

Getting back to basics

INTERVIEW WITH THE HON C Y LEUNG, GBM, GBS, JP
CHIEF EXECUTIVE OF THE HONG KONG SAR

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You are almost at the halfway point of your administration, the major tasks of which you have identified as constitutional development, constructive engagement with the Mainland and improving the lives of the ordinary people of Hong Kong. How would you assess your progress to date and what are your priorities and objectives for the remainder of your term?

These are what I call the three big ‘buckets’ of work for this government, and I would like to address them individually, if I may.

The first of these is constitutional development, and we are in the midst of it at the moment, as we work towards the introduction of universal suffrage for the election of our next Chief Executive in 2017 – a truly historic moment for the people of Hong Kong. As you know, the National People’s Congress Standing Committee (NPCSC) announced their decision on August 31st on the framework of how Hong Kong’s universal suffrage will go ahead, and we’re in the process of preparing for the next round of consultation to flesh out the details within that framework.

It is important to bear in mind a couple of key constitutional facts in this regard. One is the right of the Central Government to appoint Chief Executives of Hong Kong, which is a substantive right, not simply a ceremonial one. It is set out in the Basic Law (Hong Kong’s constitutional document) for the Central Government to appoint the elected Chief Executives. So, democracy in Hong Kong, when it comes to electing the Chief Executive, is not what I call ‘self-contained’ democracy. The joint declaration signed between the UK government and Chinese government back in 1984 actually says that the Chief Executive of Hong Kong shall be “appointed, on the basis of consultation or election held locally, by the Central People’s Government.” So, we have a different type of democracy compared to other jurisdictions. And the Central Government reserves that right, essentially, because the Chief Executive of Hong Kong has much greater powers than the leaders of other local democracies – such as the Mayor of London, for example, because we have such a high degree of autonomy.

The second key fact to bear in mind is that to change the method of electing the Chief Executive – and again, this is in the Basic Law – from the electoral college which elected me two years ago to universal suffrage,

needs three parties to agree: a two-thirds majority in the Legislative Council (LegCo), the consent of the Chief Executive, and the approval of the NPCSC. Now, I know the constitutional framework of any country can be a very dry document. It’s not easy to convince people that they have a duty to read all 160 Articles in the Basic Law, and therefore there’s room for misunderstanding or mis-interpretation. And some influential political figures in Hong Kong have misconstrued the Basic Law to think that the change of method of electing the Chief Executive is entirely within the autonomy of Hong Kong – it is not so. It’s in the Basic Law, in black-and-white, that the NPCSC’s approval is needed. So, there is no question of anyone having ‘moved the goal posts’ as some would have it.

Hong Kong is a pluralistic society, so we don’t expect everyone to think the same way; and yes, different people have different ideal models. But it’s interesting to note that in a recent poll, 69 per cent of the people surveyed said that if we had universal suffrage to elect the Chief Executive in 2017 in accordance with the recent NPCSC decision, they would go to the polling station and vote. When people were asked whether they supported the NPCSC’s decision the split was roughly half-and-half, but those who said they would exercise their right to vote for the first time were in a big majority – almost 70 per cent.

As the Biblical saying goes, no man can serve two masters, and you often use the term *nei jiao*, or ‘internal diplomacy’, to define how you see Hong Kong’s relationship with the Central Authorities. Would you say that Hong Kong still behaves towards the Mainland as if it were a foreign power? How does this internal diplomacy work in practice?

This brings me to the second ‘bucket’, which is managing relations between Hong Kong, the Mainland and the Central Authorities.

We operate under this rather unique model of One Country, Two Systems: Hong Kong people ruling Hong Kong with a high degree of autonomy. And although the framework arrangements for this are stipulated in chapter two of the Basic Law, the actual day-to-day implementation of that is subject to interpretation. We exercise a high degree of autonomy but we are not fully autonomous, so there’s an interface between Hong Kong, other regional authorities on the

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Mainland and the Central Authorities in Beijing.

If I may quote Sir Percy Cradock, who was Britain's Ambassador to China during the original negotiations on Hong Kong's future in his book *Experiences of China*, published in the late 1980s, he said: "In diplomacy, it is not the other side you need to worry about, but your own." Similarly, in managing our relations with the Mainland, with the Central Authorities, the difficult part is not so much on the Mainland or the Central Authorities side, it's the Hong Kong side – convincing the people of Hong Kong that what you are doing, namely abiding by the Basic Law, is in their best interests.

