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Overall Evaluation of the C. Y. Leung Administration

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Introduction

On 9 December 2016, C. Y. Leung held a press conference and announced his decision not to seek re-election as the Chief Executive of Hong Kong. The announcement came as a surprise to all concerned.[1] Carrie Lam, his successor, had earlier indicated that she would retire from her position as Chief Secretary for Administration at the end of C. Y. Leung's first term, as she anticipated that he would seek re-election. Indeed, C. Y. Leung had indicated upon his initial election as Chief Executive in 2012 that he would seek a second term. The community, therefore, also expected him to seek re-election, and the political opposition had been organising the "Anyone But C. Y." campaign.

There had been no indications of Leung's stepping down within or outside the establishment until his public announcement. Leung explained that his decision was for family reasons: "If I run, my family will suffer unbearable pressure due to my electioneering … I must protect them".[2] However, just like C. H. Tung's resignation in 2005, few people in Hong Kong accepted this official statement. There were subsequent reports indicating that the central leadership in Beijing had asked him to step down because supporting his re-election would be costly for them politically. Many groups within the pro-Beijing camp had revealed their dissatisfaction with C. Y. Leung to the Chinese authorities who had been monitoring the performance of his administration. It was widely reported that the Chinese authorities had been consulting leaders of the pro-Beijing camp and the business community during the 2017 Chief Executive election, many of whom indicated that they would find it difficult to support C. Y. Leung's re-election.[3]

Making the wrong choices regarding all three of Hong Kong's recent Chief Executives was naturally embarrassing for the Chinese leadership involved. Many surmised that an arrangement had been made to save face for the Chinese authorities as well as Leung. In this arrangement, the latter offered not to seek re-election for family reasons, and he was able to claim, "Beijing has always supported me and said I have done a good job".[4] He was subsequently elected to be the vice-chairman of the National Committee of the Chinese People's Political Consultative Conference (CPPCC) in March 2017, a prestigious (though largely ceremonial) position that was also offered to C. H. Tung—but, notably, not to Donald Tsang, who was jailed almost five years after retirement on charges of misconduct in office. Leung's election to the CPPCC was unusual though because it took place before the end of his term as Chief Executive.

Thus, it seems that Beijing was satisfied with how C. Y. Leung had toed its hardline on political reform and political suppression, though it was unhappy with his failure to maintain unity in the pro-Beijing camp. This was likely why at the beginning of her election campaign, Carrie Lam stated that she would follow Leung's policy line—even though she also admitted that she had to repair the political polarisation of society.[5] In fact, political polarisation (and how to balance it) was probably the most significant theme among the candidates in the 2017 Chief Executive election. Financial Secretary John Tsang Chun-wah even said that his candidacy was prompted by his wish that Hong Kong people could avoid having to consider emigration.[6] With the benefit of hindsight, Chinese leaders likely agree that they had been prudent in their refusal to endorse C. Y. Leung's re-election. The influence of economic and societal factors in the decision is undeniable. These factors, including the expanding gap between the rich and poor, slow economic growth and dependence on Mainland China, development of the Greater Bay Area, fissures and confrontations between Mainland China and Hong Kong, and dissent in the community, are also interconnected. While a government's administration is not the only entity influencing these factors, they can, when evaluated collectively, be used as a gauge to assess the effectiveness of a Chief Executive and their administration.

Economic factors

The expanding gap between the rich and poor

Chinese leaders believe that if the economy in Hong Kong is doing well, then the people's grievances can be contained. According to government statistics, the territory's gross domestic product (GDP) grew from HK$1.934 billion in 2011 to HK$2.491 billion in 2016, and its per capita GDP grew from HK$273,549 in 2011 to HK$339,531 in 2016.[7] The respective annual growth rates in these years amounted to 5.2% and 4.4%, which are respectable for a mature economy like that of Hong Kong. Yet in general, most Hong Kong people feel that their real incomes have been in decline since the territory's return to China in 1997. One important reason underlying this feeling is the substantial and expanding gap between the rich and poor. Among the major cities in the world, Hong Kong has one of the largest gaps between the rich and poor. Its Gini Coefficient rose from 0.45 in 1981 to 0.52 in 1996 and then further increased to 0.537 in 2011 and 0.539 in 2016.[8]

The stagnation in ordinary people's incomes is perhaps best illustrated by the real wage index. Using September 1992 as the baseline (i.e., 100), the real wage index rose slowly to 116.4 in 2006 and remained mostly stagnant until 2016, with only a slight increase to 120.7 that year.[9] Hong Kong people often make comparisons with their counterparts in Singapore and Macao, and they were rather disappointed to discover that at current market prices, the per capita GDP in Hong Kong stood at US$42,066 in 2015, while the corresponding figures for Singapore and Macau were US$52,889 and US$71,984, respectively.[10] Indeed, this comparison with Singapore was a key discussion point in the Chief Executive election campaign in early 2017.

