

# POLITICAL REFORMS VS. UNDEMOCRATIC INSTITUTIONAL ARRANGEMENTS IN HONG KONG

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*This essay examines the recent political developments in Hong Kong. Specifically, it examines the problem of political accountability and unresponsive governance. The essay argues that lack of accountability is a byproduct of existing institutional arrangements – i.e. limited functional franchise, veto powers and institutional backdoors – which promote rent-seeking behavior among tycoons and undermine the economic freedoms of ordinary Hongkongers, who, dissatisfied with the current state of affairs, demand political reforms.*

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## Introduction

Beijing has been able to de-escalate the pro-democratic demonstrations of 2014 and exacerbate the internal divisions among the activists of the Umbrella Movement and the moderate silent majority of Hongkongers. As a result, social unrest has abated, and the majority of protests have gone silent. Now that domestic and international pressures have eased, Beijing has finally time to move from crisis management to crisis resolution, ponder the future of the Special Administrative Region (SAR), and decide whether to continue in the game of repression or start tackling the socio-political problems that have caused the protests in the first place.

This essay examines the recent political developments in Hong Kong. Specifically, it examines the issue of political accountability and unresponsive governance. The essay argues that lack of accountability is a byproduct of existing institutional arrangements which promote rent-seeking behavior among tycoons and undermine the economic freedoms of ordinary Hongkongers. Moreover, limited functional franchise, veto powers, and institutional backdoors continue to allow tycoons and pro-Beijing legislators to deter any meaningful political reform set to address the

problem. As a result, socioeconomic inequality has been growing among Hongkongers, and it has fueled discontent among citizens. Discontent which Beijing has been repressing at the cost of increased instability in the years to come.

The underlying argument of this essay has important policy implications as it holds that it might be in the interest of the Communist Party of China (CPC) to sack rent-seeking tycoons and create an alliance with pro-democratic forces to corner Hong Kong separatists. Beijing, as advocated in the following pages, should not fear procedural accountability, but instead use Hong Kong as a playground where to test and learn how to play (and even manipulate) the democratic game. If the CPC was to guide the foundation of democracy in Hong Kong, it could set the rules of the game for the years to come and create the much-needed legitimacy and support for its rule in the SAR.

## Constraints to Political Reforms

Hong Kong residents enjoy a government tolerant of political criticism and substantive freedoms of

speech, association, religion, and assembly.<sup>1</sup> In other words, they are free to voice, exit and, to some extent, be disloyal to their government.<sup>2</sup> Their freedoms are granted by the Basic Law of Hong Kong, a proto-democratic constitution that gives democratic rights and formalizes the rule of law, separation of powers, and procedural elections.<sup>3</sup> However, the Basic Law is also the cause of many of the problems that the SAR is facing today because the Law also formalizes undemocratic institutional arrangements – i.e., limited functional franchise, institutional backdoors, and veto powers.<sup>4</sup> The Legislative Council (LegCo) could easily reform the Basic Law and remove the undemocratic institutional arrangements. But unfortunately, the Council is composed of a group of legislators that are in power partially because they were able to exploit the undemocratic shortcuts offered by the Basic Law. Pro-Beijing legislators and tycoons have no interest in any meaningful political reforms. Unless a pro-democracy majority appears in the Council, no changes are to be expected. But clearly, such a majority will never appear without a reform of the electoral law. As it can be inferred, this is a vicious circle that can only be broken by an external actor, such as the CPC. However, recent trends have shown that also Beijing has no interest in supporting pro-democracy legislators. Indeed, the CPC has been increasingly assertive in consolidating its legislative power at the expenses of LegCo.

