

“One Country, Two Systems” and Hong Kong-China National Integration: A Crisis-Transformation Perspective

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ABSTRACT *This paper examines the historical process of Hong Kong-China national unification through a crisis-transformation framework. This paper argues that the Chinese unification process between Hong Kong and mainland China is not a smooth process. Instead, it has gone through at least four crises during the 1980s and the 1990s. The institution framework for unification – the so-called “One Country, Two Systems” policy – emerged out of the first crisis of negotiation in the early 1980s, and this policy has been hotly contested and transformed during the various crises over the past three decades. Previous studies on Hong Kong-China unification tends to focus solely on the political and legal aspects. However, this paper shows that unification needs to be symmetrical on all aspects (legal, political, economic and socio-cultural) in order to make it work.*

KEY WORDS: National unification, social and economic integration, cross-border linkages, Hong Kong, China

In 1997, Britain returned Hong Kong to China after having governed it as a colony for one and a half centuries. China promised the former British colony a policy of “One Country, Two Systems,” guaranteeing that Hong Kong would be governed as a Special Administrative Region (SAR), with Hong Kong people ruling Hong Kong while enjoying a high degree of autonomy with no change for 50 years. During the first decade of Hong Kong’s SAR history, the Beijing government did uphold the “One Country, Two Systems” policy and adopted a hands-off policy of not interfering in Hong Kong affairs; Beijing even told its own people in Beijing and Hong Kong not to interfere (Ching, 2009).

However, in 2008 Cao Erbao, director of the research section of Beijing’s Central Liaison Office in Hong Kong, had written an article in which he said that Hong Kong has, in fact, two governing teams: one is the establishment team of the Hong Kong SAR government; the second consists of Chinese government authorities responsible for Hong Kong issues on the mainland (Cao, 2008). For Hong Kong

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citizens, Cao's article indicated a new Beijing policy, interpreted as tightening its grip and increasing interference in Hong Kong's affairs. In this respect, Beijing has violated its promise embodied in the "One Country, Two Systems" policy.

What role has the "One Country, Two Systems" policy played in Hong Kong's national reunification with China? When did this policy emerge and how did this policy transform? What explains Beijing's shifting of the "One Country, Two Systems" policy from 1997 to 2008? Finally, what is the future of this "One Country, Two Systems" policy?

The aim of this paper is to examine the historical process of Hong Kong-China national reunification from a crisis-transformation perspective. Even though China now exercises sovereignty over Hong Kong, this paper argues that the national unification process between Hong Kong and mainland China has not been a smooth process. Instead, the process has gone through at least four crises over the past three decades. The institutional framework for unification – the "One Country, Two Systems" policy – emerged out of the first crisis of negotiation between London and Beijing over the future of Hong Kong in the early 1980s. Since then, the "One Country, Two Systems" policy has been hotly contested during the various crises over the past three decades.

In addition, this paper distinguishes the term "unification" from "integration." "Unification" refers to the political dimension; Hong Kong is said to have achieved national unification when China resumed sovereignty over Hong Kong. The literature on Hong Kong's future is mostly unification studies, which focus mostly on the political and legal aspects. However, from a longer historical perspective, this paper argues we have to examine not only the political and legal aspects of the unification process, but also the broader integration process. "Integration" refers to the economic, social and cultural aspects of the process of bringing Hong Kong back to the mainland. Examining integration allows a comprehensive understanding of whether the political unification process is working. After all, colonial Hong Kong was not only politically separated from mainland China, but it was also economically, socially and culturally separated from the mainland as well. The two territories did not only have two divided states, but also had two divided economies, two divided societies and two divided cultures and identities.

What is a crisis-transformation perspective? Researchers on Hong Kong's unification are mostly legal scholars and they tend to examine the "One Country, Two Systems" policy from a legal viewpoint (Fu and Cullen, 2006; Geping Rao, 2006); they treat this policy as something firmly ingrained in the Basic Law and emphasise the permanence of the policy. However, using a crisis-transformation framework, this paper starts with a different basic assumption. Instead of emphasising the constitutional basis of the policy, this paper takes a dynamic view of the policy and assumes that the policy is constantly evolving and subject to change.

In addition, this crisis-transformation framework helps to locate the major turning points of the "One Country, Two Systems" policy. It is when Hong Kong experiences a crisis which threatens the national unification process that new sets of organising principles will emerge to redefine the nature of the "One Country, Two Systems" policy. Consequently, this framework shows that the most fruitful way to examine the "One Country, Two Systems" policy is to examine it in a crisis situation and trace how it changes.

To begin our discussion, let us briefly review the historical process of how Hong Kong was separated from China.

Hong Kong under Colonial Rule

From Partial Separation to Total Separation

Looking back in history, Hong Kong was separated from China through two stages. In the first stage (1840s-1940s), Hong Kong was ceded to Great Britain in 1842 after China lost the Opium War. Britain turned Hong Kong into a British colony and used Hong Kong as an outpost to promote trade and investment in China. Subsequently, Hong Kong became a flourishing *entrepot* and built up a strong shipbuilding and ship repairing industry.

