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It is a great privilege to be back in Hong Kong to speak before such a distinguished gathering. Some of you may know that I had recently put some thoughts down about the first decade of the HKSAR for a conference at the CUHK that I was not able to attend. That paper has now been published. Although some of what I have to say today will touch on the first decade, I shall not go over the same ground but concentrate on Hong Kong's future opportunities in the Asia-Pacific that is the theme of this seminar. I shall also not deal with the specifics of the four critical issues of trade, finance, environment and public health that you have identified for discussion in the following sessions. You have many experts here to thrash out those issues thoroughly.

What I shall do is to re-visit the question about Hong Kong's place and role since the 1840s with regards to China and the outside world. From the time the British made it a colony, Hong Kong helped the British penetrate the China market and bring new skills and technologies to the Chinese people. Even the Chinese who moved from inland counties to the island recognised that as the island's main role. In time, individual Hong Kong Chinese looked outwards but they were never actively helped to do so, unlike their compatriots in Shanghai. After 1949, following the fall of Shanghai as an international city, Hong Kong took over Shanghai's mantle and its people became open to the world. The people were gradually encouraged to face outwards beyond China and beyond Britain.
and adopt the world as a kind of fertile 'hinterland', and this strengthened the colony's capacity to deal with a revolutionary and ideologically driven China. By using the phrase 'leaning in' in the title of this talk, I take it as given that Hong Kong has always found it natural to lean inwards towards China; the fact that the territory was recently returned to China makes that even more true. But what are the consequences of this leaning for Hong Kong's future as the relationship with the central government becomes closer?

As for the phrase 'facing out', the question turns to Hong Kong's position since 1949. In less than four decades, the colony built itself pivotal roles by providing a bridge between those who wanted to build networks in China through and from bases in Hong Kong and the Hong Kong people who developed a worldview that enabled them to cope with the global market economy and, what is more, become new models of modern Chinese. In particular, compared with the period 1949-1997, how much can Hong Kong today expect and refine its relationships with the neighbouring region of Southeast Asia and the strategic areas of the Asia-Pacific?

Hong Kong's history as a colony of the global British maritime empire for over 155 years determined that the place would have countless long-term links, both visible and invisible, with all parts of that empire and, ultimately, with most of the world. Now that it is an SAR and part of the PRC, what will change when China becomes a global power? For decades after the end of the Second World War, Hong Kong took on the mantle of being the place for leaning in towards China while it also faced outwards as an international city. This combination was never contradictory. There is no doubt that both Hong Kong government and people have shown that they could manage it with style and aplomb, rather like a juggler dealing with large number of objects in the air at one and the same time. The range of Hong Kong's experiences with this level of leaning in and facing out is very relevant to this seminar and I shall explore what the reality was in the past and what that tells us about the future.

It is often forgotten that Guangzhou was the one port-city in China that faced the world of the South China Sea and beyond for over 2000 years. It did so from before the Qin-Han dynasties to the First Opium War in the 19th century. This is an extraordinary story because there are very few cities in the world that have a continuous history of acting as a gateway for a large hinterland. It is really impressive to see that the centre of the early port-city of the earliest known kingdom of Nan Yue in the 3rd century BC is still the heart of the city of Guangzhou today. Under the Han, that city faced outwards and remained China's gateway to the South China Sea for two millennia. As long as that was so, there was no need for a place like Hong Kong. In short, Hong Kong came about because, from outside, Britain needed a base to help its merchants get into the markets of the Qing empire. Because of the success of Shanghai following the opening up of Central and North China after the Second Opium War, Hong Kong also became a key link for Britain in the trading chain to Shanghai's larger hinterland. Guangzhou was eclipsed by Shanghai, with Hong Kong acting as an instrument in strengthening Shanghai's position. Something new had happened.

The coming of modern naval power also changed the nature of the South and East China Seas. In earlier work, I have noted the semi-Mediterranean conditions and called them the Semiterranean Seas. You are familiar with the Mediterranean complex whose history had led to great advances in the rise of civilisations. Its ultimate product was the modern political economy of Europe, and the maritime empires that reached the shores of China. In that Mediterranean, over a period of three millennia, there developed power relations that were based on civilisational divides, on intense maritime trade and on continual wars. In contrast, in the South and East China Seas, power and wealth was always one-sided and the coast and hinterland of China continually dictated the terms for bilateral
political and trading relationships. That is why those Seas were never comparable to the Mediterranean although geographically they might have resembled the Mediterranean in some ways. They were at best Semiterranean. But, with the coming of the modern navies of the 19th century, power in the two China Seas was for the first time no longer one-sided in the continental empire's favour. During that century, countervailing forces led by Britain reversed that imbalance and, with that reversal, China no longer faced out through Guangzhou. Instead, the Western powers pressed inwards from the sea with Hong Kong serving as Britain's first base. In Asia, Japan woke up to that change and its people quickly emulated and mastered the use of maritime power. By the 20th century, Britain and Japan could together lean on China with devastating consequences for China.

