COUNCIL on FOREIGN RELATIONS

Backgrounders

Democracy in Hong Kong

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Introduction

Hong Kong is a special region of the People's Republic of China (PRC) with certain political and economic freedoms based on the notion of "one country, two systems." The former British colony is a global financial capital that has thrived off its proximity to China, but in recent years many in Hong Kong have become frustrated by growing economic disparities in the city and weary of delays in democratic reform.

Democracy activists in Hong Kong rally against the 1997 handover to China and the 1989 Tiananmen Square crackdown every year, but protests in the fall of 2014 reached record levels. Experts say that Beijing views these demonstrations as a direct challenge to its legitimacy, and fears a political compromise could have dangerous implications for other regions like Taiwan or Tibet.

What is Hong Kong's political status?

Hong Kong is a special administrative region (SAR) of China that is largely free to manage its own affairs based on "**one country, two systems**," a national unification policy developed by Deng Xiaoping in the 1980s. The concept was intended to facilitate the reintegration of Taiwan, Hong Kong, and Macao with sovereign China while preserving their unique political and economic systems. After more than a century and a half of colonial rule, the British government returned Hong Kong in 1997. (Qing Dynasty leaders ceded the territory to the British Crown in 1842 after China's defeat in the First Opium War.) Portugal returned Macao in 1999, and Taiwan remains independent.

Hong Kong's **Basic Law**, the city's constitutional document, safeguards the city's "capitalist system and way of life" and grants it "a high degree of autonomy," including executive, legislative, and independent judicial powers for fifty years (until 2047). **Chinese Communist Party** officials do not preside over Hong Kong as they do in mainland provinces and municipalities, but Beijing still exerts considerable, although indirect, influence through loyalists that dominate the region's political sphere.

Freedom of the press, expression, assembly, and religion are protected rights. Hong Kong is allowed to forge external relations in certain areas—including trade, communications, tourism, and culture—but Beijing maintains control over the region's diplomacy and defense.

Map

What is Hong Kong's economic connection to the mainland?

A metropolis of more than seven million people, Hong Kong is a global financial and shipping center that has thrived off its proximity to the world's second-largest economy, **ranking first** in the world in trade as a percentage of GDP. Relatively low taxes, a highly developed financial system, light regulation, and other capitalist features make Hong Kong one of the world's most attractive markets and set it apart from mainland financial hubs like Shanghai. (Beijing unveiled the Shanghai Free Trade Zone in September 2013 to test some free market reforms, but it has **disappointed investors** thus far.) Hong Kong continues to take top spots in global economic competitiveness reports, ranking third in the World Bank's 2015 **Doing Business** report. Most of the world's major banks and multinational firms maintain regional headquarters in the city.

Though Hong Kong's economic power has diminished relative to the mainland—its GDP has fallen from 16 percent of China's after the handover in 1997 to just 3 percent in 2014—but commercial ties remain extremely tight. Hong Kong is China's second largest trading partner (after the United States), accounting for **close to 10 percent** of China's total trade. The city is also China's **largest source** of foreign direct investment (FDI) and a place where Chinese firms raise vast amounts of offshore capital—nearly eight hundred mainland enterprises list on the Hong Kong stock exchange. Meanwhile, Hong Kong relies heavily on the mainland. China **accounted for just over half** of the city's total trade in 2013, and was also the top source of FDI in Hong Kong.

What are the political tensions between Hong Kong and Beijing?

Beijing's reluctance to allow Hong Kong to develop into a full-fledged democracy with free and fair

elections is a perennial bone of contention. Experts say a source of the problem is ambiguity in the Basic Law, which Beijing continues to reinterpret. The document states that Hong Kong's chief executive "shall be selected by election or through consultations held locally and be appointed by the Central People's Government," and that "the ultimate aim is the selection of the chief executive by universal suffrage upon nomination by a broadly representative nominating committee in accordance with democratic procedures." The nature and timing of electoral reform are unclear.

Michael F. Martin, an Asian affairs specialist and analyst for the Congressional Research Service, says when Beijing proposed universal suffrage, it used the word 可以 (*keyi*), which translates widely to "can," "may," "possible," or "able to," thus making it difficult to discern whether or not Beijing's decisions comply with the Basic Law.

Some analysts say China's decisions in 2004, 2007, and 2014 to put off a popular vote for Hong Kong's leader are an indication that Beijing will drag its feet on reforms indefinitely. China's legislature **ruled in August 2014** that only candidates vetted by a nominating committee chosen by Beijing will be allowed to run in 2017.