The *limited functional franchise* is the biggest obstacle to procedural accountability in Hong Kong.<sup>5</sup> Article 45 and Article 68 of the Basic Law respectively state that, in the long term, universal suffrage should be implemented “in accordance with the principle of gradual and orderly progress.”<sup>6</sup> To date, this has meant enlarging the suffrage of voters, while at the same time keeping close the selection of the candidates running for elections. The current electoral laws for the Chief Executive (CE) and Legislative Council (LegCo) do not abide by the principle of one man, one vote. Under the Basic Law, the CE is elected by a broadly representative Election Committee composed of 1,200 members and appointed by the Central People's Government, while the LegCo consists of 70 members elected among functional constituencies and geographical constituencies. The problem is that functional constituencies grossly over-represent tycoons and, due to their small electorates, are prone to manipulation.<sup>7</sup> For instance, their electorate is of only about 240,000 individuals vis-à-vis the geographical constituencies' electorate of 3.47 million voters.<sup>8</sup> Thus, one “functional vote” carries the same weight as 14.5 “geographical votes.” In addition, a few conglomerates that have businesses in different economic sectors can control a large share of “corporate voters” within functional constituencies since they are represented in multiple constituencies.<sup>9</sup> Consequently, the current electoral

<sup>1</sup> Thomas S. Axworthy and Herman B. Leonard, “The Long March in Hong Kong: Continuing Steps in the Transition from Colony to Democracy,” *KSF Faculty Research Working Paper Series*, 2006, 2.

<sup>2</sup> For the definitions of “exit, voice, disloyalty”, see: Dennis C. Mueller, *Public Choice III*, 1st ed. (New York: Cambridge University Press, 2003).

<sup>3</sup> *The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China* (Hong Kong, People's Republic of China: Constitutional and Mainland Affairs Bureau, 2015), chap. IV.; Annex I and Annex II.

<sup>4</sup> Kam C. Wong, “Chinese Jurisprudence and Hong Kong Law,” *China Report* 45, no. 3 (2009): 213.

<sup>5</sup> Axworthy and Leonard, “The Long March in Hong Kong: Continuing Steps in the Transition from Colony to Democracy,” 4.

<sup>6</sup> *The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China* chap. IV § 1 Art. 45, § 3 Art. 68.

<sup>7</sup> *The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China* Annex II, Instrument 3 and Instrument 4; Lynn T. White, “Hong Kong Is a Modern City Without a Modern Government,” *Foreign Policy*, October 22, 2014, <http://foreignpolicy.com/2014/10/22/hong-kong-is-a-modern-city-without-a-modern-government/>.

<sup>8</sup> Tanna Chong, “Legco Election 2016: How a Handful of Voters Elect 30 Hong Kong Lawmakers,” *South China Morning Post*, February 6, 2014, <http://www.scmp.com/news/hong-kong/article/1421613/legco-election-2016-how-handful-voters-elect-30-hong-kong-lawmakers>.

<sup>9</sup> Eric C. Ip, “The Constitution of Economic Liberty in Hong Kong,” *Constitutional Political Economy* 26, no. 3 (2015): 317.

law distorts the real preferences of the electorate and divides the population between those who are granted functional representation and those who are not.<sup>10</sup>

*Veto powers* add an element of complexity to the political reform process. As mentioned before, lack of accountability could easily be resolved with an amendment of the electoral law, but such amendment cannot be done without a widespread political will. The LegCo is divided into three groups of political actors: pro-Beijing legislators, tycoons' legislators (mostly elected in functional constituencies), and democratic legislators.<sup>11</sup> Each of the three actors has a de facto veto over any change of the electoral rule because such amendments require a two-thirds majority plus the consent of the CE to pass.<sup>12</sup> In other words, none of the three groups can unilaterally amend the law, and inter-party support is necessary for constitutional reforms.<sup>13</sup>

This vetocracy, as explained by Lynn T. White, "prevents the city from solving its problems, which include outdated housing, the need to care for an aging population, [...] oligopolies that fleece Hong Kong people, and corruption at the top of the city's government."<sup>14</sup> Veto powers, for example, have been used to defeat bills to "open the markets to competition in electricity and gas supply in 1998 and in 1999; to curb fare rises by permitting more competition to enter the public transport system in 2000; and to ease the tax burden on the middle class in 2003."<sup>15</sup> The rigidity of the Basic Law was not meant to constrain institutional development, but

instead to safeguard constitutional principles from the tyranny of the majority. However, the rigidity of Law has been used by pro-Beijing and Tycoon legislators as a mean to maintain the status quo and protect the undemocratic institutional arrangements. Finally, *institutional backdoors* are the last nail in the coffin of political reforms. Following the principle of "one country, two systems", Hong Kong's government is both accountable to Hong Kong residents and to the Central Government in Beijing. The Basic Law states in Article 15 that the Central People's Government "shall appoint the Chief Executive and the principal officials of the executive authorities,"<sup>16</sup> and that the Chief Executive, accordingly to Article 43, shall be accountable to both the Central People's Government and Hong Kong.<sup>17</sup>

