for looking after me so patiently.

My research on the historical development of Hong Kong's housing programmes and its social services would have been impossible without the assistance of the Government Records Service. The professionalism and efficiency of Mr Bernard Hui Sung-tak and his colleagues in the Public Records Office have provided me with an outstanding quality of research support over many years.

I am, as always, indebted to the School of Business Studies, Trinity College, University of Dublin, and in particular to my friend, Professor Gerard McHugh, for their interest and encouragement, as well as for their facilities, throughout my stays in Ireland.

None of the institutions or individuals referred to in these acknowledgments has any responsibility for any part of the contents of this book or the views which it expresses.

Hong Kong
November 2014

Introduction: Pain, Panic and Poverty

Nothing had prepared the people of Hong Kong for the abrupt reversal in their fortunes that was to overtake them in this century. Adversity began with the 1997–98 Asian financial crisis but the economic downturn did not create the calamity that followed. The worst damage was social, where disaster was to be deep and prolonged. For the first time in decades, poverty became widespread. The numbers of workers who ‘despite working hard’, the government admitted, ‘consistently cannot earn reasonable salaries to satisfy the basic needs of themselves and their families’ was to reach almost 200,000.¹

Panic and helplessness paralysed policy-makers, who were convinced that budget austerity was the appropriate remedy despite the protracted and unparalleled deflation that was shrinking the economy.² By 2005, the government reluctantly conceded that more than a million individuals (15 per cent of the population) were living in poverty.³ The business and professional elite was convinced that the new poor had had only themselves to blame. Past prosperity had ‘spoiled’ Hong Kong people and made them unwilling to help themselves, claimed one prominent business spokesperson.⁴

The average family had no escape from distress. From the 1960s, the people of Hong Kong had been conditioned to expect that their living standards would steadily advance, while the government — however grudgingly, as later chapters will explain — undertook to provide public housing, schooling, more and better medical services and a basic social welfare programme. Above all, there were ample work opportunities, and employment was indeed the best form of welfare. Even the older worker and individuals with disabilities had a reasonable chance of finding paid employment, such was the chronic labour shortage.

There had seemed every chance that this happy state of affairs would continue, especially since China’s leaders had promised to leave Hong Kong’s systems unchanged after 1997. With its long record of prosperity and abundant jobs, there seemed no reason to complain that the Basic Law — China’s constitutional blueprint for the new Special Administrative

Region — had made the welfare of society so subordinate to business interests. Of the Basic Law's 159 articles, 34 were devoted to entrenching the pro-business, laissez-faire policies of the colonial era, together with its financial and commercial structures. The social rights set out in the Basic Law were far vaguer and less comprehensive than its economic prescriptions. On even the most generous interpretation of the document, only seven articles could be described as relating to the provision of social services, while workers' rights were referred to in another three.⁵ The government-business nexus which had long ensured that official policies did not encumber business profits remained in control. Hong Kong, it seemed, was to be a world with little regard for welfare.

The absence of welfare suddenly began to matter in 1998. Now, for the first time since the Japanese Occupation ended in 1945, parents could not take it for granted that their children would enjoy better job prospects, rising wages and more secure and rewarding careers. Younger citizens — the '80s generation' — were the best-educated in Hong Kong's history, according to a government-sponsored study. But they faced worse employment opportunities, lower earnings and grimmer lifetime prospects than any previous generation.⁶

There was to be no relief from the distress caused by inadequate social services which the most vulnerable groups had to endure. By 2009, for example, some 2,700 individuals with severe physical or mental disabilities faced an average delay of almost five years for admission to the residential facilities which they urgently needed. The government declined to set a target for ending these distressing waiting times.⁷

Government Blunders, Past and Present

The collapse of the general prosperity that the community had previously been able to take for granted had not been the inevitable consequence of the Asian financial crisis. On the eve of the crisis, the economy was not dependent on the rest of the region (excluding Japan and the Mainland).⁸ Hong Kong's economy was driven by two external trade cycles: the North American/European Union and the Chinese Mainland. Both were still positive, with China's growth particularly healthy. In the past, furthermore, Hong Kong had emerged unscathed from far worse turmoil in the region. What made the events that followed 1997 so traumatic was an unhappy conjunction of adverse circumstances. As international business sentiment and investor confidence in Asia slumped, misjudgements by the new Special Administrative Region's government and business leaders aggravated the liabilities accumulated through reluctance under colonialism to finance the modernisation of Hong Kong's social services.

Business leadership

Leadership failed during the initial crisis and the decade that followed. The first Chief Executive, Tung Chee Hwa, claimed that ruling Hong Kong had become more difficult after colonialism ended in 1997. He had not foreseen, he stated, that 'social and political behaviour' would alter so much. The media were more difficult to manage, he went on, while the government faced a more demanding community. He and his team were taken by surprise and did not 'have the necessary experience to respond appropriately', he confessed.⁹

Inexperience of public affairs was his own, crucial weakness. Tung was a businessman whose principal achievement had been the rescue of the family shipping firm from bankruptcy in 1986. Once owner of the world's biggest fleet, its debts had reached an estimated US\$2.5 billion. He saved the company through brutal cost-cutting and asset disposal, together with substantial Mainland help.¹⁰

Tung frequently referred to his business experience as a guide to the management of Hong Kong's recession.¹¹ He seemed blind to the difference between corporate and public finance. For corporations, responsibility is first and foremost to the shareholders, which usually means slashing payroll and negotiating write-offs with debtors when liquidation threatens. Governments are different. Their duty is to protect the community, including its workers. Tung chose financial stringency, nevertheless, which matched the mindset of the entire government-business nexus. Unfortunately, austerity budgets, civil service redundancies and wage cuts, all aggravate deflation when an economy goes into recession, as do constraints on social security and on the supply of social services.

Business models

Tung and the upper ranks of the civil service also believed that the 'business model' was the best guide to managing the public sector. From at least 1989, senior officials in Hong Kong had been impressed by the 'New Public Management' philosophy which had become fashionable worldwide.¹² Posts were deleted, and an attempt was made to freeze the overall size of the civil service.¹³ Despite media and business community approbation, the colonial administration realised that there must be limits to the concept of 'zero growth' for public sector employment, which it described as 'a severe discipline'. 'New schools, new housing estates, and new hospitals' would need new staff, the Chief Secretary pointed out, and they could only be made available under a 'zero growth policy' by 'cutting back on existing services'.¹⁴ As the drive to adopt business values and practices within the civil service gathered

momentum, however, the potential constraints on the supply and the quality of social services were increasingly disregarded. The colonial administration became convinced that the civil service should follow the international trend and adopt business values and practices. Consultants were hired from the private sector in the 1990s, and their recommendations on trimming staff and cutting wage costs through outsourcing and privatisation were warmly embraced by the Housing and the Social Welfare Departments, among others.¹⁵ These initiatives were endorsed by Christopher (later Lord) Patten, the last colonial Governor, despite his reputation as a welfare populist. He was, after all, a former Conservative Cabinet Minister under Margaret Thatcher who had been a leading proponent of public sector reform through learning from business. The measures taken to promote a business-based culture at the end of the colonial era laid the foundations for the drastic changes in policy which Tung and his senior officials imposed on public housing and the social services at the beginning of this century.

Financial savings achieved through cutting staff were seen as the acid test of the new efficiency. The social services were to suffer heavily because health, education and welfare are all labour-intensive. Once staff were laid off, social services programmes lost momentum because government departments were now operating with the minimum personnel to maintain existing services. They had little scope for expansion, although social services were the government programmes most needed by the community during the economic turndown. There was a constant temptation, too, to cut back on staff not directly involved in delivering current services — quality control and forward planning, for example — with damaging consequences for the future. Long-term targets to end shortfalls in existing programmes were no longer set. Potential gaps between the supply of services and current and future needs were not quantified. Finance was allocated on a short-term basis, which disrupted the organisation of programmes to build new premises, train more professional staff and modernise existing facilities.¹⁶

Little attention was paid to evidence that the business model was no panacea. For example, in 1995, the Housing Authority had switched from using a professional fee scale in negotiating contracts to a form of competitive tendering. Henceforward, contracts were approved 'even if the tender prices were considered too low for the works required'. The justification offered by officials was that 'tenderers might have their own way to make their tenders financially viable'. In reality, there was no way to make an honest profit, and malpractice mushroomed as a result.¹⁷

No part of the administrative machine seemed safe, not even its statistics, the raw material of policy-making. Allegations surfaced in 2013 that over the previous ten years, Census and Statistics Department personnel

had been fabricating survey data.¹⁸ A subsequent investigation revealed that as the government's demand for more economic and social data increased in this century, staff resources did not rise in tandem. In 2003, the dedicated fieldwork team for a key survey programme had been disbanded as part of a campaign to increase management flexibility and enhance productivity. Statistical staff stated that this and similar 'efficiency' measures had jeopardised the quality of the information collected. Increased workloads and the employment of temporary personnel were identified as other threats to maintaining professional statistical standards.¹⁹

Past neglect

The crisis faced by Tung and his team was worsened by past complacency on the part of the colonial administration and its collaborators among the business and professional elite before 1997. During the previous decades of unbroken economic growth and a constant shortage of workers, Hong Kong had deliberately delayed investment in social development. Immigrants, reared and educated on the Mainland, had finished their schooling before they arrived. These young people needed little medical care and could tolerate miserable living quarters. As for Hong Kong's own youngsters, unqualified teachers and inferior school facilities had seemed no great handicap. Demand for workers remained intense, and labour productivity rose year after year. Employers themselves were opposed to free, compulsory education, Chapter 4 will explain.

Before the 'one-child' family became the Hong Kong norm in this century, households were big enough to be able to operate as largely self-sufficient economic units. They could pool incomes and savings to start small enterprises, to raise a mortgage or to cover the medical and other costs of life's accidents. The sort of social insurance common in other advanced economies to provide retirement, unemployment and sickness benefits seemed unnecessary. The average household size has now fallen to below three, and life spans have grown longer. The family's traditional self-reliance has gone. The people of Hong Kong now face the bills for social insurance that have been long postponed.

The unemployment created by the recession that began in 1997 drastically reduced the jobs available for the older and the poorly educated worker. Claims on the non-contributory, tax-financed social security system rose sharply. At the same time, Hong Kong's ageing population became a challenge that could no longer be ignored. Facilities for the elderly and the disabled were already inadequate, and the government took fright at the potential costs of making good the past under-spending on medical and welfare facilities. The caring professions were left

to struggle to overcome the shortfalls, while the government rationed access to services through waiting lists and increased charges.

A New Poverty

A new era had started, and with it came a new kind of poverty. Earnings and incomes were no longer buoyant, in contrast to the 1980s and 1990s, which have been depicted as a golden era for the workforce.²⁰ In 2010, the average household income of HK\$18,000 a month was no higher than it had been in 2000. The lowest-income groups fared worst, and the number of households with less than HK\$6,000 a month rose from 13 per cent to 17 per cent of the total. Employees did not deserve this treatment. Their efficiency had continued to improve despite the lack of monetary incentives. Between 2002 and 2011, labour productivity rose by 3.4 per cent a year, faster than Singapore (2.4 per cent), the United States (1.4 per cent) and Germany (0.8 per cent).²¹

The new poverty brought unfamiliar hardships for the average household. The wellbeing of families that hitherto had been financially secure was now in jeopardy. Earnings stagnated, hours of work grew longer and job prospects were uncertain. The supply of public housing was slashed, and private sector prices surged. The pressures on the typical family's budget intensified as hospital charges and school and university fees were increased. For most families, the situation was uncomfortable but not unbearable if they scrimped and saved.