Hong Kong played a role in helping the outside world lean towards China after 1949. Under the Chinese Communist Party, China sided with the Soviet Union in the Cold War, and Hong Kong served also as a frontline for the forces opposed to the Sino-Soviet alliance, comparable to the role of West Berlin at the other end of the global conflict. For more than 30 years, Hong Kong was mainly a gateway into the closed Chinese system but also intermittently an outlet for the PRC. It also acted as a lever for transforming China by being the opposite of communism, an open market economy that provided legal and governance alternatives for its Chinese population.

This leaning in role was Hong Kong's position between 1949 and 1982 before the start of the Sino-British negotiations for the return of Hong Kong to China. China had chosen not to revert to the historical position of using Guangzhou as the gateway for facing out but to keep a small open window in the British colony. This gave Hong Kong its dual role and it successfully played both roles for more than three decades. However, the initiatives were always in the hands of the leaders in China and Britain. The population of Hong Kong could only respond. They leaned inwards to China and outwards to global markets and cultures and made the most of what was decided for them. As we know, many did well out of that exceptional situation.

More recently, the United States replaced all the Great Powers of the past as the determining force in the Asia-Pacific region. For decades, it led the opposition to the spread of Sino-Soviet influence. In that context, the ANZUS Treaty with Australia and New Zealand, the US-Japan Alliance, and US relations with Southeast Asia through the regional organisation set up in the late 1960s called ASEAN, all led to a different configuration of power off the shores of China. This configuration based on the far end of the Pacific Ocean was one that had never been seen before. During the Cold War, it was not simply the West dominating the region as it had done for two centuries, but the American superpower and its European allies, together with Westernising or modernising Asian states, seeking to consolidate a set of countervailing forces against their ideological enemies. Since the 1990s, with China retooling itself and the Soviet Union dissolved, the countervailing forces have become more complex. They now include efforts to build alliances to contain the spread of radical Islamist terrorism as well as to ensure that China's continental power will not overshadow the China Seas region in the way it did for thousands of years. In other words, there is to be no return to one-sided Semiterranean conditions. With modern technologies shrinking the globe, the whole Asia-Pacific could be seen as a larger Mediterranean that erected a maritime arc of forces off the coast of China from Japan to Indonesia that acted as a defense line behind which distant hinterlands could exert overwhelming force to check Chinese power.

China's revival has been anticipated since the end of the Second World War. But what that meant has been interpreted differently by powerful leaders, for example, by Roosevelt and Churchill in the 1940s and by Nixon and Kissinger in the 1970s. Deng Xiaoping's views in the 1980s were especially cautious. As for Japanese, Korean and Southeast Asian leaders since the
1990s, their economic and political positions relative to China changed dramatically and this has made their attitudes uncertain and ambiguous. These changes have produced challenges for Hong Kong. In particular, the rise of China taxed Hong Kong’s ability to serve China without reducing its need to remain an open global city. This was obvious during the first decade of Hong Kong as an SAR. As to be expected, there was a shift of attention in the SAR towards China’s interests. For example, deeper involvement in the development of South China has been encouraged to strengthen Hong Kong’s recovery after the financial crisis of 1998, although neither Beijing nor Guangdong authorities would want that shift to go so far as to affect the vital position of Guangzhou and Shenzhen for South China. On the other hand, Hong Kong has worked hard to retain its external links and underline its role as an international city.

When reviewing the first decade of the SAR in an earlier essay, I underlined Hong Kong’s capacity to lean towards China in new ways and re-position itself to deal with a changing world outside. Hong Kong has proven its ability to lean in and face out alternatively as well as simultaneously. Its people have crossed several political, economic, social and cultural borders in the past 150 years and there is no reason why they cannot do that again and again. With that in mind, let me consider the role of Hong Kong if China continues to rise and becomes the dominant power in the region. Three questions deserve attention:

1. What will such a powerful China want Hong Kong for?
2. In what ways will the Asia-Pacific still need Hong Kong?
3. What initiatives can Hong Kong take to retain its importance?

China does not have political use for Hong Kong in matters pertaining to defence and foreign affairs. That will not change. However, every commentator notes that Hong Kong as a financial centre is irreplaceable for a long while yet. It will also remain invaluable as a transshipment centre and an entrepot for South China, especially for the Pearl River delta. A powerful China will continue to find Hong Kong invaluable for these two roles. Beyond that, there will be less agreement. The basic fact is that China can now reach out directly to the outside world through many channels. It has developed strong communication lines that face out and these are more varied and effective than those that depended on Hong Kong in the past. Their ablest people at the centre and in the major provincial capitals have learnt almost all that they needed to learn from Hong Kong and now see the SAR more as a residual problem than as an essential gateway. Hong Kong needs to convince them that such views about its role are short sighted.

