



New Interventionism in the Making: interpreting state interventions in Hong Kong after the change of sovereignty

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After the change of sovereignty in Hong Kong in July 1997, there has been much speculation as to whether the new administration of Chief Executive Tung Chee-hwa would bring about a more interventionist government, given his campaign rhetoric to adopt a strong leadership and his well-known admiration of the Singapore model of development. This article examines the evolution of the Hong Kong 'state' within an historical perspective and argues that by the eve of the handover the former colonial government was already an active state driven by highly conscious accumulation and legitimation strategies in response to the rising social, economic and political demands of the 1980s and 1990s. New factors emerging after the handover have further strengthened the forces of state intervention, including the decolonization syndrome, institutionalized corporatism under the Basic Law political design, the need to gain legitimacy and to seek performance by the Tung administration because of the lack of proper electoral mandate, and the impact of serious external crisis arising from the Asian financial crisis inducing rethinking of policies. Whereas the old colonial interventionism was endogenously driven by bureaucratic reformism, the new interventionism is clearly more subject to exogenous forces embedded in the changing institutional, political and economic conditions.

Introduction

Hong Kong underwent a change of sovereignty as well as a change of government in July 1997. In the normal circumstances of a process of decolonization, we would have expected to see the rise of new political forces in line with political change and even drastic social and economic policy re-orientations. However, the overriding logic of Hong Kong's transition into a special administrative region (SAR) of

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China has dictated that the territory be kept essentially intact, under the general pledge of no 'systemic change' for 50 years after 1997.¹

In the course of systemic and institutional continuity enshrined within the pledge of minimum change, the political rhetoric of the transition has nevertheless pointed to new institutions and new approaches. In his maiden Policy Address '*Building Hong Kong for A New Era*' to the Provisional Legislative Council on 8 October 1997, the new SAR Chief Executive Tung Chee-hwa called for courage and new vision.² Tung committed the new government to housing and educational reforms. He also emphasized the importance of enhancing Hong Kong's economic competitiveness by upgrading information technology, providing greater institutional support to local industries and coordinating strategic planning and development through a high-power commission under his personal chairmanship.

There is general agreement that the nature of government after 1 July 1997 has remained intact in that policy powers are still concentrated in the hands of the administration in the name of the 'executive-led' tradition.³ However, given Tung's well-known admiration of Lee Kuan-yew's leadership style and of the Singaporean model of development, there was much speculation, even among some business leaders, as to whether he would take Hong Kong from the previous minimum-interventionist administrative state to become a more *dirigiste* type of administrative state. In the early days of his selection as Chief Executive, some industrialists who were close to Tung advocated more guidance from government in industrial policy so as to catch up with Hong Kong's regional rivals like Singapore and Taiwan where the government has not shied from overt state intervention. Their voices and Tung's rhetoric even prompted the *Economist* (12 April 1997) to ask: 'Is Hong Kong ripe for a bit of central planning?' The SAR Government's massive intervention in the local stock market (to be discussed below) in August 1998 further strengthened such suspicion.

This article addresses the key question of whether the change of sovereignty and government in Hong Kong has resulted in a change of the *nature* of the state—by examining the evolution of the colonial state in relation to the economy and society, and of its role, form and functions, so as to help portray a post-1997 prospect. It argues that, contrary to conventional belief, Hong Kong had not been the kind of classical non-interventionist state as some economists assumed it to be under British colonial rule. Non-interventionism existed both as a myth and a rhetoric in the past. In reality the state had been increasingly interventionist in nature. After the change of sovereignty and government, despite proclaimed administrative and policy continuity, demands and supports for more active and more explicit forms of state intervention have emerged as a combined result of the reconstitution of rulership, shifting political powers and social expectations, and

1. *The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China*, (1990), Article 5.

2. C. H. Tung, *Building Hong Kong for A New Era*, Address at the Provisional Legislative Council meeting, 8 October (Hong Kong: Printing Department, 1997), paragraph 3.

3. This author, for example, has argued elsewhere that there has been a process of rebureaucratization of politics, reconcentrating powers in the hands of senior administrative civil servants. See A. B. L. Cheung, 'Rebureaucratization of politics in Hong Kong: prospect after 1997', *Asia Survey* XXXVII(8), (August 1997), pp. 720-737.

changes in the internal and external environments of the economy. The growing interventionism reflects not just a change of degree of intervention, but may imply a *new practice* of state interventionism rooted in new institutional and economic conditions of the SAR era.

State and capitalist development

The state is closely coupled to economic development and forms an important part of the process of capitalist accumulation. State form and functions are conditioned by economic imperatives inasmuch as particular forms of state interventions shape accumulation strategies and outcomes. The concept of 'state form' is an important point of departure in analysing the capitalist state within Marxist state theory. Here Jessop's (1990)⁴ exposition of state theory is borrowed to help unravel some pertinent issues.

Jessop argued for the following assumptions in relation to the study of the state:⁵

1. the state should be seen as a set of institutions that cannot, considered as a structural ensemble, exercise power;
2. political forces do not exist independently of the state but are shaped in part through its forms of representation and intervention;
3. state power is a complex social relation which reflects the changing balance of forces in a determinate conjuncture;
4. state power is capitalist to the extent that it creates, maintains or restores the conditions required for capital accumulation in given circumstances and is non-capitalist to the extent that these conditions are not realized.