During this stage, even after it became a British colony, Hong Kong was still closely integrated to China socially and economically. Most of the Hong Kong population were migrants from South China. Since there was no formal border separating Hong Kong from the mainland, mainland Chinese could come and go freely across the border. They were attracted either by the opportunities for trade and employment in the colony or by Hong Kong's role as a refuge of political stability during wars and rebellions on the mainland. As a result of immigration, Hong Kong's population grew from 5000 in the 1840s to around 1.6 million just before the Japanese invaded Hong Kong in 1941 (Siu, 1996). However, the migrants tended to return to the mainland when the situation improved or they had amassed enough capital to retire or buy a business. Thus, the migrants identified themselves as Chinese and Hong Kong was only a place of transit and few felt that it was their home (Chan, 1995).

However, after the Chinese Communist Revolution in 1949, the nature of Hong Kong-China integration changed. On the one hand, over a million Chinese entered Hong Kong after the Communist Revolution, and these "refugees," unlike the earlier migrants, could not go back to China (Hambro, 1955). To stop the coming of these refugees, the colonial state quickly erected fences along the Hong Kong-mainland China border. Formal documentation was required for border crossing and direct train services were suspended. On the other hand, the communist government wanted to seal off South China from the "imperialistic-bourgeois evil" influence of colonial Hong Kong through barbed wire and strict border controls. Afraid of capitalist contamination, the Chinese communist state closed itself off from Hong Kong, making it difficult for Hong Kong Chinese to return to their native villages through vigorous border controls and interrogations (Chan, 1995).

Aside from strengthening the Hong Kong-mainland China border, the colonial government of Hong Kong also implemented two "de-nationalisation" policies in order to consolidate its control. First, there was a de-linking from the Chinese economy. Hong Kong's economy was changed from *entrepot* trade orientated towards China to export-led industrialisation orientated toward the global market. This outward shift of orientation was necessary because the Korean War had dealt a decisive blow to Hong Kong's flourishing *entrepot* trade. In June 1951, the war prompted the United Nations to impose an embargo on Chinese trade, which crippled the Hong Kong economy since China was the colony's largest trading

partner. As Hong Kong's trading houses and shipping companies were decimated, thousands of workers were displaced from employment. Fortunately, the arrival of a large number of "refugee capitalists" from Shanghai and "refugee labourers" from south China provided the colony with an excellent opportunity to pursue a new model of export-led industrialisation (Youngson, 1982).

Second, despite having a liberal political label, the colonial state was quite active in suppressing communist infiltration in Hong Kong. It banned the operation of the Chinese Communist Party in Hong Kong. On the education front, English was maintained as the prestigious language of instruction, while Chinese was downgraded. The colonial University of Hong Kong was the only one that was seen as legitimate, while various universities set up by mainland refugee or missionary professors were seen as illegitimate and received neither funding nor recognition from the colonial state. In the post-World War II era, a new generation of "Hong Kongers" emerged in Hong Kong. This generation, which grew up in the Cold War environment and the colonial education system, identified themselves with Hong Kong and were quite critical of the communist government in China (Ku and Pun, 2006).

In sum, Hong Kong's separation from mainland China was deepened after the Chinese Communist Revolution in 1949. Not only was Hong Kong politically separated, it was economically, socially and culturally separated from the mainland as well. Hong Kong's economy became totally delinked from the Chinese economy and Hong Kong's society began to develop a separate identity, lifestyle and culture from the mainland from the 1950s. Given that the two territories' polity, economy and society were so completely divided, how could the national unification process ever get started?

Negotiation Crisis and the "One Country, Two Systems" Policy

Although the island of Hong Kong was permanently ceded to Great Britain, a large part of its hinterland – the so-called the New Territories – and the outer islands of Hong Kong were only leased to Britain for 99 years. Since this lease would expire in 1997, capitalists were reluctant to make long-term investments in the New Territories and the outer islands (Scott, 1989). The London government was, therefore, under pressure in the early 1980s to enter into negotiations with the Beijing government to renew the lease so as to boost business confidence in the colony. During these negotiations, London was shocked to find that Beijing not only would not renew the lease for the New Territories but also wanted to take back the entire Hong Kong territory (Scott, 1989).

Since Beijing had re-entered the capitalist world-economy in the late 1970s, it felt little need to maintain Hong Kong's colonial status. Moreover, for the aging communist party leaders, national unification was taken as the top priority of the Chinese government; they would take it as a calling for them to see the Chinese nation unified in their lifetime.

With London and Beijing repeatedly assuring Hong Kong of continued economic prosperity and political stability, no matter what the outcome of the negotiations, and although 1997 was still 15 years away before the New Territories lease expired, the very fact that the negotiation process over the future of Hong Kong started in 1982 had already triggered a crisis of confidence in Hong Kong (So, 1993).