Some, however, were in imminent danger of impoverishment (as Chapter 5 will explain in detail). The government's efforts to limit Hospital Authority spending and to push patients towards the private sector meant that for families with a seriously ill relative, there was an agonising dilemma. Even a comfortably-off family could be driven heavily into debt in a bid to ensure immediate diagnosis and care for a relative in a private hospital rather than queuing in the public sector when a life-threatening illness was suspected. A family could also impoverish itself through buying the drugs of choice for cancer and other illnesses when these were rationed by price in the public sector. Less heart-breaking but still distressing were the choices to be made about education by families with limited incomes. How could parents afford the fees for the better schools or for university or other post-secondary courses when the annual charges per student could amount to the equivalent of four months' earnings for the average employee? Government loans were available, but the worsening career prospects of new graduates and school-leavers made their repayment an intimidating burden.

There was another category of victim whose financial and physical distress was intensified by official policies. In the drive to imitate business

and to achieve 'value for money', programmes for the most vulnerable groups lagged well behind demand for their facilities. Waiting times remained scandalously long in almost every sector, no matter how small the numbers to be cared for or how difficult it was for them to survive without residential or other essential facilities. Age made no difference: pre-school children with disabilities and elderly people with dementia waited and suffered, as this book later explains in detail.

The distress for the families affected was aggravated in this century because it became an article of faith that 'welfare' was unaffordable. The government refused to make specific commitments for the solution of shortfalls and the improvement of facilities. And there was no escape from the government's demeaning message: only the destitute should have any right to public services. Everyone else should be self-supporting, both as an individual and as a member of a 'Confucian' family unit.

Blaming the Victims

Life was made harsher for the average family principally because of policy decisions made by officials who closed their eyes to the grim consequences for the community at large. Tung Chee Hwa suggested that Hong Kong had brought financial disaster on itself. For many years, he declared, Hong Kong had lived in 'a bubble economy'. His government started to preach financial stringency, which intensified the deflation. 'The bubble needed correction and it's now being corrected,' was his standard message, '[o]f course there is government sympathy for those people who will be unemployed in the near future, and of course it's all part of the fortunes we have to go through,' he said.²² He had little practical comfort to offer. 'What we had to do,' the Chief Executive later explained, 'was make our people accept the inevitability of the need for the adjustment, however painful it might be.'²³

As his government failed to halt the decline in the community's wellbeing, he pleaded his helplessness in the face of external forces. 'Globalisation has aggravated poverty generally in many places around the world and we are no exception,' Tung complained in 2004. His remedy was a suggestion that those in need could rescue themselves from poverty.²⁴ His social policy innovations sounded remote from the painful realities of everyday life. He was determined, for example, to resurrect elitism long 'trodden down in thoughtless media vilification', he complained. He chose as a major goal of his education plans at the height of the recession the establishment of 'more private schools to meet the diverse quality needs of different parents and students'.²⁵

The second Chief Executive, Donald Tsang Yam-kuen, was also ready to leave those in need to solve their own problems because he

was opposed to 'assisting the poor by giving them financial assistance'.²⁶ While Tsang was emphatically denying the government's ability to relieve poverty, the unequal distribution of wealth in Hong Kong was described as 'the worst among developed nations'. Its extraordinary record of economic growth had not eradicated poverty but, rather, appeared to have widened the gap between rich and poor.²⁷

Those in power were reluctant to accept that in Hong Kong, poverty was not a social failing which could be remedied by moral encouragement or by learning to be enterprising. 'The idea of "aid for the poor" is not relevant to Hong Kong, which is an affluent society whose annual GDP per head is US\$24,000,' a leading business daily declared.²⁸ The community at large was discouraged from regarding the poor as 'deserving' in any way. Poverty was depicted as an imported contagion and an almost genetic condition. Hong Kong could not expect to be any different from other international financial centres like New York, London and Tokyo, Tsang insisted, where the gaps between rich and poor are also large. 'The wealthiest people are gathered in such cities,' he asserted, 'but the poorest people also make their way to such cities.' Tsang was adamant that attempts to close the gap were bound to do more harm than good.²⁹

The third Chief Executive, Leung Chun-ying, attempted to redirect this debate over the gap between rich and poor and focus it, instead, on the hardships inflicted by poverty. The wealth gap itself was not the issue, he stated, and his concern was with 'the living conditions of the lower strata of society'.³⁰ Despite the rhetoric, he did not break with his predecessors' misgivings about spending on social services. Leung took care to allay potential anxiety among the business community about social expenditure. The wealth gap had widened dramatically in the 12 years from 1997, he pointed out to a business forum.

. . . the income of the group having the highest 10 per cent per capita household income increased by 64.7 per cent, while the income of the group having the lowest 10 per cent per capita household income dropped by 22 per cent.

Nevertheless, his administration would not adopt radical remedies to reverse this trend, he promised his business audience. 'Many see redistribution and not economic growth as the only way to move forward,' he said. His own conviction, he frankly stated, was that redistribution 'could be the major obstacle to our pro-growth policies'.³¹ The traditional government-business nexus remained intact. As a result, when faced with official statistics that showed how many 'grass-roots workers' and their families could barely survive on the wages they earned, Leung's solution was to provide an indirect subsidy for employers. A statutory minimum

wage law had been introduced in 2011. Leung chose not to use this practical solution to protect the earnings of the lowest paid workers. It was important, he said, to avoid 'distorting the labour market'. Instead, he allocated HK\$3 billion for a 'Low-Income Working Family Allowance' scheme to encourage workers to stay in their jobs even when employers did not pay a living wage. The average cash benefit which each of the 710,000 members of these low-income families would receive was the unimpressive monthly sum of HK\$352.³²

A peculiarity of contemporary Hong Kong is the narrow view which Hong Kong's rulers have taken of poverty. The poor have been seen, almost entirely, as an economic problem: unemployment or low-paid jobs prevented them from being financially self-supporting.³³ A 2013 Commission on Poverty summit was told that 'providing work incentives should be the principal policy direction for poverty alleviation'.³⁴ The government, therefore, almost always made 'economic growth' 'the key to tackling poverty' through creating more work opportunities.³⁵ Leung bracketed a fall in the number of Comprehensive Social Security Assistance (CSSA) recipients with a rise in GDP as a leading indicator of economic wellbeing.³⁶ Yet, the jobless have represented only a small proportion of those in financial need. For them, the CSSA scheme provided subsistence support until their employment situation improved (as Chapter 6 will show). Far more numerous were the elderly and those with disabilities. These could never become self-supporting, so there was no 'cure' for their poverty. The government ignored the fact that their lives could not be made tolerable by social security benefits alone. They needed healthcare, special housing and, often, residential services in order to live as free as possible from mental and physical distress. But these were programmes to which the government, this book will demonstrate, was reluctant to commit adequate resources.³⁷

The refusal of those in power to recognise how a new poverty was being created through service shortfalls was highlighted by the third Chief Executive's decision to revive his predecessor's Commission on Poverty. Its members were advised to accept 'the findings of local academics' who had produced a vaguely worded definition of the primary causes of poverty: 'structure, system, culture, and personal and socio-economic status'. The Commission's agenda would be 'to mitigate causes of poverty and promote upward social mobility of the grass roots' even though, this book will show, the inadequate supply of government services is the primary cause of poverty in contemporary Hong Kong.³⁸

A Siege Mentality

The retreat from social responsibilities and the pursuit of budget cuts were not forced on Hong Kong by falling tax revenues and fiscal crises. The public sector's finances were more than adequate. By 2011, the government had accumulated net assets that totalled HK\$1.4 trillion. Yet, in the government's long-standing campaign to reject all but a minimal obligation to those in need, it did not shrink from fomenting public prejudice against social expenditure. To alarm the better-off, officials claimed that a commitment to improved social security benefits would be beyond the Hong Kong's financial resources and could lead to budget deficits.³⁹ 'Welfare-based relief measures on a long-term basis', it was alleged, would lead to changes in Hong Kong's low-tax regime.⁴⁰ All governments, the second Chief Executive declared, face unaffordable 'public pressure to spend more, on welfare, on spending on education, a whole range of services' which must be resisted. As evidence, he invoked the fiscal challenges of 'Western Europe'.⁴¹ These, in fact, were the outcome of a failure to regulate financial markets effectively. (Canada and Australia provide generous social services but had escaped financial disaster in the 2007–09 global financial crisis because their banking regulation before 2007 — like Hong Kong — had been vigorous.)

Austerity was not imposed on government spending by deteriorating business conditions. On the contrary, the economy proved remarkably robust, and GDP was 47 per cent higher in 2012 than it had been at the start of the century. Hong Kong was ranked fifth after New York, London, Paris and Tokyo as an international business centre by a well-known global survey in the same year. Singapore was listed in eleventh place, with Beijing and Shanghai even lower.⁴² Nevertheless, there were constant predictions that a resurgent Shanghai would render Hong Kong redundant, even though China's leaders repeatedly insisted that Hong Kong retained an 'irreplaceable' role in the nation's economy. For example, Prime Minister Li Keqiang declared that as 'an international free port city and a major financial, trade and shipping center, Hong Kong is one of the world's most open, vibrant and competitive economies'. It was 'China's need,' he acknowledged, 'that Hong Kong continues to bring out the unique advantages it has developed over the years and play its irreplaceable role in the mainland's reform, opening-up and modernization drive.'⁴³ Such accolades were justified by Hong Kong's astounding performance in providing half the total foreign direct investment for China's modernisation since 1978 as well as by its achievements as an international financial centre.

With a record of unbroken annual GDP growth, which averaged 7.5 per cent from 1961 to 1997, Hong Kong seemed to have an inexhaustible

capacity to succeed as a capitalist society.⁴⁴ The people had made the transition from poverty to prosperity faster, it has been claimed, than any other society in history.⁴⁵ In 1949, national income per head was a mere quarter of the United Kingdom level.⁴⁶ By the end of British rule, Hong Kong GDP per head had caught up with the United Kingdom, thanks to breakneck industrial expansion which relied almost entirely on local funding, with no significant foreign aid.⁴⁷

In the process, Hong Kong's manufacturers had to overcome efforts by the United Kingdom, North America and Western Europe to protect their domestic markets against Hong Kong exports. A hostile political and economic environment throughout much of the 20th century forced Hong Kong to adopt a growth model which was self-financed and self-sustaining.⁴⁸ A siege mentality developed, and, as a result, business and its wellbeing took absolute precedence in official policy-making, regardless of the social costs to the community.⁴⁹ The perception grew that crises would never end.⁵⁰ Within the government-business nexus, paranoia about the future intensified in the 1990s, fuelled by what leading business people believed to be an imminent danger of increased social expenditure and 'welfare state' policies.⁵¹

China's leaders did their best to allay unease and uncertainty for business by entrenching the survival of capitalism and protection of privileged priority for business interests as prominent features of the Basic Law, and business representatives dominated the new political system that was being created for the post-colonial era. By 1995, nevertheless, 59 per cent of the local firms listed on the Hong Kong Stock Exchange were reported to have taken the precaution of obtaining overseas incorporations, double the figure when the Basic Law had been promulgated in 1990. There was ample evidence, too, of how wealthy individuals were transferring sizeable portions of their wealth overseas because of uncertainty about future prospects.⁵²

While political risk receded in 1997, the Asian financial crisis provided what the government and the business community viewed as incontrovertible evidence of Hong Kong's economic fragility. These gloomy apprehensions marked an important boundary between the ruling elite and the rest of the community. Society as a whole retained 'a pervasive sense of wellbeing', which was regarded as among the most important building blocks of Hong Kong's social stability, even though political risk was a serious anxiety for most families.⁵³

Fragile Prosperity

Both before and after the end of British rule in 1997, economic survival thus provided the standard excuse to justify government hostility towards

social expenditure and indifference to the plight of the poor, the elderly, the disabled and the infirm, as later chapters will recount. The colonial administration and its collaborators from the business and professional elite refused to introduce education for all children until late in the last century. Housing conditions were deliberately kept squalid and insanitary to an extent that, in retrospect, seems unbearable. Social insurance, retirement protection and unemployment benefits were bitterly opposed and postponed for as long as possible. Public housing and social services lagged well behind the expectations of this sophisticated, post-industrial society and were far from adequate in 1998 to meet the community's needs during Hong Kong's worst-ever recession in over 60 years.