State forms can be distinguished in terms of the different articulation of *political representation* and *state intervention*. Forms of political representation shape the ways in which the interests of capital in a given accumulation strategy are articulated and, through the 'structural selectivity' inscribed in such forms, can privilege some strategies at the expense of others. Different forms of intervention also have differential implications for the pursuit of particular accumulation strategies.⁶ Changes in the state's economic role typically involve changes in its institutional form. Depending on the economic role and accumulation strategy adopted by the state, the state's forms of representation and intervention, as well as its institutional arrangements, will undergo appropriate changes. At the same time state forms condition and shape the role and strategies that the state can adopt and pursue. Thus any analysis of state intervention cannot be divorced from the study of the state's institutional framework in which state power is exercised. Once the state intervenes to alleviate structural crises, it may introduce such crises into the state, in the form of fiscal crisis, legitimacy crisis, representational crisis, crisis of internal unity and crisis of governmental effectiveness or overload. Since the state's role has now become vital for accumulation, it cannot solve economic crises

4. B. Jessop, *State Theory: Putting Capitalist States in Their Place* (Cambridge: Polity Press, 1990).

5. *Ibid.*, pp. 116–117.

6. *Ibid.*, p. 207.

simply by withdrawing or refusing to intervene. At best it can only reorganize its intervention strategies and forms. Moreover, insofar as economic crises are seen to follow from such withdrawal, refusal or reorganization, they can also precipitate new forms of political crisis.⁷

The notion of state is particularly relevant to the understanding of capitalist development in East Asia because of the important role assigned to the state and state intervention in explaining the extraordinary economic success of the East Asian Newly Industrialized Countries (NIC) like Japan, Taiwan and South Korea. The ‘governed market’ (GM) theory suggested that these newly developed East Asian capitalist systems were able to achieve outstanding economic performance over the last few decades largely because of the presence of a *strong* state (very often authoritarian and corporatist) ready to pursue an active interventionist industrial policy and to ensure a higher level of investment than in less successful countries.⁸

The GM economy usually went hand in hand with a kind of political stability secured by a virtual monopoly of political power within a single political party or institution over a long period of time. In an examination of the East Asian model, Unger and Chan observed that the governments of these high-growth East Asian economies ‘shared a common advantage in adopting state-corporatist solutions: every one of them already possessed well-organized bureaucracies with established traditions’.⁹ Such an explanation of the East Asian growth model has alluded to the specific form and intervention strategy adopted by the state. The East Asian authoritarian state corporatist framework was contrasted with Western liberal voluntary corporatism.

The East Asian state-interventionist model seems at odds with the classical liberalist notion of capitalism. However, most Western countries had, since the Second World War, pursued what can be broadly described as the ‘welfare state’ model of development, justified by Keynesian economics and supported by a political consensus in favour of greater government spending and more harmonious industrial relations underpinned by state interventions. Within the liberal tradition, state interventions and economic activities (including public enterprises and welfare) were rationalized in terms of the need to reduce market failure (such as in the case of ‘public goods’ and ‘externalities’) which prevented Pareto-efficiency from being achieved in market resource allocation,¹⁰ or the Williamsonian¹¹ argument that the state’s monopoly of coercive power could help to economize transaction costs caused by bounded rationality, opportunism and asset specificity prevailing in the market and private hierarchies (namely the firms). The Marxist theory of the

7. *Ibid.*, p. 357.

8. R. Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton, NJ: Princeton University Press, 1990), pp. 24–29.

9. J. Unger and A. Chan, ‘China, corporatism, and the East Asian model’, *The Australian Journal of Chinese Affairs* (1995), pp. 29–53.

10. K. Arrow, ‘The organization of economic activity: issues pertinent to the choice of market versus non-market allocation’, in R. H. Haveman and J. Margolis, eds, *Public Expenditure and Policy Analysis* (Chicago: Markham, 1970).

11. O. E. Williamson, ‘The firm as a nexus of treaties: an introduction’, in M. Aoki, B. Gustafsson and O. E. Williamson, eds, *The Firm as A Nexus of Treaties* (London: Sage, 1990).

state, on the other hand, had never been shy about the important coupling relationship between state and economy. Neo-Marxists like Jessop, O'Connor and Gough explained the role of the state in terms of both its accumulation and legitimation functions,¹² in sustaining the capitalist mode of production, despite the unavoidable fiscal crises caused by long-term structural deficits in state incomes and expenditures resulting from the performance of these, sometimes contradictory, functions.

Evolution of state intervention and state form in Hong Kong: reinterpreting the minimum-intervention model under British colonial rule

If the success of East Asian state-centred capitalism had proved to be an exception to the previous commonly-held market supremacy model,¹³ Hong Kong would appear to be an exception to the East Asian 'exceptionism'. Historically, Hong Kong was regarded by some, such as the doyen of free-market economics Milton Friedman, as an almost pure form of *laissez-faire* capitalism.¹⁴ Rabushka similarly claimed that Hong Kong had the most classical minimalist form of government, which left the market to private business unrestrained by administrative interventions.¹⁵

Both Friedman and Rabushka were, of course, writing of the Hong Kong colony of the 1960s and early 1970s; since then there have been significant developments in the practice of the free market. But still Hong Kong had stood out as the only case among the four successful East Asian NICs (other than Singapore, South Korea and Taiwan) where the government had not pursued an industrial policy in the same *dirigiste* manner as the rest and yet still had managed to achieve equally impressive results during the decades of growth.¹⁶ This would seem to suggest that the 'state' did not feature prominently in the Hong Kong model of capitalist development. Such a claim is problematic.