In the economy, for example, there were sudden irrational fluctuations in the financial market and massive emigration of financial and human capital in the early 1980s. The booming property market turned sour and dropped more than half of its value and many construction projects were cancelled without notice. Several giant real estate companies reported unprecedented losses amounting to billions of Hong Kong dollars. Inflation began to rise sharply because every month in 1983 saw an increase in the cost of at least one major public or private service – electricity, telephone, water, postage, gas, public hospital services, trains, buses (*South China Morning Post*, 13 January 1984). There were signs that financial capital was moving out of Hong Kong during this period. *Asian Business* (January 1983, p. 57) reported that 1982 marked the beginning of an outflow of an estimated US\$20 billion of investment capital believed to be in the hands of Hong Kong investors. There were currency and banking crises too. The Hong Kong dollar fell sharply from HK\$6 to US\$1 in 1982 to HK\$9.6 in 1983. The colonial government had to revoke the licence of 21 Deposit Taking Companies and took over the Hang Lung Bank. The financial crisis made Hong Kong's Hang Seng Index dropped from 1800 in 1981 to 600 in 1983 (*Far Eastern Economic Review Yearbook 1984*, p. 166).

Economic volatility quickly led to political instability. In September 1983, there was a protest at Victoria Park against high inflation and against the colonial government's seeming indifference toward the worsening of the living standard of the Hong Kong people. In January 1984, there was a violent riot in the city involving looting, burning and looting of a police station. This riot was followed by a taxi drivers' strike and a metro rail workers' strike in early 1984 (*South China Morning Post*, 14 January 1984).

At the beginning of negotiations in 1982, Hong Kong society was highly optimistic about the British position (Cheng, 1984). It was felt that the lease of the New Territories would be renewed because China had just started the Four Modernisation reforms and it would not want to alienate the London government and risk the substantial Hong Kong investment in China and the economic usefulness of Hong Kong for a China with limited trade and investment links to the rest of the world. Consequently, many in Hong Kong were shocked to discover that Beijing had adopted a hard-liner position: no lease renewal and no continuation of British rule. Instead China declared that it would resume sovereignty over Hong Kong in 1997. Since the British and the Chinese positions were so far apart, the negotiation process ran into a deadlock and a shouting match developed between Beijing and London. London condemned Beijing for not recognising the international treaty the Qing government signed in the nineteenth century, while Beijing accused London of wanting to enforce an outmoded colonialism over the Chinese territory (Scott, 1989).

During this 1982-84 period of heated negotiation and conflict between London and Beijing, public opinion in Hong Kong was overwhelmingly for the renewal of the lease (Cheng, 1984). The mass media was conservative, pro-capitalist and pro-British, while the pro-Beijing left-wing newspapers did not have large circulations. The pro-British media generally presented two arguments in favour of the British position to renew the lease: the "Economic Card" argument that Hong Kong's economic prosperity and business confidence depended on a continuing British presence; and the "Public Opinion card" argument that Hong Kong people wanted the status quo and did not want communist rule.

It was under this historical context of an acute confidence crisis and the need to win over the public opinion of Hong Kong during 1982-84 that Beijing articulated a new policy to calm the fear. Aside from its previous position of “Sovereignty Resumption,” Beijing now presented a new policy, the so-called “One Country, Two Systems.” Beijing spelled out the new policy in detail to clarify how Beijing would rule Hong Kong after it resumed sovereignty of the territory. In a nutshell, the policy of “One Country, Two Systems” has the following key ingredients (Wong, 2004):

- Hong Kong would keep its capitalist economic system with a separation from China’s communist system; thus the policy was called “One Country, Two Systems.”
- Hong Kong would have a high degree of autonomy in running its economic, political and cultural affairs and maintain its own police and armed forces, currency, its “capitalist social habits” (such as horse racing) and institutions, including its own laws and courts. Mainland laws and regulations would not be applied in Hong Kong. Beijing and local governments on the mainland would not interfere in Hong Kong affairs except those concerning foreign affairs.
- Hong Kong people would rule Hong Kong (*gangren zhigang*). The government of Hong Kong would be elected by Hong Kong people, and Beijing would not send any officials to run the Hong Kong government.
- The “One Country, Two Systems” would be unchanged for a period of 50 years after 1997.

In order to show its sincerity to the “One Country, Two Systems” policy, Beijing quickly inserted a new Article 31 into the Chinese constitution, providing the legal basis to establish Special Administrative Regions in Hong Kong, Macao and Taiwan.

This “One Country, Two Systems” policy was well received in Hong Kong. It helped to sway public opinion from the pro-British position of lease renewal to the pro-Beijing position of sovereignty resumption. Sensing the wide support of the Chinese position after Beijing promulgated the “One Country, Two Systems” policy, London quickly backed down on its position of lease extension on the grounds that developing a long-term relationship with China had higher priority (Scott, 1989).

In 1984, Britain signed the Joint Declaration with China, agreeing to return sovereignty over Hong Kong by 1 July 1997. On that date, Hong Kong would become a Special Administrative Region of China, with its social and economic system, its way of life, its status as a free port and its currency remain unchanged. The Joint Declaration further specified that Hong Kong would draft its own Basic Law (a “mini-constitution”) to protect its autonomy from Beijing.

With the guarantees of “One Country, Two Systems” formally written into the Joint Declaration, the panic in Hong Kong society quickly stopped, emigration waves gradually died down and irrational currency fluctuations swiftly disappeared. Since 1984, Hong Kong had started a new wave of economic expansion by seizing the opportunities provided by integration with the mainland.

Rapid Economic Integration, the Tiananmen Crisis and Revising the Basic Law

With the uncertainty of the future of Hong Kong settled (China would resume the sovereignty of Hong Kong in 1997), Hong Kong people turned their energy from

politics to economics; they found that enhanced economic integration with the mainland provided an excellent opportunity for solving the limitations of export-led industrialisation that had emerged.