Obsession with economic vulnerability seemed boundless. Despite the evidence cited earlier of Hong Kong's financial strength and economic prowess, there were repeated warnings in this century of impending catastrophe.⁵⁴ The target was always the same: to prove to the public 'how welfare populism destroys prosperity', to quote the title of a presentation by the Financial Secretary in 2012.⁵⁵ There was almost no debate about the assumption that welfare spending had to be constrained. The government's claims that welfare was unaffordable and that expansion of social services was unsustainable had long become articles of faith, while the case for giving priority to business interests was taken for granted.⁵⁶

Hostility towards social expenditure intensified in this century, whether for public housing, health, education or welfare programmes. The public now had to pay for services previously provided either free or at minimal cost. The supply of these services was also rationed, leading to severe shortfalls in the facilities on which depended the health, comfort and future wellbeing of the most vulnerable groups in the community. Those who turned to the government for assistance were defamed without justification, especially those households which could only survive by applying for CSSA benefits. An extensive propaganda campaign sought to convince the community that social security was leading to a dependency culture in which the able-bodied voluntarily quit their jobs and the younger generation turned their backs on Confucian filial piety and abandoned their elderly relatives to the care of the state. (These allegations will be shown to have been entirely without foundation in Chapter 6.)

Counting the Costs

In the past, as long as the economy managed to create additional wealth and new jobs year after year no matter how adverse the political or business environment, there had seemed no great urgency about programmes to transform the housing stock and upgrade the social services. Retirement and care for the elderly were challenges on the horizon but

seemed still remote to a community which had been so recently largely young and immigrant. As long as the economy constantly reinvented itself and matched world best practice, first in manufacturing for export and then in financial services, the Third World legacy of slum housing conditions and limited social services seemed tolerable. That complacency was dangerously misleading because it left for future decades serious short-falls that would prove extremely costly to solve in this century.

A comparison of social expenditure in Hong Kong with economies of similar affluence offers a guide to how large the outstanding bill to be paid for the elimination of these deficiencies was. At the start of this century, Hong Kong was 'forty years behind' the rest of the world's advanced economies in terms of its public spending on social services, an academic study reported. Hong Kong's social expenditure in 2001 was at the same level as the average for OECD members in 1960. But since that date, the OECD average had almost doubled to 22 per cent of GDP.⁵⁷

The damaging effects of the Third World heritage are rarely recognised, even though the long-term social consequences have shaped the lives of those who arrived in Hong Kong or grew up here before 1980. Indeed, some commentators have applauded the inadequate social services. Their deficiencies were 'an important component of [Hong Kong's] ticket to prosperity', it has been stated, because 'if food and shelter are easy to come by, then people will not work hard'.⁵⁸ In addition, an unconscious assumption persisted that the community should be able to overcome its future challenges with much the same sort of self-help and social improvisation as in the past.

The government continued to believe that Hong Kong could defer payment to remedy the social handicaps inherited from its recent Third World origins. The examples that follow indicate that this complacency was misplaced.

Housing

Private sector housing offered the most dramatic evidence of the bills now becoming payable for ignoring the legacy of the past. The average concrete multi-storey building in Hong Kong has a design life of 50 years. Construction in the 1950s and 1960s was cut-price. Maintenance was neglected in every subsequent decade. Overcrowding was gross and facilities minimal. In consequence, dilapidation was more rapid than anticipated, and renovation to meet health and safety standards became very expensive. Homes turned into slums, especially when these multi-storey structures had multiple owners anxious to maximise rental profits and to hold down expenses.

A 2006 United Nations report stated that the proportion of Hong Kong's population classified as 'slum dwellers' had grown at an annual rate 150 per cent faster than the overall average for the world's developed regions. The situation in Hong Kong was expected to worsen significantly by 2020. Meanwhile, Singapore had no measurable slum population.⁵⁹

Education

Educational neglect was, arguably, the biggest Third World handicap that the average individual suffered because a full system of free, universal and compulsory schooling had been postponed until 1978. Much of the school teaching in the 1980s was carried out by untrained staff and took place in overcrowded and unsuitable premises. An official report by overseas experts suspected that the government deliberately tolerated these unsatisfactory standards.⁶⁰ The harm done to those deprived of adequate schooling became apparent as soon as recession got underway in 1998. Official data showed that in the years that followed, workers born too early to benefit from free and compulsory education accounted for more than half the unemployed receiving CSSA, while another 31 per cent of the claimants had only had partial access to free schooling.⁶¹

Less immediately obvious but very damaging long-term was 'financial illiteracy' which could be traced to the low standards of many schools until the start of this century. The 2007–09 global financial crisis highlighted the heavy costs inflicted by 'low levels of financial literacy' on individuals as well as on financial markets and society as a whole, a senior financial official warned, with less sophisticated customers more easily misled by financial institutions.⁶²

The need for 'financial literacy' was of special relevance to reforming the Mandatory Provident Fund (MPF). Current employees would have to wait another 20 years at least before their MPF accounts were large enough to make a significant contribution to their retirement incomes. In the meantime, MPF accounts were managed commercially by financial institutions whose fees were generally excessive and returns poor, the financial services minister complained.⁶³ The government's solution was to suggest that employees should be given greater control over the management of their personal MPF accounts. The extent of the 'financial illiteracy' that had to be overcome to make this change practical was highlighted by the large-scale public education campaign launched by the MPF Scheme Authority in 2010.⁶⁴

Healthcare

Very serious, too, were the consequences of the government's under-spending on medical and health services. Official arguments that Hong Kong was overdependent on the public sector were misleading. The private sector enjoyed a larger share of the health market than in other affluent economies. At the start of the century, furthermore, Hong Kong's total health spending as a share of GDP had been well below the average of other advanced economies, which indicated that funding for healthcare fell far short of what was required to match world best practice.⁶⁵ The Hospital Authority, nevertheless, was forced to make financial cutbacks after the Asian financial crisis started.

The treatment of Hong Kong's 187,000 patients with mental illnesses brought into especially sharp focus both the disturbing consequences of the Third World legacy and the physical distress caused by the government's austerity drive. The health minister argued that cuts in the budgets for psychiatric services were too small to reduce the standards of patients' care.⁶⁶ Quality did decline, however. Between 2000 and 2012, the queues to enter the system lengthened, and the average waiting time for a first appointment with a psychiatrist rose from three to seven weeks.⁶⁷ Once accepted as a patient, there was no guarantee that treatment would match world standards. The government's insistence that the Hospital Authority suppress demand for modern drugs was particularly damaging to mental patients. They were prescribed older versions of anti-psychotic drugs whose side-effects could involve a level of distress and discomfort that deterred patients from taking the regular dosages needed to control their symptoms and to lead normal lives.⁶⁸

The medical profession complained in vain about this 'price rationing' imposed as a result of budget cuts.⁶⁹ The policy resulted in cruel discrimination. Low-income mental patients could only keep their illness under control with sub-standard medication which could cause significant suffering. Patients who could afford to pay for First World medication were not subject to such pain.

Welfare

Perhaps the most striking reminder of Hong Kong's Third World origins was the revival in 2008 of government-funded, food relief schemes. When post-war Hong Kong had been flooded with refugees, a considerable quantity of food and other relief in kind was provided both by the colonial administration and by religious organisations and overseas welfare agencies, with the United States a conspicuous donor.⁷⁰ In 1962, the colonial administration claimed that hunger was no longer a problem

and declared that these aid programmes should be halted.⁷¹ In 1971, the government itself finally ceased to provide the destitute with food and other relief in kind because the Social Welfare Department had won a protracted battle to establish the Public Assistance Scheme which provided the needy with cash allowances.⁷² (Chapter 4 traces this reform.)

Hunger returned to Hong Kong in this century, and in 2008, the Chief Executive was urging support for food programmes to help individuals in 'dire need'.⁷³ But this assistance was in the form of 'dry rations', legislators pointed out, and they pleaded for 'a wider variety of food including hot meals and fresh food to meet the special needs of children, the elderly and people with chronic illnesses'.⁷⁴ The severity of the new poverty was highlighted by this return to a distant and barely remembered era when destitution had not yet been eliminated. The new generation of the hungry included 'the unemployed, low-income earners, new arrivals, street sleepers and individuals or families encountering sudden . . . financial hardship'. They did not receive social security benefits, according to the welfare minister, even though they had 'proven difficulty coping with daily food expenditure'. These unfortunates were victims of glaring gaps in the CSSA 'safety net' which officials had long described as the guarantee that those unable to support themselves would be provided with an income to meet their basic needs.⁷⁵ Food aid also pandered to the sceptics who believed the poor could not be trusted with cash benefits.⁷⁶ By 2012, some 75,000 individuals were being rescued from hunger and malnutrition through the government's food programme, 40 per cent of them in low-paying jobs.⁷⁷

This food relief was also linked to official efforts to restrict the government's welfare expenditure. When food prices rose, there were demands for CSSA benefits to be improved immediately. Cash was not the only solution, officials indicated. Hunger could be relieved with food donated by hotels and other firms as well as by charitable organisations and individuals, a practice which the government was keen to encourage.⁷⁸

History came full cycle in 2011 when the welfare minister visited the United States, the original home of food kitchens and food banks to help the destitute and also the principal source of food aid for Hong Kong's original refugee population. He was highly impressed by the San Francisco Food Bank's operations and spoke warmly about how successfully these had been financed by private donations of food and cash.⁷⁹ Sadly, welfare cutbacks were a global phenomenon, and the San Francisco programmes were to be badly hit by subsequent curbs on federal funding.⁸⁰

In 2013, the Court of Final Appeal warned the government that such attempts to shift its social responsibilities to Non-Governmental

Organisations (NGOs) could be ruled unlawful. 'It is exceedingly unattractive for the Government then to shrug its shoulders and say, "Well, you can always approach local charities as a supplicant for their goodwill",' the Court declared.⁸¹ Nevertheless, the third Chief Executive continued to plead the merits of food programmes advocated by his predecessor, Donald Tsang. At Lunar New Year in 2014, when 'people in Hong Kong buy festive food and goods, and enjoy a hearty reunion dinner with their families', Leung pointed out, many would not be so fortunate. For those in need, he went on, 'some volunteer agencies collect unsold or donated food from wet markets, restaurants and supermarkets', with the added benefit that 'this can also avoid wasting food'.⁸²

Haunted by History

This book will show how costly is the legacy of past policies that chose to restrict social expenditure in the erroneous belief that spending on welfare would automatically mean lower business profits and slower economic growth. In referring to this historical heritage, the term 'Third World' is used throughout this book to refer to the sort of economic and social conditions that prevailed when Hong Kong first began its ascent to prosperity after World War II. The term sums up the acute shortage of financial, physical, social and human resources at that period.

It covers the squalid slums and squatter huts that were homes for the bulk of an immigrant population. It includes the acute shortage of hospital, education and welfare facilities and the absence of social insurance and similar schemes to provide the individual with financial cover when retired, unemployed or ill. The term embraces the beginnings of Hong Kong's takeoff as a successful manufacturer. But it ceased to be an accurate description of industry after Hong Kong industrialists became a global force in the 1960s. Also excluded from the term's coverage are financial services because Hong Kong was a major international financial centre throughout the last century.⁸³

Third World refers to conditions, not to people. Although the squalor and overcrowding under which so many lived and worked were often not vastly different even as late as in the 1980s from conditions three decades earlier, Third World was a label which the people of Hong Kong themselves had shed. 'The mere act of immigration achieved with great abruptness an economic and social transition which in other underdeveloped countries may take years,' a pioneering economist argued in 1971. The immigrant was forced to seek survival by adapting virtually overnight to the demands of an open, competitive, modern economy.⁸⁴

The term has fallen out of fashion in academic circles.⁸⁵ But it is still common in China's official news media which frequently use 'Third

World' in articles on the Mainland's own economic transition in the last four decades and on the performance of nations with which the Chinese government is on good terms.⁸⁶ Third World is too convenient a shorthand for the experiences of Hong Kong and its people to be discarded in a book of this sort. The term offers a generalisation that sums up a past which the community had proudly put behind it only to discover in this century that remnants of Hong Kong's Third World history had become a serious current liability.

