

# A test of wills

**Wang Gungwu** says Hong Kong has long been a home to people of all ideological stripes. Today's young people are standing up to the authorities to protect their heritage of freedom

**H**ong Kong in China, and China in Hong Kong, have long been part of a larger story. The story did not begin with the handover in 1997. Its roots go back to when, for Manchu Qing China, Hong Kong was a small island far enough away from the centre to be ceded without much pain.

If the British had behaved like the Portuguese who had gone earlier to Macau, there would have been no need to worry about them. The Portuguese had played by China's rules for 300 years before the British shot their way into China.

As it turned out, Hong Kong developed very differently. Beyond being an open door for foreigners to enter China, it was also one for Chinese to leave and seek better livelihoods elsewhere.

It was a market place, a haven, and, for someone like revolutionary leader Sun Yat-sen, a model of modern urban development that he wanted Chinese cities to emulate. Chinese enterprise played a big role in the colony's success but no less important was what the British introduced, laws that guaranteed property rights and protected the freedoms that its Chinese population could not get in China.

All that began to change after the end of the second world war. The retreat of the old empires led to Hong Kong and China being caught in a fierce global struggle between capitalism and communism.

The victory of the Chinese Communist Party moved the country's ideological frontiers from its borders with the Soviet Union that Nationalist China had hoped to defend, to the long coastline of the East and South China seas. Here, the US Navy took over from the British and, for at least 40 years, Hong Kong unwittingly became the Berlin of the East, that is, the front line between Western and communist power.

Thus the Hong Kong people's involvement in Chinese politics became more intense and tangled than ever before. The communist government in China knew the city was being used as an observation centre by the West in the cold war. But the city was also China's window on the outside world. The colony provided access to foreign knowledge and technology, and enabled China to seek the resources and markets it needed.

Today, as the street protests by students continue, new actors are playing on the old streets where earlier demonstrations were held. But there are significant differences in the background. The most important is that Beijing does not need Hong Kong the way it did from 1949 to 1997, and it is burdened by problems of

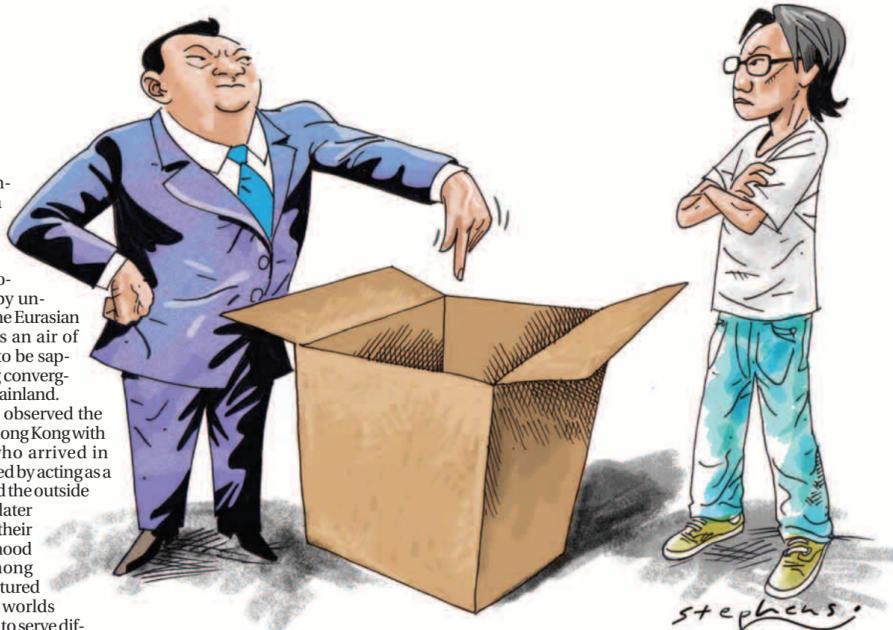
governance on the mainland that it did not have a decade ago. No less important, however, is that London and its North American and European allies are weary by unending conflicts all over the Eurasian continent. There is thus an air of helplessness that seems to be sapping hopes of Hong Kong converging peacefully with the mainland.