From 'laissez-faire' to 'positive non-interventionism'

To begin with, the colonial government of Hong Kong was a fiscally limited and conservative state. Throughout the period of British colonial rule, public spending had taken up less than 20% of GDP, in contrast with the high expenditure level

12. Jessop, *State Theory: Putting Capitalist States in Their Place*; J. O'Connor, *The Fiscal Crisis of the State* (New York: St Martin's Press, 1973); I. Gough, 'State expenditure in advanced capitalism', *New Left Review* No. 92, (1975), pp. 53–92. 'Accumulation' is defined as securing the best environment for capital to maximize profits; 'legitimation' as strengthening the political acceptability of the capitalist mode of production through electoral arrangements and state expenses such as welfare to pacify labour.

13. Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, p. 297.

14. M. Friedman, *Free to Choose* (Harmondsworth: Penguin Books, 1981), p. 54.

15. A. Rabushka, *Hong Kong: A Study in Economic Freedom* (Chicago: Chicago University Press, 1979), p. 83.

16. Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, pp. 331–333.

Table 1. Growth of government expenditure in the 20th century: Hong Kong compared with selected Western countries

	Government expenditure as % of GDP		
	1900	1982	Increase
Germany	8%	45.3%*	4.7 times
Britain	10%	43.7%	3.4 times
France	15%	46.9%	2.1 times
United States	7.7%	32.0%	3.2 times
	1950–51	1982–83	
Hong Kong	6.5%	19.1%	2.0 times

* West Germany only.

Source: Figures on Germany, Britain, France and United States from D. C. Mueller, 'The growth of government: a public choice perspective', *International Monetary Fund Staff Papers* 34.1, (March 1987), quoted in M. Dogan, ed., *Comparing Pluralist Democracies* (London: Westview Press, 1988); figures on Hong Kong from Y. W. Sung, 'Fiscal and economic policies in Hong Kong', in J. Y. S. Cheng, ed., *Hong Kong in Transition* (Hong Kong: Oxford University Press, 1986), Table 5.1.

(over 40% of GDP) of Western countries.¹⁷ Some commentators attributed this to several historical–contextual reasons including: the volatile export-led economy of Hong Kong in the post-War years, making government revenue unstable; the doctrine of self-dependence enshrined in the colonial nature of administration which emphasized a balanced budget and accumulated reserves more than active spending; and the proclaimed non-interventionist economic philosophy of the colonial mandarins.¹⁸ To these should be added the exercise of indirect rule by the British colonial administration which, coupled with the cultural ingredients of 'utilitarianistic familism' and 'a minimally-integrated socio-political system' within the local Chinese community,¹⁹ had induced a kind of dominant value system that advocated family help rather than aggressive demands for social goods and services from the state. Such a regime of economic, social and political *laissez faire* had persisted until the turbulent years of the late 1960s.

It is useful to note that even in Hong Kong's low-expenditure regime, the share of public expenditure in GDP had jumped from about 7% in the 1950s to a peak of 20% in the early 1980s, a trend somewhat comparable to the Western experience since the beginning of this century (see Table 1).

Redistributive activities of the government formed a major part of Western

17. According to IMF statistics quoted in the World Economy Survey of the *Economist* (20 September 1997), p. 11, government expenditure accounted for an average 45.9% of GDP among 17 selected 'western' countries (including Japan) in 1996.

18. C. S. S. Lo, *Public Budgeting in Hong Kong: An Incremental Decision-making Approach* (Hong Kong: Writers' and Publishers' Cooperative, 1990), chapter 2.

19. S. K. Lau, *Society and Politics in Hong Kong* (Hong Kong: The Chinese University Press, 1982).

government expansion.²⁰ In the case of Hong Kong, post-War growth in government spending came mostly from social services (education, healthcare, housing and social welfare) and community services (including transport and public works). According to Sung,²¹ between 1949 and 1984, government capital formation at current prices grew 222 times (or 16.7% per year) and government capital formation as a percentage of GDP rose from 1.6 to 5.0%. During the same period government expenditure on education and healthcare expanded 403 times and 228 times (18.7 and 16.8% annually), respectively. There was clearly active intervention in terms of state expenditure on physical and human capital investment in an effort to promote and facilitate economic growth. Non-intervention was only obtained at the micro-level of market operations.

By the 1980s the colonial government was to admit, in the words of then Financial Secretary Haddon-Cave, that its attitude to the economy 'is frequently but inadequately described as being based on a philosophy of *laissez-faire*'.²² He preferred instead to describe the government stance as one of 'positive non-interventionism', which though maintaining no attempt to plan the allocation of resources available to the private sector or to frustrate the operation of market forces, recognized a responsibility on the part of the government to respond when industries with social obligations ran into trouble and when an institution needed regulation to prevent inequitable practice.²³ This redefinition of the official economic philosophy marked the advent of a new state intervention strategy.

In reviewing Hong Kong's growth experience between the 1950s and 1970s, Schiffer argued that 'the Hong Kong economy's successful growth is due largely to regulatory government policies and administered prices which effectively subsidize the wage rate, thus contributing to the export-competitiveness which has powered Hong Kong's industrialization'.²⁴ In his view, Hong Kong's market forces rested on 'an infrastructural support system of non-market regulation of economic activities, administration of key prices, subsidization of "the social wage", interference in (and distortion of) all factor markets, and ownership of one of the two factors of production that are subject to such property arrangements'.²⁵ Despite the absence of macroeconomic planning and the subsidization of faltering industries as observed in some Western economies, the existence of those non-market forces had clearly challenged the myth about Hong Kong as the 'last bastion of unfettered capitalism'.