The Unseen Victims

The vulnerable were often unrecognised and sometimes invisible even to caring people.

- The largest and best publicised group are the elderly. Barely perceived, nevertheless, is that old age is 'incurable'. As individuals get older, they face loss of mobility and failing memory. Their illnesses become serious and more crippling. Many will become incapables not only of caring for themselves physically but, because of mental deterioration, will become even more dependent than a child.
- Among those with disabilities, the most fortunate appear to be those able to lead lives on what seem equal terms with everyone else if they are given suitable education and training facilities. The paraplegic executive or professional in a wheelchair, for example, seems to suffer no special disadvantage. But life is 'different' when there is no feeling or function below the waist. Rarely realised is the continuous fatigue and the endless struggle to overcome the medical complications and threats to health that the paraplegic must endure.
- Hidden from view are groups who live close to death. These include boys with genetic deficiencies who cannot expect to live much beyond their twenties. Often academically gifted, they rarely reveal their fears about their limited life expectancies. Another group are the young people who cannot breathe independently and are kept alive on ventilators. They are in constant danger of choking and should live close to an intensive care unit. Yet their parents are under pressure from the government's economy measures. They are urged to ignore the daily danger of choking to death and accept funding to employ a domestic helper and to care for the vulnerable individual at home instead of occupying space in a more expensive specialised unit close to emergency facilities.
- Parents live with unperceived distress when they have to face their inability to protect a vulnerable child.

- Long-term prospects for a child with autism are enhanced through intensive pre-schooling treatment starting as early as possible. The average waiting time for admission to such programmes increased by 50 per cent between 2008 and 2012. What chance had a family of being able to fill the gap through its own caring efforts when the average standard of living in Hong Kong required both parents to work?
- A mother later in life may have a child with Down's syndrome who has limited intellectual ability and cannot live completely independently. When the child reaches 30, the mother is probably over 70. What arrangements can she make to ensure a secure future for her child when residential care is so scarce?

The potential list of examples is endless. They all involve prolonged hardship. Only the seriously wealthy can meet the cost of providing the quality of care and the living environment that those with disabilities need to live with the minimum discomfort and anxiety and with the maximum opportunity to achieve as fulfilling a life as their personal abilities permit. In the absence of personal affluence, a decent and comfortable existence is only possible with the state's assistance, direct or indirect. In Hong Kong, the government has retreated from this responsibility for reasons which this chapter and the rest of the book shows were misinformed or misguided.

Anatomy of Poverty

The book begins with a review of the economic environment. The government made the Asian financial crisis the rationale for introducing austerity measures and reducing its own social responsibilities. These decisions intensified the initial downturn and delayed economic recovery. For low-income groups and the sick in particular, means-testing and price-rationing for access to social services were to become severe. Both the Asian and the global financial crises were also used as the excuse for introducing new measures to promote business interests and protect profits. These often proved ineffectual and wasteful. This state of affairs was neither sound economics nor sensible budgetary management.

The second chapter deals with the peculiar politics of Hong Kong. Distribution of incomes is grossly unequal. Taxation favours the rich. The government constantly expresses a fear of public unrest, while treating the community with little respect and its elected representatives with contempt. The people of Hong Kong are fully aware of how the political system gives business a dominant role. Yet, there is little political discontent and no serious social envy. The public's trust in the

government and the civil service is an important feature of the political scene. Nevertheless, the community's docility cannot be taken for granted, and it has proved its power to call Chief Executives to account.

There follows a chapter about housing, on which the quality of life for families so largely depends in every society. The aim of the colonial administration's housing programmes was to provide basic shelter rather than homes. The private sector, for its part, was free initially to build what quickly became slums. The emergence of large-scale developers raised the quality and design of new buildings but created monopolistic conditions in the property sector. In this century, the government decided to leave the property market entirely at the developers' mercy. Supply slumped, while prices surged. Meanwhile, dilapidation and neglected maintenance created extensive squalor and threats to public health and safety, which officials have been slow to tackle.

The next two chapters focus on the major social services: housing, education and welfare. Chapter 4 recounts the colonial administration's protracted efforts, in collaboration with the business community, to block the development of modern social services. The caring professions were able to slowly circumvent this opposition, and social expenditure became 'respectable'. The increased budget allocations were too little and too late, however. The community was left with a Third World legacy that was to affect service standards in contemporary Hong Kong. Chapter 5 examines the government's retreat from social responsibility in this century and the dismantling of reforms introduced in the previous one.

Hong Kong's social security system was always a target for hostility among senior officials and has aroused considerable public mistrust, Chapter 6 explains. The colonial administration and its business collaborators successfully delayed the introduction of CSSA until 1993. The economic downturn of 1997 was followed by a concerted campaign to convince the community that families receiving CSSA were the 'undeserving poor'. The chapter reveals how successful this campaign of denigration was in deterring the unemployed and the elderly from applying for social security. In fact, over the last two decades, more than three-quarters of the unemployed and over 80 per cent of the elderly received no CSSA benefits, according to the official data presented in this chapter.

The final chapter responds to the obvious question: why has welfare so few advocates? The major political parties were not without compassion, yet they condoned the government's neglect of the social services. Non-governmental organisations (NGOs) and pressure groups ceased to be powerful forces. Trade unions made political elections their priority in place of workers' welfare. The explanation is to be found in the special

political situation of Hong Kong. The dividing line in electoral politics has been neither wealth nor welfare but a party's commitment or otherwise to publicly championing Hong Kong interests against Mainland pressures.⁸⁷

Conclusions: Flawed Policies and Defective Decisions

This book does not review the causes of poverty in the same way that a development economist might. Hong Kong had escaped from community-wide poverty typical of the Third World by the 1960s. Nor do the chapters that follow investigate such issues as intergenerational poverty or poverty among immigrants and single mothers in a way that a sociologist might. The focus will be on how, at the end of the 20th century, poverty reappeared so unexpectedly in one of the world's most stable and prosperous cities, and was allowed to intensify in the years that followed. The overwhelming conclusion from every chapter is that the decline in the economic and social wellbeing of the average family can be traced directly to government decisions.

This book does not seek to assess Hong Kong by international practice and performance.⁸⁸ The Hong Kong community's problems of poverty cannot be properly understood or tackled realistically unless they are examined in the Hong Kong environment. A theme in every chapter is how unique have been the economic, political and social circumstances of the people of Hong Kong and how successful they have been in overcoming the crises which have been such a conspicuous feature of its history. Despite the deterioration in the provision of decent housing and social services in this century, Hong Kong is still close to being the ideal city in which to live in terms of the social behaviour and civic responsibility of its people. It is by the standards of Hong Kong's achievements in so many fields and by its past progress in the face of great odds that the current plight of its more vulnerable members can most fairly be judged.

It is noteworthy that Nobel Laureate, Friedrich Hayek, declared that he had sought in vain 'to discover the meaning of what is called "social justice" for more than ten years'. 'The phrase has no meaning whatever,' he insisted.⁸⁹ This and the chapters that follow show that, tragically, there is no difficulty in identifying social *injustice* in contemporary Hong Kong. Evidence abounds of neglect and mistreatment of the vulnerable. In consequence, this book does not seek to assess the rise of the new poverty or the plight of the social services by such criteria as United Nations conventions on human rights.

The facts and the data for this book are drawn overwhelmingly from official publications, and the explanations for government decisions are quoted from official sources.⁹⁰ What is uncovered is generally so lacking in compassion and so self-incriminating as to challenge belief. Hence,

the source of each fact and assertion is given in full. There is one exception. In the case of basic statistics which are published routinely, the reader can assume that they are taken from the monthly and the annual *Digests of Statistics* unless otherwise indicated.⁹¹

This book offers a review of what went wrong with the government's policy-making and its management of both financial and social affairs, and which resulted in a new form of poverty. It also attempts to identify the costs to the community and the impact on vulnerable individuals of flawed policies and defective decisions. Hopefully, by the end of the book, the 'new poor' will have defined themselves not just in terms of low incomes but of the specific distress they suffer because their housing, health, educational or welfare needs have been neglected by the government's flawed social programmes.

At the outbreak of the Asian financial crisis, a prominent social scientist explained how in what Hong Kong regarded as an uncertain world, social costs were regarded as irrelevant in the struggle to achieve prosperity, and so business came first.⁹² This attitude was entirely predictable. As a distinguished economist, Robert Heilbroner, remarked, 'a society where economic activities are ruled by the market will be an attentive servant of the rich, but a deaf bystander to the poor.'⁹³ This book will indicate how valid this prediction has been in the case of Hong Kong.

Notes

1. There were 176,000 employees in this category in 2001, 6 per cent of the workforce. They had risen to 195,800 by 2007. Commission on Strategic Development, 'An Overview of the Opportunities and Challenges of Hong Kong's Development' (CSD/6/2008, October 2008), p. 6 and 'Table 2: Characteristics of Working Poor in Hong Kong, 2001–2007', p. 24.
2. One senior official quoted Adam Smith to justify austerity as the proper prescription in laissez-faire Hong Kong. Dr Yeoh Eng-kiong, Secretary for Health and Welfare, *Hong Kong Hansard (HH hereafter)*, 21 November 2001, p. 1834.
3. Economic Analysis and Business Facilitation Unit, 'Legislative Council Subcommittee to Study the Subject of Combating Poverty. Indicators of Poverty — An Update for 2005' (CB(2) 2727/05–06(03), July 2006), 'Annex 2: Indicators of Poverty — An Update for 2005', p. 3.
4. Hui Cheung-ching, *HH*, 10 May 2000, p. 6266.
5. See Yash Ghai, *Hong Kong's New Constitutional Order: The Resumption of Chinese Sovereignty and the Basic Law* (Hong Kong: Hong Kong University Press, 1997), pp. 406–10.
6. Xiaogang Wu, 'Hong Kong's Post 80s Generation: Profiles and Predicaments. A CPU Commissioned Report', Centre for Applied Social and Economic Research, Hong Kong University of Science and Technology (Central Policy Unit, May 2010), p. 40.

