

Will universal suffrage lead Hong Kong to become a 'welfare state'?

YatMan Rebecca Cheng
University of Oxford
Summer Intern 2004

Civic Exchange
Room 701, Hoseinee House
69, Wyndham Street, Central
Tel: 2893-0213 Fax: 3105-9713
www.civic-exchange.org

Contents:

Introduction

1. Factors that may contribute to the development of a welfare state
2. Social welfare in Hong Kong
3. What is meant by 'universal suffrage' in Hong Kong?
4. Examine the factors that may contribute to increased social spending in Hong Kong
 - a. Values and ideologies of political parties
 - b. Strength of organised labour
 - c. Women's participation in the labour force
 - d. Constitutional structure
5. Hong Kong in context: the unique situation of Hong Kong
 - a. Chinese culture
 - b. The Basic Law
 - c. The influence of the Chinese Government
6. Conclusion

Bibliography

Acknowledgements

Introduction

In recent months, the methods to elect the Chief Executive (CE) and members of the Legislative Council (LegCo) have become the most important and most hotly debated constitutional issues in Hong Kong.

In April 2004, the Standing Committee of the National People's Congress ruled out the possibility of Hong Kong achieving universal suffrage of the CE and LegCo for the 2007 and 2008 elections respectively, and decided that democratic reform in Hong Kong should be 'gradual' to ensure 'stability'. The argument was that democratic development could lead to instability, and that there was a trade-off between economic development and democracy.

It has also been argued by tycoons such as Ronnie Chan, chairman of the Hang Lung Group, and Gordon Wu, chairman of Hopewell Holdings, that full democracy in Hong Kong would lead to 'free lunches'. Chan said that the "... under-educated, and those who did not pay tax would elect candidates who stood for more social welfare spending, which would turn Hong Kong into a 'welfare state' ... About 1.1 million of the people have only kindergarten or no education level at all. About 82 per cent of the population does not pay tax, and 51 per cent of the people receive housing subsidies from the government. If we have a 100-per-cent directly elected LegCo, only social welfare-oriented candidates will be elected. Hong Kong is a business city and we do not want to end up being a social welfare state."¹

Chan's arguments are typical of the view held by the business elites in Hong Kong, and such a view was also expressed in the Second Report of the Constitutional Development Task Force, conducted by the Hong Kong SAR (HKSAR) Government:

"There are some concerns that Hong Kong has a narrow tax base, and that only 39% of the working population are paying salaries tax. The worry is that if universal suffrage were implemented hastily, or if functional constituencies were abolished, Hong Kong might become a welfare state. In turn, this might affect the investment and economic environment of Hong Kong. There are views that functional constituencies and the existing electoral methods should be maintained in order to facilitate the development of the capitalist economy."²

The Task Force recommended that in order "to preserve the prosperity and stability of Hong Kong, the previous capitalist system and way of life should remain unchanged. Constitutional development should not proceed in a direction which leads to the

¹ "Tycoon warns on protests," *The Standard*, 29 April 2004.

² HKSAR Government, *The Second Report of the Constitutional Development Task Force: Issues of Principle in the Basic Law Relating to Constitutional Development* [report on-line] (April 2004, accessed 8 August 2004); available from <http://www.info.gov.hk/cab/cab-review/eng/report2/pdf/secondreport-e.pdf>; Internet.

emergence of populism or a welfare state, thus affecting the operation of the capitalist system.”³

On the other hand, proponents of universal suffrage argue that the fact that many of the world’s advanced capitalist countries are democratic, and that many of the democratic countries are not welfare states, defies the claim that democracy necessarily goes hand in hand with increased levels of social spending. Democracy is not only compatible with but is in fact essential to a healthy capitalist system, as it allows a fairer playing field for all in the system.

While the arguments outlined above seem to represent the personal convictions of the elites, the basis of their beliefs has yet to be carefully examined and evaluated against empirical evidence. In this paper, I aim to go beyond the question of whether or not universal suffrage will lead Hong Kong to develop into a welfare state. Instead, factors that might lead to welfare state development will be examined. I will discuss the situation of Hong Kong in terms of these factors, and how it might be altered if the CE and LegCo were to be elected by universal suffrage. I will argue that Hong Kong, like many other post-industrial countries, is subjected to pressure to increase social spending. While democratic development will probably allows such social pressure to exert greater influence on politics and thus social policy, there are too many constraints for drastic increases in social spending. Any increase in social spending after universal suffrage will not be radical and substantial.

1. Factors that contribute to the development of the welfare state

The simplest definition of “welfare state” is ‘a social system whereby the state assumes primary responsibility for the welfare of its citizens, as in matters of health care, education, employment, and social security.’ Increases in social spending arose as people became dissatisfied with the poverty and vulnerability of a capitalist economy. Although ‘welfare state’ can be described as a single phenomenon, it has various manifestations. Esping-Andersen⁴ has classified welfare states into three types: Nordic, Continental and Anglo-Saxon. Examples of Nordic welfare states are Sweden and Norway, where welfare is generous and highly redistributive. Continental welfare states such as Germany and France are generous and moderately redistributive. Anglo-Saxon welfare states, such as the United States and the United Kingdom, are less generous and less redistributive. The development of different types of welfare state could be contributed to several important factors such as the relative strength of different social forces and the partisan pattern in government. Other factors, such as the constitutional structure of the state and the strength of gender movements seem to play an essential role as well. Huber and Stephens⁵ suggest that the incumbency of strong social democratic or Christian democratic governments, the presence of strong labor unions, a constitutional structure that has a low number of veto points and the participation of women in the labour force

³ ibid

⁴ Gosta Esping-Andersen, *The three worlds of welfare capitalism* (Princeton, NJ: Princeton University Press, 1990)

⁵ Evelyne Huber and John D. Stephens, *Development and Crisis of the Welfare State: Parties and Policies in Global Markets* (Chicago: the University of Chicago Press, 2001)

all contribute to a generous, highly redistributive welfare state such as with the Nordic states.

Before elaborating on these factors and examining the case of Hong Kong, I will first outline Hong Kong's welfare system and the social changes that introduce new challenges to the current system.