Analysts have observed similar income gaps in other countries. For example, Dr Kenichi Ohmae's book *The Impact of Rising Lower-Middle Class Population in Japan: What Can We Do About It?* was a best-seller in Japan about 10 years ago and generated discussion in Taiwan as well.[11] In the text, Dr Ohmae suggests that the vast majority of Japanese citizens would progressively fall into the lower-middle class socio-economic group because globalisation would lead to further widening of the gap between the rich and poor, thus exacerbating social polarisation.

In Hong Kong, new university graduates are likely to identify with Dr Ohmae's arguments. Indeed, during a discussion with fresh graduates in late 2003, which is thought by some to be when Hong Kong's economy hit rock bottom, a sociology professor at a local university addressed them as "the young middle class", at which point one student said he did not feel like they belonged to the middle class. A number of other students supported this sentiment. The economy today is, of course, better than it was (according to some metrics). However, the median monthly salary of new graduates is typically between HK$11,000 and HK$12,000, and many owe the government approximately HK$200,000 or more in student loans. Steady promotion and salary increases are also unlikely in the early years of employment. Thus, unless they can depend on their parents for food and accommodation, they are often unable to maintain a middle-class lifestyle.

Up to the end of the last century, university graduates expected to eventually get married, have children, and possess their own cars and accommodation — the middle-class dream. Today, young people in Hong Kong feel they have to make hard choices among these goals as they can hardly expect to fulfil the entire dream. In most cases, they have lost the incentive to save on a long-term basis and simply save enough to go on short holidays or make small purchases, after which they begin saving money for the next short holiday or purchase.

In contrast to the increased social mobility observed in China, that in the territory is more stagnant. Indeed, the vast majority of people in Mainland China experienced substantial improvements in their living standards in the era of economic reform as well as following the opening of China's market to the external world after 1978. They also expect further improvements in the years ahead. Alternatively, most

Hong Kong people believe that their living standards have deteriorated since 1997 and are pessimistic about improvements in the future.

Regarding the issue of poverty, the C. Y. Leung administration publicly claimed that it had made an important contribution to its reduction. In 2015, 569,800 families and 1.345 million people lived under the poverty line, and the poverty rate was 19.7%. The government's reports showed that their policy interventions resulted in only 392,400 families and 971,400 people remaining under the poverty line and that the poverty rate was reduced to 14.3%.[12] Obviously, the C. Y. Leung administration linked this fall in poverty to its actions. However, this is not entirely true as the government's policy interventions merely lifted some people living under the poverty line up to living standards just above this line through various subsidies. They have also not given the full story. In 2011—just before C. Y. Leung took office—530,000 families and 1.295 million people lived under the poverty line and the poverty rate was 19.6%. The government policies implemented by the previous administration resulted in a poverty rate reduction to 15.2%, with 399,000 families and 1.005 million people remaining below the poverty line shortly after this period. This drop occurred during the regime change, but before the new administration could implement their own policies. Therefore, the poverty rate actually increased initially (from 15.2% to 19.7%) under the C. Y. Leung administration. Meaning that after the new administration introduced their new policy measures, the poverty rate was only back down to the level it had been prior to their term in office, with a slight reduction from 15.2% to 14.3%.[13] To fully understand the effects of an administration on complex issues such as poverty, it is important to assess the impact of the prior administration and establish an appropriate baseline at the onset of the new administration's period in office. Reducing the poverty rate will likely only become more challenging in the future as the population ages and the average household size declines.

When considering plans to reduce poverty in the ageing population, it is important to consider the government's monetary reserves. Hong Kong frequently has budgetary surpluses, and the government reserve balance amounted to approximately HK$840 billion at the end of March 2016, exceeding 35% of the city's annual GDP, which is enough to pay for 23 months of government expenditure.[14] This means that the government enjoys a sound fiscal position and can overcome challenges arising from unfavourable external conditions and crises. However, critics have raised questions as to how the government can employ its fiscal reserves in a more constructive manner. There is a consensus that these funds should not be used to subsidise routine government expenditure, but there is no strong opposition to using the reserves to enhance the territory's long-term international competitiveness. The government, however, has not come up with any major policy programs towards this goal. Furthermore, while the government has often indicated that it has to prepare for the ageing population, little has been done. People aged 65 years and above constituted 16% of the population in 2015, and this proportion will rise to 36% by 2064. Even with these statistics in hand, the government has adopted few universal policies. In fact, in its 2016 consultation exercises concerning a universal pension scheme, the C. Y. Leung administration adamantly refused to accept financial responsibility for such a scheme and instead opted for various policy measures to help the elderly on a means-tested basis.[15] The government's position was disappointing in the eyes of the social service sector as well as the pro-democracy movement and reflected fiscal conservatism on the part of the political establishment.