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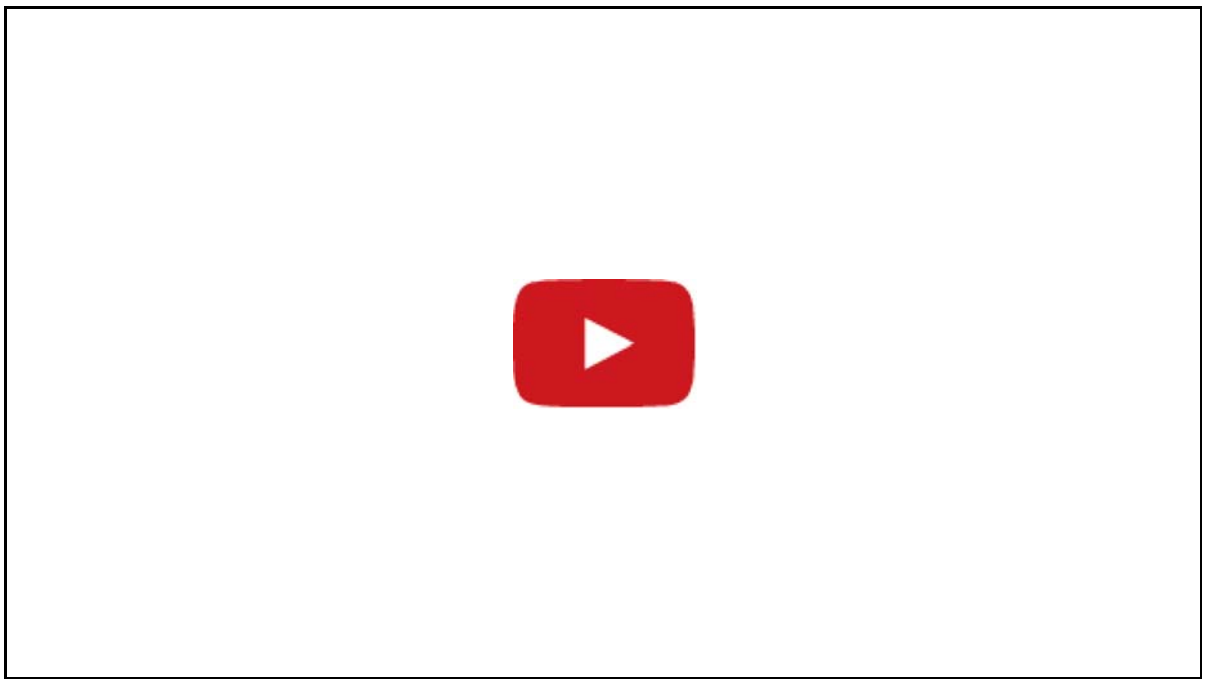

What are Beijing's plans for Hong Kong?

Beijing and Hong Kong both have benefited economically from the 1997 handover. Despite repeated reform delays in Hong Kong, political reform has been implemented both cautiously and progressively. Under colonial rule, the Hong Kong governor was appointed by the UK government. Since the handover, chief executives have been selected by an election committee, first composed of 400, then 800, and now 1,200 members from **four main sectors (PDF)** (members of industrial, commercial, and financial sectors; other professional sectors including higher education and engineering; labor, social services, and religious sectors; and Hong Kong political bodies). All changes, including the expansion of the election committee and Legislative Council, have to be approved by the Hong Kong government and the National People's Congress, the legislative body of the PRC.

"Beijing is not going to accept any system in Hong Kong that does not give it ultimate control," writes Roderick Wye in Newsweek.

Beijing has traditionally been reluctant to change its policy when faced with criticism. Hong Kong's 2014 protests caught the attention of the Chinese leadership, but Beijing has not changed its posture toward Hong Kong's governance. Beijing views all protests are a potential challenge to China's **one-party rule**, but it perceives Hong Kong's calls for democracy as particularly threatening because of the city's status as an international economic hub. China's leadership is concerned that an elected democratic chief executive "would seek to **destabilize** Communist Party rule in China," writes Richard Bush, a senior fellow at the Brookings Institution. Beijing also fears that any political compromise could set a **dangerous precedent** and spark dissension in other regions, including Tibet, Xinjiang, Inner Mongolia, Macao, and Taiwan, Bush adds.

Taiwan does not recognize Beijing's claims of sovereignty and has watched Hong Kong developments closely. After the Chinese civil war (1945–1949), Kuomintang leader Chiang Kai Shek fled to Taiwan and established the Republic of China. Taiwanese reunification remains a national priority for China.

Given the changing power dynamic between Hong Kong and the mainland and China's global rise, experts say it is unrealistic for protesters to expect Beijing to withdraw its reform proposal. But there is still **room to negotiate** within the bounds of Beijing's framework. For example, how the nominating committee will be formed could be engineered to provide greater competition among candidates. Beijing could also consider **removing** the unpopular chief executive. But overall, experts urge protesters and government forces alike to **employ realism**. "Democracy advocates should temper their idealism with **prudence and pragmatism**," writes Doug Bandow, a senior fellow at the Cato Institute.