2. Social welfare in Hong Kong

The HKSAR Government already provides a range of social welfare services in the areas of housing, education, health care and social security. About half of the population lives in one type or another of subsidized public housing where the rent is substantially cheaper than the market price. Free and universal basic education is provided to children between the ages of six and fifteen. 'In Hong Kong, nobody would be denied education opportunities even at the tertiary level because of a lack of means'⁶ and indeed higher education is also subsidized by the government. In terms of health care, Hong Kong has a well-connected network of public clinics and hospitals that provide cheap and proficient medical care. A check-up with a doctor costs HK\$45 (compared with HK\$100 to HK\$250 or more in private clinics) while one day of care in a public hospital costs HK\$68 (compared with HK\$300 in a private hospital). Hong Kong provides basic social security to people who need financial or material assistance, for people who lack or have inadequate income, and for the aged and the disabled. Hong Kong provides comprehensive but very basic social welfare service.

The HKSAR Government has always had a rather low commitment to social welfare services, and most of the demand for social welfare has been satisfied by the fast-growing economy which provides stable employment, as well as traditional family safety nets. However, like most post-industrial countries in the world, Hong Kong confronts much external and internal pressure to increase its social spending. Hong Kong was renowned for its low unemployment rate up until 1997, when the Asian financial crisis hit. After the crisis, the unemployment rate soared, reaching 7.3% in 2003 (although it has eased in 2004). Apart from unemployment, Hong Kong's growing elderly population has also put the social welfare system under strain. In 2003, Hong Kong had a total elderly population (over 65) of 795,000, accounting for 11.7% of the total population.

On top of unemployment and a growing elderly population, a worsening gap between the rich and the poor, if not addressed properly, could become a contributing factor to social unrest. In 2003, Hong Kong ranked 22 (out of 177 countries) in the Human Development Index⁷ but ranked 84 (out of 127 countries) in the inequality measure, the Gini Index⁸. This inequality is expected to increase as the changing economy offers well-paid jobs for

⁶ Siu-kai Lau and others, *Indicators of Social Development* (Hong Kong : Hong Kong Institute of Asia-Pacific Studies, Chinese University of Hong Kong, 2003)

⁷ United Nations Development Programme, *Human Development Reports 2004* [report on-line] (Accessed 10 August 2004); available from http://hdr.undp.org/statistics/data/cty/cty_f_HKG.html; Internet.

⁸ Measures the extent to which the distribution of income (or consumption) among individuals or households within a country deviates from a perfectly equal distribution. A value of 0 represents perfect equality, a value of 100 perfect inequality.

the highly-skilled and educated, while at the same time, there are fewer jobs for those who are not. Currently, 28% of the population has no or only primary education, while 20.5% of the population has some form of tertiary education. In addition, there have been as many as 55,000 immigrants from mainland China annually (family reunion), although this number has fallen off in the last few years (about 50%). Many of these new arrivals come from rural background and lack education. Any measures to tackle these problems will most likely entail an increase in welfare spending.

Given the rising internal and external pressures for Hong Kong to step up its social welfare, has Hong Kong increased its welfare spending and is there a possibility that Hong Kong will become a generous welfare state? Currently, the welfare spending is kept low: education, housing, health care and social security spending accounts for 11.6% of GDP⁹; while in Norway, education and health care spending alone amounts for 13.6% of GDP¹⁰. Hong Kong follows a low tax rate policy: its standard income tax rate is 16%¹¹. The low tax rate policy is strictly enforced, as its enforcement is said to be one of the key factors of Hong Kong's success. A former Financial Secretary, Piers Jacobs, had advocated the view that 'growth of expenditure has to be within economic expansion in spite of expectation for public services improvement' (Hong Kong Government 1987, p.2).¹² This view had been followed by the pre-1997 colonial administration but was departed from in the 1998-1999 Budget by the HKSAR Government, when the Tung Administration went on a spending spree.¹³ It is often argued that after universal suffrage, people in Hong Kong would vote for candidates who advocated higher welfare spending and tax increases, consequently ruining the low income tax policy, making Hong Kong less competitive and thus inadvertently bringing about the death of Hong Kong's economy.

As argued in the introduction, the belief that democracy would lead to increased social spending is, of course, too simplistic. It is more useful to understand the current constitutional structure, and then discuss the changes universal suffrage may bring about to this structure. Finally, I can then proceed to discuss how universal suffrage may affect the dynamics of social spending in Hong Kong.

3. What is meant by “universal suffrage” in Hong Kong?

The debate on constitutional development concerns the two election methods for the CE and LegCo. The CE, under the executive-led system in Hong Kong, holds the decision-making power in the government. The current CE, Tung Chee-hwa, was selected by a 400-member Selection Committee, whose members were appointed by the People's

⁹ HKSAR Government, *Hong Kong: the facts, coming to Hong Kong* [on-line] (accessed 17 August 2004); available from <http://www.info.gov.hk/hkfacts/cometohk.pdf>; Internet.

¹⁰ United Nations Development Programme, *Human Development Reports 2004* [report on-line] (Accessed 17 August 2004); available from http://hdr.undp.org/statistics/data/cty/cty_f_NOR.html; Internet.

¹¹ PriceWaterHouseCoopers, *2004/2005 Hong Kong Budget highlights* [on-line] (Accessed 17 August 2004); available from http://www.pwccn.com/home/eng/budget2004_highlights.html#C; Internet.

¹² Robert Ash and others, *Hong Kong in Transition, one country, two systems* (London ; New York : RoutledgeCurzon : Centre for the Study of Globalisation and Regionalisation, 2003)

¹³ Stephen Brown, Edward K W Fung, Kylie Uebergang, and Steven Xu, *The Budget and Public Finance in Hong Kong*, Civic Exchange (March 2003), 6-26.

Republic of China.¹⁴ The 2004-2008 LegCo has 60 members. There are 30 members each returned by functional constituencies and geographical constituencies. Only members returned by geographical constituencies were elected through universal suffrage. Representatives of functional constituencies were elected by relatively small constituencies based on professional or commercial ‘functions’, some of which have less than 200 voters. Universal suffrage means that both the CE and the Legco would be elected by direct election.

Now I will return to the factors that may lead to the development of generous welfare states and discuss, in the case of Hong Kong, how universal suffrage may affect such development. The factors I will discuss are the composition of political parties, the strength of labor unions, the constitutional structure, and the participation of women in the labor force.