Slow economic growth and dependence on Mainland China

Hu Angang, a leading economic scholar at Tsinghua University in Beijing, examined Hong Kong's economic difficulties and offered the following set of statistics. From 1970 to 1994, per capita GDP in Hong Kong rose from US$925 to US$21,421, maintaining double-digit growth every year with the exception of 1985. From 1997 to 2010, per capita GDP in Hong Kong increased from US$27,170 to US$31,758, a nominal rise of only 21.4% in 14 years. Moreover, in 1997, total GDP in Hong Kong only amounted to US$177.353 billion, while that in Mainland China reached US$265.926 billion. At that time, Guangdong's GDP (for comparison) was about one-tenth of Mainland China's, and one-sixth to one-seventh of Hong Kong's. Starting from 1998, Mainland China enjoyed a 15-year period of double-digit growth, reaching US$10.36 trillion in 2014, about thirty-eight times that of Hong Kong (US$273.667 billion). In 2014, Guangdong's GDP alone exceeded US$1 trillion, more than three times that of Hong Kong. Among China's provincial units, Hong Kong only ranked fifteenth in terms of GDP that year.[16] Hu's analysis and conclusions are representative of the views and opinions of think tanks in Mainland China that are engaging in research on Hong Kong. They believe that the Hong Kong economy has not been performing well and that the territory's government has to be more proactive in its economic policies. They also tend to hold the view that the Hong Kong economy has become more and more dependent on Mainland China's economy and that the territory's contribution to China's economic modernisation has been in decline.

Indeed, Hong Kong's economic dependence on Mainland China has been a controversial issue, one that leaders of the pro-Beijing camp in Hong Kong (as well as ordinary people in Mainland China and Chinse tourists coming to the territory) have often raised. In 2015, Hong Kong's merchandise imports amounted to HK$4.064 trillion, with HK$1.984 trillion (49%) of this coming from Mainland China. In the same year, Hong Kong's domestic exports amounted to HK$46.861 billion, with HK$20.433 billion (43.6%) of this going to Mainland China. Further, Hong Kong's re-exports reached HK$3.558 trillion in the same year, with HK$1.916 trillion (53.8%) and HK$2.163 trillion (60.8%) going to and originating from Mainland China, respectively.[17]

This dependence is further highlighted by direct investment inflow into Hong Kong, which in 2014 amounted to HK$876.5 billion, with HK$221.8 billion (25.3%) coming from Mainland China, HK$476.7 billion (54.4%) from the British Virgin Islands, and HK$16.7 billion (1.9%) from the Cayman Islands.[18] Financial analysts also believe that a large proportion of the investments from the British Virgin Islands and the Cayman Islands actually originated from Mainland China, although they have not provided further evidence of this. In the same year, direct investment outflow from Hong Kong reached HK$962.2 billion, with HK$637.9 billion (66.3%) going to Mainland China, HK$64.9 billion (6.9%) to the Cayman Islands, and HK$26.2 billion to Bermuda (2.7%).[19] Similarly, investment outflow from Hong Kong to the Caribbean is also believed to have originated from Mainland China to some extent.

Tourism in Hong Kong is also intimately related to the city's dependence on Mainland China. In 2015, 59.308 million visitors arrived in the territory, with 45.842 million (77.3%) of these coming from Mainland China.[20] The large tourist inflow from Mainland China has been a source of friction, and many people in Hong Kong have raised concerns regarding the territory's capacity to serve tourists. They question whether a limit should be set to better regulate tourist inflow, particularly of those from Mainland Chinese.