The relationship between Central and Hong Kong governments goes deeper than one of traditional principal-agent relationship. Article 158 of Chapter VIII of the Basic Law grants the power of interpretation of the Basic Law to the Standing Committee of the National People's Congress (NPC). Beijing has, therefore, an upper hand when it comes to constitutional matters. Even if the interpretation power has to be exercised in accordance with the other provisions of the Law, such as the right of Hong Kong to maintain a high degree of autonomy, Beijing has proved to be able to tweak the Basic Law to its own advantage. For instance, on April 6, 2004, the Standing Committee of the Tenth NPC issued an interpretation bill that restricted LegCo and empowered Beijing in regards

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<sup>10</sup> Christine Loh, "Functional Constituencies And Hong Kong's Legco Elections," *China Brief*, September 1, 2004, [http://www.jamestown.org/programs/chinabrief/single/?tx\\_ttnews%5Btt\\_news%5D=26799&tx\\_ttnews%5BbackPid%5D=194&no\\_cache=1](http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews%5Btt_news%5D=26799&tx_ttnews%5BbackPid%5D=194&no_cache=1); Ian Scott, "Functional Constituencies and Representation," in *Democracy and Political Development* (Hong Kong: Hong Kong Democratic Foundation, 1991), <http://www.hkdf.org/pr.asp?func=show&pr=121>; Loh, "Functional Constituencies And Hong Kong's Legco Elections."

<sup>11</sup> White, "Hong Kong Is a Modern City Without a Modern Government."

<sup>12</sup> *The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China* Annex 1, Article 7 and Annex 2, Article 3.

<sup>13</sup> Vetocracy also subsists for the approval of motions, bills or amendments to government bills introduced by legislators. In these cases, Annex 2 section 2 of the BL requires a simple majority vote for the two functional constituencies and geographical constituencies separately. Thus, 18 legislators either from a functional or geographical constituency are enough to prevent the approval of a bill.

<sup>14</sup> White, "Hong Kong Is a Modern City Without a Modern Government."

<sup>15</sup> Ip, "The Constitution of Economic Liberty in Hong Kong," 317.

<sup>16</sup> *The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China* Art 15.

<sup>17</sup> *Ibid.* Art. 43.

to the amendments procedures for the electoral law.<sup>18</sup>

The electoral laws for the selection the Chief Executive (CE) and LegCo are specified in Annex 1, Article 7, and Annex 2, Article 3, of the Basic Law. This two articles states that “if there is a need to amend” the methods for selecting the Chief Executives and forming the Legislative Council, “such amendments must be made with the endorsement of a two-thirds majority of all the members of the Legislative Council and the consent of the Chief Executive and they shall be reported to the Standing Committee of the National People's Congress” for approval (in case of amendments of Annex 1) and for the record (in case of amendments of Annex 2).<sup>19</sup>

These articles originally granted the amendment initiative to LegCo and limited the NPC to express an approval of on the proposed changes to the electoral law of the Chief Executive. However, everything changed with the interpretation bill of 2004, which stated that the Standing Committee of the NPC is also in charge of determining “if there is a need to amend” the articles.<sup>20</sup> Thanks to this new interpretation of the Law, Beijing was able to establish a “new procedural requirement in order to democratize Hong Kong's electoral system” by which “the Legislative Council is barred from acting on election reform until after Beijing has given its blessing.”<sup>21</sup> Moreover, the NPC also interpreted that any amendment of Annex 1, Article 7, and Annex 2, Article 3, need to be approved or

recorded by the Standing Committee of the NPC in order to be promulgated.