Chinese leaders have observed the changing population of Hong Kong with keen interest. Those who arrived in Hong Kong early prospered by acting as a bridge between China and the outside world. Those who came later included many who fled their homes in China for livelihood or political reasons. Among them were those who nurtured dreams of more perfect worlds far away. Yet others learnt to serve different masters in the city and in China.

Hong Kong had always been a restless city that attracted risk-takers no less than refugees. It has been home to people of different ideological stripes. The people prided themselves on their revolutionaries, such as Sun, and also sheltered the communist enemies of his Nationalist Party. The people were divided between those who welcomed the departure of the

## The young students speak as if their freedoms cannot now be left to their elders who have their vested interests to protect

British and those who regretted their leaving. They were similarly divided over how the city was to return to China. People in China have been aware of the freedoms that Hong Kong enjoys – and indeed, many mainlanders have sought to visit, study, work or live there for that reason. They know several generations have grown up in Hong Kong with a wide range of choices that has taught them to be pragmatic and build their lives in China's shadow. That shadow was acceptable because Hongkongers were confident that they had something to offer that would help China's economic development.



It was also something Deng Xiaoping (鄧小平) seemed to have acknowledged by agreeing to allow 50 years for Hong Kong to adjust to the conditions of China.

There were thus different expectations at work. Since the Sino-British Joint Declaration was ratified in 1985, two main 50-year scenarios have emerged.

One was based on the hope that Deng's reforms in China would ultimately make the country more like Hong Kong. Those who operated in globalised economies mostly supported this scenario.

The other scenario was of a gradual convergence that would enable China and Hong Kong ultimately to share the same dream of a strong and prosperous China.

The problem is that neither scenario gave sufficient weight to what generations of the young people of Hong Kong were inheriting, notably their freedoms, their rights and their sense of social justice.

In several protests during the past decade, a sense of how important that heritage was, surfaced. But the promise of popular suffrage at that time satisfied the demonstrators. Those on the streets today say the government is breaking the promise to allow genuine democracy in 2017. Their actions suggest there is fear that the Hong Kong heritage is no longer protected. The young students speak as if their freedoms cannot now be left to their elders, who have their vested interests to protect and too many of whom have left to find safety elsewhere. They seem to believe that they have to act now to ensure that what they value is not lost.

As far as we can tell, the leaders in

Beijing have been monitoring such thinking through their offices in Hong Kong ever since the 1997 handover. They have affirmed that they are standing by the Basic Law that promises direct elections for the chief executive.

They know the Hong Kong people today are different from those on the mainland but seem to think that the differences will lessen in time. Therefore, they insist that they are committed to wait the promised 50 years before Hong Kong truly becomes part of China. They also seem to have put their trust in local elites in Hong Kong to help smooth that path but have made it clear to the Hong Kong government that any change would have to suit the interests of China as a whole.

From official statements, it would seem they are still hopeful that the majority of Hong Kong's people will recognise the national imperative.

There is a test of wills today between the Hong Kong government and the protesters. Beijing appears to be adopting a wait-and-see approach, trying to stay out of direct involvement and concentrating on keeping outside interests and forces from intervening.

They may be hoping that, if only the West would behave as the Portuguese did when they left Macau in 1999, they would have less to worry about and there would be a better chance of a peaceful outcome.

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## Legitimate act

**Kelley Loper** says student protesters are not undermining Hong Kong's rule of law, but are opposing the use of the law as a tool of oppression

**L**ike many others, I have been inspired by the recent demonstrations for genuine democracy in Hong Kong. I admire the courage and conviction of Hong Kong's younger generation and others who are working to effect positive change through peaceful means. The students' display of civic-mindedness and their desire to participate in the political process bode well for Hong Kong's future.

Some commentators, however, claim that the protesters are hurting Hong Kong and even undermining the rule of law, a core value and an important feature of Hong Kong's collective identity. This view, however, fails to take into account the richness and complexity of the rule of law.