20. D. C. Mueller, 'The growth of government: a public choice perspective', *International Monetary Fund Staff Papers* 34.1 (March 1987), quoted in M. Dogan, ed., *Comparing Pluralist Democracies* (London: Westview Press, 1988).

21. Y. W. Sung, 'Fiscal and economic policies in Hong Kong', in J. Y. S. Cheng, ed., *Hong Kong in Transition* (Hong Kong: Oxford University Press, 1986), pp. 137-138.

22. P. Haddon-Cave, 'The making of some aspects of public policy in Hong Kong' (Introduction to the first edition), in D. G. Lethbridge, ed., *The Business Environment in Hong Kong* (Hong Kong: Oxford University Press, 1984 [1980]).

23. *Ibid.*

24. J. R. Schiffer, *Anatomy of a Laissez-faire Government: The Hong Kong Growth Model Reconsidered* (Hong Kong: Centre of Urban Studies and Urban Planning, University of Hong Kong, 1983), p. 3.

25. *Ibid.*, pp. 31-32.

Changing state form, interventions and strategies

The evolution of colonial Hong Kong's state interventions occurred within a corresponding shift of state form. Using Stepan's concept,²⁶ the early colonial regime could be depicted as a kind of 'exclusionary corporatist regime', which only incorporated local Chinese business elites into the system of governance through an administrative absorption of politics.²⁷ This had resulted in minimal interaction and integration between 'state' and 'society' (i.e. the local predominantly Chinese society); political participation was low, so was the level of social and political demands. With the local economy still in its formative phase of development until the late 1960s, there was limited pressure for the colonial government to behave too actively.

Several developments since the 1970s caused a major shift to take place. The 1967 riots represented a serious challenge to both the authority and the legitimacy of the colonial regime. As noted by Scott, the legitimacy at stake was only regained by the government by following a corporatist strategy during the 1970s, involving greater state intervention and supply of public services.²⁸ The 1970s were a decade of drastic administrative and social reforms, spearheaded by the new Governor Murray MacLehouse. These included labour legislation reforms, expansion of social welfare, education, housing and medical and health services, anti-corruption reforms and the reorganization of the civil service bureaucracy, and massive construction of infrastructure and the New Towns. Politically, the introduction of city district offices and the district administration scheme signified an active administrative penetration of the indigenous Chinese society, in sharp contrast with the previous 'hands-off' approach. These constituted a clear shift towards a more 'inclusionary' form of state (*a la* Stepan²⁹) aimed at extending the colonial regime's basis of social support through both allocative and legitimation mechanisms.

The change in state form and intervention strategies went hand in hand with the takeoff of the local economy which, following the export-led growth of the 1960s, was beginning to intermingle actively with the larger international capitalist economic system and to gradually acquire a new status as an important regional (then international) financial centre. With economic growth becoming almost the sole criterion to justify and legitimize British colonial rule, the government's interventionist strategies had unavoidably to be geared towards capitalist accumulation as its *raison d'être*. The colonial bureaucracy had gradually taken on active functions as state managers who would intervene whenever the interests of economic accumulation and social stability demanded (c.f. Haddon-Cave's definition of 'positive non-interventionism'). The stock market collapse of 1973 marked the beginning of state regulation and intervention in the financial

26. A. Stepan, *The State and Society: Peru in Comparative Perspective* (Princeton, NJ: Princeton University Press, 1978).

27. A. Y. C. King, 'Administrative absorption of politics in Hong Kong: emphasis on the grass roots level', in A. Y. C. King and R. P. L. Lee, eds, *Social Life and Development in Hong Kong* (Hong Kong: The Chinese University Press, 1981), pp. 127-146.

28. I. Scott, *Political Change and the Crisis of Legitimacy in Hong Kong* (Hong Kong: Oxford University Press, 1989).

29. Stepan, *The State and Society: Peru in Comparative Perspective*.

market, reinforced further by government rescue of several failing private banks in the early 1980s, during the sensitive times of Sino–British negotiation of Hong Kong’s post-1997 future.

The 1980s saw further extension of state functions, regulations and activities. In addition to core government expansion, this decade also marked the growth of quasi-government, i.e. the proliferating network of public corporations, statutory authorities and non-departmental public bodies set up to provide services ranging from export credit insurance, trade promotion, industrial productivity, consumer protection, mass transit and railroad, to urban land redevelopment, building loan and tunnel construction and management. The logic of such state expansion and intervention was the same: rising social demands and expectations generated by inclusionary strategies, and needs of capitalist accumulation within a growing and more sophisticated internationalised economy, having to take the challenges of external protectionism and competition seriously.³⁰

In 1977, for the first time in colonial history and as an indication of a now more directive approach to ‘managing’ the economy, the government set up an Advisory Committee on Diversification to respond to industry’s demand for assistance and to map out long term strategies to diversify Hong Kong’s industrial structure. Sino–British rivalry over the political transition of Hong Kong had also strengthened the colonial administration’s determination not to be seen as a ‘lame duck’ government, thus having all the more an incentive to manage the economy well before the transfer of sovereignty as part of the British policy of honourable departure from the colony. In the final years of British rule, the colonial government under Governor Patten first proposed a pay-as-you-earn Old Age Pension Scheme, then settled for a Mandatory Provident Fund Scheme financed by both employer and employee contributions, marking a clear policy departure from the past when officials used to argue that employees should be left free to save as they liked and that any compulsory retirement fund scheme was infeasible.