The evidence presented in this section suggests that *limited functional franchise* and *veto powers* allow tycoons and pro-Beijing legislators to fully control the legislative and executive branches, thus making them able to restrict access to institutions. While the CPC, which already has the support of pro-Beijing legislators, can also use *institutional backdoors*, such as its power to interpret the Basic Law, to control and veto constitutional reforms.

### Who Benefits from the Status Quo

With the transfer of sovereignty in 1997, Beijing inherited the UK's undemocratic political order where tycoons and colonial institutions were the sole groups with access to the city government.<sup>22</sup> When the Basic Law was drafted, the so-called “big capitalists” occupied 12 of the 20 seats reserved for Hong Kong residents in the drafting committee and they were able to “design institutions to benefit themselves in the future.”<sup>23</sup> Moreover, with the blessing of Beijing, Hong Kong's tycoons allied with pro-China trade unions to establish a corporatist regime that would have granted them political dominance over the rest of Hong Kong residents.<sup>24</sup>

After the transition, Beijing continued to franchise Hong Kong's government to the business elite of the city.<sup>25</sup> This strategy was part of a long-term Chinese strategy of “political absorption of economics,” set to use Hong Kong government as an “absorber” that would have minimized political

<sup>18</sup> Ibid. Instrument 18.

<sup>19</sup> Ibid. Annex 1, Article 7 and Annex 2, Article 3.

<sup>20</sup> Ibid. Instrument 18; Bing Ling, “Introduction to the Hong Kong Basic Law,” *The China Quarterly* 221, no. March (2015): 229, 237, doi:10.1017/S0305741015000144.

<sup>21</sup> Human Rights Watch, “A Question of Patriotism: Human Rights and Democratization in Hong Kong,” A Human Rights Watch Briefing Papers, 2004, 20.

<sup>22</sup> Phiip Bowring, “How Hong Kong's Business Elite Have Thwarted Democracy for 150 Years,” *South China Morning Post*, October 19, 2014, <http://www.scmp.com/comment/insight-opinion/article/1618427/how-hong-kongs-business-elite-have-thwarted-democracy-150?page=all>.

<sup>23</sup> Ip, “The Constitution of Economic Liberty in Hong Kong,” 315; Ibid., 320.

<sup>24</sup> Berry F. Hsu, “Judicial Development of Hong Kong on the Eve of 1 July 1997,” in *The Hong Kong Reader: Passage to Chinese Sovereignty*, ed. Ming K. Postiglione and Gerard A. Chan (Armonk, NY London: M.E. Sharpe., 1996), 105–26.

<sup>25</sup> White, “Hong Kong Is a Modern City Without a Modern Government.”; Xu Jiatur, the vice-chairman of the Hong Kong Basic Law Drafting Committee wrote in his memoir that Deng Xiaoping interpreted the concept of ‘*Gangren zhi Gang*’ as ‘Hong Kong people governing Hong Kong’ chiefly under the political leadership of the bourgeoisie, and not ‘Hong Kong people governing Hong Kong’ chiefly under the political leadership of the proletariat. See: Cindy Yik-yi Chu, *Chinese Communists and Hong Kong Capitalists: 1937-1997* (New York: Palgrave Macmillan, 2010), 69.

conflicts “through the granting of special positions to the business elite.”<sup>26</sup> The strategy, however, ignored the will of millions of Hongkongers and contributed to foster a political system unresponsive to the median voter.

The governing coalition between Beijing and tycoons has lasted until today because it is rooted in a series of mutual interests exclusive to Hong Kong’s citizens. The two groups used their respective institutional powers to reach a two-pronged goal: Beijing sought control and stability while tycoons sought profit. In the mindset of the 1990s, the two goals of economic development and stability were perceived as mutually reinforcing, and thus Beijing and the business elites were able to coexist in the tiny region of Hong Kong. However, is this still the case today? Beijing’s intransigent protection of the current status quo reveals that the Communist Party of China (CPC) believes it is. Yet, macroeconomic trends and figures tell another story.