7. Legislative Council Secretariat, 'Pilot Scheme on Home Care Services for Persons with Severe Disabilities' (CB(2)1986/09-10(03), 7 July 2010), p. 2.
8. In 1996, Asia (excluding the Chinese Mainland and Japan) accounted for 19 per cent of total merchandise trade. The share had not altered much in the previous decade. Census and Statistics Department, *Hong Kong Annual Digest of Statistics. 1997 Edition* (Hong Kong: Government Printer, 1997), pp. 37-8.
9. Tung Chee Hwa, Chief Executive, *HH*, 12 January 2005, p. 3262.
10. Tung's considerable achievement in saving the family firm is clear from the coverage in the *Far Eastern Economic Review*. Robert Cottrell and Nick Seaward, 'Shipping: A Slip of the Tung: Major Hongkong Shipping Group in Financial Straits', 12 September 1985; Nick Seaward and Bruce Roscoe, 'Companies: Creditors on Deck: Estimates of the Tung Group's Debts Are Ballooning', 28 November 1985; Emily Lau and Nick Seaward, 'Shipping: Chinese Maritime Roulette: Peking Appears to Be Backing the Rescue of a Hongkong Company', 10 April 1986.
11. Examples of his business-based approach are Tung, *Government Information Services (GIS, hereafter)*, 10 June 1998, 6 and 14 December 1999.
12. In 1988, the Governor, Sir David (later Lord) Wilson, revealed that growth in the civil service was to be restricted and its 'ministerial' structure was being reviewed by international management consultants. Wilson, *HH*, 7 October 1987, p. 46.
13. Sir Piers Jacobs, Financial Secretary, *HH*, 7 March 1990, p. 958.
14. Sir David Ford, Chief Secretary, *HH*, 9 May 1990, 29 May 1991.
15. This account draws heavily on the analysis (but not the assumptions) of Anthony B. L. Cheung, 'Civil Service Reform in Post-1997 Hong Kong: Political Challenges, Managerial Responses?', *International Journal of Public Administration*, Vol. 24, Issue 9 (2001), pp. 930-3, 939, 940-1.
16. The practical difficulties created by abandoning the former five-year planning exercises were summarised in Hong Kong Council of Social Service, 'Response to SWAC's 2nd Stage Consultation Exercise on Long Term Social Welfare Planning in Hong Kong', pp. 3-4.
17. Select Committee on Building Problems of Public Housing Units, *First Report January 2003: Volume I Main Report* (Hong Kong: Legislative Council, 2003), pp. 42, 46; Chapter IX 'Conclusions and Recommendations', especially pp. 192, 194-5. It should be noted that the Select Committee did not make a direct connection between the scandals and the Management Enhancement Programme and similar initiatives.
18. *Ming Pao Daily*, 7 and 24 January 2013.
19. 'Report of Investigation Task Force on Statistical Data Quality Assurance', pp. 28-9. This investigation did not find evidence of significant fabrication of survey data. But the report highlighted the need for the Census and Statistics Department to deal with the threats to the professional quality as well as the integrity of its operations which the department's professionals had identified.

20. Chak Hung J. Cheng and Michael K. Salemi, 'Feast and Famine: Explaining Big Swings in the Hong Kong Economy between 1981 and 2007', *HKIMR Working Paper No. 37/2009* (December 2009), p. 1.
21. Economic Analysis Division, *First Quarter Economic Report 2012* (May 2012), 'Chart 1: Hong Kong's labour productivity growth outperformed many other economies', p. 13.
22. Tung, *GIS*, 15 June 1998.
23. Tung, *GIS*, 22 July 1999.
24. Tung, *HH*, 7 January 2004, p. 2500.
25. Tung, *GIS*, 18 December 2001.
26. Donald Tsang Yam-kuen, Chief Executive, *HH*, 27 June 2005, pp. 8944, 8945.
27. Zhao Xiaobin et al., 'Income Inequalities under Economic Restructuring in Hong Kong', *Asian Survey*, Vol. 44, No. 3 (May–June, 2004), p. 443.
28. Editorial, *Hong Kong Economic Journal*, 26 January 2006.
29. Donald Tsang, *HH*, 12 January 2006, p. 3881.
30. Leung Chun-ying, Chief Executive-elect, *GIS*, 19 June 2012.
31. Leung, Chief Executive, speech at Annual Hong Kong Business Summit, Hong Kong General Chamber of Commerce, *GIS*, 29 November 2012.
32. Leung Chun-ying, Chief Executive, *HH*, 15 January 2014, pp. 5609–10, 5611.
33. This preoccupation is apparent even in impressive critiques of the government's misguided policies. See, for example, Professor Wong Hung's analysis, which focuses on 'the working poor' and on 'social exclusion' and mentions only in passing the inadequate access to public housing and social services which this book will argue are the main causes of poverty in Hong Kong. Wong Hung, 'Misled Intervention by a Misplaced Diagnosis: The Hong Kong SAR Government's Policies for Alleviating Poverty and Social Exclusion', *China Review*, Vol. 7, No. 2 (Autumn, 2007), pp. 123–47.
34. Carrie Lam Cheng Yuet-ngor, Chief Secretary and Poverty Commission Chairperson, *GIS*, 28 September 2013.
35. Labour and Welfare Bureau, 'Legislative Council Panel on Welfare Services: Definition of Poverty' (CB(2)179/09–10(07), November 2009), p. 5.
36. 'Gross Domestic Product (GDP) grew by 2.8% in real terms year-on-year in the first quarter of 2013. Total employment reached a new high . . . The seasonally adjusted unemployment rate remained low at 3.4%. The Comprehensive Social Security Assistance caseload dropped to . . . the lowest [level] in the past 10 years'. Leung Chun-ying, Chief Executive, 'Seek Change Maintain Stability Serve the People with Pragmatism. Report on the Work of the Current-term Government in its First Year June 2013', p. 5.
37. This narrow focus was very evident in Matthew Cheung Kin-chung, Secretary for Labour and Welfare, 'Poverty in Hong Kong: Our Challenges and Responses', speech to Hong Kong Democratic Foundation, 22 September 2010. URL: www.hkdf.org/newsarticles.asp?show=newsarticles&newsarticle=282
38. 'Commission on Poverty convenes fourth meeting', *GIS*, 24 May 2013.
39. Donald Tsang, Chief Executive, *HH*, 15 October 2009, p. 94.
40. Donald Tsang, Chief Executive, *HH*, 14 October 2009, p. 42.

41. Donald Tsang, Chief Executive, *GIS*, 2 November 2011.
42. A. T. Kearney, '2012 Global Cities Index and Emerging Cities Outlook' (2 April 2012), p. 3. URL: www.atkearney.com/images/global/pdf/2012_Global_Cities_Index_and_Emerging_Cities_Outlook-FINAL3.pdf
43. At the time, he was still Deputy Premier. Li Keqiang reported in 'Set up Cooperation for Development and Prosperity', *New China News Agency*, 17 August 2011.
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Conclusions: History Repeats Itself

This book has described a severe decline in the wellbeing of the community and the rise of a new form of poverty. The defining feature of poverty in contemporary Hong Kong is that it cannot be blamed on economic recession, currency collapse, trade protectionism overseas, loss of competitiveness, political unrest or industrial or social strife. Hong Kong has escaped all such threats to its prosperity, chapter after chapter have demonstrated. This society has remained a model of political maturity and social discipline even though social reforms introduced in earlier decades have been dismantled as the government retreated from its responsibilities not only towards the needy and the vulnerable but towards the community as a whole.

Who Are the New Poor?

Contemporary Hong Kong has continued to flourish economically and to enjoy social stability. The welfare minister proudly declared in mid-2013 that 'our city has all the necessary prerequisites to provide social protection and satisfy the basic needs of everyone in the community'. This statement was not open to challenge. He then asserted that 'by whatever yardstick, the Hong Kong SAR Government has not dodged and will never shy away from finding the best possible solutions to help the poor'.¹ This book has shown how tragically short of this standard the government has consistently fallen. The emergence in this century of a new poor has been traced in previous chapters, which have identified who these unfortunates are and how they are the victims of misguided official policies.

- *Those suffering from the conventional causes of poverty: destitution caused by unemployment, low wages and no savings.* In Hong Kong, their numbers ought to be minimal because the truly destitute are eligible for social security regardless of residence and the other

restrictions that normally apply to applicants for Comprehensive Social Security Assistance (CSSA). Yet, as previous chapters have shown, the gaps in this safety net are serious.

- *Patients suffering from serious illnesses, the infirm and those with disabilities.* The health and welfare programmes are supposed to ensure that these groups get the treatment and facilities they need even if they cannot afford the Hospital Authority's fees and charges. There is supposed to be no discrimination against those who lack money. The government's commitments and legal obligations have not been honoured.
- *Children and students denied equal access to good quality education because of their families' limited finances.* The costs of education have been raised so that lower-income families have to make a painful decision. They can go into debt and impoverish themselves in order to give their sons and daughters the best possible schooling or condemn them to the lower levels of the labour market.

Very similar are the young people who are truly caring. They refuse to apply for education loans or to let their parents borrow money to pay the fees. These youngsters believe their earnings are needed to relieve the immediate financial strain on their parents, to pay for a sick relative's treatment or for another child's schooling. Or they feel they could not repay the loans without serious hardship to the family.

- *The large numbers of the elderly and unemployed who meet the criteria for CSSA but do not receive it.* They choose poverty because the application process is so demeaning and the stigma which the government has created around CSSA beneficiaries is too humiliating.

They include the heroic parent (or grandparent) who refuses to impose an extra burden on the younger generation through bowing to the CSSA's insistence on getting a financial contribution from family members.

- *Individuals and families who have adequate earnings and a decent standard of living but are confronted by serious illness or some similar emergency.* Often, the government insists that their medical treatment must be self-financed. Frequently, too, waiting times for diagnosis, treatment or care for the loved one in public hospitals seem so distressingly long that the family beggar themselves in the private sector.

To these should be added the victims of past policy decisions that have left them in miserable conditions which they could not be expected to overcome through their own efforts.

- *The elderly and unemployed who suffer the 'disgrace' of relying on CSSA.* These are the victims of decades of refusal by the

government-business nexus to ensure that the workforce was enabled to buy protection against retirement, illness and unemployment through social insurance schemes.

- *Tenants in buildings which should be classified as unfit for human habitation.* Their health and safety are at risk because of the shortage of public rental housing to which they can be transferred.

Who's to Blame?

This new poverty can be attributed to government decisions. The most crucial have been about management of the economy and public finances. As Chapter 1 reported, the first Chief Executive, Tung Chee Hwa, admitted publicly that he could have halted the recession which followed the 1997–98 Asian financial crisis. He knew that the result of his refusal to do so would be severe and prolonged pain for most families. His decision, that chapter recounted, was based on an entirely mistaken analysis of the economy. Tung chose austerity. Investor and consumer confidence plummeted, and the downturn worsened.

For the management of public finances, Tung adopted a budget programme which included redundancies, privatisation and sub-contracting to reduce the size of the public service. The social consequences were malignant because these measures exposed the less-skilled individuals to exploitation. Workers were supplied to the government by private contractors who flouted labour laws and their contractual obligations. Officials proved reluctant to end these abuses. For the employee, the result was impoverishment. The second Chief Executive promised to introduce minimum wage legislation and a competition law, both of which had become crucial to protect the community against malpractices. The government then bowed to business pressures and delayed repeatedly the introduction of the necessary legislation.

Economic recovery was not to prove the salvation of the new poor because most of them could never be made financially self-supporting. A high proportion of CSSA beneficiaries, for example, have no capacity to earn their own living. The elderly accounted for almost 60 per cent of the total CSSA caseload in 2012, and age had removed them permanently from the labour market. (By contrast, the unemployed accounted for less than 10 per cent of all CSSA cases.)

As a result, the regular invocation by officials of economic growth as the solution to poverty made sense only as a very broad generalisation. Economic growth did not automatically lead to jobs for all in contemporary Hong Kong, and certainly not the elderly. Experience in this century showed that earnings lagged badly behind the rise in GDP and improvements in labour productivity. The faster the growth of GDP,

the more revenue the government would have at its disposal to expand social expenditure. But sustained superior performance of the economy did not induce policy-makers to make the financial commitments to housing and the major social services (health, education and welfare) which were needed to overcome a Third World legacy of under-spending in the past and to achieve standards which matched Hong Kong's economic achievements.

Business Favouritism

Business interests have swayed government policy alarmingly in this century. Tung Chee Hwa abandoned his ambitious plans to end Hong Kong's recurrent housing crisis when confronted by opposition from developers. The Housing Authority withdrew from the property market, and developers were given a free hand. The supply of new flats slumped, and prices rose. The infrastructure for producing public housing was so thoroughly dismantled that the third Chief Executive's plan for the Housing Authority to resume a substantial role in the property market faced a five-year delay.