By the 1970s, rapid industrialisation had led to labour shortages, rising real wages, escalating land prices, the emergence of urban movements (such as student's movements, the public housing movements, the nationalist movements) and the tightening of government regulations over the abuses of labour practices and the worsening environment. All these factors served to push up the costs of production, making Hong Kong industries less competitive in the global market. In order to survive, Hong Kong capitalists needed to find a new way to secure an abundant supply of cheap labour force, a large supply of land and to escape from their government's regulations. These factors help to explain the industrial relocation of Hong Kong's labour-intensive industries across the border in the 1980s. Geographical proximity was highly attractive and China had an almost unlimited supply of cheap labour force and land. The mainland's local governments were also eager to attract Hong Kong's investment because they were permitted to keep part of the foreign exchange earnings created through exports for their local economies (So et al., 2001).

Therefore, soon after the Joint Declaration was signed in 1984, economic integration between Hong Kong and the mainland began to increase. This first wave of Hong Kong-China integration had the following characteristics (see Ho and So, 1997). With respect to agency, it was Hong Kong small businesses that took the lead. Hong Kong's manufacturing firms were predominantly small and used local capital. Being small-scale and having limited resources, these small firms did not have the capacity to carry out research and development to upgrade their production technology. They also did not have the capacity to engage in long-distance offshore production in other countries. Therefore, in order to reduce costs and to remain competitive in the world market, these Hong Kong small firms found it attractive to set up their plants across the border in Guangdong Province, where labour costs were estimated to be only one-third of those in Hong Kong at comparable skill and productivity levels (Chiu and Lui, 1993).

The small businesses used a strategy which can be called "informal, societal integration." Instead of going through the formal central bureaucracy, Hong Kong's small businesspeople invoked *guanxi* or the use of "social relations," such as cultivating kinship and community ties, making donations to local schools and sports arena, giving gifts to local government officials in order to bypass the complicated bureaucratic rules and procedures to facilitate their economic transactions. In this respect, Hong Kong businesses had an edge over the other transnational corporations. Not only could they speak the local Cantonese dialect and were familiar with local customs, they could also invoke their *ethnicity* in economic transactions. For example, they heavily invested in their native communities, upgraded their ancestral halls and reconstructed their village genealogy. They stressed that even though they were born and lived in Hong Kong for most of their lives, they were also kin to their Chinese business partners and works as they had the same surname and shared a common ancestor (Smart and Smart, 1991).

These practices of ethnic mobilisation and social integration were happily endorsed by local government officials in the mainland, because they too could

use ethnicity to justify their special treatment of the Hong Kong investors. For example, local village or county officials tended to approve Hong Kong investment much faster and they had been flexible in enforcing labour practices, industrial safety standards, and taxation policies toward their “Hong Kong kin.” This extra dose of ethnic justification was necessary to overcome the complicated bureaucracy of the communist state and its lingering hostility to capitalist production because China in the late 1970s was still very much influenced by “revolutionary Maoism” in the aftermath of the Cultural Revolution (Smart and Smart, 1991). However, once this anti-capitalist ideological hurdle was overcome, local village and county governments quickly took the initiative to develop power supplies, highways and other infrastructure to ensure a hospitable environment for Hong Kong investors.

This kind of informal, social integration worked very well in the first phase of Hong Kong-China integration in the 1980s. By June 1991, Maruya (1992) estimated that 20,000 Hong Kong garments, plastics, textiles and electronic factories had already relocated across the border to Guangdong province. These factories employed more than two million workers in Guangdong, which was about three times more workers than they employed in the colony. During this period, it was observed that many mainland people also migrated to Hong Kong for family reunion.

However, it must be pointed out that the first phase of integration between Hong Kong and mainland China was not entirely smooth. There were many forms of conflict between Hong Kong and the mainland. For example, Guangdong residents suffered from a high inflation rate (over 30%) in mid-1993. This sharp increase in prices was not only a result of Beijing’s removal of price controls on food, rent and service fees in the early 1990s, but was also a result of massive Hong Kong investment (which led to an overheated economy and caused a rapid increase in price in raw materials, food and real estate industry in Guangdong).

In Hong Kong, this first phase of informal, social integration had resulted in a vast increase in smuggling, armed robbery, stolen cars and gang activities committed by recent mainland immigrants to Hong Kong, leading to a new cultural conflict in which Hong Kong people blamed their cross-border cousins, declaring them uneducated, not willing to obey laws and regulations and responsible for armed robberies (Mathews et al., 2008).

During this period, since the colonial government was scheduled to end its rule in 1997, it considered itself as a lame-duck government and took a hands-off attitude toward Hong Kong’s integration with the mainland. It did not oppose the integration process, but it also failed to promote the integration process enthusiastically like the governments across the border.

However, although economic integration between Hong Kong-China took place rapidly during the 1980s, political integration had received a setback. In 1989, there was the Tiananmen Incident in China. Thousands of students protested in Tiananmen Square for a democratic government in China. Even though the protests were peaceful, the Communist Party declared them illegal and subversive and sent armies and tanks to suppress the student protests, resulting in bloodshed and casualties.