Into ‘consensus capitalism’

With the gradual development of representative politics since the mid-1980s, the institutions of representation³¹ had created a situation where the colonial administration as the state had to increasingly respond to and balance demands from such interests for allocations and interventions within the overall needs of accumulation in an increasingly volatile international competitive environment. When the then Financial Secretary Hamish Macleod reviewed his budgetary strategy after 6 months in office in 1992, he went further than Haddon-Cave in redefining the government’s intervention strategy for the late transition era:

30. Sung, ‘Fiscal and economic policies in Hong Kong’, p. 123.

31. These included the formal incorporation of industrial, business and professional interests through the functional constituency elections of the Legislative Council since 1985 and the formal incorporation of territorial popular interests through direct elections since 1991.

Table 2. Evolution of state intervention and state form in Hong Kong

Period	State role & mode of intervention	State form
Until late 1960s	<ul style="list-style-type: none"> • <i>Laissez-faire</i> • Low-expenditure regime • Minimally-integrated socio-political system 	<ul style="list-style-type: none"> • Colonial indirect rule • Low participation • Administrative absorption
1970s–early 1990s	<ul style="list-style-type: none"> • Positive non-interventionism • Growth in public services, quasi-government and regulatory functions • Active intervention in physical and human capital investment 	<ul style="list-style-type: none"> • Provider state • Response to legitimacy crisis • Towards high output and high incorporation
1990s	<ul style="list-style-type: none"> • Beyond positive non-interventionism • Consensus capitalism 	<ul style="list-style-type: none"> • Inclusionary state • Emergence of electoral and legislative politics • Widened inclusion of societal interests—functional and popular

Some have described me as more interventionist in approach. I don't mind this. Indeed, *I have never liked the phrase 'positive non-interventionism', which outlived its usefulness years ago.* What we should recognize is that Hong Kong has become more sophisticated. The government is doing more and more, and that is very much a fact of life. We have to walk a tightrope. We believe in the market mechanism, but you only have to look at the way the market works in some areas—property [speculation] is a good example—to realize you cannot always leave it to the market³² (my emphasis).

Macleod later described his approach as the Hong Kong style of 'consensus capitalism'³³, which is in essence not too dissimilar to the established capitalist regimes of Western countries, except that the Hong Kong government spent less in terms of share of GDP and ran fewer nationalized industries. The scene was set for a more directive state with clear objectives to intervene through state policies, services and regulations, built into a new configuration of governance characterized still by bureaucratic dominance but with widening inclusion of social interests at all levels as mobilized and organized both informally and formally (through the legislative electoral process).

What has to be noted, as a final observation, about the pre-1997 state is that it was characterized by the absence of a political regime so that the administrative bureaucracy was essentially running the state at will until most recently when political elections began to nurture some rudimentary forms of political operatives. The evolution of the state form throughout contemporary colonial history indicated

32. H. Macleod, 'My six months walking a financial tightrope', *Sunday Morning Post*, (9 February 1992), Hong Kong.

33. H. Macleod, *The 1995–96 Budget*, Speech by the Financial Secretary moving the Second Reading of the Appropriation Bill 1995, March (Hong Kong: Government Printer, 1995).

the enormous capacity of the state managers to self-reform and to actively adjust to changing endogenous and exogenous environmental conditions. Government interventions and regulations formed part of the state strategy. Features of state form and state intervention in different periods before 1997 are summarized in Table 2.

Hong Kong after 1997: more of the same or the advent of a new interventionism?

The argument so far is that by the eve of the transfer of sovereignty, what had emerged was not a Hong Kong model of non-interventionism, but a model of state interventionism driven by bureaucratic reformist sentiments with a clear desire to maintain the city's international competitiveness and political legitimacy and stability.

Under the logic of maximum continuity embodied in the 'One Country Two Systems' ideology, it is fair to presume that the pre-1997 form of state intervention will be extended. However, new factors operate in the post-1997 domestic and international scenes to provide the ground for the rise of a new practice of interventionism.

Impact of decolonization

Lau had once described the process of political reform in Hong Kong during the transition as 'decolonization without independence',³⁴ to the extent that both the departing British government and the incoming Chinese government had been reluctant to see a strong locally rooted polity arising. In the experience of other colonies becoming independent, it was common for the nationalist movements which spearheaded the struggle for independence to form the first post-independence government and to pursue an active state-interventionist strategy as part of their attempts at nation-building (as, for example, in India and Singapore). There was an inherent temptation for the new government to try to out-perform the previous colonial regime and to solve those social and economic problems inherited from the latter.

In the case of Hong Kong, there was no 'nationalist' government *per se* coming to power and to implement an ambitious nation-building agenda. The polity has remained dominated by the bureaucracy inherited almost intact from the colonial regime, and as such, it would be unlikely that the same bureaucracy would try to question and negate those policies which it had previously formulated and defended. Besides, the logic of minimum change underlining the transition would imply that there should be no fundamental change to the pre-existing policies and philosophies of governance, including those institutions and strategies of state intervention. However, the decolonization syndrome accompanying the transfer of sovereignty, no matter how down-played, has still encouraged the 'takeover'

34. S. K. Lau, *Decolonization without Independence: The Unfinished Political Reforms of the Hong Kong Government*, Occasional Paper No 19, May (Hong Kong: Centre for Hong Kong Studies, The Chinese University of Hong Kong, 1987).

elites³⁵ to attempt new social and economic blueprints so as to surpass the achievements of the British colonial administration. In his first Policy Address, the new Chief Executive emphasized that ‘Hong Kong has finally broken free from the *psychological constraints brought about by the colonial era*. We should have the courage to set aside *past modes of thought* and plan Hong Kong’s long term future with *new vision*’³⁶ (my emphasis). What exactly those references to the ‘constraints’ of the colonial era, ‘past modes of thought’ and ‘new vision’ would mean in policy terms remain to be seen, but the rhetoric is quite clear.