One measure of China’s interest lies in how far it expects Hong Kong to lean inwards from now on. Not leaning in on behalf of outside interests but leaning because the people can identify more closely with China’s interests. During the first decade of the SAR, there is evidence of pressure being put on Hong Kong to respond, pressure that was sometimes impatient but mostly gentle. So far, Chinese leaders have been satisfied with the pace of reconciliation. But the shift from expecting Hong Kong to help China to helping Hong Kong to adjust to the new reality is apparent. China does understand that Hong Kong people will continue to face out because only in that way can they preserve their sources of strength and ultimately their autonomy. And it recognises that Hong Kong no longer needs to do that for the sake of China.

But what about the kind of facing out that Hong Kong could do that would bring the region closer to China? Southeast Asia has not been as important to Hong Kong for markets and financial capital than the developed G-8 nations. That is not going to change, but China’s position with regards to the expansion of their markets worldwide has been totally transformed. The reduced reliance on Hong Kong for that larger world is obvious. However, the story within the region is
different. For years, it was thought that the ‘one country, two system’ model could be used to keep Taiwan interested in reunification with the mainland. There is less talk about that now and attention has turned elsewhere. More and more, China interacts directly with Japan, Korea, Oceania and the countries across the Pacific and less now through Hong Kong. If that continues, in what ways will the Asia-Pacific still need Hong Kong? This seminar has expert panels to flesh out the details of what is likely to happen on the ground. My friend, Jusuf Wanandi, will be providing his views on this subject in the context of East Asian Regionalism. I shall therefore confine myself to perceptions of Hong Kong’s geographical and political space.

I spoke about the power complex brought here in the 19th century from the Mediterranean West and how that transformed for more than a century the semiterranean imbalance in China’s relations with various polities across the two China Seas. Those polities are alert to the possibility of a return to the asymmetric political and economic conditions of the past whenever China was united, rich and powerful. During the transition from colony to nation in the region, many national leaders continued to look at Hong Kong as the place to lean in and help them open up their relations with China. They now see that Hong Kong succeeded in that task only too well. In Southeast Asia, the region has expanded ASEAN membership to cover all ten southern states close to China. This was at least partly in anticipation of China’s inevitable rise. Hong Kong’s ties with each of the member states continued to help strengthen economic links. But as ASEAN became more active through the ASEAN Regional Forum, Chinese leaders have turned to political measures to deal directly with the region. The series of initiatives taken by Premier Zhu Rongji after Hong Kong’s reversion to China altered the conditions fundamentally and China now sees the integration of the region as a priority concern. It is providing the region with better direct access to China and new centres in every province in the south have been encouraged to engage with it. ASEAN agencies will not have to lean towards China through Hong Kong, nor is it always necessary for China to face out towards these countries and their markets via Hong Kong.

The situation with the larger Asia-Pacific region following the APEC meetings of the early 1990s is similar. Hong Kong’s inclusion within APEC was significant. But Malaysia’s proposal for an East Asian Economic Caucus offered alternative visions, and that finally led to the idea of an East Asian Community centred on ASEAN plus the three northeastern countries of Japan, Korea and China. I leave it to Jusuf Wanandi to analyse the future of that project. It is enough for me to say that it is still work in progress, with additional members introduced at the East Asian Summit: they are India, Australia and New Zealand. And, not least, there is the shadow of the United States hovering over any effort at Asian regionalism like Banquo’s ghost at dinner. That exercise is part of the search for balance if not symmetry that matches the Mediterranean complex that I spoke of earlier, and is possible because the world is so much smaller today. In that perspective, the Pacific has been Mediterranean with a set of maritime relationships linking Japan across the two China Seas to Indonesia to face the China coasts opposite and now there is the possibility of extending that to the Indian Ocean as well. This strategic arc could serve as the frontline for the larger Pacific region but, insofar as it is still informal and not expected to diminish the position of APEC or other regional organisations, it has no immediate significance. But should it seek to contain China, it would damage APEC goals and render the role of Hong Kong ambivalent. Hong Kong’s leverage in China remains useful for all APEC members as long as trade and finance issues remain central. But the primacy of politics is evident in much of the strategic thinking that has accompanied recent appraisals of China’s revived power. If that continues, it will reduce Hong Kong’s role in any kind of East Asian community.