To date, it seems that economic growth and stability are not coexisting anymore in Hong Kong and that the interests of Beijing and tycoons are becoming mutually exclusive. Tycoons have been using their legislative power to protect their oligopolistic interests and veto bills that are set to solve public problems. Consequentially, they have built an exploitive system where:

Wages are taxed, but lightly, while dividends, interest, inheritances, and capital gains are tax-free. Oligopolies in groceries, pharmaceuticals, and property create extra "rents" that resemble non-state taxes, paid to

the tycoons who also control Hong Kong’s government. Anti-trust laws are condemned as state intervention. Welfare is branded shameful, even for people who truly need it.<sup>27</sup>

As a result, even if Hong Kong has enjoyed a period of rapid economic growth since the seventies, it now “ranks among the most unequal economies.”<sup>28</sup> Despite a GDP per capita of USD 32,000, more than half of the population earns less than USD 1,400 a month,<sup>29</sup> and roughly 1.3 million people (19.6 percent of the population) are considered to be living below the official poverty line.<sup>30</sup> From 1971 to 2011, the Gini coefficient in Hong Kong has raised from 0.430 to 0.537, with an upsurge from 1990 onwards,<sup>31</sup> and is now higher than the one of US or Singapore.<sup>32</sup> The “Hong Kong Quality of Life Index” compiled by The Chinese University of Hong Kong confirms the trend of increasing economic inequality with its seven economic indicators registered the lowest score in a decade in 2012.

It is particularly fruitful for this study to focus on the percentage share that households from different income groups have of the total income. It is remarkable to observe that from 1966 to 2006:

The income share of the low-income households has increased only before 1976. After 1976, it can be observed that (1) the lower the income group, the greater the reduction of its share and (2) the higher the decile of income group, the greater the realized increase in its share of the total income.<sup>33</sup>

<sup>26</sup> The strategy was first defined by the local scholar Ambrose Y. C. King. Ibid., 47.

<sup>27</sup> White, “Hong Kong Is a Modern City Without a Modern Government.”

<sup>28</sup> Shaoguang Wang and Yin Xia, “Growth and Inequality in Hong Kong,” in *Growth with Inequality: An International Comparison on Income Distribution* (Singapore: World Scientific Publishing Company, 2012), 23.

<sup>29</sup> Katie Hunt, “Is Hong Kong Really the World’s Freest Economy?,” *BBC*, January 12, 2012, <http://www.bbc.com/news/business-16501894>.

<sup>30</sup> Toby Carrol, “Hong Kong’s pro-Democracy Movement Is about Inequality.,” *The Guardian*, July 28,

2014, <http://www.theguardian.com/commentisfree/2014/jul/28/hong-kongs-pro-democracy-movement-is-about-inequality-the-elite-knows-it>.

<sup>31</sup> Wang and Xia, “Growth and Inequality in Hong Kong,” 24.

<sup>32</sup> “Beyond The Umbrella Movement: Hong Kong’s Struggle With Inequality In 8 Charts,” *Forbes*, August 10, 2014, <http://www.forbes.com/sites/liyanchen/2014/10/08/beyond-the-umbrella-revolution-hong-kongs-struggle-with-inequality-in-8-charts/>.

<sup>33</sup> Wang and Xia, “Growth and Inequality in Hong Kong,” 24.

After more than three decades of this trend, the situation has worsened until the point where the first decile receives 41.4 percent of total income, while the bottom five deciles of households only account for 16 percent of the overall income.<sup>34</sup>

Redistribution policies have failed to reduce the levels income inequality. Shaoguang Wang and Yin Xia compared the rate of pre and post redistribution of the Gini coefficient in 2006 and found only a small reduction of the coefficient, from 0.533 to 0.475, was due to redistribution.<sup>35</sup> In terms of market income, the high level of inequality registered in Hong Kong is not an anomaly per se. But the after redistribution Gini coefficient appears to be an anomaly among developed countries. As Wang and Xia pointed out in their comparative study, Hong Kong is among “the most developed economies in terms of its per capita GNP, while it is among the worst economies in terms of its redistribution ability.”<sup>36</sup>