4. Examine the factors that might contribute to increased social spending in Hong Kong

a. The composition of political parties

Using a variety of research approaches, many authors have suggested that the presence of essentially “social democratic” political parties in the government contributes to the development of a generous welfare state with strong universalistic and redistributive characteristics (e.g. Castles¹⁵ and Korpi¹⁶). Despite the presence of social democratic movements of similar strength, comparative case-studies between countries of diverse welfare state outcomes reveal some more conditions under which social democratic movements could make a difference. According to Esping-Anderson¹⁷, there are key preconditions for a welfare state to arise, given a social democratic movement: weakness of the right (Castles¹⁸) and trade union strength or cohesion (Stephens¹⁹). Huber and Stephens, using a meta-analysis method, concluded that the incumbency of social democratic parties supported by the working and lower middle classes-- that is, ‘a strong union-social democratic party alliance’-- is the ‘most generous promoter of...a generous welfare state’.

Currently in LegCo, the three biggest parties are the Democratic Party (DP), the Democratic Alliance for Betterment of Hong Kong (DAB) and the Liberal Party (LP). In order to speculate on the composition of LegCo when all the members are directly elected on the basis of universal suffrage, one can look for clues from the composition of the

¹⁴ It should be noted that the pre-1997 body of 400 members to choose the CE was known as the Selection Committee whereas the post-1997 body of 800 members is called the Election Committee.

¹⁵ Francis Castles, *The Social Democratic Image of Society* (London: Routledge & Kegan Paul, 1978); quoted in Evelyne Huber and John D. Stephens, *Development and Crisis of the Welfare State: Parties and Policies in Global Markets* (Chicago: the University of Chicago Press, 2001).

¹⁶ Walter Korpi, *The Working Class in Welfare Capitalism* (London, Henley, Boston: Routledge & Kegan Paul, 1978).

¹⁷ Gosta Esping-Andersen, ‘The Emerging Realignment Between Labour Movements and Welfare States’ in *The Future of Labour Movements*, ed. M. Regini (London: SAGE Publications, Ltd., 1992), 133-149.

¹⁸ Francis Castles, *The Social Democratic Image of Society* (London: Routledge & Kegan Paul, 1978)

¹⁹ John D. Stephens, *The Transition from Capitalism to Socialism* (University of Illinois Press, 1979).

geographical constituencies. In the 2000-2004 LegCo, the DP had 8 seats, the DAB 6 seats, followed by independent legislators 3, the Frontier 2, the Hong Kong Confederation of Trade Unions (HKCTU) 2, and 1 seat each went to the Hong Kong Progressive Alliance (HKPA), the Neighbourhood and Workers Service Centre (NWSC), and the Hong Kong Association for Democracy and People's Livelihood (HKADPL). It is uncertain yet how many seats the LP may get after the introduction of universal suffrage. Currently, all Liberal Party representatives are returned by functional constituencies. The influence of the LP may be greatly diminished after the introduction of universal suffrage.²⁰

Parties in Hong Kong are usually distinguished by their political position: the DP is pro-democracy while the DAB and the LP are pro-government. However, in terms of social policy issues, Hong Kong is similar to other capitalist countries where there is a division between parties that represent grassroots interests and those that represent business interests. The democrats (including the DP, the Frontier, the HKCTU, the NWSC and the HKADPL) 'being mostly elected through universal suffrage, were generally more sympathetic to grass-roots interests and demanded more redistributive social policy'²¹. And indeed, the democrats are concerned with social inequality and justice in society, as one platform of their seven-point programme is 'to create a just society, protecting the underprivileged'²². This sharply contrasts with the LP and the HKPA, as well as legislators from the functional constituencies, who are more inclined to take care of business interests and are opposed to rapid expansion of social welfare. Members of these parties are the traditional elites of society which includes 'the top Chinese businessmen, the offsprings of the rich families, and the professionals with conservative orientations'²³. These parties are therefore pro-establishment and thus oppose to any radical social changes which might threaten their already privileged position. The DAB, meanwhile, is a party with grassroots support and 'shared similar positions with the DP on such issues as medical charges, retirement pensions, and public housing rents.'²⁴

As stated earlier, one of the important preconditions for the development of the welfare state is the existence of a social democratic party. Can any party in Hong Kong be called a 'social democratic party'? The democrats are concerned with 'social inequality and justice in the society' and favor 'economic policies that would balance the interests of big and small businesses' with an emphasis on the protection of 'the interests of workers', they can be said to follow social democratic ideals. However, the influence of these ideals seems to be moderate as there are different opinions within the pro-democracy camp on social policy issues. In the 1998 election, when socio-economic issues were important, the democrats proposed only moderate social policies to avoid 'internal dissension within the parties'. These democrats are 'largely oriented to the basically moderate middle class' and 'had to avoid scaring away its backbone support by embracing radical socio-

²⁰ As of the time of writing this report, 3 members of the Liberal Party are running in two geographical constituencies on two lists, and that polls showed that 2 of them (one from each list) are likely to be elected.

²¹ Ming Sing, ed., *Hong Kong Government and Politics* (Hong Kong: Oxford University Press, 2003), 297.

²² 'Democrats unveil election platform,' *South China Morning Post*, 20 July 2004.

²³ Ming Sing, ed., *Hong Kong Government and Politics* (Hong Kong: Oxford University Press, 2003), 229.

²⁴ *Ibid*, 297.

economic positions²⁵. One can therefore speculate that even if the democrats were to secure a majority in a fully-elected Legco, their position on welfare would be moderate. First of all, the various pro-democracy parties would not be a unified force to push for radical reform. Secondly, in order to increase their voter base, they would have to appeal with moderate policies to a wide spectrum of voters.

The position of the DAB-- a grassroots party made up of leftist organizations and trade unions - on welfare issues is similar to that of the DP. In fact, the differences between the DP and the DAB over socio-economic issues are so narrow that in the 1998 election, it was difficult to tell the two apart. However, the DAB is supported by the more conservative grassroots voters who do not support 'rapid' democratization and are more attracted to the DAB's appeal for stability in Hong Kong's development. The DAB is, therefore, not likely to initiate or support any rapid increase in welfare spending and would very likely oppose any such proposals from the democrats. In addition, the DAB is a pro-Chinese party, and as the Chinese government is primarily concerned with economic development and stability in Hong Kong, the DAB will probably be constrained by its relationship to the Chinese government and take a moderate stance on welfare spending.