The rule of law does not demand unquestioning obedience to existing regulations; in fact, defending the rule of law may sometimes require breaking rules. The rule of law is, first and foremost, a means of ensuring that those in power do not overstep the limits of their mandate to govern and that they protect human rights and fundamental freedoms.

In other words, the rule of law means government accountability. Democratic principles reflected in international human rights standards underpin accountability and are prerequisite to the full realisation of the rule of law. Without such accountability, the "rule of law" can become "rule by law".

When "rule by law" prevails, the law may become a tool of oppression. In a "rule by law" society, any law on the books – however unjust it may be – is considered valid. The rule of law is threatened when political leaders are selected and make laws within a system that does not permit equal participation.

So the political process as well as the substance of the law matter: both must comply with universal human rights. Beijing has extended to Hong Kong core human rights treaties – which are binding agreements – that require the government to establish mechanisms that allow for equal, meaningful participation in public life. The proposed method for selecting the chief executive fails to meet these standards.

The rule of law and human rights values are core components of Hong Kong's domestic legal order, endorsed by the central authorities in accordance with the "one country, two systems" formula. The Basic Law provides for the independence of the judiciary and incorporates international human rights norms.

The demonstrators are merely attempting to expose the gap that exists between these legally binding promises and the actual lack of genuine democracy. The students understand that they not only have a right to participate, but that they also have a civic duty to speak up when their core values are at stake.

The rule of law, respect for human rights, and genuine democracy are overlapping, interconnected and mutually reinforcing principles. When one of these elements is absent, the others may be at risk. The missing piece in Hong Kong, of course, is meaningful political participation. When governments block avenues for citizens' voices to be heard, peaceful protest may be the only option.

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## China must resist calls to liberalise its capital account too much, too soon

**José Antonio Ocampo** and **Kevin Gallagher** say experience elsewhere shows prudence is vital

**A**s China's economy starts to slow, following decades of spectacular growth, the government will increasingly be exposed to the siren song of capital-account liberalisation. This option might initially appear attractive, particularly given the Chinese government's desire to internationalise the renminbi. But appearances can deceive.

A new report argues that the Chinese authorities should be sceptical about capital-account liberalisation. Drawing lessons from the recent experiences of other emerging countries, the report concludes that China should adopt a carefully sequenced and cautious approach when exposing its economy to the caprices of global capital flows.

The common thread to be found in the recent history of emerging economies – beginning in Latin America and running through East Asia and Central and Eastern Europe – is that capital flows are strongly pro-cyclical, and are the biggest single cause of financial instability.

Domestic financial instability, associated with liberalisation, also has a large impact on economic performance, as does the lack of control over non-bank financial intermediaries – an issue that China is now starting to face as the shadow banking sector's contribution to credit growth becomes more pronounced.

Most academic research also supports the view that financial and capital-account liberalisation should be

undertaken warily, and that it should be accompanied by stronger domestic financial regulation. In the case of capital flows, this means retaining capital-account regulations as an essential tool of macroeconomic policy.

Indeed, during the 1990s, China – and also India – taught the rest of the developing world the importance of gradual liberalisation. It was a lesson that many countries fully learned only in the wake of the economic and financial crises that began in East Asia in 1997, spread to Russia in 1998, and affected most of the emerging world. By

## Domestic financial instability has a large impact on economic performance

maintaining strong capital-account regulation, China avoided the contagion.

Even the International Monetary Fund, in late 2012, adopted a cautious approach. The IMF now recognises that capital-account liberalisation comes with risks as well as benefits, and that "liberalisation needs to be well planned, timed, and sequenced in order to ensure that its benefits outweigh the costs".

Moreover, the IMF now

regards capital-account regulations as part of the broader menu of macro-prudential measures that countries should be free to use to prevent economic and financial instability.

To the extent that capital-account volatility is the major pro-cyclical financial shock in emerging economies, regulation should be the major macro-prudential instrument used to counter it. These regulations should complement, not substitute for, other countercyclical macroeconomic policies. The IMF recommends giving higher priority to those other policies, whereas we have previously recommended using them and capital-account regulations simultaneously.