Economic inequality could be reduced with more redistribution, welfare, and progressive taxation.<sup>37</sup> However, tycoons have no interest in increasing taxes, and they veto any proposals that aim to solve the problem. The net result of this impasse is that economic inequality is becoming a social issue that fuels discontent among citizens against their government. Ideally, economic growth could foster stability and legitimization for the CPC, but not if profits are seized by a kleptocratic elite of billionaires whose wealth already equals over 70 percent of Hong Kong’s annual GDP.<sup>38</sup>

Tycoons break the distinction between private and public interest, thus transforming Hong Kong into a neo-patrimonial state where they govern for private gain. Such a state fails to provide the substance of what people want from government, it corrodes welfare policies, decreases accountability, and

promotes collusion between government and business.<sup>39</sup>

The hypothesis of the “collusion” has recently been tested and proven valid by Stan Hok-Wui Wong. Wong examined firms listed on the Hong Kong Stock Exchange (HKSE) and the membership of their shareholders and directors in political institutions (the Election Committee). In particular, he regressed firm performance (measured by return on equity, market-to-book ratio, and earnings per share) on Election Committee membership. His study concluded that, consistently with the collusion hypothesis, “political connection yields positive economic payoffs” and “firms experienced an improvement in return on equity and market-to-book ratio after joining the Election Committee.”<sup>40</sup> Overall, the arguments brought up in this section shows that the governing coalition between Beijing and tycoons has succeeded in fostering economic growth, but failed in redistributing the economic gains. With collusion and rent-seeking policies eroding economic freedoms of citizens and preventing meaningful political reforms to take place.

### **Who Wants to Change the Status Quo?**

Hong Kong has a laissez-faire approach to the market, which relies on voluntary exchanges and sees only a limited participation of the state. This is recognized by the *Index of Economic Freedom* published by The Wall Street Journal, which has ranked Hong Kong as the “freest economy of the world” for more than two decades.<sup>41</sup> The perception of Hong Kong’s high economic freedom is also shared among its residents. Hongkongers appear to believe that “the market is a legitimate means of distributing income; that everyone should work hard to succeed in competition with others; that those who work hard should be and would be rewarded;

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<sup>34</sup> Ibid.

<sup>35</sup> Ibid., 42.

<sup>36</sup> Ibid., 45.

<sup>37</sup> Chui Lap, Leung Shong Tung, and Chun Hin Yip, “Income Inequality In Hong Kong” (Hong Kong Statistical Society, 2011), 21.

<sup>38</sup> White, “Hong Kong Is a Modern City Without a Modern Government.”

<sup>39</sup> Francis Fukuyama, *Political Order and Political Decay: From the Industrial Revolution to the Globalization of Democracy*, e-book (New York: Farrar, Straus and Giroux, 2014), chap. 1.

<sup>40</sup> Stan Hok-Wui Wong, “Political Connections and Firm Performance: The Case of Hong Kong,” *Journal of East Asian Studies* 10, no. 2 (2010): 300.

<sup>41</sup> Ip, “The Constitution of Economic Liberty in Hong Kong,” 321.

and that economic failure is mainly an individual's own problem."<sup>42</sup>

At the same time, however, Hongkongers are increasingly aware of the effects of socioeconomic inequality in society. The Public Opinion Programme has collected a series of survey data from 1997 to 2015 on residents' perceptions of inequality. The residents were asked whether Hong Kong is an egalitarian society, with 10 indicating absolutely egalitarian and 0 indicating absolutely not egalitarian. The aggregated answer has been fluctuating between a 6.52 registered in 1997 and a minimum of 5.84 recorded in 2015.<sup>43</sup> In addition, public awareness of income disparities has been persistently high.