The LP and the HKPA, as mentioned above, currently only have representatives from the functional constituencies. These generally represent the interests of businessmen and the rich, who have minimum interest in increasing welfare spending. The LP was established to build a society 'that would create wealth by maintaining the values of a free market'²⁶. It regards increased social spending as interference with the free market, and it has always encouraged the HKSAR government to 'control growth in public spending and maintain the financial management principle of a small government.'²⁷ Thus, the LP and the HKPA are most likely to oppose to any radical increase in welfare spending.

In summary, the DP, the DAB and the LP are currently the three major parties in Hong Kong. Although the DP, together with its associated pro-democracy parties, seem to promote social-democratic values, their need for support from the middle class restrains it from taking a radical stance on social welfare reform. In addition, its members have diverse opinions regarding various social issues, and this would make it at best a fragmented voice in pushing for greater welfare spending. The DAB, although supported by the working and lower classes, is constrained by the Chinese government, which favors stability and rejects any kind of radical reforms in Hong Kong. The LP and the HKPA are the forces that represent business interests, and their public support is weak, meaning that their influence under universal suffrage may be weak. It is conceivable that business interests would be poorly represented in the fully-elected LegCo, which would thus increase the likelihood of increased welfare spending and higher taxes. However, even if the influence of the LP and the HKPA were to fade, the moderate stance of DP and DAB will only mean moderate increase in welfare spending.

²⁵ Ibid.

²⁶ The Liberal Party, *About Liberal Party* [on-line] (accessed 26 August 2004); available from <http://www.liberal.org.hk/contents/>; Internet.

²⁷ The Liberal Party, *Party Platform: Policy Responses to Budget Proposal 2002/2003* [on-line] (accessed 26 August); available from <http://www.liberal.org.hk/contents/>; Internet.

b. Strength of organized labor

The question of whether or not full democracy in Hong Kong will lead to the emergence of the welfare state contains the assumption that the growth of democracy will lead to the poor becoming more organized, so as to gain more rights and benefits from full democracy. This is because the government, being elected by its people, has to ensure that manual workers who make up most of the population are satisfied and can therefore no longer afford to ignore their needs. As I have mentioned above, the strength of labor unions is important in the development of the welfare state as 'a strong union-social democratic party alliance is the most consistent political promoter of...a generous welfare state.'²⁸ How organized are the workers in Hong Kong? Will there be a growth of such unionization after universal suffrage? Could a strong union-social democratic party alliance develop?

Hong Kong's trade unions are traditionally weak in representing the interests of workers. Membership in trade unions has been rather low, with 'union density rate...about 16% during most of the 1980s'. It rose in the late 1980s due to the substantial growth of unions in the civil service sector but has leveled off in the 1990s at about 21%.²⁹ The labor movement has been traditionally fragmented by the division between the pro-Chinese Hong Kong Federation of Trade Unions (FTU) and the pro-Taiwanese Hong Kong and Kowloon Trades Union Council (TUC). Workers in Hong Kong are not well-organised: collective bargaining is near inexistent, and joint consultation very rarely occurs.

With democratization, the political activity of trade unions has increased. As the number of directly elected seats in Legco increases, there is an emerging pro-labor voice. 'While the TUC has kept a low profile...both FTU and the pro-democratic Hong Kong Confederation of Trade Unions (CTU) have become involved in electoral politics and also in lobbying legislators and the government'³⁰ With the increasing involvement of labor unions in politics, coupled with increasing political awareness in Hong Kong in general, it is expected that labor unions will be more involved and thus, exert greater power in Hong Kong politics.

However, labor unions are still far from influential in the decision-making process in Hong Kong. At the moment, their political representation is low. For workers in Hong Kong, the idea of fighting for their rights through joining unions and thus exerting influence on the political system remains a foreign concept. In addition, the division between pro-Chinese and pro-democracy labor movements will greatly hinder the collective power of workers. While the pro-Chinese labor movement is more

²⁸ Evelyne Huber and John D. Stephens, *Development and Crisis of the Welfare State: Parties and Policies in Global Markets* (Chicago: the University of Chicago Press, 2001), 41.

²⁹ Stephen W.K. Chiu & David A. Levin, 'The Organization of Industrial Relations in Hong Kong: Economic, Political and Sociological Perspectives,' *Organization Studies* [on-line] (Accessed 11 August 2004); available from http://www.findarticles.com/p/articles/mi_m4339/is_2_20/ai_57816029; Internet.

³⁰ Patricia Fosh and others, *Hong Kong Management and Labour: Change and continuity* (London; New York: Routledge, 1999), 256.

conservative and favors stability, the pro-democracy labor movement favors autonomy from the Chinese government and more radical welfare reform. These two forces are therefore unlikely to unify in any substantial degree.

To conclude, even though there is rising political awareness in the labor movement, at the moment, it is too small to exert any major influence. It is not yet supported widely by workers, as the concept of securing labor rights through political participation has not been popular in Hong Kong. This might change dramatically under universal suffrage and the workers in Hong Kong could realize their political power. However, the division between pro-Chinese and pro-democracy labor movements will reduce the collective power of labor to influence welfare reform.

c. Women's Participation in the Labour Force

The third factor presented as important in determining the emergence of the welfare state historically is the participation of women in the labor force (e.g. Lewis and Astrom³¹ and O'Connor, Orloff, and Shaver³²). As more women join the labor force, there is a greater need for social welfare services in care-giving, thus exerting pressure to increase spending. The expansion of the welfare state has in turn 'a positive feedback effect in that it enables more women to enter the labor force and creates demand for labor in these services, a demand that is predominantly met by women...increased female labor force participation, particularly in the typically well-organized public sector, increases the level of organization of women through unionization and thus the potential for women's political mobilization.'³³ In sum, the participation of women in the labor force provides the need and the pressure for increased welfare spending.