The first two Chief Executives could have resisted the developers' demands. Property was the one sector whose assets could not be liquidated and removed from Hong Kong. No matter what tycoons might threaten about withdrawing their investments, the land and buildings could not be relocated to Shanghai, Singapore, London or New York.² Furthermore, the property sector's profits depended heavily on government goodwill because they were vulnerable to changes in taxation and town planning policies, and to the introduction of rent control and tenancy protection legislation, as the recent history of Hong Kong showed. Developers, nevertheless, generally had the upper hand. They rightly assumed that the community did not want to see the property market disrupted or property prices to tumble. But the indulgence shown to property interests throughout the first decade of this century eventually passed beyond the levels of public tolerance, and Tsang Yam-kuen was forced to take the first tentative steps towards reviving the public housing programme in 2010.

In allocating financial support between business and social services, the government applied double standards. Most notorious was the favouritism shown to small and medium-sized enterprises (SMEs) which were offered a large and seemingly endless supply of loan guarantees whose justification was seriously challenged from the start and whose benefits to the economy officials were unable to describe except in the vaguest of terms.

Funding for the social services, however, was tightly policed because of the widespread conviction within the government that all public services were inherently wasteful and inefficient and should make way for the private sector. The consequences for the quality of social services were dire. The Hospital Authority, for example, publicly refuted official claims that budget cuts were not affecting the standard of treatment. Medication was so tightly rationed that inferior and obsolescent drugs were prescribed for seriously ill patients in public hospitals who could not afford the charges for the most appropriate medicine. In the welfare field, neither the elderly nor children with special needs were spared. The queues for residential and other care facilities were scandalously long, and waiting times for the most vulnerable groups increased by 12 per cent between 2011 and 2013.³ Officials declined to set targets for ending the shortfalls.

Official parsimony was also conspicuous in dealing with victims of industrial accidents when employers failed to meet their legal compensation obligations. After the statutory Employees Compensation Assistance Fund had run into ‘financial difficulty’ in the late 1990s, the official solution included imposing a new limit on the assistance provided by the Fund. This result, the labour minister claimed in 2013, ‘aptly balanced the interests of injured employees, employers and the Board’ even though the casualties of unsafe working conditions were left worse off.⁴

Moral Exits

There were also attempts to distract attention from the government’s shortcomings. A notable example was the promotion of ‘social enterprises’ and similar business-based programmes. Their aims were edifying, and the idealism and enthusiasm of their participants were impressive. To some extent, they repackaged a long-standing strategy to subsidise work programmes for individuals whose disabilities barred them from ‘open’ employment. The first sheltered workshop was established in 1949 in the government’s North Point Relief Camp. With financial support from the government, the late 1950s saw workshops set up for the blind, and facilities for the mentally ill followed a decade later. By 1988, sheltered workshops were catering for almost 60 per cent of the disabled population of working age.⁵

In this century, the government’s espousal of business-based initiatives was inspired mainly by expediency. Promotion of ‘corporate social responsibility’ initiatives, for example, was acknowledged from the start to be a useful defence against the rise of anti-business sentiment.⁶ Officials embraced social enterprises with no clear understanding of

what was involved. The Financial Secretary in 2006 confessed his own uncertainties. ‘So what is “social enterprise”?’ he asked, ‘While there is no common definition, I think it is, first and foremost, a business.’ ‘Like any other business firms, meeting the bottom-line is key to survival,’ he added.⁷ Among the community at large, social enterprises were of little interest.⁸ The gains for the government, however, were clear enough, particularly when large business conglomerates could be induced to join the programme. Social enterprises helped to shift welfare from income-support measures to profit-making ventures, and business participation allowed the government to disengage from responsibility for social wellbeing.⁹

The social enterprise programme itself suffered from an in-built conflict for which there was no obvious solution. A government-sponsored investigation of social enterprises and their potential pointed out that they have a ‘double-bottom line, that is, social goals and economic goals’. In theory, this report went on, ‘with the help of businessmen and entrepreneurs, NGOs should be able to run a business without marginalising their social goals’. Nevertheless, there remained a clash of interests, which was ethical as well as commercial. ‘The initial mentality of NGOs is serving their clients (usually the vulnerable groups)’, which was in direct conflict, this report warned, with ‘the mentality of running a business (cost containment, profit making, and cost-effectiveness)’. Social workers and their agencies were thus ‘trapped between social missions and economic goals’. By personal vocation and professional training, they could not put profits first. In running a business, they could not hope to succeed unless they did so.¹⁰

Social enterprises were also part of a broader strategy intended to provide a large number of small-scale or district-level activities which would allow Chief Executives and their ministers to demonstrate their concern for particular groups of ‘clients’. These projects were frequently little more than window-dressing which, in budgetary terms, involved relatively little additional spending. For example, the Partnership Fund for the Disadvantaged was established in 2005 as ‘a tripartite partnership’ of NGOs, business and government with the aim of ‘creating a cohesive, harmonious and caring society’. Its 410,000 potential beneficiaries included ‘survivors of domestic violence, youth, people with disabilities, ex-offenders, elderly, low income families and pregnant teenagers’. But its funding averaged less than HK\$180 per potential client in 2005–08, which could do little either to relieve poverty or to provide the intensive social work support that much of its caseload appeared to need.¹¹ Other programmes were better funded. The much vaunted ‘Enhancing Self-Reliance Through District Partnership Programme’ was officially described as producing ‘shop assistants, planters, female garment

workers, beauticians and massotherapists'. By 2012, after six years in operation, it had created only 2,300 new jobs at a cost of HK\$65,000 per additional employee (equivalent to the average wage for half a year).¹² Such schemes were short-term commitments and often linked to a moral exit from government involvement through being partnered with businesses or NGOs. In the meantime, as this book has shown, the government was firmly opposed to increased social expenditure as a matter of principle, regardless of whether the economy boomed or how buoyant was public revenue. The government-business nexus was convinced that the market should prevail and that the public sector should make way for private enterprise. In the process, subsidies for social services should be drastically reduced. Lip service was paid to the principle that the poor should not be totally deprived of housing, health, education and welfare services. But earlier chapters have displayed ample evidence of how the poor suffered physical pain, mental distress and even reduced life expectancy through the harshness of the price-rationing and means-testing they faced.

The Search for Solutions

The levels of government funding in this century were far from adequate, but it was toxic policies that wreaked the most serious havoc in terms of personal suffering, both for ordinary families and for the needy. The solution to the new poverty that afflicted Hong Kong has an obvious starting point: the reversal of policies and programmes which could be shown to have increased the financial and physical distress of the community. For example, the insistence that the social services should adopt private sector models could end and be replaced by a return to a commitment to supply services and facilities on the basis of what the vulnerable need rather than on what they could afford to pay for.

A reversal of pernicious policies would require the government to accept responsibility for the community's wellbeing through adequate provision of housing, healthcare, education and welfare services. The last (1991) White Paper published on social welfare set out a definition of what such an obligation involved.

Most societies, and Hong Kong is no exception, accept an obligation to assist their members to overcome personal and social problems and to fulfil their role in life to the optimum extent in accordance with the particular social and cultural development of their society. In particular, they recognize a responsibility to help their disadvantaged members to attain an acceptable standard of living.¹³

The caring professionals in both public sector and the NGOs would have no difficulty today in restructuring existing programmes and practices to implement these principles and to achieve these goals. Much of the explanation for Hong Kong's extraordinary economic success and its surging labour productivity regardless of static wages and deteriorating working conditions has been the determination to upgrade personal performance. This outlook also flourished in the public sector among the caring professions. A particularly impressive case has been the Hospital Authority. For several years in this century, it battled in vain for the financial resources to maintain the quality of services to its patients. Although the funding devoted to health by comparison with other advanced economies was unsatisfactory, Hong Kong still managed to achieve a life expectancy well above their average.¹⁴

While welfare advocacy has weakened over the past three decades, Chapter 7 reported, and the role of caring professionals in policy-making declined, they continued to exploit whatever opportunities were available to remedy misguided government policies. A striking example was the teaching profession's response to the official adoption in 2004 of the 'New Academic Structure' programme for the secondary and post-secondary systems. Its implementation was set to commence in 2009 and required drastic changes in the organisation of both secondary schools and universities. Syllabuses, subjects, teaching methods and public examinations were to be totally transformed.

The training organised for the teaching of totally new subjects was minimal. The attention given to the requirements of students with special needs was both belated and limited. There was a complacent insistence that any student could and should be taught the new liberal studies programme without textbooks. Teachers faced mounting pressure and confusion, but official response to their professional anxieties was generally little more than bland reassurances.¹⁵ The burdens were passed on to the teaching profession with barely an acknowledgement from the education authorities.¹⁶ A typical example of patronising indifference from officials was the government's admission in 2012 that 'there are still great concerns about workload, allocation of lesson time and how to cater for student diversity'. The Education Bureau's initial solution was empty rhetoric in the form of an offer to 'continue to enhance support measures for schools and teachers, disseminate good practices to schools to facilitate learning and teaching'.¹⁷ The following year, the reform programme finally began to unravel. Despite the teachers' best endeavours, schools could not overcome the inherent defects of the new system. The strains imposed on teachers had reached breaking point, and the third Chief Executive's team accepted that classroom and examination workloads had to be eased.¹⁸

A search for solutions to toxic policies would face practical obstacles. Because the government-business nexus has regarded 'welfare' as a malign influence on society, objective review of social programmes has been deterred. An important example has been the failure to restructure programmes to protect employees in a post-industrial economy. Exploitation of the labour force reached alarming levels in this century, Chapter 1 explained, and serious breaches of the law went undetected or unpunished. Part of the explanation appears to be the way that the Labour Department continued to operate as if it were factory workers who were most at risk despite the transfer of the bulk of Hong Kong's manufacturing capacity to Guangdong Province by the early 1990s. Although the department reduced the manufacturing sector's share of total workplace inspections in this century, the attention given to industrial workers remained far in excess of their share of total employment. The department's coverage of white collar employees was much less generous.¹⁹

Another bizarre feature of policy-making in contemporary Hong Kong has been the lack of statistical information to justify government initiatives and innovations. Decisions about social services, for example, were nearly always presented in a bald package which described no more than the number of additional clients to be served or the facilities to be expanded. Almost never were these related to the existing supply or to potential demand. Rarely, if ever, did the official document give an indication of how soon an overall shortfall would be overcome or when service quality would be raised to the prescribed standard. The Hospital Authority, for example, tried to explain in 2010 the rationale for additional spending on the modernisation of its equipment. 'Modern health-care is heavily technology driven,' it declared, 'advancement in medical technology contributes to better patient care through faster and more accurate diagnosis.' Its briefing document for the legislature referred to the importance of 'imaging and cancer' and 'molecular testing and genetic' services. No information was provided on relative priorities or target dates. Or why the same amount of money was allocated to a modern 'telephone system' as to new surgical equipment.²⁰ All this information was available to officials, and limited data were supplied eventually to legislators but in a form which did not make it easy to assess the merits of this modernisation programme.²¹

History Repeats Itself

In evaluating the performance of the first three Chief Executives and their teams, it would be unfair to treat them as if they were entirely free agents. They inherited a legacy of past neglect because of the colonial administration's hostility towards social expenditure. This colonial

background is poorly understood, not surprisingly, because under British rule, ‘government’ seemed to take place in an alien environment and to be conducted by foreigners in a foreign language in accordance with unfamiliar laws and customs imported from the United Kingdom. Nevertheless, a disregard for history is an obstacle to understanding the major challenges of the present. Although a dramatic transformation of Hong Kong’s identity took place in 1997, a prominent Hong Kong academic has pointed out, policy-making is carried out ‘in cultural contexts which are deep-rooted in society and reflect the political culture of the society’. ‘Governments may change,’ he added, ‘but the political culture may remain unchanged for a much longer period.’²²

Indeed, a striking feature of governance in Hong Kong has been the reluctance of rulers in this century to tackle the Third World deficiencies they had inherited and which continued to handicap the housing sector, as well as the quality of health, education and welfare services. Ministers remained locked into the same flawed strategy adopted under British rule: unless a social issue posed an imminent threat of disaster, public funds need not be spent on its solution. The continuing mistrust of social insurance among officials, business leaders and the wider community was the most notable example of how past decisions caused long-term financial and social burdens. Chapter 6 showed that throughout the previous century, the colonial administration argued that the economy would be ruined if business profits and low taxation were not maintained. This outlook led to stubborn opposition to social insurance. In consequence, the workforce will have to rely on means-tested, tax-funded, social security to finance its old age for at least another two decades before Mandatory Provident Fund accounts are large enough to provide adequate retirement incomes.