The key changes outlined so far stress the dangers of Hong Kong becoming marginalised in the new power relationships
that are emerging. Let me now come to what Hong Kong can do to retain its importance in the world. Clearly the people of Hong Kong know how and where to lean inwards where China is concerned. They have shown that they are supreme agents for that work. What changes from time to time has been whom they do the leaning for and what kinds of purposes are being served. China is now keen for Hong Kong to lean inwards in other ways and the new generation of businessmen and professionals are even more skilled in doing just that. In addition, there have been infusions of talented people from China into Hong Kong who can reinforce the kinds of links needed with the key power nodes in the PRC. If they work together with their Hong Kong counterparts effectively, there would be added capacity for Hong Kong to handle China’s affairs in the region. The issue is whether its skilled personnel can convince Southeast Asian leaders, officials and entrepreneurs that their countries and economies could do even better through that integrated Hong Kong nexus. There are gaps here in how the PRC and SAR governments function in the ASEAN states and elsewhere. Hong Kong has its own trade office, and its representatives are working efficiently among well-established groups that look to Hong Kong. But the PRC embassies act for China’s expanding national and corporate institutions and, in addition, also for many provincial, county and local business interests that are reaching out in the region. Embassy officials and expatriate businessmen are developing expertise in order to catch up with Hong Kong’s advantages and, where they have won the trust of their host governments, have now more extensive networks than Hong Kong.

At another level, Hong Kong has so far balanced its ability to lean inwards to China with its extraordinary confidence in facing out to deal with the rest of the world. There is no reason why that confidence should not continue. What is significant is that facing out today has many more facets than leaning in for the purpose of enhancing foreign business opportunities and financial networks in China. Facing out has never been solely to meet commercial needs. On the contrary, Hong Kong’s decades of openness to British legal methods, education and cultural values, and governance standards has been central to what makes Hong Kong unique as an international city. Since the 1980s, other cultural features and intense debates about values have gained ground as Hong Kong faced out more extensively beyond Britain, notably to the United States and East Asia. Economic success has meant that when Hong Kong faced out, it systematically brought intangibles into Hong Kong like new ideas and new standards, modern aesthetic as well as political cultures, many of which can be seen as contrary to those found in the PRC. Ideals of liberty and equality have made enormous progress among the people and specific hopes that democracy be introduced to a well-educated population have stayed high on the agenda of many. In terms of Hong Kong’s rights, this is totally understandable. But China’s rise and the uncertain responses among China’s neighbours could impose limits on how Hong Kong faces out.

To illustrate what can happen, I would like to examine three scenarios here. The first two would impose constraints while the third could offer new options for Hong Kong. The first is that China becomes the predominant power, obvious imbalance and asymmetry return to the region, and the two China Seas become semiterranean again as in the past. Hong Kong people then have little choice but to lean further inwards, and confine their facing out activities to business, finance and technological expertise. At worst, they would have to discard their ideals and aspirations that depend on the outside world. This scenario could come to pass if the US decides that its interests elsewhere are more important than the Asia-Pacific. Personally I consider this unlikely unless, for reasons beyond its control, the US economy weakens significantly relative to Asia and US leaders choose to shore up its strengths in other regions.

The second is that the strategic Mediterranean arc, with the US and its allies providing a distant hinterland for the countries from Japan to Indonesia, becomes a permanent and hostile balancing mechanism against the possibility of Chinese
expansion. In that case, Hong Kong becomes an integral link in China’s chain of ports to defend its coastal interests. As patriotic Chinese living on the coast of China, Hong Kong people would have to surrender their autonomy and strongly and unequivocally affirm their loyalty to China. There will be little to face out for, and only room for more intensive efforts to lean in. Again, I believe that this scenario is unlikely because China is determined to befriend its southern and eastern neighbours in the region and will do everything possible to prevent miscalculations that would push these countries to join such a chain to contain China. As long as China can continue to grow its economy and can correct the fault-lines that threaten internal social stability, no efforts to erect such a Mediterranean strategic arc will be successful.

The third scenario follows from continued economic success in China that leads to political reforms, reforms that are introduced to save what is acknowledged to be an inefficient and corruptible system. Chinese versions of democracy and rights emerge that the world, including the United States and its Western allies, is prepared to recognise as legitimate variations of what is widely regarded as desirable for world peace. If the Chinese leadership remains dedicated and confident, it is possible to lay the foundation for long-term cooperative relations in the region, and Hong Kong people will accept the national political package as appropriate for China and something they are content with. In such a scenario, Hong Kong finds balance. Its people could lean inwards profitably and safely for the sake of both China and the outside world. At the same time, they could face out freely in any way they choose in the quest for new meaning in their lives. In such a condition of balance, they would not have to worry whether they are leaning in too far or facing out too much.

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