Evidence of new policy departures in the post-colonial state can be found, notably, in the areas of housing, education and industrial development. Tung set promoting home ownership as one of his major policy goals in his inauguration address on 1 July 1997. As if to blame the previous colonial government for its failure to supply adequate land for housing, hence resulting in soaring land and housing prices, he set an annual target of 85,000 flats of new residential housing supply for the next 10 years.³⁷ In education, Tung promised to improve the quality of education.³⁸ In industrial policy, Tung was known to differ from Financial Secretary Donald Tsang over government assistance to local industry.³⁹ In addition to the new Strategic Development Commission, he also set up a Commission on Innovation and Technology, with a brief to promote Hong Kong’s industry through the application of new technology. Worrying that such a commission might cause an about-turn in the bureaucracy’s previously preferred low-intervention policy, it was reported that Tsang was driven to include in this commission some non-interventionist economists so as to counter the voice of industrialists who advocated active government support to industry.⁴⁰

Institutionalized corporatism under the Basic Law political design

To start with, any state paternalist orientation of the SAR Government would be fully compatible with the overall state-corporatist managed-market configuration emerging in Mainland China these days, not to mention that it would also go well with Tung Chee-hwa’s own Confucian paternalist values and his admiration of Lee Kuan-yew’s Singapore model. There also exist institutional arrangements which

35. These included business, professional and some community leaders groomed by Beijing to become members of the SAR Preparatory Committee and its Selection Committee which selected Tung Chee-hwa to be Chief Executive. Some of them subsequently became Tung’s advisers and members of his Executive Council and other major consultative bodies.

36. Tung, *Building Hong Kong for A New Era*, paragraph 3.

37. C. H. Tung, *A Future of Excellence and Prospect for All*, Speech at the Ceremony to celebrate the Establishment of the Hong Kong Special Administrative Region of the People’s Republic of China, 1 July (Hong Kong: Printing Department, 1997). In the aftermath of the recent Asian financial crisis, the Hong Kong economy is encountering a down-turn, resulting in rising unemployment and company and shop closures. Property prices have plummeted, driving property developers and even some of the property-owning middle class to urge Tung Chee-hwa to give up his ambitious new building target. In May 1998, the property tycoons called for government suspension of the public home-ownership housing new-build targets, slowing down of new sale of land, and relaxation of money supply through Hong Kong dollar deposits in the local banking system by the Exchange Fund. See, for example, *Hong Kong Economic Times*, (15 May 1998), p. A2 [in Chinese].

38. Tung, *A Future of Excellence and Prospect for All*, p. 14.

39. *Sing Tao Daily*, (4 December 1996) [in Chinese].

40. ‘More power for highly paid don?’, *Sunday Morning Post*, (10 May 1998), p. 10.

have made the state more susceptible to pressures for intervention to promote functional interests in some form of corporatist framework of SAR governance. During the whole period of the transition, China had been working hard to incorporate local business, financial, industrial and professional interests into the new 'takeover' elites which it was trying to build up to counter-balance the British colonial establishment. This process of what King depicted as the 'political absorption of economics'⁴¹ began with the appointment of members of these elites into the Basic Law Drafting Committee, which drafted the mini-constitution of the SAR. It is not surprising, therefore, that the Basic Law provisions, particularly in terms of the political institutional arrangements, clearly favour the established interests of these functional elites which are built into the functional and elite-based electoral college (called 'Election Committee') forms of political representation, that dominate the SAR legislature. Similarly the Chief Executive is to be elected by the election committee. China's preference for elite corporatist representation in the governance of Hong Kong after resuming its sovereignty meant that various functional interests had been able to enjoy direct and favourable access to sovereign officials in Beijing and to influence them in their policies towards the SAR and in their choice of the first Chief Executive. Although Tung was formally selected by a 400-member selection committee, his selection was a result of both Beijing leaders' active head-hunting and the preference of those local pro-Beijing elite members who were put into the selection committee through a process of quasi-appointment.⁴²

Against such a background of his selection by Beijing-recognized elites, and given the further institutionalization of the functional forms of legislative representation within the state under the Basic Law design, to the extent that various capital and professional interests all the more look to the state for allocative and distributional benefits, it is but logical that Tung Chee-hwa would come under greater institutional pressure for state interventions to safeguard and promote those multifarious, and sometimes conflicting, functional interests. Such interventionism induced structurally by institutionalized functional interests will be different from a state-directed form of interventionism.

Need to gain legitimacy and to seek performance

As explained earlier, the previous colonial regime was driven onto the path of increasing state services and interventions, partly by the need to earn political legitimacy in the aftermath of the 1967 riots. In post-1997 Hong Kong, despite the introduction of representative politics, these are organized mainly in the form of functional representation which promotes corporatist rather than universal partici-

41. A. Y. C. King, 'The Hong Kong talks and Hong Kong politics', *Issues and Studies* 22(6), (June 1986), pp. 52-75.

42. The Chinese Central Government appointed the SAR Preparatory Committee, made up of both mainland and Hong Kong members. Hong Kong members mostly came from the business, financial, industrial and professional elites, and featured only a very small minority of labour and grassroots representatives and no democrats. The Preparatory Committee members voted candidates of their choice into the 400-member selection committee, which selected both the Chief Executive and members of the Provisional Legislative Council of the SAR.