Hong Kong's economic dependence on Mainland China is also reflected by its inclusion in China's economic and social development planning processes. The Eleventh Five-Year National Economic and Social Development Plan (2006–2010) only discussed Hong Kong's direction of development in simple terms. However, in the following Twelfth Five-Year Development Plan (2011–2015), a special chapter was dedicated specifically to Hong Kong and Macao, signifying Hong Kong's position and role in China's development strategy. Many in Hong Kong, especially those in support of the pro-democracy movement, were dissatisfied with this increased inclusion in the national development plan, particularly as it was done without consulting the local community. However, this dissatisfaction was largely ignored, and the process was repeated in the Thirteenth Five-Year Development Plan (2016–2020). One other notable change from the Twelfth to the Thirteenth Five-Year Development Plan involved how the Chinese authorities would support the territory. In the former plan, they indicated that they would "support Hong Kong and Macao to consolidate and raise their competitive edge", but this was changed to state that they would "support Hong Kong and Macao to raise their economic competitiveness" in the latter. This change led some to believe that Hong Kong no longer enjoyed a competitive edge.[21]

Developing the Greater Bay Area

In the spring of 2017, Chinese leaders highlighted the development of the Greater Bay Area and the integration of the Pearl River Delta to include Guangdong, Hong Kong, and Macao. While the project had been under discussion for several years, this was the first time Hong Kong's role was explicitly described. The C. Y. Leung administration worked hard to promote the project, prompting speculation that this might become Leung's area of specialisation in his capacity as a vice-chairman of the National Committee of the CPPCC after stepping down as the Chief Executive.

The Chinese leadership recognises that urbanisation will play a significant role in China's economic development and will stimulate domestic consumption and investment. From their point of view, the Greater Bay Area development project will allow the province to compete with the Yangtze River Delta and the Beijing-Tianjin-Hebei Area around Bohai. As Guangdong intends to step up its development of modern service industries, it has realised the advantages of developing a substantial metropolitan area centred on the Pearl River Delta.

Despite the government's rhetoric, the Hong Kong community has raised questions concerning the role of the territory and its people in the planning process. At the root of these questions is concern about how the "One Country, Two Systems" model as well as the core values and lifestyles of the Hong Kong community will be maintained during the integration process. Citizens question the effects of Hong Kong becoming another ordinary coastal city of China or part of one of its major metropolises and how this will benefit (or worsen) the region.

Given that Guangdong plans to concentrate on its modern tertiary sector and relocate its manufacturing industries to the eastern and western parts of the Pearl River Delta, it is likely that even Hong Kong's major business groups will be significantly affected and will need to understand the challenges ahead. Interestingly, the Guangdong authorities have ignored C. Y. Leung's claim that Hong Kong will serve as the "super connector" for Guangdong and China. It seems that they actually seek to eliminate the province's dependence on connectors through the development of their own modern tertiary sector, which will provide direct ties with the world's top corporations and international markets. Guangdong's emphasis on finance, banking, insurance, logistics, maritime and air transport, tourism, etc. will likely result in increased competition for Hong Kong in these markets. Thus, the

C. Y. Leung administration's rhetoric on the advantages of integration appeared unconvincing in the eyes of Hong Kong people.

As housing prices rapidly increase and real incomes stagnate in Hong Kong, there is worry that citizens in the lower socio-economic strata may eventually have to move to the Pearl River Delta, where the cost of living is lower, while elements of the business and professional elites of China would move to Hong Kong. This shift is certainly not appealing to Hong Kong citizens and raises questions about how the territory will deal with this economic integration. The decisions made by C. Y. Leung and his administration regarding these projects reflects a profound shift in protecting Hong Kong's interests.

Unemployment, competitiveness, and industrial niche

Despite relatively slow economic growth, the unemployment rate remains low in Hong Kong, which contributes to social stability. From 2011 to 2015, the unemployment and underemployment rates stayed level at 3.3–3.4% and 1.4–1.7%, respectively.[22] Though Hong Kong people can no longer say that anyone willing to work will have no difficulty finding a job, the tertiary sector still offers many job opportunities. However, job satisfaction presents a serious challenge, as jobs in the lower end of the sector do not offer job security, benefits, or career development opportunities. Thus, young people frequently change jobs.

Hong Kong is the fourth global financial centre and was ranked the most competitive economic entity in 2016 by the International Institute for Management Development in Lausanne.[23] Though Hong Kong's unique position in China's market will likely decline, the territory will continue to function as an international finance centre and business services centre. According to the Chinese Cities Competitiveness Research Association, while Hong Kong is still a financial powerhouse in the region, it lost its leading position to Shanghai in 2016. The market in Mainland China is expected to maintain its growth in the future, thus further reducing the territory's share. Furthermore, it is unlikely that Hong Kong will be able to provide satisfactory employment for the city's entire labour force (3.9 million in 2015), even with its advanced financial and business service sectors. This also partly explains