In a survey study made by Timothy K. Y. Wong, Po-San Wan and Kenneth W. K. Law, it has been shown that the vast majority of the population considers income disparities as a serious problem.<sup>44</sup> On average, at least seven out of ten Hongkongers rated the inequality as serious or very serious. This percentage increased from 58.5 percent in 1995 to 80.4 percent in 2001.<sup>45</sup>

Overall, preferences of Hongkongers are somehow contradictory and difficult to explain. On the one hand, the problem of income inequality in Hong Kong is worse than in many other wealthy societies, in both objective and subjective terms.<sup>46</sup> On the other hand, Hongkongers associate individualism with capitalism and prefer limited state intervention. The majority of people (75.2 percent), however, regards state intervention, as acceptable when it is set to provide social welfare.<sup>47</sup> Welfare expectations are also contradicting. The majority if the population support welfare spending and disagree

with cutting social welfare. However, at the same time, only 16.2 percent supports the introduction of new taxes for welfare, and nearly half believe that welfare reduces personal incentives to rely on themselves.<sup>48</sup>

In summary, it appears that Hongkongers hold dear their economic freedom and wary state intervention. Yet, they are permissive toward intervention for welfare policies. As it can be inferred, Hongkongers' preferences are clashing with the current state of Hong Kong's economy as described in the previous section. This is because collusion and rent-seeking policies erode the economic freedom of citizens and state intervention is used primarily to the benefit of tycoons.<sup>49</sup>

Citizens' dissatisfaction with the current state of affairs has become tangible in an unprecedented anti-business sentiment that has arisen in society and public discourse.<sup>50</sup> Hong Kong media have been increasingly condemning collusion between tycoons and government, and citizens evaluations of tycoons' legislators have been increasingly negative.<sup>51</sup> In a survey of 2011, 38.8 percent of the interviewee expressed distrust on tycoons' legislators (an increase of 12.5 points since 2006), and 54.5 percent stated that tycoons' legislators are profit-oriented and anti-democracy.<sup>52</sup>

The role of tycoons in the governing alliance with Beijing was to drive economic growth and mediate with the local population. Instead, they have kept for themselves the dividends of growth and they have created cleavages among the population. As a result, citizens have opted for disloyalty to put pressure upon the governing elite.<sup>53</sup> And, at times, they succeeded. For example in July 2003, a

<sup>42</sup> Timothy K. Y. Wong, Po-San Wan, and Kenneth W. K. Law, "Public Perceptions of Income Inequality in Hong Kong: Trends, Causes and Implications," *Journal of Contemporary China* 18, no. 61 (2009): 670.

<sup>43</sup> HK Public Opinion Programme, "Appraisal of Degree of Equality," accessed December 10, 2015, <https://www.hkpopop.hku.hk/english/popexpress/socind/socq51/poll/datatables.html>.

<sup>44</sup> Wong, Wan, and Law, "Public Perceptions of Income Inequality in Hong Kong: Trends, Causes and Implications," 662.

<sup>45</sup> Ibid.

<sup>46</sup> Ibid., 271.

<sup>47</sup> Ibid., 662.

<sup>48</sup> Ibid.

<sup>49</sup> Anne O. Krueger, "The Political Economy of the Rent-Seeking Society," *The American Economic Review* 64, no. 3 (1974): 302.

<sup>50</sup> Brian C.H. Fong, "State-Society Conflicts under Hong Kong's Hybrid Regime: Governing Coalition Building and Civil Society Challenges," *Asian Survey* 53, no. 5 (2013): 872.

<sup>51</sup> Ibid.

<sup>52</sup> Ibid.

<sup>53</sup> Since HK has proto-democratic institutions, the risk of being caught are very low because protesting is not illegal and demonstrations are usually made within the boundaries of the law. Therefore, the variable of risk does not influence much the personal incentives in

demonstration of 500,000 citizens opposed the government's proposed legislation on internal security, which was later withdrawn.<sup>54</sup>

However, disloyalty has to date failed to solve the fundamental problem of lack of accountability. On this particular issue, the governing elite has kept an extremely rigid and uncompromising stance, because its powers are dependent on the status quo. Thus, when citizens mobilized in 2004 (approximately 200,000 people) and in 2006 (80,000-200,000 people) to ask for universal suffrage, the governing elite was hard-nosed.<sup>55</sup> And when it finally decided to compromise with a new electoral law, it was only able to do so offering a fake universal suffrage, which eventually led to the massive 2014 protests that involved about 10 to 15 percent of the voting base.<sup>56</sup>