Although the student protests took place in Beijing, they sent shock waves through Hong Kong society. Thanks to high-tech communication, the suppression of the protests could be watched live on Hong Kong television. The Tiananmen

Incident made Hong Kong people worry again about the return of sovereignty to China and triggered another crisis of confidence. Hong Kong people figured that if the Communist Party could send tanks to suppress the peaceful protests of students, they could do the same in Hong Kong. If the Communist Party showed no respect for laws and citizens' protests, the written statement in the Joint Declaration and in the Basic Law were worthless and could not be used to protect Hong Kong. The Tiananmen Incident quickly shattered any trust that Hong Kong people had in Beijing's "One Country, Two Systems" policy.

In retrospect, the Tiananmen Incident produced three impacts in Hong Kong (So, 1997). First, it led to a series of large-scale protests in Hong Kong against the Communist Party's suppression of the student protests in Beijing. In May 1989, on two occasions, more than one million people flooded into the streets to show their support for the students and to protest against the declaration of martial law in Beijing. After the bloody suppression on 4 June, more than 300,000 people assembled in Hong Kong's Happy Valley to mourn the victims suppressed by the People's Liberation Army (PLA). Hundreds of pro-democracy activists from the mainland escaped to the West through the support of underground Hong Kong organizations (Wong, 2006).

Second, the Tiananmen Incident triggered a tidal wave of emigration in Hong Kong. Hong Kong people were seen lining up at various embassies to apply for visas to leave Hong Kong. The most popular destinations were the USA, Canada and Australia. Studies reported that professionals, such as teachers, social workers, lawyers, were over-represented among the foreign passport applicants. It was estimated that an average of 50,000 people per year had emigrated out of Hong Kong annually during the early 1990s before the handover (see Skeldon, 1994).

Third, for those who could not afford to emigrate or those who preferred to stay, they put up a resistance movement in Hong Kong. Thus, the Hong Kong's democracy movement was revitalised following the Tiananmen Incident. Whereas Hong Kong's democracy movement could draw only a few hundred or, at most, a few thousand people to protest before 1989, crowds in the range of 50,000-100,000 began to show up in after the Tiananmen Incident (So, 1999a). In the post-Tiananmen era, democracy became a hot topic in Hong Kong society. Many books on pro-democracy activities appeared; the mass media devoted their front pages to reporting democratic events in Hong Kong, mainland China and overseas. The Hong Kong legislature held many lengthy debates on speeding up democratisation in the territory. It was during this fervent climate that a new Democratic Party was born. The Democratic Party was highly popular in the 1990s; it won landslide elections in Hong Kong because it adopted an anti-Beijing line and put forward a slogan that only democracy could save Hong Kong from Beijing imposing authoritarian rule in the territory. With the last governor Chris Patten standing on the side of democracy, democratisation in Hong Kong had become a highly contested event between the small pro-Beijing factions and the popular democrats in Hong Kong (So, 1997).

Facing large-scale protests and a new wave of anti-Beijing democratisation in the aftermath of the Tiananmen Incident, Beijing came to perceive Hong Kong as a base of subversion against the Chinese government. Beijing responded by tightening the

Basic Law and inserted a new clause – Article 23 – at the last minute before the Basic Law was passed in the NPC (National People’s Congress) in 1990. Article 23 says:

The Hong Kong Special Administration Region (HKSAR) shall enact laws on its own to prohibit any act of treason, secession, sedition, subversion against the Central People’s Government, or theft of state secrets, to prohibit foreign political organizations or bodies from conducting political activities in the Region, and to prohibit organizations or bodies of the Region from establishing ties with foreign political organizations or bodies (Hong Kong Government, 1997).

However, in the midst of strong anti-Beijing sentiment in 1989, Beijing was willing to compromise with the leaders of the democracy movement on Article 23, to allow Hong Kong to “enact laws on its own” in an unspecified period in the future. By making the laws in Hong Kong conform to the laws in China, Article 23 serves to undermine the spirit of the “One Country, Two Systems” policy, thus sowing the seeds for further political crisis in Hong Kong.

Observing the wave of emigration and the large democracy protests in the aftermath of the Tiananmen Incident, foreign media tended to report a very pessimistic picture with regard to Hong Kong-China national reunification. For instance, *Fortune* magazine proclaimed “The Death of Hong Kong after 1997” in a headline (Kraar, 1995).

The 1997 Transition and the Tilt to “Two Systems”

During the transition period to 1997, Hong Kong was filled with all sorts of “politically pessimism, economic optimism” predictions (Chan and Lin, 2008). There was “politically pessimism” because there were indeed deep worries about the imposition of communist rule on Hong Kong; people were so worried that they wanted to get out of Hong Kong before the communists arrived in 1997. The robust resistance movement in the form of democratisation protests continued. On the other hand, there was “economic optimism” because the Hong Kong economy was doing very well during the transition period (1984-97), due to industrial relocation across the border that served to strengthen the economy. An abundant supply of cheap labour and the huge and expanding mainland market had greatly increased the competitiveness and profitability of Hong Kong industries.