pation. For the general masses, the government headed by Tung Chee-hwa remains somewhat imposed from elsewhere (i.e. Beijing) in much the same way as the previous colonial government was imposed by London. The lack of popular political participation would mean that the masses would all the more look for material satisfaction from the new government as a trade-off for acquiescence for its under-mandated rule. Social and labour demands, in the midst of the current economic down-turn caused by the Asian financial crisis, keep rising, with ordinary citizens expecting the government to implement concrete measures to provide jobs and to protect their investments.⁴³ The Tung administration is under increasing pressure to ‘perform’ through state regulations, goods and services, in order to gain consent to the right to govern from the general population, inducing state–society relations to become more consumption-based.⁴⁴

One of Tung’s early innovations as Chief Executive was to assign some members of his Executive Council to help look after certain policy areas—namely housing, education, and elderly welfare. This move triggered anxieties among top civil servants who were concerned about whether their previous control over government policies would now have to be shared with those Executive Councilors, most of whom were appointed by Tung because of their political linkage with Beijing or major ‘takeover’ elite blocs rather than their affinity with the civil service as in the colonial era. In a bid to justify their policy role and to share power with top bureaucrats, Executive Councilors with political ambitions would try to come up with new initiatives in response to demands from various functional interests, partly to nurture their own base of political support and partly to demonstrate their capacity for ‘performance’. In the process, a more interventionist orientation is being encouraged inducing rising expectations.

A further political factor to sustain the popular demands for state policy actions and interventions is provided by the series of local elections taking place in the early years of the transfer of sovereignty—first Legislative Council election in 1998; district councils elections in 1999; second Legislative Council election in 2000; Chief Executive election in 2002; district councils elections again in 2003; and the third Legislative Council election in 2004. Such frequent popular elections will help to put a wide range of local issues and demands in the formal political arena, creating and sustaining pressures on the government. The fact that popular elections in Hong Kong are more a process of electing representatives of functional interests and an ‘opposition’ to fight for public consumption goods rather than a government, would mean that the so-called executive-led government dominated by state managers will be driven to a defensive position *vis-a-vis* the many diverse demands in society and business. An example of concerted efforts on the part of functionally and popularly elected legislators to put pressure on the government was seen after the May 1998 Legislative Council Election, when all seven political

43. Two stock broker firms, CA Finance and Forlux, collapsed during the crisis, with thousands of investors who deposited their share certificates with them losing their hard-earned investment savings amounting to some HK\$1.6 billion.

44. The mishandling by the SAR Government of the bird flu, food scares and a plague of red algae during the first 9 months of the transfer of sovereignty has not only damaged its reputation, but also resulted in increasing calls for further government action, compensation and regulatory interventions.

parties (groups) and some independents formed a temporary coalition in June 1998 to demand more government spending on infrastructure and tax and rates cuts so as to help re-stimulate the economy and to create jobs in the light of economic decline.⁴⁵

External economic crisis inducing rethinking of policies

Externally, the recent Asian financial crisis has given rise to economic uncertainties and growing scepticism, if not pessimism, about the future of the SAR. Industrialists are increasingly looking for government support and assistance to re-stimulate industrial development. So far Tung Chee-hwa has promised a more aggressive state response to these concerns, as reflected in his undertaking to 'promote the services sector and value-added and high technology industries ... [and to] adopt positive measures to encourage investment in the information industry and infrastructure ...',⁴⁶ and has set up high-level commissions such as the Commission on Strategic Development and the Commission on Innovation and Technology (CIT). As a result of the recommendations of the CIT, a HK\$5 billion Innovation and Technology Fund was created in late 1998 to provide finance for projects which can contribute to the improved use of innovation and technology in the industrial and commercial sectors.⁴⁷

Whereas in the past the colonial bureaucrats had always insisted that the unemployment rate in Hong Kong was negligible, thereby refusing to be drawn into any substantive debate on an employment policy, the present economic down-turn, fuelled by escalating redundancies and firm closures, has driven the SAR government to be on the alert and to set up in May 1998 a special task force of experts, economists and trade unionists to look into issues of employment and unemployment and to consider job creation initiatives,⁴⁸ marking clearly a change of tack. While it is still evident that there has not been any significant shift among the citizens towards welfare dependency and most people still see their individual efforts as the most effective strategy to cope with the inferior economic environment, there are certainly rising expectations of a more active and positive role of the government in dealing with problems arising from structural changes in the economy.⁴⁹

The bureaucrats are not just being forced by Tung and other external actors to succumb to a more state-interventionist approach to the economy. They are

45. 'Tsang, parties in positive talks', *Hong Kong Standard*, (10 June 1998); 'Group proposes \$16.8b tax refund', *Hong Kong Standard*, (26 June 1998).

46. Tung, *A Future of Excellence and Prospect for All*, p. 14.

47. C. H. Tung, *From Adversity to Opportunity*, Address by the Chief Executive at the Legislative Council Meeting, 7 October (Hong Kong: Printing Department, 1998), paragraph 25.

48. *Hong Kong Economic Journal*, (4 June 1998) [in Chinese].

49. T. L. Lui and C. K. Wong, 'Mind the gap! Government failing the people's test', *Policy Bulletin*, No. 7, September/October, (published by the Hong Kong Policy Research Institute, 1998), pp. 2-3, based on the findings of a telephone survey carried out by The Chinese University of Hong Kong on people's attitudes towards unemployment, poverty and social policy. The authors who conducted the survey interviewed 822 randomly selected respondents.

themselves genuinely concerned about whether past policies of low intervention could still serve Hong Kong well and render it internationally competitive in the new environment. The need to stay competitive will trigger further official rethinking of the hitherto less expansive industrial policy of the government and greater state intervention on all fronts for the sake of maintaining the accumulation capacity of the SAR's brand of capitalism.