In Hong Kong, there has been a significant increase in the number of working women. Evidence suggests that 'the overall female labor force participation rate has increased by 8.4 percentage points'³⁴ from 1986 to 2002. And now there is 'a much higher percentage of females who are working as professionals, and as managers and administrators'³⁵. While only 34.4% of the civil servants were females in 1981, the percentage has increased to 50.5% in 2002³⁶. Only 5.2% of the directorate officers in the Civil Service were female in 1986, but 31.3% of current directorate officers are women.³⁷

³¹ Jane Lewis and Gertrude Astrom, 'Equality, Difference, and State Welfare: Labor Market and Family Policies in Sweden.' *Feminist Studies* 18(1):59-87.

³² Julia S. O'Connor, Ann Shola Orloff, and Sheila Shaver, *States, Markets, Families: Gender, Liberalism and Social Policy in Australia, Canada, Great Britain and the United States* (Cambridge: Cambridge University Press, 1999), quoted in Evelyne Huber and John D. Stephens, 'Partisan Governance, Women's Employment, and the Social Democratic Service State', *American Sociological Review*, Vol.65, No.3(Jun., 2000), 323-342.

³³ Evelyne Huber and John D. Stephens, *Development and Crisis of the Welfare State: Parties and Policies in Global Markets* (Chicago: the University of Chicago Press, 2001), 47.

³⁴ Census and Statistics Department, *Women and Men in Hong Kong Key Statistics* (Hong Kong : Census and Statistics Department, 2003).

³⁵ Patricia Fosh and others, *Hong Kong Management and Labour: Change and continuity* (London ; New York : Routledge, 1999), 256.

³⁶ Census and Statistics Department, *Women and Men in Hong Kong Key Statistics* (Hong Kong : Census and Statistics Department, 2003).

³⁷ *ibid*

While there has been a dramatic increase of women in the work force, their level of participation in unions and politics has been limited. As mentioned above, labor in Hong Kong is not highly unionized and it is likely that women's membership in unions has not been substantial. In addition, in terms of political involvement, the current constitutional arrangement has limited female representation. First, in the selection of the CE, only a 800-member Election Committee was allowed to vote and women constituted only a small proportion of this Committee³⁸. In addition, the Committee was biased in favor of pro-business and conservative and this further decreased the chances of a female candidate. The fact that half of the seats in LegCo are returned by functional constituencies puts women at a disadvantage for three reasons. First, at most, only a little over half of the female population in Hong Kong is eligible to vote in functional constituency elections (the percentage of women working was 52% compared with 72.5% of men in 2002³⁹). Second, as some constituencies 'adopted a one-organisation-one-vote system...female employees are likely to be disenfranchised' because few women hold decision-making positions in these organizations. Third, functional constituencies under-represent 'the grassroots, where the proportion of women is relatively higher...only three of the 28 occupational sectors were numerically female dominant, the male-to-female ratio was as high as 81.5:1' in the Agriculture and Fisheries constituency.⁴⁰

With full democracy in Hong Kong, female membership in unions and participation in politics would likely be greater. First, as discussed above, democratization has led to more politically-active unions. Thus, the political influence of female workers might therefore become proportionally stronger. In terms of election of the CE and LegCo by universal suffrage, females will be competing with males on more level ground. First of all, both sexes will be able to run for the CE. In the 2002 CE election, only 11% of the electorate was females in the Election Committee. If the CE will be elected through universal suffrage, the female electorate will increase to a near 50%⁴¹. Also, the disadvantages females confront in functional constituencies would disappear, as functional constituencies would no longer exist. In general, universal suffrage would lead to greater female membership in unions and participation in politics and therefore, most likely lead to greater pressure for increased welfare spending.

d. Constitutional structure

A further factor affecting the development of the welfare state is a constitutional structure that has many 'veto points' in the policy-making process (Immergut⁴² and Maioni⁴³). In a

³⁸ Irene Tong, 'Women and politics,' in *Building democracy: creating good government for Hong Kong*, ed. Christine Loh & Civic Exchange (Hong Kong : Hong Kong University Press, 2003), 117-126.

³⁹ Census and Statistics Department

⁴⁰ Irene Tong, 'Women and politics,' in *Building democracy: creating good government for Hong Kong*, ed. Christine Loh & Civic Exchange (Hong Kong : Hong Kong University Press, 2003), 122.

⁴¹ In the 2000 Legislative Council Election, 48.4% of the registered electors was female. It can be speculated that if the CE was to be elected, such ratio will also be expected.

⁴² Ellen Immergut, *The Political Construction of Interests: National Health Insurance Politics in Switzerland, France and Sweden, 1930-1970* (New York: Cambridge University Press, 1992).

structure in which power is dispersed, small pressure groups can exert their influence and veto legislation contrary to their wishes. If there were more points of access to political decision making, or more veto points in this process, any radical increase in welfare spending would be likely vetoed, which would make the government less generous in social spending than those with more concentration of power.

Hong Kong currently has an 'executive-led' system, which means that decision-making power lies with the CE, the Executive Council (ExCo) and the policy secretaries. ExCo 'is appointed wholly by the CE and serves a role very similar to that of a cabinet'⁴⁴ and '...the Chief Executive shall consult the Executive Council before making important policy decisions, introducing bills to the Legislative Council, making subordinate legislation, or dissolving the Legislative Council.' Policy secretaries come from the administrative officer (AO) grade of the civil service and are also appointed by the CE.

The main functions of LegCo are to 'enact laws; examine and approve budgets, taxation and public expenditure'. To understand the constitutional structure of the HKSAR Government and the interaction between the CE, the ExCo and the LegCo, one should understand the procedures for law enactment. First, any legislative proposals start with discussions between the HKSAR Government and the relevant Legco panels, chambers of commerce, trade associations and district councils. The HKSAR Government then submits the proposal to ExCo. The CE, president of ExCo, consults members of the ExCo before making a decision to introduce the bill into LegCo. In LegCo, the proposal will be explained and discussed. It will go through three readings, and it could be accepted, rejected or amended. In LegCo, a Bills Committee could also be set up specifically to examine the merits of the proposal. If, the proposal or the amended proposal goes through the Third Reading, the proposal will become law after it has been signed by the CE. The HKSAR Government budget and any bills regarding public expenditure are presented to LegCo in a similar process.