Concluding, it should be pointed out that citizens' protests for fair elections are task-oriented and not merely idealistic. Substantial accountability did not meet the expectations of the citizens, and therefore they asked for procedural accountability. Creating an accountable government should be a top priority for Beijing as the unaccountable tycoon-led government has failed to create stability and fostered social unrest. Beijing should prove that it is able to adapt to both changing circumstances and the rise of new social groups and their political demands. If the CPC does not understand or accept citizens' demands, the only way left for the citizens to overcome institutional rigidity and political decay will be unrest and disobedience.<sup>57</sup> Beijing can still continue to postpone democratization, but by doing so, it will not solve the fundamental problem of economic inequality and it will have to cope with the population's latent social unrest.

The only way Beijing can escape this vicious circle is by establishing agency between Hongkongers and their government. Once agency is created, citizens

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participating to a legal protest. Mueller, *Public Choice III*, 227.

<sup>54</sup> Axworthy and Leonard, "The Long March in Hong Kong: Continuing Steps in the Transition from Colony to Democracy," 4.

<sup>55</sup> Ibid.

<sup>56</sup> Ibid.

<sup>57</sup> Fukuyama, *Political Order and Political Decay: From the Industrial Revolution to the Globalization of Democracy*, chap. 36.

will finally realize that Beijing is not the cause of their socioeconomic problems, but instead a solution. For the CPC, there is no reason why an alliance with citizens would be less beneficial than one with the tycoons, a group that has proved to be a kleptocratic oligarchy that uses institution and resources for private gains at the cost of reduced welfare for citizens and reduced stability for Beijing.

An alliance with the citizens would also reduce irredentist claims and anti-Chinese sentiments. These sentiments should not be overlooked, as a recent poll has shown that the number of "young people aged 18–29 who claim an exclusively Chinese identity has dropped from 20–30 percent a decade ago to a mere 4–8 percent today."<sup>58</sup>

It is also important to stress that procedural accountability will not lax Beijing rule over Hong Kong. Not only Beijing will maintain all the institutional backdoors, but its rule over the SAR will continue to be guaranteed by Article 18 of the Basic Law, which grants extraordinary legislative powers to the Central People's Government in the case of "turmoil within the Hong Kong Special Administrative Region which endangers national unity or security."<sup>59</sup>

## Conclusion

Between the "one country" policy advocated by the CPC and the "two countries" dream of the Hong Kong separatist movement, the "one country, two systems" policy still appears to be the optimal compromise. Surely, it is a better compromise than the "my country, my property" policy backed by tycoon legislators. For this reason, Beijing should strive to safeguard the "two systems" approach even at the cost of granting political reforms.

If Beijing continues to refrain democratization, it will not be able to solve the structural problems that

<sup>58</sup> Ling A. Shiao, "Beijing Is Winning the Battle but Losing the War," *East Asia Forum*, December 26, 2014, <http://www.eastasiaforum.org/2014/12/26/beijing-is-winning-the-battle-but-losing-the-war/>.

<sup>59</sup> *The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China* Art. 18.

have caused social unrest in the first place. Containment of democratization will just foster political decay and embolden tycoon legislators. Conversely, if Beijing decides to proceed with a fair amendment the electoral law, it will finally be able to remove the undemocratic institutional arrangements that have been causing so many problems to its rule over the SAR. Lastly, a season of political reforms will corner separatist movements and weaken the rising anti-Chinese sentiment among the youth.

It seems that Beijing has little to lose and a lot to learn from a democratic Hong Kong. Instead of seeing democratic institutions as a limit to its own power, it should see them as an opportunity to consolidate its long-term rule on the SAR. Hong Kong, with its proto-democratic institutions and strong democratic culture, is the perfect laboratory for the CPC to test political reforms without risking to undermine its political power at home. Now it is the right time to act.

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