It's not entirely dissimilar to the situation faced by municipal leaders in Western countries: you have national interests and then you have your local constituents to whom you are accountable. The only difference is that I exercise a high degree of autonomy while doing it under a different system from the rest of the country.

The One Country, Two Systems arrangement gives me, gives the government, and gives Hong Kong a unique advantage. As I tell business people when I meet them overseas, when they come to Hong Kong they have all the advantages of being in China, with its huge market and its fast-growing economy, but with all the added advantages of operating under a different system, with its common law system and other familiar aspects. Sometimes there is pressure between the two systems when the two systems cannot see eye-to-eye; there are differences in culture, in political beliefs and so on and so forth, but somehow, we manage that interface quite well.

There are incidents where we've had to act and we've had to put Hong Kong's interests first, with the support of the Central Government in Beijing, and with the support of the provinces on the Mainland.

One of the main examples is housing, which falls into the third 'bucket' I mentioned earlier.

Poll after poll has been telling us that the number one priority for the government is to address the question of shortage, and therefore high cost, of housing. Before we brought in demand management measures, by way of additional tax on property transactions, 10-20 per cent of units in new housing projects were being bought up by Mainland buyers, which seriously aggravated the shortage and drove prices even higher. And so, in a rather bold move that is unlike Hong Kong, we actually drew a line between Hong Kong permanent resident buyers and others, and said non-Hong Kong permanent residents buying residential properties in Hong Kong would have to pay an additional tax or stamp duty on the transaction, as well as introducing other demand management measures.

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We also implemented – again untypical of Hong Kong – demand management measures on the purchase of infant formula milk powder and took steps to manage the numbers of tourist arrivals from the Mainland. Now, these measures do incur the wrath of residents on the Mainland, but we had to put Hong Kong’s people’s interests first.

As you say, the high cost of housing has a huge impact on people’s living standards, particularly at the lower end of the economic spectrum. How do you balance the needs of low-income residents in a freewheeling capitalist society like Hong Kong?

This brings me back to the third ‘bucket’, which is quality of life, consisting of three main items: housing, which I touched on; environmental issues, such as air and harbour water quality; and poverty alleviation.

We were the first government in Hong Kong to publicly recognise that we have a problem with poverty, which is why we re-established the Poverty Commission, set the first ever official poverty line and are now looking at the pros and cons of introducing a retirement protection scheme, essentially to look after people who are not able to look after themselves in their old age. We have an ageing society. In four years’ time our workforce will begin to shrink.

I think we’ve made good progress in all these areas, but probably most notably on the housing front, where we’ve managed to cap prices and rent, which is not easy.

And people have been patient, partly because I

believe that they have seen two things: firstly that there is definitely no cahoot, so to speak, between this Hong Kong government and the property development industry, and secondly, that this government is making a huge determination to increase supply.

That said, Hong Kong is constrained by nature and geography.

It’s not exactly a physical lack of land. We do have land – forget about the country parks, I won’t touch them – but outside of the country parks we do actually have some green space and open land that is underdeveloped on which we could increase development densities and so on. But we need to get the local people on-side. We have a very elaborate consultation process, and a very vigilant Town Planning Board, made up of mostly non-official members. We need to have these checks and balances, and they are a small price to pay for having democratic processes in making major development decisions.

Despite its many natural advantages, Hong Kong seems to face constant challenges from regional competitors like Singapore, as well as Mainland cities like Shanghai, often in its core competencies. What measures are you taking and your government taking to future-proof the Hong Kong advantage and guard against further erosion of its position?

As I said, Hong Kong offers the combined advantages of One Country and Two Systems. That makes us pretty unique. Singapore provides the benefits of two systems but not the benefit of one country. Shanghai provides the benefits of one country but not the benefits of two systems. We provide both. Between Hong Kong and Singapore, between Hong Kong and Shanghai, we don’t have to eat each other’s lunches. Firstly both Hong Kong and Singapore are quite small economies – we are 7.1 million people, Singapore is about 6 million. So we don’t have this huge appetite; we don’t need to be all things to all men. We just do what we are good at.