However, it turns out that both the “politically pessimistic” and the “economically optimistic” predictions about Hong Kong’s 1997 transition were wrong. Politically, it seems 1997 was little more than a false alarm regarding authoritarian rule. Although there were several disputes in regard to what extent mainland laws could be applied to Hong Kong citizens, and whether the mainland’s National People’s Congress (NPC) should reinterpret the Basic Law when the NPC does not agree with a ruling of Hong Kong’s final court of appeal (Wong, 2004), Beijing did largely keep its promise of “One Country, Two Systems,” adopted a position of non-interference towards Hong Kong affairs and allowed a high degree of autonomy. While the democrats in Hong Kong were afraid they would be put into prison when the communists took over after 1997, there was no arrest of democrats. In fact, the

democrats were allowed to voice their views freely (including condemnation of the Communist Party's bloody suppression at Tiananmen Square). In the new SAR government of Hong Kong, anti-communist protests (like those organised by Falun Gong) were allowed, the mass media remained free (Ma Ngok, 2007), and there was a continuation of democratic elections after 1997 (So, 1999b).

The "optimistic" economic prediction was wrong too. Although pundits predicted that economic growth would continue after 1997, Hong Kong's economy was in a terrible shape right after the 1997 handover. The downturn of Hong Kong's economy, however, was mostly a result of the Asian financial crisis rather than of the 1997 transition. At the height of the Asian crisis in 1998, Hong Kong's gross domestic product (GDP) contracted by about 5% (compared to a 5.2% real growth in 1997), property prices dropped by a staggering 50% and stock market prices dropped considerably. Unemployment hovered at a record high of 6%, wages fell, many businesses closed down and consumer demand was weak (Lui, 2002).

During this period of economic downturn (1997-2003), the SAR government was reluctant to push forward on more economic integration with mainland China because the Democratic Party, which was very popular in the late 1990s, wanted the SAR government to minimise the integrative process in order to preserve the "distinctiveness" of Hong Kong. The Democratic Party assumed that more integration would turn Hong Kong into just another Chinese city, like Canton and Shanghai. It argued that Hong Kong must keep its distinctiveness, especially democratic elections, a free civil society, independence of judiciary and related freedoms, so as to preserve its "global city" status (Loh, 2006).

Since Beijing adopted a position of non-interference and allowed Hong Kong to have autonomy and independence, it seems the "One Country, Two Systems" policy was working smoothly in Hong Kong when the pendulum began to shift from "One Country" to "Two Systems."

2003 Mass Protest: Back to "One Country"

Hong Kong faced another crisis at the turn of the twenty-first century. The Severe Acute Respiratory Syndrome (SARS) epidemic in 2003 caused the United Nations to issue an international travel warning to tourists travelling to Hong Kong, making it a "dead port" and its tourist industry came to a sudden halt. Because the government did not have any effective policy to get Hong Kong out of the Asian financial crisis, the Hong Kong economy hit rock bottom in 2003, during the SARS epidemic.

What made the matter worse is that the Hong Kong government made the wrong strategic move in seeking to also enact Article 23 (the anti-subversion law) in 2003. According to Wong Yiu Chung (2006), the Hong Kong government took that move because of pressure from Beijing, whose tolerance of the various anti-communist activists in Hong Kong, such as Falun Gong protests and the anniversary gathering to commemorate the victims of Tiananmen Incident on 4 June in Victoria Park, began to wear out.

Since Article 23 covers seven areas of offences, including treason, secession, sedition, subversion, theft of state secrets, foreign organisations and police investigative powers, it has wide-ranging implications for professionals (teachers, journalists, lawyers and librarians) and for civil liberties in Hong Kong (Ma, 2005).

On 1 July 2003, an estimated 500,000 people came out to protest on the street against Article 23 fearing it would threaten freedom of association, threaten the freedom of information and the free press, and endanger the freedom of speech and religion. An estimated 500,000 people protested, making it the largest protest in Hong Kong since the 1997 handover to China (So, 2008). The protest marked a significant new phase in Hong Kong-China integration.

Significantly, Beijing decided to take the lead in solving the economic and political crisis in Hong Kong, seeing the Hong Kong SAR government as incapable. Soon after the half-a-million people protest, Beijing started a new formal, state-led integration process to speed up Hong Kong's integration with the mainland. This state-led process involved the following formal agreements signed between the Beijing government and the Hong Kong SAR government.

In the so-called "Individual Traveller's Scheme," residents in nine Chinese provinces can visit Hong Kong and Macao on a personal basis. Previously, mainland tourists had to visit Hong Kong and Macao on official tours and go through a complicated application process, which sometimes took months. The individual traveller's scheme is aimed at boosting the tourist industry of Hong Kong, which suffered a severe downturn during the SARS epidemics in 2003.

Hong Kong and Guangdong governments also signed the Closer Economic Participation Arrangement (CEPA). The first CEPA in 2003 provided 1087 Hong Kong-made products with tariff-free entry into the mainland market, accounting for 67% of manufactured goods exported to the mainland (Kynge and McGregor, 2003). CEPA aimed to open the huge mainland market for the manufacturing industry of Hong Kong. Two years later, CEPA II in 2005 allowed not only Hong Kong-manufactured products, but also allowed services to enter the mainland market, including law, accountancy, medical, banking, insurance, transportation, tourism, education and social welfare (Anon., 2005; Black, 2007). In educational services, for example, Hong Kong began to have more integration with the mainland after CEPA II. Many Hong Kong universities are setting up branch campuses on the mainland, joint programmes and exchange programmes with mainland universities in order to capture the mainland education market. In return, more and more mainland students are coming to Hong Kong to pursue their undergraduate and graduate studies. In fact, the majority of the research graduate students in the author's department at the Hong University of Science and Technology are mainland students.