Both the CE and LegCo members have the right to initiate bills. However, Annex II of the Basic Law states that 'the passage of motions, bills or amendments to bills' introduced by LegCo members now requires 'a simple majority vote of each of the two groups of members present', meaning that, a majority vote in both the functional and geographical constituencies are needed. This means that anyone who wants to block the bill or motion could do so by persuading only 16 members in either group to vote against it. Thus, under this current structure, the legislature is weak. However, when the executive raises motions, bills or amendments to bills, these require only a simple majority in the legislative council as a whole.

A further restriction on the legislative power of LegCo is that it cannot move any bills that are related to 'public expenditure, political structure or the operation of the government...the written consent of the Chief Executive shall be required before bills relating to government policies are introduced.' (Article 74) This means that any LegCo

⁴³ Antonia Maioni, *Explaining Differences in Welfare State Development: A Comparative Study of Health Insurance in Canada and the United States*. (Princeton, NJ: Princeton University Press, 1998).

⁴⁴ Irene Tong, 'Women and politics,' in *Building democracy: creating good government for Hong Kong*, ed. Christine Loh & Civic Exchange (Hong Kong : Hong Kong University Press, 2003), 123.

initiative to increase welfare spending is impossible as LegCo does not have the right to move bills that have an effect on public expenditure. Between 1991 and 1997, when LegCo started to have directly elected members, 'private members bill (bills initiated by legislators) became a powerful tool for legislators to impact government policy'⁴⁵ and in the legislative year 96-97, 22 private members' bills were passed⁴⁶. However, the Basic Law, which came into effect in 1997, places restrictions on the use of private members' bills. Its effect is reflected in the dramatic decrease in the number of such bills to a total of five between 1998 and 2002, and none of them was related to public issues.

When universal suffrage is achieved, the restriction caused by the split voting system will disappear, as all members of LegCo will be directly elected. The majority party can become a powerful force in LegCo. However, the fully-elected LegCo will continue to be constrained by the Basic Law, as it will not be able to move bills regarding public expenditure. With universal suffrage of the CE, however, the scenario would be much different.

Let us assume the worst-case scenario from a tycoon's point of view: a CE with social democratic values is elected. Under the executive-led system in Hong Kong, he/she would appoint members of ExCo and the policy secretaries who would presumably also be social-democrats. Let us follow the procedure in law enactment and public expenditure bills: First, discussions between the social democratic government and relevant parties-- which supposedly represent the broad interests of Hong Kong - leads to the conclusion that a dramatic increase in social spending is needed. ExCo will then be consulted, and as members of ExCo are appointed by the CE, it will likely pass the proposal to LegCo. Depending on the composition of the elected LegCo, this bill will either be passed, amended or rejected. If LegCo consists of a majority of legislators with strong social democratic values, then the law or the expenditure bill that favors increased welfare will be passed.

Under the current executive-led system in Hong Kong, decision-making power is concentrated in the executive branch of the HKSAR Government, or more precisely, lies with the CE. As ExCo is chosen by the CE, it is unlikely to veto the proposals submitted. The main veto power lies with LegCo. It is difficult to speculate who might be elected as CE as there has never been a direct election. However, even if the incumbent CE was a strong social democrat, whether or not bills initiated by his/her government advocating increased social spending would pass would depend on the composition of LegCo. The major parties that can be said to have social democratic values such as pro-democrats and the DAB only have lukewarm enthusiasm for welfare spending for reasons discussed above. In addition, because of political differences between the pro-democracy camp and the DAB, substantial and sustained cooperation on social issues is unlikely. Therefore, with such a composition, one can speculate that a radical increase in welfare spending would not be possible. Even if, in "the worst-case scenario", the CE and the majority party in the LegCo were dominated by some radical party (a party that differs

⁴⁵ Ming Sing, 'Legislative-Executive Interface in Hong Kong', in *Building democracy: creating good government for Hong Kong*, ed. Christine Loh & Civic Exchange (Hong Kong: Hong Kong University Press, 2003), 31.

⁴⁶ *ibid.*

significantly from the moderate stance of the current dominant parties in Hong Kong) that do push for radical welfare reform, such reform will not be enacted due to the constraints set by the Basic Law, which I will discuss later.

5. Hong Kong in context: the unique situation of Hong Kong

I have now reviewed the major factors that are believed to generally lead to the development of the welfare state and have assessed how high the 'risk' is of Hong Kong evolving into more of a welfare state, once full democracy is achieved. These factors were taken from comparative analysis literature focusing mainly on European and North American welfare states. However, Hong Kong has its unique culture, constitution and background which could also prove to be determining factors in regard to this matter. To answer the question whether or not Hong Kong will become a 'welfare state' after universal suffrage, we must consider Hong Kong in its unique context. First of all, Hong Kong, with 95% of its population ethnic Chinese, is heavily influenced by Chinese culture, and such culture has been argued to impact on the attitude towards saving and government spending. Second, Hong Kong is not an independent country but instead a Special Administrative Region under the sovereignty of China and the Basic Law, the mini-constitution governing Hong Kong, poses restrictions on public expenditure. In the paragraphs below, I will put Hong Kong in context and discuss how these three factors - Chinese culture, the influence of the Chinese Government and the Basic Law - will change under universal suffrage, and thus impact on social spending.

a. Chinese culture

Traditional Chinese values promote self-reliance, and in case of physical and material needs, the family provides assistance rather than the government. The minimum help provided by the government through the existing welfare system, coupled with the traditional values of self-reliance and family values, has led people in Hong Kong to prepare safety nets for themselves. The gross domestic savings was 34% of GDP, one of the highest in the world and high even in comparison with other Asian countries. Many advocates of direct democracy argued that universal suffrage will not lead to the development of a welfare state because of the strong tradition of self-reliance. Indeed, surveys in 1993 and again in 2001 indicated that there were 'two strong factors constraining the development of social welfare...respondents felt that state intervention should not undermine the virtues of self-reliance and family. Second, there was no clear-cut support for funding increases in social welfare by higher taxes. Taking these factors into consideration...it was logical for us to speculate that the opening up of the political system might not necessarily lead to a corresponding expansion in social welfare.'⁴⁷

However, when one examines the development of welfare systems in other Asian countries which have similar values, one might not be as optimistic. In South Korea, where there is also a strong ethos of self-reliance and family values, the economic crisis in 1997 has pressured the government to increase its welfare spending. Since then, the

⁴⁷ Siu-kai Lau and others, *Indicators of Social Development* (Hong Kong : Hong Kong Institute of Asia-Pacific Studies, Chinese University of Hong Kong, 2003).