It is not just emerging markets that have had to pay heed to the dangers of rapid liberalisation. Japan's experiences also offer valuable lessons about the importance of prudence in capital-account liberalisation for a currency in increasingly high demand internationally. For an extended period, Japan allowed only strongly regulated financial intermediaries to manage capital flows, effectively discouraging the international use of its currency. And when a tsunami of capital looked set to flood the economy, policymakers did not shy away from trying to contain the inflows.

In a sense, western Europe was once in the same boat. Its capital-account liberalisation was also a long-term process, beginning with current-account

convertibility in 1958 and ending with capital-account convertibility in 1990. And it faced a crisis of its payments system two years later that led to significant depreciation for some countries' currencies.

None of this is intended to suggest that the internationalisation of the renminbi should not take place in the foreseeable future. Given the importance of China in the global economy, the denomination of an increasing share of trade and investment in renminbi seems inevitable. But China's authorities should manage that process gradually, choosing the specific channels through which it should take place.

Indeed, China is perhaps the most successful example in history of gradual and pragmatic economic transformation. It should not allow itself to be tempted from its tried and tested course by calls for a policy that has led too many emerging economies onto the rocks.

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## Hong Kong protesters should take the democracy on offer

**D N Harjani** calls for an adherence to non-violence, and patience

**S**ince the start of the Occupy movement in Hong Kong, newspapers have been replete with contradictory messages and slogans that lead to confusion, antagonism and therefore leave people divided and in a dilemma.

The movement's objectives seem capricious, and have changed from the demand for universal suffrage and the resignation of the chief executive to Beijing-bashing, and blaming the police and anti-Occupy protesters.

Is this movement becoming a mob or is it an egotistical venture of student power?

To find a solution to the impasse and ascertain long-term goals in the best interests of Hong Kong, we need to understand democracy, the principles of non-violence and our realistic relationship with the mainland.

First, democracy. In places like the US, Britain and France, where a liberal democracy is in place, universal suffrage is an intrinsic ingredient – it is a case of "for the people", "of the people" and "by all the people".

In the socialist democracy that exists in China, Vietnam and some parts of Eastern Europe, the political and economic system is imposed on society by party officials – a case of "for the people", "of the people" and "by some people".

Unfortunately, both models have severe shortcomings and the election of candidates can depend on a number of factors including party affiliation, election expenditure, bribery and intimidation.

In both forms of democracy,

there is little room for economic liberation of the people. Even if voting rights have been granted, in reality they deprive the people of their right to economic equality. This results in a wide rich-poor divide, unemployment, poverty, insecurity and exploitation.

Therefore the myth or farce of democracy is that, in the long term, a handful of people pull the strings of power from behind the scenes.

Our question should be: does universal suffrage guarantee economic equality and is it the ultimate criterion of our freedom?

## As part of one country, all citizens should be open-minded about Beijing's concerns

Second, no matter why the students have taken to the streets, they must act in the spirit of non-violence, that is, non-injury in thoughts, words and actions. However, Occupy Central is clearly within the realms of violence for the very reason that the mass gatherings and hostile behaviour towards the police are infringements of the law, and a violation of the freedoms and rights of others. The actions are also polarising society and affecting people's

daily lives and livelihoods.

Students should be convinced to return to their duties and take this matter up through other means, such as the proposed dialogue.

Finally, it does not take much to understand the principles and obligations of "one country, two systems". The destiny of Hong Kong is inherently linked with the mainland. If we firmly believe that we are one country, then all citizens should seek concessions from the government by mutual consent rather than through threats.

As part of one country, all citizens should be open-minded about Beijing's concerns. Perhaps this is what the central government expects of all Hong Kong residents: to see both sides of the coin.

We have to understand that China is a social democracy and we are demanding liberal democracy. Right now, we should accept the democracy on offer and be patient with Beijing to become more receptive to our feelings over time.

To try to get Beijing to adopt a Western model of democracy at this time would be seen as a threat to the Communist Party; in other words, the current demands are an exercise in futility.

Instead, we need to wait until the time is right for both sides; when there has been a natural growth of awareness.

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