According to some experts, China is missing an opportunity to **experiment with democracy** in Hong Kong, a process which could open the door for political reforms in the mainland. Beijing's positioning vis-à-vis Hong Kong indicates it is either unwilling or unable to tackle reforms that could have resounding implications for its governance: "Beijing is not going to accept any system in Hong Kong that does not give it ultimate control," writes Roderick Wye in *Newsweek*.

As Chinese policymakers set out to refine its long-term strategy, Beijing has stated it will **pay more respect** to the "two systems" while stressing the "one country" of the Hong Kong-mainland relationship—a possible sign that Beijing is willing to be flexible, albeit on a limited scale.

Is Hong Kong united on democratic reform?

Among the tens of thousands of demonstrators in the fall of 2014 have been experienced politicians as well as students and ordinary citizens. Though demands vary, two widely shared aims have been the resignation of Chief Executive Leung Chun-ying and the ability to hold a vote for chief executive without preapproval of the candidates by a pro-Beijing committee.

Public opinion in Hong Kong is divided on the issue of democratic reform. Some call for the preservation of Hong Kong's current political system, while others push for reforms inherent in the Basic Law. Surveys polling the general population since the 1997 handover indicate that satisfaction with the performance of the Hong Kong government has fluctuated over time, but a

recent trend has emerged: Hong Kong residents are **increasingly dissatisfied**.

Over the years, all chief executives have been unpopular. Hong Kong's legislative body, made up of lawmakers both elected by geographical constituencies and selected by functional constituencies (representatives from social, industrial, and commercial sectors), and the chief executive's election committee disproportionally prioritize business interests and are generally loyal to Beijing. However, the government is also split, dominated by two major factions: pan-democrats, who call for incremental democratic reforms, and pro-establishment groups, who are by-and-large pro-business and supporters of Beijing.

Pan-democrats overwhelmingly advocate for the gradual implementation of political reform and a pragmatic, measured approach to Hong Kong's relationship with Beijing. Pan-democrats recognize that Hong Kong cannot force Beijing into reforms that could contradict or undermine Beijing's central authority; reforms are more likely to be successful when a change in Hong Kong is also beneficial to the mainland. As a result, even Hong Kong's more progressive political groups are largely more **conservative** than the student protesters who are demanding full-fledged democracy.

> *Younger generations have developed political grievances because they feel they are not reaping the benefits of their city's wealth and face stiff competition from the influx of mainlanders.*

Vocal and politicized youth are at the forefront of Hong Kong's democracy movement and are demanding a greater role in determining the city's social and political system. In addition, the political system does not adequately represent the wide array of perspectives held by the Hong Kong population. The widening generational gap and mounting economic inequality —Hong Kong has one of the world's highest levels of **income inequality**—have intensified political divisions. Younger generations have developed political grievances because they feel they are not reaping the benefits of their city's wealth and face stiff competition from the influx of mainlanders. The influence of mainland money also exacerbates the divide between socioeconomic classes. The Hong Kong government must reconcile these opposing political forces while maintaining the city's stability.

What is the role of international actors?

Many experts say there is little that foreign governments can do to influence Hong Kong's democratization process. Amid the 2014 protests, the British government urged China to allow the "**meaningful advance for democracy**" in Hong Kong, while the United States **issued statements** backing pro-democracy protesters. But all statements avoided direct criticism of Beijing. The U.S. Congress **drafted a bipartisan bill** in November 2014 calling for the revival of annual reports on political reform in Hong Kong, a provision of the 1992 U.S.-Hong Kong Policy Act that was suspended in 2000. Although the bill makes no direct change to U.S. policy, it may be symbolic of U.S. support for the development of democracy in Hong Kong. Some experts urge for a greater **multilateral and collaborative effort** by Western democracies to support Hong Kong's democracy movement and to condemn human rights violations.

Still, Western governments are hesitant to directly challenge Beijing because of the potential economic consequences—especially as the United States, the UK, the EU, and others vow to do

more business in China. As a result, critics doubt the West's commitment to the protection of human rights.

In Beijing's eyes, any interference by outside parties is a violation of Chinese sovereignty. International parties could pursue recourse in an international court for Beijing's failure to comply with the UK-PRC Joint Declaration. However, the declaration provides no specifics on how the chief executive should be selected. China also rarely recognizes international law, particularly when national sovereignty is involved.

Meanwhile, multinational firms have been largely quiet on the democracy debate beyond appeals for stability. Hong Kong's business community in particular fears sustained unrest could undermine investor confidence.

Additional Resources

The Chinese government issued a **white paper** on the application of "one country, two systems" policy in Hong Kong in June 2014.

The United States signed the **United States-Hong Kong Policy Act** in 1992.

This Quartz **feature** explains the importance of Hong Kong to China's economy.

Joshua Wong, a de facto leader of the Hong Kong protests, voices his generation's desire for democracy in this ***New York Times* op-ed**.

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