South Korean government has increased its role in social welfare spending which aims 'to build a comprehensive system of social security under which all citizens can enjoy stable, secure lives'⁴⁸. Therefore, even though the strong Chinese cultural influence might lead one to speculate that there would be little increase in welfare spending under universal suffrage, such an ethos would not necessarily preclude a dramatic increase in social spending under each and every circumstance.

b. The Basic Law

The Basic Law is the mini-constitution in Hong Kong and it has two articles that are particular relevant to this discussion.

Article 107. The Hong Kong Special Administrative Region shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product.

Article 108. The Hong Kong Special Administrative Region shall practise an independent taxation system. The Hong Kong Special Administrative Region shall, taking the low tax policy previously pursued in Hong Kong as reference, enact laws on its own concerning types of taxes, tax rates, tax reductions, allowances and exemptions, and other matters of taxation.

These two articles concern public expenditure and ensure the HKSAR Government continues its low-tax policy and the balanced budget formula used by the British-colonial government. After the handover, the HKSAR Government has drawn up budgets that have been in accordance with these two Articles. Financial Secretaries of the HKSAR government-- Donald Tsang, Antony Leung and Henry Tang—have had, in every budget they presented, stressed the importance of a balanced budget and small government as the foundation of their budgets⁴⁹. With universal suffrage, even if there were a strong social democratic government, any radical reforms on welfare spending and the tax system would be constrained by these two provisions.

c. The influence of the Chinese Government

Under 'One country, two systems', Hong Kong 'enjoys a high degree of autonomy except in defense and foreign affairs'⁵⁰. However, under Article 158 of the Basic Law, "the power of interpretation of this law shall be vested in the Standing Committee of the National People's Congress". Theoretically, the Chinese Government has the right to

⁴⁸ South Korean President Kim, Liberation Day speech; quoted in Jae-Jin Yang, 'The Rise of the Korean Welfare State amid Economic Crisis, 1997-99: Implications for the Globalisation Debate,' *Development Policy Review* 18, issue 3 (September 2000): 235-256.

⁴⁹ More information on current and previous budgets of the HKSAR governments is available from <http://www.budget.gov.hk/>.

⁵⁰ HKSAR Government Information Centre, *Hong Kong in brief* [on-line] (Accessed 11 August 2004); available from <http://www.info.gov.hk/info/hkbrief/eng/ahk.htm>; Internet.

interpret the Basic Law if the Financial Secretary of Hong Kong is sued for breach of Articles 107 and 108.

In 1999, thousands of people applied for citizenship according to a clause in the law stating that children of Hong Kong citizens living abroad could claim residency. These people were refused citizenship and those already in Hong Kong were accused of illegal residency. They appealed to the courts of Hong Kong and won the case in the Court of Final Appeal. The Chinese Government was asked to interpret the Basic Law and its interpretation reversed the decision by the Final Court.

On April 6 2004, the Chinese Government interpreted the Basic Law and ruled that the CE and the LegCo will not be elected through universal suffrage by 2007 and 2008. Unlike the previous interpretation, this interpretation seemed to have gone 'well beyond the scope of the Basic Law itself. While Article 158 allows the Standing Committee of the National People's Congress...to issue interpretations of Basic Law provisions, those interpretations should be limited to resolving textual ambiguities...Because the interpretation issued today increases Beijing's power by adding procedural requirements not found in the Basic Law, it is essentially an amendment to the Basic Law'⁵¹.

As pointed out above, Articles 107 and 108 state that the government of Hong Kong 'shall follow the principle of keeping expenditure within the limits of revenues' and shall take 'the low tax policy previously pursued in Hong Kong as reference'. Although these two Articles seem to be worded mildly to allow the government room to manoeuvre in drawing up its budget, the previous 'interpretation' by the Chinese Government leads one to speculate that, if the Chinese Government had amended the Basic Law provisions relating to elections, there are reasons to speculate that it will 'interpret' Articles 107 and 108 if it regards the budgetary policy of the fully elected SAR government to be breaching the law. The Chinese Government has always been concerned with the financial stability of Hong Kong and had arguments with the former colonial government over budgetary issues before the handover. The Chinese Government repeatedly criticized the colonial government for over-spending, indicating that the Chinese Government takes a conservative stance regarding Hong Kong's finances. In fact, the Chinese Government has always been critical of the 'ever increasing expenditure on comprehensive social security assistance (CSSA)... as irresponsible financial management, leading Hong Kong to a disastrous situation like wrecked cars with all passengers killed.'⁵²

6. Conclusion

The argument that universal suffrage will lead Hong Kong to become a welfare state rests on the logic that people will vote for politicians who promise to increase welfare spending, and thus, Hong Kong will become a welfare state. This is obviously too simple

⁵¹Human Rights Watch, *Hong Kong: Interpretation of Basic Law Serious Setback for Electoral Reform* [on-line] (Accessed 11 August 2004); available from <http://www.hrw.org/english/docs/2004/04/07/china8409.htm>; Internet.

⁵² Mr. Chen Znoer, former Head of China Expert Panel of the Sino-British Budget Expert Panel; quoted in Shu-hung Tang, *Article 107 of the Basic Law and the Budgetary Criteria of the Medium Range Forecast: Retrospect and Prospect* [on-line] (accessed 11 August 2004); available from http://www.info.gov.hk/basic_law/upload/20010426121426/Tang%20Shu%20Hung.doc; Internet.

an argument. In this paper, by drawing on diverse welfare state literature, I have discussed the factors that lead to the development of welfare states that are more generous and highly redistributive. These factors include a strong social democratic government, strong labour unions, strong female participation in the labour force and a constitutional structure that allows concentration of power. Hong Kong, like most post-industrial countries, faces pressure to increase welfare spending and has factors that could favour the development of a welfare state. After the introduction of universal suffrage, it is likely to have a legislative council which is largely social democratic, increasingly strong labour unions and greater female participation in the labour force. Its executive-led system provides few veto points in the constitutional structure. Any increase in welfare spending initiated by the CE will only be constrained by LegCo.