All these activities showed that Beijing started to assert its influence in earnest, signalled another shift of the "One Country, Two Systems" policy from the direction of "Two Systems" back to the direction of "One Country." Indeed, less than two years after the 1 June 2003 protests, Chief Executive Tung Chee Hwa was eased out (Ching, 2009). This followed the dispatch of dozens of mainland officials to Hong Kong to discover what had "gone wrong" in the SAR. They met with all sectors of society, including advocates of democracy, and sent reports back to Beijing leaders.

Towards More Symmetrical Integration

The setting up of formal institutional arrangements between the Hong Kong SAR government and the Beijing government served to raise Hong Kong-China

connections to a new phase of a “Symmetrical Integration.” This new integration process had three characteristics. First, it was a two-way interaction. Previously, it was mostly one-way traffic, with Hong Kong small business going into China. In the 2000s, more tourists, students, professionals and businesspeople were coming from the mainland to Hong Kong to tour, study, work and invest. Second, it was a more comprehensive interaction, as the interaction has gone beyond the confines of the manufacturing sector to include services, real estate (Hong Kong firms build apartment complexes and shopping malls in China) and the retail sector, as Hong Kong firms set up branch stores in China (SinoCast China Business Daily News, 2005). Third, the benefits of integration are more widely spread from the capitalists to other social classes. In the 1980s, only Hong Kong businesspeople could benefit from integration with the mainland. In the 2000s, the benefits have spread to middle-class professionals: students can go the mainland to pursue higher education and professional training; university graduates and professionals can work and develop their careers on the mainland, professional firms can set up a branch company or form partnership with a professional firm on the mainland; consumer industries also reap benefits from the large number of tourists from the mainland. Since the signing of the CEPA in 2003, the middle-class Democrat Party has considerably scaled down its criticism of the Beijing government.

However, for Hong Kong’s unskilled workers, it is increasingly difficult to get a job in the labour-intensive manufacturing sector because Hong Kong firms either have relocated across the border or have upgraded their production to a higher technological content. It has been pointed out that a recent rise in radical politics and social activism in Hong Kong in the first decade of the twenty-first century has its structural roots in these dislocated workers and marginalised youths (Tang, 2009). As such, it is important for the SAR government to provide more resources to retrain these workers so they can upgrade their skills (Harney, 2004).

The most recent development is constructing a better infrastructure framework to link Hong Kong with the mainland. The two governments hope that when the transportation network between Hong Kong and the mainland is more direct and more efficient, there will be a larger flow of human traffic and products across the border. Thus, there is a plan to construct a new US\$10 billion Hong Kong-Macao-Zhuhai bridge, linking Hong Kong to Macao and to the West Pearl Delta by road. This plan was approved in 2008, although no date has been agreed for construction to begin and little had been achieved by late 2010. Also, there are plans to build a high-speed train and many new freeways connecting Hong Kong to the small cities in the Pearl River Delta and to other big cities in northern China. Currently, 150,000 people cross the Hong Kong-Shenzhen border daily, with all but one checkpoint open 17 hours a day. These large infrastructures and the proposed 24-hour border crossing at all borders are a means to increase the flow of people and products between Hong Kong and China (Li, 2007).

Each of these infrastructure projects will strengthen Hong Kong’s position as a key logistics centre for south China, providing job opportunities in the transportation, export and insurance sectors, as well as more jobs to the construction workers, the cross-border truck drivers and the other workers in these sectors.

Aside from the above economic integration activities, there are also social and cultural integration activities as well. For instance, cross-border marriage is on the

rise and it extends from the working class to the professionals and the capitalists (including the “second wives”). Many mainland wives of Hong Kong residents especially make a trip to Hong Kong hospitals to give birth (Fowler and Qin, 2007). Hong Kong identity is changing too. Due to the “patriotic campaigns” of the pro-Beijing groups in Hong Kong, the closer socio-economic integration and the growing power and prestige of Beijing in the world, more people in Hong Kong identify themselves as “Chinese” rather than as “Hong Kongers” or as “Hong Kong Chinese” (Mathews et al., 2008). It seems that the media has changed too. It is presenting a much more favourable image of the mainland in Hong Kong; it tones down its criticisms of Beijing and the communists. Even movie actor Jackie Chan has publicly voiced his support for a more authoritarian government by criticising Hong Kong and Taiwan for having “too much freedom” and “insufficient discipline” (cited in E. Ma, 2007).

Conclusion

This paper has examined the national unification process between Hong Kong and mainland China from a crisis-transformation perspective. Rather than seeing “One Country, Two Systems” from a legalistic viewpoint, this paper has taken a dynamic view of the policy and assumes that the policy is constantly evolving.