Secondly, we’re quite far apart. A flight between Hong Kong and Singapore takes about 3 hours 45 minutes, so no regional business – and I have good experience of this – can aspire to cover the entire Asia-Pacific region without being in Hong Kong and Singapore at the same time. You can’t cover India from Hong Kong, for example. Nor can you cover Malaysia or Thailand for that matter. And you can’t cover Shanghai and Beijing from Singapore. So, you need to have what I call the two eyes of Asia-Pacific: both Hong Kong and Singapore. That gives you the full geographical perspective, rather like the two eyes of a person. As for Hong Kong and Shanghai, the China



market is quite big. Look at Shanghai-Hong Kong Stock Connect, for example. This historic link-up between the two exchanges will give investors outside Mainland China access to some 560 Shanghai-listed stocks for the first time, while Mainland investors will be able to buy some 260 Hong Kong-listed shares. It will be mutually beneficial and it's a very good example to illustrate how Hong Kong and Shanghai will continue to benefit at the same time through further reform and opening-up of the Mainland economy. Already financial services account for one-sixth of our GDP, and I can see this growing.

To be quite frank with you, the issue that we face in Hong Kong as an economy is not competition, is not lack of opportunities, it is under-capacity. We have capacity issues – land and people. We have a general labour shortage and our unemployment rate is about 3.3 per cent.

Do you think key decision makers in Beijing 'get' Hong Kong? Do they understand what makes it special and therefore valuable to them?

I was involved in the preparation of Hong Kong's Special Administrative Region for 13 years, as Vice-Chairman of the Preparatory Committee before 1997 and then as a member and then Convener of the Executive Council since 1997, before I resigned to run for the position of Chief Executive. So, I have had pretty long contacts with the Mainland authorities at both Central Government level and local level, and I have to say they have a very good collective or 'corporate' memory of Hong Kong. The principle of One Country, Two Systems has been followed through all these years, since '82 when negotiations started with the British government. They have been sticking to it religiously, so they have a pretty good understanding of the principle, the letters and the spirit of the Basic Law. And they've been talking and listening to Hong Kong people as well, so they know what Hong Kong people want. In Hong Kong, on the other hand, I have to say, relative to the importance of the relationship that we have with the Mainland and with the Central Authorities, we could do better by way of understanding the aspirations and the apprehension of Beijing. For example, while LegCo organises many foreign trips, to Europe and elsewhere in Asia, they very rarely organise trips to the Mainland. And given the rapid pace of developments on the Mainland, you have to be on the ground to appreciate the speed and scale and the nature of the changes taking place there.

As I've said many times, I am here to facilitate better communication between LegCo and the society at large on one side and the Mainland/Central Authorities on the other. I think it's important; even

if one sets aside the fact that we're part of the same country, the fact that the Mainland is our biggest neighbour, it's our single most important economic partner, and it's a society with whom we have very close and strong social ties – more than one-third of all marriages registered in Hong Kong every year involves a Mainland partner, for example. In my view, everyone in public service in Hong Kong is obliged to enhance his or her understanding of things on the Mainland.


Does the Occupy Central movement risk damaging the 'brand' of Hong Kong internationally, or is it simply a distraction from Hong Kong's traditional business of making money?

I've been told that if New York still has an 'Occupy Wall Street' – and it does – then Occupy Central is probably a compliment to the importance of Central as a financial district. But seriously, Hong Kong is an open society. We're a pluralistic society, so we respect different views.

We are listening to the views of the people, whether they express those views through legal demonstrations or the illegal occupation of Central – we're all ears. But the key thing is to go back to the Basic Law. One of the reasons why people in Hong Kong have occupied Central to vent their frustration is that they believe that they've been denied civic nomination – nominating Chief Executive candidates in 2017 – but it's not in the Basic Law. That's the key thing: the Basic Law stipulates nomination by a Nominating Committee.

The problem is that people have ratcheted up the rhetoric so much now that there has to be some kind of release mechanism. Does the consultation process you mentioned offer a potential way forward, in your view?

Yes, I think it does. The framework decision has been made. We should stop questioning that and try to move forward. As I said, it will be a big historic moment for Hong Kong to be able to empower the people to vote for the first time in this one-man-one-vote way, instead of watching the proceedings of the Election Committee on television. The vast majority of Hong Kong people still want to vote on that day, so it's a big thing for Hong Kong.

There are important details to be fleshed out. For example, the composition of the Nominating Committee. And then should we have a first-past-the-post arrangement? Or require a successful candidate to command a majority? All these are details, but important details. And everyone in Hong Kong should join in this consultation, so that we have not only the first opportunity to vote in the Chief Executive by universal suffrage, but also an election system that actually works. 

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Opposite: Hong Kong's Chief Executive, CY Leung, in conversation with Alastair Harris, Executive Publisher and Editor of FIRST