However, I would argue that the constraints on decisions in favour of dramatic increases in social spending outweigh the factors favouring the development of a welfare state. While LegCo will most likely be dominated by social democrats, their stance on welfare issues will at best be moderate. Labour unions are currently very weak and are divided over their attitudes towards democracy and China. The power of LegCo is limited, as it does not have the power to initiate policy that is related to welfare spending, being constrained by articles in the Basic Law. While the CE has the ultimate decision-making power, social welfare spending will, again, likely to be constrained by the provisions in the Basic Law regarding public spending. Hong Kong is also unique in that it is an autonomous government under the sovereignty of China, and Chinese influence can be heavily felt in the politics of Hong Kong. Its power over political parties and its power to interpret the Basic Law will likely constrain any HKSAR Government attempts to drastically increase social spending.

References

Ash, Robert, P. Ferdinand, B. Hook, and R. Porter. *Hong Kong in Transition, one country, two systems*. London ; New York : RoutledgeCurzon : Centre for the Study of Globalisation and Regionalisation, 2003.

Castles, Francis. *The Social Democratic Image of Society*. London: Routledge & Kegan Paul, 1978.

Census and Statistics Department. *Women and Men in Hong Kong Key Statistics*. Hong Kong : Census and Statistics Department, 2003.

Chiu, Stephen W.K., and David A. Levin. 'The Organization of Industrial Relations in Hong Kong: Economic, Political and Sociological Perspectives.' *Organization Studies* [on-line]. Accessed 11 August 2004; available from http://www.findarticles.com/p/articles/mi_m4339/is_2_20/ai_57816029; Internet.

Fosh, Patricia, W. Chan, W.S. Chow, E. Snape, and R. Westwood. *Hong Kong Management and Labour: Change and continuity*. London ; New York : Routledge, 1999.

Esping-Andersen, Gosta. 'The Emerging Realignment Between Labour Movements and Welfare States.' In *The Future of Labour Movements*, ed. M. Regini. London: SAGE Publications, Ltd., 1992.

HKSAR Government. *General Information* [on-line]. Accessed 12 August 2004; available from <http://www.info.gov.hk/ef3.htm>; Internet.

_____. *Hong Kong in brief* [on-line]. Accessed 11 August 2004; available from <http://www.info.gov.hk/info/hkbrief/eng/ahk.htm>; Internet.

_____. *Hong Kong: the facts, coming to Hong Kong* [on-line]. Accessed 17 August 2004; available from <http://www.info.gov.hk/hkfacts/cometohk.pdf>; Internet.

_____. *The Second Report of the Constitutional Development Task Force: Issues of Principle in the Basic Law Relating to Constitutional Development* [report on-line]. April 2004, accessed 8 August 2004; available from <http://www.info.gov.hk/cab/cab-review/eng/report2/pdf/secondreport-e.pdf>; Internet.

Esping-Andersen, Gosta. *The three worlds of welfare capitalism*. Princeton, NJ: Princeton University Press, 1990.

Huber, Evelyne, and John D. Stephens. *Development and Crisis of the Welfare State: Parties and Policies in Global Markets*. Chicago: the University of Chicago Press, 2001.

Huber, Evelyne, and John D. Stephens. 'Partisan Governance, Women's Employment, and the Social Democratic Service State.' *American Sociological Review* 65, no.3 (Jun., 2000), 323-342.

Human Rights Watch. *Hong Kong: Interpretation of Basic Law Serious Setback for Electoral Reform* [on-line]. Accessed 11 August 2004; available from <http://www.hrw.org/english/docs/2004/04/07/china8409.htm>; Internet.

Korpi, Walter. *The Working Class in Welfare Capitalism*. London, Henley, Boston: Routledge & Kegan Paul, 1978.

Lau, Siu-kai, M.K. Lee, P.S. Wan, and S.L. Wong. *Indicators of Social Development*. Hong Kong : Hong Kong Institute of Asia-Pacific Studies, Chinese University of Hong Kong, 2003.

The Liberal Party, *About Liberal Party* [on-line]. Accessed 26 August 2004; available from <http://www.liberal.org.hk/contents/>; Internet.

PriceWaterHouseCoopers. *2004/2005 Hong Kong Budget highlights* [on-line]. Accessed 17 August 2004; available from http://www.pwccn.com/home/eng/budget2004_highlights.html#C; Internet.

Sing, Ming. 'Legislative-Executive Interface in Hong Kong.' In *Building democracy: creating good government for Hong Kong*, ed. Christine Loh & Civic Exchange. Hong Kong: Hong Kong University Press, 2003.

Sing, Ming, ed. *Hong Kong Government and Politics*. Hong Kong: Oxford University Press, 2003.

Stephens, John D. *The Transition from Capitalism to Socialism*. University of Illinois Press, 1979.

Tang, Shu-hung. *Article 107 of the Basic Law and the Budgetary Criteria of the Medium Range Forecast: Retrospect and Prospect* [on-line]. Accessed 11 August 2004; available from http://www.info.gov.hk/basic_law/upload/20010426121426/Tang%20Shu%20Hung.doc; Internet.

Tong, Irene. 'Women and politics.' In *Building democracy: creating good government for Hong Kong*, ed. Christine Loh & Civic Exchange. Hong Kong : Hong Kong University Press, 2003.

United Nations Development Programme. *Human Development Reports 2004* [report on-line]. Accessed 10 August 2004; available from http://hdr.undp.org/statistics/data/cty/cty_f_HKG.html; Internet.

United Nations Development Programme. *Human Development Reports 2004* [report on-line]. Accessed 17 August 2004; available from http://hdr.undp.org/statistics/data/cty/cty_f_NOR.html; Internet.

Yang, Jae-Jin. 'The Rise of the Korean Welfare State amid Economic Crisis, 1997-99: Implications for the Globalisation Debate.' *Development Policy Review* 18, issue 3 (September 2000): 235-256.

Acknowledgements

I would like to thank Christine Loh, Yan-yan Yip, Camilla Liou and Brian Kern for their time and advice in writing this paper.