Tracing the various crises in Hong Kong over the past three decades, this paper has shown that the “One Country, Two Systems” policy has transformed in two ways: either moving toward the direction of “One Country” or moving toward the direction of “Two Systems.” Over the past three decades, Hong Kong leaders and democrats were seen constantly negotiating and bargaining with Beijing to push the policy towards the direction of “Two Systems,” while Beijing leaders were seen constantly adjusting their position towards the direction of “One Country.” The various crises reported above can be seen as the socio-political dynamics that swing the pendulum back and forth between the two poles of the “One Country, Two Systems” policy. In the crises, actors struggle with each other to restore the delicate balance in the policy; none of them, however, wants to completely reject the framework of the “One Country, Two Systems” policy.

Up to the turn of the twenty-first century, Hong Kong can be said to have experienced a “reluctant integration.” Before 1997, the colonial government took a hands-off position; the integration process took place at the “informal, social” level, mostly through ethnic and kinship mobilisation of Hong Kong small businesspeople. But even after Hong Kong returned to Chinese sovereignty in 1997, the first SAR government was still reluctant to promote more integration with the mainland because the Hong Kong democrats were afraid that more integration would lead to the pruning of Hong Kong’s distinctiveness.

So it had to wait until the economic crisis and the political crisis in 2003 before there was a deepening of the integration between Hong Kong and the mainland. Since 2003, Beijing took the lead and raised the integration process from an “informal, societal” level to a “state-led formal, institutional” level. Formal agreements, such as CEPA, were signed between the Hong Kong SAR government and Beijing and the provincial governments on the mainland. CEPA has started a

new process of “Symmetrical Integration” because it has transformed Hong Kong-China integration from a one-way flow to two-way processes, because it makes integration more comprehensive by getting other sectors involved, because it has spread the benefits of integration beyond the capitalists to other classes, and because it has greatly intensified social integration. Since 2003, there seems to be a change in cultural integration as well, as Hong Kong people increasingly identify themselves as “Chinese” rather than as “Hong Kongers or Hong Kong Chinese.”

This paper shows that unification needs to be understood as symmetrical in all legal, political, economic and social aspects if it is to work. It may take a long time before symmetrical integration can be restored in Hong Kong because the two territories were completely torn apart until the late 1970s. The earlier phases of Hong Kong-China unification were indeed testing, as Hong Kong went through many crises. However, as integration was institutionalised from the 1980s onwards, the crises have been weathered.

What, then, is the future of Hong Kong’s national unification with China? After going through so many crises, it seems the “One Country” position is gaining momentum as Hong Kong is moving closer to a symmetrical integration. Of course, there will still be crises ahead, but it seems the social, economic and political foundations are now so firmly laid down that it is unlikely to reverse the trend of symmetrical integration. The “One Country” position is so firmly institutionalised that a Beijing official like Cao Erbao can boldly declare that Hong Kong is governed not only by the SAR government but also by a “team of cadres of Central and Mainland Authorities carrying out Hong Kong work” (Cao, 2008) and a mainland professor like Jie Cheng is authorised to announce that “a new paradigm in the Beijing-Hong Kong relationship has taken place ... and Beijing has final control” (Cheng, 2009).

How has it reached this point? It is necessary to spell out the reasons why national unification works despite so many crises over the past three decades. First, the unification process took place during a long period of political stability and economic prosperity in China. Since China is stable and resourceful, it allows Beijing more confidence in dealing with crises. For example, increased confidence allowed Beijing to drive a hard bargain with the British during the negotiation process to take back Hong Kong. Since Beijing leaders are not under any internal threat, they could be more flexible in handling anti-Beijing sentiment in Hong Kong (like tolerating their existence) without being seen as weak. Since China had close to 10% economic growth during the 1990s, Beijing could afford to make concessions (like CEPA) and offer more resources and favourable policies to Hong Kong to boost the SAR economy.

Moreover, Hong Kong-China unification has benefited from good timing. It started unexpectedly in 1982 (when London asked for the lease renewal of the New Territories) and before Taiwan-China integration was considered. The success of Hong Kong-China unification is critical because the “One Country, Two Systems” policy can then be used as a model to attract Taiwan to come to the negotiation table. Subsequently, more hostility across the Taiwan Strait and the stronger the pro-independence movement in Taiwan, the more bargaining chips there were for Hong Kongers to push towards the direction of “Two Systems.”

In addition, Hong Kong's proximity to the mainland means it cannot survive by being completely cut off from the mainland (for example, Hong Kong depends on the mainland to supply drinking water to the territory). This has considerably simplified the unification issue because, unlike Taiwan, there is no independence movement in Hong Kong. Despite the Democratic Party's anti-Beijing position, it also supports national unification and does not advocate political independence. In passing, this article wants to mention that it was also this survival need that made London decide to return sovereignty of Hong Kong to China.

Finally, the framework "One Country, Two Systems" has provided a firm institutional foundation for the unification process. So far, there is no leader or political group (in Hong Kong or on mainland) who wants to challenge or to demolish the "One Country, Two Systems" model. Controversy arose concerning only whether Hong Kong should move closer to the pole of "One Country" or to the pole of "Two Systems." So as long as the general framework of the "One Country, Two Systems" policy is accepted by all the actors of national unification, their differences and conflict can be worked out.

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