Similarly, Financial Secretary John Tsang Chun-wah followed a colonial-era strategy in evading decisions about services for the elderly. In 2008, he declared that ‘an ageing population will lower our standard of living and undermine economic vitality and competitiveness’. It would also put ‘immense pressure on public finances’ because ‘medical, long-term care expenses and social security payments, will increase substantially’.²³ In 2013, he used the same doomsday scenario to justify holding down government spending — social expenditure especially — in order to avoid a rise in taxation (just as his colonial predecessors had been shown to argue in Chapter 4).

With an increase in the number of the elderly, a shrinking working population, reduction in the number of taxpayers and decelerated economic growth, I expect that the growth of government revenue will drop substantially if our tax regime remains unchanged.

Meanwhile, expenditure on welfare and healthcare will soar. We may not be able to make ends meet.²⁴

An obvious solution for the problems Tsang listed would be to introduce social insurance instead of continuing to rely on tax revenue to finance social security and health and welfare services. When a government-appointed research team produced a ‘study report on retirement protection’ in 2014, its findings made a convincing case for some form of ‘universal retirement protection’ to which all Hong Kong permanent residents would be entitled as a matter of right. The team made a valiant effort to avoid provoking immediate condemnation of its proposal by the anti-‘welfare’ lobby. Thus, the report did not endorse a ‘universal pension’, for example. Despite these precautions, rejection was almost instantaneous. The Poverty Commission set up by the third Chief Executive ‘to review the poverty situation in Hong Kong and propose improvement policies and initiatives based on concrete work proposals’ was chosen for the report’s launch.²⁵ The response from Commission members was totally hostile, according to the official record. Their principal objection was ‘the question of who should foot the bill’. ‘Retirement protection benefits would worsen the Government’s fiscal position.’ ‘Contributions by employers and employees would be tantamount to a form of taxation.’ It was ‘unlikely’ that the report’s scheme for universal retirement protection ‘would be financially sustainable in the longer run’.²⁶

Nothing had changed since the colonial era. The Poverty Commission’s objections were almost identical with the arguments put forward by financial secretaries and other senior officials from 1967 onwards, as Chapter 4 recounted. By 2014, however, claims that a government-supported retirement scheme for all would have a disastrous impact on the budget and the tax system were even less convincing than in the previous century. Social expenditure could be increased significantly without making Hong Kong tax rates ‘uncompetitive’ because the effective rate of tax on the highest-income groups is so low and the taxation system itself is carefully constructed to avoid imposing social responsibilities on the affluent (as Chapter 2 explained). In fact, tax is not the issue, nor have financial resources ever been a serious obstacle to better public housing and modern social services, the historical and contemporary evidence presented in this book makes clear.

Neither the Financial Secretary nor other government leaders have recognised another, far larger potential burden on public finances which cannot be postponed indefinitely. In comments on CSSA throughout this century, Chief Executives and their teams consistently refused to see how cost-effective the scheme was in financing retirement, healthcare and unemployment for the lower-income groups. Instead, there

was constant denigration of the scheme and of the beneficiaries whom it saved from destitution. Chapter 6 highlighted the astonishing levels of self-reliance among both the elderly and the unemployed, most of whom did not turn to CSSA for relief.

But this self-restraint cannot last forever. The numbers applying for CSSA are likely to increase in the future, if only because of the long-term effects of the decline in the size of the average family, which in this century numbered less than three members. And stagnant earnings and incomes will have a similar effect. The trend in this century has been for wages to lag behind productivity, and actually to fall for the low-earning groups. Thus, the capacity to save will be lower than in the past, which will reduce the ability of families to finance members in need and to pay higher fees for medical treatment and schooling. Financial Secretaries have left it to their successors to defuse this fiscal bomb.

The unelected Special Administrative Region government has shown a marked tendency to adopt measures, which ironically will create much the same sort of Third World legacy for future decades as the colonial administration's under-spending on schooling did in the past. Chapter 5 drew attention to the alarming treatment of those unable to enter the better schools and regular degree programmes. Entry to superior quality secondary schools, which receive full government subsidies, is being confined very largely to students whose parents could afford the high fees charged. Society has been disinclined to judge the social justice of this situation. But the loss to the economy ought not to be ignored: not all society's highly talented individuals are being given the education that would maximise their productive abilities. (The offspring of the affluent are not necessarily endowed with high IQs.)

The problem has been even more acute at the post-secondary level for students who did not qualify for university programmes. In a drive to placate parents worried about their children's careers when a year was chopped off their secondary schooling, the government chose a private sector model to supply a new market for employment qualifications with associate degrees. The results were horrifying. Parents discovered that the fees were wasted because these diplomas had little credibility with employers. Senior officials showed no enthusiasm for cleaning up the mess which their policies had created.

Hong Kong was thus in danger of recreating the shortcomings that arose in the 1980s after secondary education for all had finally been made free and compulsory. Those in charge of policy at that time assumed that this policy decision was all that was required of them. The lack of trained teachers and decent school buildings was of no interest. Indeed, Chapter 4 cited evidence which suggested that education officials had chosen deliberately to make no effort to upgrade the school

system. By the end of the century, Third World standards had still not been eliminated. Today, youngsters attending many of the non-elite secondary school or enrolled for many sub-degree programmes face the risk of being handicapped throughout their careers, while for the community as a whole, there will be a substantial bill for replacing low-quality educational arrangements at a later date.

Housing seems to be the most intractable crisis, and once again, Hong Kong seems unable to escape from Third World situations. The government can overcome the supply crisis if it spends enough money and resists pressures from developers. But emergency building programmes do not offer a solution. On the contrary, experience in the last century showed (in Chapter 3) that when crisis measures are taken to accelerate supply, control over contractors is lost. Corruption and substandard construction get tolerated as long as buildings are finished in record time, leaving a stock of shoddy buildings to be rebuilt at the tax-payers' expense in years to come.

Future quality is more difficult to manage. In the public sector, there were complaints in 2013 within the Housing Authority that 'the standards we now achieve are too good and we should be building less sophisticated Public Rental Housing'. A senior housing official responded by asking 'Why are we being challenged because we provide decent housing for those most in need?'²⁷ Quality homes for Hong Kong people still cannot be taken for granted.

It is not clear that the government will be resolute enough to enforce the higher standards of management and maintenance needed to halt the alarming rate of dilapidation predicted for the current stock of private housing, as Chapter 3 noted. Repairs and renovation need to be policed far more effectively than in the past. Essential is a building code which incorporates standards that will guarantee safe, comfortable homes which are designed to last much longer than 50 years. Quality also depends on a recognition that leaving maintenance to the market is an invitation for owners to allow buildings to deteriorate into slums. Officials do not seem to realise that slum property is a paying investment, while management and maintenance cost money.

Political Priorities

Chapter 7 analysed the rise and fall of 'welfare' advocacy in Hong Kong. A tempting conclusion is that Hong Kong has ended up with the level of public housing and social services that it deserves. The community decided that its survival depended on a political struggle that left little room for campaigns to protect the needy and the vulnerable. Thus, society as a whole accepted with little resistance the unsatisfactory state

of the social services on which ordinary families depended, while the distress and the deprivation of the new poor provoked little public anger. On Mainland issues, the record was entirely different. The community displayed a robust determination to block measures which the people of Hong Kong believed might imperil their unique way of life. The general conviction that Hong Kong's values must come first was expressed with special eloquence by Donald Tsang Yam-kuen during a visit to the United States in 2003.

. . . the protest march in Hong Kong on July 1 . . . was a defining moment for us. In steaming temperatures, cheek by jowl, 500,000 of our residents took to the streets in a protest against the government . . . As someone born and bred in Hong Kong, as the son of a Policeman, I was moved by the calm, peaceful and rational manner in which Hong Kong people conducted themselves that day. Despite the uncomfortable conditions, tempers did not overheat. There were no angry scenes in the streets. No destroying of public or private property. No baton charges by police, or water cannons fired into the crowd. Hong Kong people cared enough about the future of their society — about the values that they hold dear — to take to the streets in defence of them.²⁸

What made the Tsang's defence of the July 1 protest all the more impressive was that he did not hesitate to deliver this message before another American audience which included two Chinese ambassadors.²⁹ At that time, he was still not sure that the Central People's Government would promote him to the post of Chief Executive when Tung Chee Hwa stepped down.

In response to Hong Kong's zeal in defence of its own values, there has been a barrage of criticism from the Mainland of the public's lack of docility. There has also been considerable censure by the government-business nexus of the community's alleged ignorance of Mainland affairs which was said to obstruct the fostering of patriotic sentiment. In all this, little attention has been paid to Hong Kong's Mainland achievements. On the eve of Deng Xiaoping's 1978 initiatives to modernise China's economy, Liao Chengzhi, the nation's leading authority on Hong Kong, denounced the persecution inflicted in the past on anyone with Hong Kong or other external connections. They had been vilified together with 'landlords, rich peasants, counter-revolutionaries . . . enemy agents'. In 1970, he went on, special measures had been introduced to compel cadres to break off connections with their Hong Kong relatives.³⁰

Deng's reforms should have eradicated such hostility because they were accompanied by the leadership's open endorsement of economic cooperation between Guangdong Province and Hong Kong. Shortly after the reforms were officially adopted, the Foreign Trade Minister,

Li Qiang, visited Hong Kong and acknowledged the way that a flood of Mainland officials in search of expertise and resources had already been welcomed by the Hong Kong business community.³¹ The message that Hong Kong had a major contribution to make to the nation's economic takeoff was widely publicised thereafter by the Mainland authorities.³²

But just over two years later, Guangdong's leaders denounced Hong Kong in contemptuous terms. 'Our spiritual civilization is higher than Hong Kong's', a provincial vice-governor boasted in 1981, which he castigated for its low moral standards.³³ Resistance to taking Hong Kong as a model intensified with the increase in cross-border business, and the province was urged in 1982 to 'erect a great iron wall against capitalist corrosion of the minds of cadres and the masses'.³⁴ In 1985, an official publication reported that some Mainland staff posted to joint ventures were treating their Hong Kong partners with the same hostility as when the state was taking control of China's capitalist activities in the 1950s.³⁵

Nevertheless, Hong Kong industrialists and investors persisted in cooperating with national policy to create a modern industrial base in Guangdong. 'Without Hong Kong, the Chinese mainland could not have accessed the global market' in the two decades following the adoption of Deng Xiaoping's 'open door' policies, a Chinese leader declared in 2000.³⁶ Hong Kong became the Mainland's largest source of foreign direct investment (FDI), supplying over 40 per cent of the total inflow.³⁷ There could be no doubt about the strenuous efforts made by Hong Kong to collaborate with the Mainland in its drive to modernise the nation.

The relationship at the financial level became stronger than ever in this century, but manufacturers were forced to suffer the loss of the incentives and exemptions which they had been granted initially on the Mainland. As Chapter 1 suggested, this recent Mainland experience deepened the business community's conviction that social and labour reforms were a direct threat to their profitability and hardened their resistance to 'welfare' initiatives in Hong Kong. The business community also discovered how ineffective the government was when it came to protecting Hong Kong commercial interests against adverse changes in Mainland policies. In recent years, the financial as well as the manufacturing sectors suffered from the government's poor management of relations with Mainland authorities, as Chapter 2 discussed.