Partly because of political pressure from the legislators' coalition mentioned above and partly out of genuine concern about the economic prospect, the SAR Government announced a re-stimulation package on 22 July 1998. Apart from introducing new spendings and rates rebates and setting up a HK\$2 billion credit insurance scheme to help small and medium enterprises, the government also decided to 'freeze' the sale of land for the next 9 months, foregoing potential revenue of HK\$30 billion.⁵⁰ The freeze, aimed at supporting current land price levels so as to restore confidence among property owners and buyers, was perceived in some quarters as a major concession to big property developers who already held considerable land banks, as well as to the banks which have over-exposed themselves to property loans during the past few years. While one can argue that the government in Hong Kong, as the sole supplier of new land, has always been able to manipulate the land market in exacting high land revenues, as a means to sustain a low-tax regime, this is the first time that the government has acted so blatantly to 'intervene' in the land market (by withdrawing normal supply of land for sale) in order to prevent land and property prices from further plummeting.

On 14 August 1998 the SAR Government took another unprecedented and controversial step of market intervention by buying substantially into 33 leading stocks on the local stock and futures markets, as an attempt to counter so-called speculative attacks by local and overseas speculators who, in the words of the Financial Secretary Donald Tsang, tried to 'manipulate our interest rates so that they can benefit from the short positions they have built up in Hang Seng Index futures'.⁵¹ Over the following 2 weeks the government continued to buy into more stocks which eventually accumulated to a total value of some HK\$118 billion, with funds from the Exchange Fund.⁵² Such stocks are now being held under the custody of a newly established Exchange Fund Investment Corporation. With such a sizeable share in the local stock and futures market, it is fair to suggest that any move by the government to dispose of such investment will unavoidably affect stock and futures prices.

Although it is still premature at this early stage of the post-handover period to paint any firm picture of the extent of growth in state intervention, there is clearly a tendency to see growing interventionism as the writing on the wall. For illustrative purposes, it is interesting to note the findings of the Hong Kong Policy Research Institute, which revealed that while objective indicators on the degree of government influence on the market remained stable, there was a significant

50. *South China Morning Post*, (23 July 1998).

51. *South China Morning Post*, (15 August 1998), p. 1.

52. *South China Morning Post*, (27 October 1998), quoting the Exchange Fund Investment Corporation after its first meeting on 26 October 1998.

increase by 5.9% in December 1997 (compared with June 1997) in the perceived level of government influence, indicating at least widespread sentiments among senior executives surveyed to anticipate more extensive government intervention in policy and actions.⁵³ However business sentiments about government intervention have been rather mixed. A survey conducted by the same Institute at the end of August 1998 found that 52% of senior business executives in Hong Kong agreed that the government's massive intervention in the stock market was appropriate.⁵⁴

Conclusion

In conclusion, the Hong Kong colonial government was already an active state driven by highly conscious accumulation and legitimation strategies in response to social, economic and political demands of the 1980s and 1990s. By the time of the transfer of sovereignty, the state form in Hong Kong had evolved to embody political representation of recognized functional interests, supplemented by some limited elements of territorial representation of the masses. The specific forms of articulation of such interests had resulted in a gradual expansion of the role and functions of the state, in support of a more directive interventionist strategy.

The transfer of sovereignty has seen not only a continuation of the pre-1997 state form under the no-change logic of transition. The decolonization syndrome, as well as the desire to reform inherited colonial policies and to chart a new course and new vision for the SAR by the 'takeover' elites, have encouraged and facilitated further state expansion. Whereas the colonial form of state interventionism was endogenously driven by bureaucratic reformism, the new SAR interventionism is clearly more subject to exogenous forces embedded in the specific institutional forms of political representation and in new global and regional economic conditions. The institutionalization of the functional forms of political representation under the Basic Law design ties the state very much to an active articulation of functional interests which look for state allocations and benefits. On the other hand, the lack of popular political mandate on the part of the SAR government, as in the previous colonial regime, has created the pressure to perform through state services and goods, and through more active intervention in social and economic development, particularly in light of the uncertainties and anxieties brought about by the present regional economic crisis. Internally, through the representative institutions, the setting up of various commissions to spearhead new initiatives and new strategies, and an Executive Council seeking to out-perform the bureaucracy in its bid to lead the government, the state is being reorganized into such a configuration that facilitates if not induces further 'active' rulership.

There are therefore both demand-side and supply-side factors driving the SAR government towards a more interventionist role. These developments may well generate policy conflicts, fiscal difficulties or tensions from unmet demands, but it

53. Hong Kong Policy Research Institute, *PRI-Hong Kong Free Market Index, December 1997*, May (Hong Kong, 1998).

54. Free Market Index Research Team, 'Comments on Hong Kong's economic freedom', *Policy Bulletin*, No. 8, November/December (published by the Hong Kong Policy Research Institute, 1998), p. 15.

is fair to suggest that the SAR government has reached a stage where withdrawal from interventions is practically impossible, otherwise new political crises may be precipitated which will endanger the economic viability and social stability of Hong Kong, upon which the logic of the SAR 'state' ultimately lies. A more indigenous SAR state, facing economic challenges unseen over the past few decades, and beginning to take bold steps in intervening in the market so as to maintain stability, is charting a new course of no return. In the process a new practice of interventionism, though yet to be fully rationalized by a revised economic philosophy, is born.