The political environment entered a new phase during the 2012 Chief Executive elections, and the priority of social issues started to rise. There was growing comprehension within the general community that the global and Mainland economies no longer offered the most lucrative markets for local firms to exploit. The biggest profit opportunities were to be found in Hong Kong itself. In response, the government faced

growing pressure for measures to safeguard the consumer and the labour force against business malpractices, and it became increasingly difficult for ministers to resist and delay such reforms. As Chapter 7 noted, the Federation of Trade Unions (FTU), the largest trade union and hitherto a pillar of political support for the government, had begun to protest in 2012 at the failure to protect the employment rights and livelihood of the workforce. There was thus a possibility that Chief Executives and their ministers would no longer be able to rely on their partnership with business representatives and on the collaboration of the largest trade union's leaders to ensure a majority for the administration's proposals in the legislature. Even without the introduction of universal suffrage, the government may have to make the wellbeing of the community rather than the interests of business its primary concern.

The Mainland Has the Final Say

The Mainland could prove the most powerful factor of all in compelling the government to accept greater responsibility for the social wellbeing of the community. As Chapter 2 noted, China's leaders became deeply suspicious from 1991 of the colonial administration's social programmes, which they believed were unaffordable and thus a danger to the financial wellbeing of the future Special Administrative Region. At the end of British rule, welfare spending was still under attack from senior Mainland officials, creating a strong impression that expenditure in this area would be reined in by the new government (which indeed took place under Tung Chee Hwa).³⁸

Mainland belief in the overwhelming importance to be given to economic growth has since modified. In 2011, the nation's 12th Five-Year Plan abandoned the 'business-first' development model, and Premier Wen Jiabao called for 'a complete change of GDP-obsessed mentality'. The 2011–15 target for annual average GDP growth was cut to 7 per cent (compared with the 10.7 per cent annual average achieved from 2002). Disposable incomes would rise by an annual average of no less than 7 per cent during the new Five-Year Plan, while the minimum wage level would be increased each year by 'at least 13 per cent'. Old-age pension systems would cover the entire rural population and all 'non-working urban residents'.³⁹ In 2014, a new Prime Minister, Li Keqiang, promised that 'China will wage a war against poverty'. 'Poverty relief is like a thermometer that can measure social justice and people's well-being,' he declared.⁴⁰ Hong Kong's rulers preferred not to talk about social justice.

Chapter 1 recorded Tsang Yam-kuen's efforts to persuade China's leadership to have Hong Kong included in the national plan on the grounds that considerable opportunities for economic growth would follow. The

implications for social policy attracted limited attention. Nevertheless, they were formally discussed when the Special Administrative Region's Commission on Strategic Development organised a forum to review how Hong Kong should respond to the plan. Little time was devoted specifically to social issues, but it was significant that some participants complained about Hong Kong's failure to upgrade its social services and to tackle the widening gap between rich and poor as the Mainland was doing.⁴¹ As far as the government itself was concerned, the national five-year plan raised only one serious social policy issue: Hong Kong's working poor and how to assist those families in which earnings were below the subsistence (i.e., CSSA) level.⁴² There was no significant follow-up action on this subject, however.

Otherwise, the widening social responsibilities accepted by the Central People's Government had little impact on Hong Kong policy-makers. At the end of 2012, the Mainland claimed that 'medical services have become more affordable and accessible; and fewer and fewer people are becoming poor or return to poverty because of illness'.⁴³ The Hong Kong Special Administrative Region had adopted policies which, as this book has reported extensively, made medical and other social services more expensive and inaccessible and which allowed serious illnesses to aggravate the financial hardship of patients and their families.

In 2016, the 13th Five-Year Plan will embrace Hong Kong more comprehensively, Leung Chun-ying has declared, and Hong Kong will have to view itself 'as a part of the nation, the family and its polity'.⁴⁴ Will it be possible in 2016 for the Special Administrative Region government to pick and choose from the next national plan, embracing the economic opportunities and rejecting the social obligations? The economic integration with the Mainland pursued by all three Chief Executives may well have the unintended consequence of raising the priority of social wellbeing at the expense of the traditional principle of 'business first' because growth at any cost had become politically incorrect on the Mainland.

Notes

1. Matthew Cheung Kin-chung, Secretary for Labour and Welfare, *Government Information Services (GIS hereafter)*, 21 June 2013.
2. On such threats, see, for example, Bruce Gilley, 'Li Besieged', *Far Eastern Economic Review*, 28 January 1999.
3. Official statistics in 2014 revealed that for almost every type of residential care, supply had remained almost static while numbers on waiting lists increased. Matthew Cheung, Secretary for Labour and Welfare, *HHH*, 22 January 2014, 5859–65.

4. Cheung, Secretary for Labour and Welfare, *Hong Kong Hansard (HH* hereafter), 17 April 2013.
5. Marianne Savage, 'Sheltered Workshops: The Extent to Which Business Practices Can or Should Be Applied to Sheltered Workshops', MBA dissertation, University of Hong Kong (September 1988), pp. 8–9 and Appendix 1: 'Data on Disabled Persons in Hong Kong 1987', p. 93, f.n. #. There is a tendency to underestimate these past endeavours. See Po-ying Amy Ho, 'The Incubation of Social Entrepreneurship in Hong Kong', 2010 International Conference on Social Enterprises in Eastern Asia: Dynamic and Variations, Taipei (14 June 2010), pp. 7–8; Tang Kwong Leung et al., 'Social Enterprises in Hong Kong: Toward a Conceptual Model, Final Report' (Central Policy Unit, April 2008), p. 69.
6. The political advantages for the governments of Singapore and Japan were described in the government-commissioned report, Hong Kong Policy Research Institute Ltd, 'A Study on Tripartite Partnership: Benchmarking Study from an International Perspective: Final Report' (Central Policy Unit, October 2005), pp. 6, 35–6, 38.
7. Henry Tang Ying-yen, Financial Secretary, *GIS*, 6 April 2006.
8. 'There is a lack of public understanding and receptivity to SEs.' Tang et al., 'Social Enterprises in Hong Kong: Toward a Conceptual Model, Final Report', p. 65.
9. *Ibid.*, pp. 7–10.
10. *Ibid.*, pp. 50, 51, 53, 60.
11. Ann Hon, Assistant Director of Social Welfare (Subventions), *GIS*, 22 May 2008.
12. Tsang Tak-sing, Secretary for Home Affairs, *HH*, 31 October 2007, pp. 1121–2, A1–2; Cheung, Secretary for Labour and Welfare, *HH*, 14 November 2012, p. 2129.
13. *Social Welfare into the 1990s and Beyond* (Hong Kong: Government Printer, 1991), p. 13.
14. Hospital Authority, *Hospital Authority Annual Plan 2007–08* (Hong Kong: Hospital Authority, 2007), p. 9; Dr Ko Wing-man, Secretary for Food and Health, World Health Summit Regional Meeting, *GIS*, 9 April 2013.
15. For summaries of the government's responses on key issues (and how consistent they were over time), see Legislative Council Secretariat, 'Panel on Education. Implementation of the New Academic Structure' (CB(2)1996/09-10(02), 8 July 2010), pp. 3, 4, 6; 'Panel on Education. Implementation of the New Academic Structure' (CB(2)1694/11-12(05), 17 April 2012), pp. 3–5, 9–11.
16. The serious difficulties encountered in implementing the new system were set out in a report by the Joint Committee of Hong Kong Secondary School Councils and Secondary School Principals' Associations of 18 Districts, 'Executive Summary of Report on Survey of the New Academic System' (CB(2)622/11-12(02), 11 November 2011), pp. 1–6.
17. Education Bureau, 'Legislative Council Panel on Education Progress on the Implementation of the New Academic Structure' (CB(2)1694/11-12(04), April 2012), p. 2.

18. Dr Catherine K. K. Chan, Deputy Education Secretary, *GIS*, 18 April 2013. On the public and professional dissatisfaction with the new secondary school system which led to the government concessions, see editorial, *Ming Pao Daily*, 19 April 2013.
19. See the inspection data in 'Figure 6.2: Number of Inspections Made in . . . by Major Economic Sector' in the on-line *Report of the Commissioner for Labour*, 2002 and *Labour Department Annual Reports*, 2003 to 2010.
20. Hospital Authority, 'Modernization of Medical Equipment in the Hospital Authority' (CB(2)865/09-10(05), February 2010).
21. See Kirk Yip (Food and Health Bureau) letter to Mary So (Panel on Health services), 'Modernization of Medical Equipment in the Hospital Authority', FH/H/1/5, 9 April 2010.
22. Kai Ming Cheng, 'The Policy Making Process', in Gerard A. Postiglione and Wing On Lee (eds.), *Schooling in Hong Kong: Organization, Teaching and Social Context* (Hong Kong: Hong Kong University Press, 1997), p. 65.
23. John Tsang Chun-wah, Financial Secretary, *HH*, 27 February 2008, p. 4991.
24. John Tsang, Financial Secretary, *HH*, 27 February 2013, p. 7426.
25. 'Commission on Poverty convenes first meeting', *GIS*, 10 December 2012.
26. 'Commission on Poverty convenes 13th meeting', *GIS*, 20 August 2014.
27. D. W. Pescod, Director of Housing, *GIS*, 27 June 2013.
28. Donald Tsang, Chief Secretary, speech at the Center for Strategic and International Studies, Washington, *GIS*, 19 September 2003.
29. The Chinese diplomats were Ambassadors Wang Guangya and Liu Biwei. Donald Tsang, Chief Secretary, *GIS*, 18 September 2003.
30. Liao Chengzhi, Overseas Chinese Affairs Office Director, 'Refuting the reactionary errors of the "Gang of Four" about so-called "overseas relationships"', *Renmin Ribao*, 4 January 1978.
31. For his speech, see *Ta Kung Pao*, 21 December 1978.
32. For example, Xi Zhingxun, Provincial First Party Secretary, *Nanfang Ribao*, 12 August 1979; Liu Nianzhi, All-China Federation of Industry and Commerce Vice Chairman, *New China News Agency*, 30 November 1979.
33. Reported in *Wen Wei Po*, 1 March 1981.
34. Pan Weiwen, 'A talk about the advantages and disadvantages of being neighbours to Hong Kong and Macao', *Yangcheng Wanbao*, 17 March 1982.
35. Yang Qinquan and Jiang Zhiyuan, Guangzhou Party Propaganda Department, 'Analysis of the results of Guangzhou's foreign economic cooperation and future strategy', *Guangzhou Yanjiu*, No. 5 (September–October 1985), pp. 35–7.
36. Li Ruihan, Chinese People's Political Consultative Conference Chairman, *China Daily*, 7 November 2000.
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38. This prospect was recognised very perceptively by Professor Tang Shu-hung, 'The Hong Kong Fiscal Policy: Continuity or Redirection?', in Li Pang-kwong (ed.), *Political Order and Power Transition in Hong Kong* (Hong Kong: Chinese University Press, 1997), pp. 187–8, 227–8.

39. The quotations and statistics are from *New China News Agency* reporting Premier Wen Jiabao, 27 February and 14 March 2011, 5 March and 11 September 2012; and Yin Weimin, Minister of Human Resources and Social Security, 8 March 2011.
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42. Commission on Strategic Development, 'An Overview of the Opportunities and Challenges of Hong Kong's Development' (CSD/6/2008, October 2008), pp. 6–7.
43. For this quotation and a detailed overview of Mainland policy in the health sector, see 'Medical and Health Services in China', *New China News Agency*, 26 December 2012.
44. Leung Chun-ying, Chief Executive, *GIS*, 6 December 2012.

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