
Hong Kong: The Rise and Fall of “One Country, Two Systems”

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ABOUT THE PAPER

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The idea of “one country, two systems” originated in 1979, when China offered to allow Taiwan to keep its economic and social systems, government, and even military in return for acknowledging that it was part of the People’s Republic. Taiwan rejected that proposal.

FROM A TAIWAN POLICY TO A HONG KONG POLICY WITH TAIWAN IMPLICATIONS

The plan’s architect, Deng Xiaoping, next used the idea to resolve an emergent crisis over Hong Kong. The biggest section of Hong Kong, the New Territories, was scheduled to revert to mainland rule in 1997, and real-estate investors feared they would lose everything in the reversion. Those concerns led to a historic confrontation between Deng and Margaret Thatcher in December 1984. Few things seemed more unlikely than that the old communist general and the right-wing democrat, both known for toughness, would come to terms. But both understood the costs of potential conflict and the benefits of compromise, so they reached a deal that became the 1985 Sino-British Joint Declaration, an international treaty that is still legally in effect. It promised to preserve the judicial system, legislative and executive autonomy, and all the key freedoms to which Hong Kong people had become accustomed, “including those of the person, of speech, of the press, of assembly, of association, of travel, of movement, of correspondence, of strike, of choice of occupation, of academic research and of religious belief” (Article 3.5).

Deng believed that “one country, two systems” for Hong Kong would facilitate China’s eventual reunification with Taiwan. He believed that by 2047 the mainland would have developed to Taiwan’s level both economically *and politically*, and therefore would be an attractive partner. By that time Taiwan would, he thought, be impressed by China’s sincere implementation of “one country, two systems” and would welcome reunification.

Chinese leaders were determined to make the agreed deal work. They consulted widely. In the years leading up to 1997 I met with top leaders several times a year, both as a governor of the American Chamber of Commerce and—more often and more

significantly—as chair of the Economic Committee of the Business and Professionals Federation, a group of top Hong Kong business leaders that had helped write Hong Kong’s constitutional document, the Basic Law. China’s leaders were accessible and eagerly sought advice from foreigners, and particularly from Hong Kong Chinese business leaders, whom they regarded as the authoritative experts on Hong Kong. Our conversations were quite wide-ranging. Zhu Rongji, then vice premier, was always the most impressive because he was so open. Fully in control of his own ego, he welcomed criticism and answered delicate political questions with humorous alacrity.

Hong Kong’s British Governor, Sir David Wilson, a lifelong China expert, was equally open and sensitive to what would work in this complex dance among the U.K., China, and Hong Kong. The interaction of Wilson and the Chinese government ensured that the talks maintained a flexible, optimistic spirit.



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The author presenting his book, *The Rise of China*, to Zhu Rongji. Left, delegation leader Vincent Lo.

It is difficult today to convey that period’s goodwill among Hong Kong, the rest of China, and foreign ideas, so I’ll mention just one example. At one point China sought to turn Hainan Island, a much larger Chinese version of Hawaii, into a free port. The

Governor of Hainan hired my friend Charles Wolf, an economist at the RAND Corporation, to help draft a plan on how to turn Hainan into a new Hong Kong. Wolf in turn asked me to write an essay on whether Hainan should henceforth use the Hong Kong dollar rather than the Chinese RMB as the province’s currency. That kind of pragmatism was typical.

BRITAIN REACTS TO JUNE 4, 1989

Then June 4, 1989, intervened—the event commonly known in the West as the Tiananmen Square massacre. In reaction to the tragedy, the Hong Kong stock and property markets collapsed and the world’s relationship to China changed. The British felt that decisive action was necessary to restore confidence and over the next few years they did two things. One was to build a gigantic airport. Hong Kong did need a new airport and China offered to cede the territory some land in Shenzhen, plus a road to that land, which would have made the new airport cost about \$3 billion. The British rejected that on the premise that China could not be trusted, and classified the offer as secret so that the people of Hong Kong would not find out about it. Instead they planned a \$24 billion airport to be built by flattening and extending an island in the nearby South China Sea and building a road and railroad out to it. The original Chinese offer has never been revealed to the Hong Kong public.

Annex II of the Joint Declaration required that the British and Chinese would consult about any initiative that might bring disagreement, and there was plenty of disagreement about the airport. The Chinese feared it could be a way to channel funds out of Hong Kong to British firms. This fear was not completely unjustified; the British consulting firm that set all standards for airport construction products, such as cement additives, sometimes specified a British product even when alternatives were vastly superior. In any case, the British argued that informing the Chinese about their decisions regarding the airport was the same as consulting them. This dishonesty was a clear breach of the Joint Declaration.

The second thing that happened was the British business community in Hong Kong argued that Governor Wilson, a diplomat, should be replaced by a tough political

figure. In response the British government chose Christopher Patten, a member of Parliament who didn't know much about Hong Kong or China but who postured himself as a plenipotentiary of the mighty British Empire putting the uncivilized Chinese in their place. His tone in speaking about China was of muted contempt, and the Chinese responded with their usual rhetorical enthusiasm.

A few weeks into his tenure, in his first major speech, Patten announced he was going to reorganize the Legislative Council to make it more democratic. His applause line in that speech was that he had not consulted China. That was the ultimate insult to the Chinese leadership and a clear breach of the Joint Declaration. It positioned Patten in the Western press as the hero of democracy, an image that later gained him a job as foreign policy leader of the European Union, but it was the definitive end to any chance of further political reform in Hong Kong. From then on, the only possible next political step was to wait for 1997 when the Chinese would, as everyone who knew China understood, reverse Patten's unilateral changes. Which of course they did.



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Governor Patten and Governor Wilson

In my controversial opinion, with patience and empathy, the kinds of reforms that Patten imposed could have been achieved and gradually extended much further had someone with greater knowledge and a diplomatic temperament, like one of the great British Foreign Office China experts, become governor rather than Patten. Hong Kong would be much more democratic today without the multiyear pause in open exchanges that was the inevitable outcome of Patten's unilateralism. For Patten, as for many Western politicians, now China was Tiananmen Square, and Tiananmen Square was China.

Hence there was no need position one's country or oneself to deal as well with the other, pragmatic, reforming aspect of China.

CRISIS OF THE LEGAL SYSTEM

China felt it had to respond in kind to Patten’s unilateralism. Among the questions being considered at the time as part of the coming transfer of sovereignty was the structure of Hong Kong’s Court of Final Appeal. Under British colonial rule, ultimate Hong Kong judicial decisions had been made by the Privy Council in London. But as a riposte to Patten’s reorganization of the legislature, Premier Li Peng announced that China would withhold its decision about the court’s structure until after the 1997 handover. Since Hong Kong’s vitality required continuity of the legal system, by April 1995 the uncertainty had created a sense of crisis for Hong Kong’s local business leadership. A delegation of Hong Kong Chinese business leaders, the Business and Professionals Federation, went to Beijing to confront Li Peng with the likelihood of an economic crash if he didn’t reverse himself. As a board member of the Business and Professionals Federation, I attended the meeting.



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Li Peng with Overholt. In the background, to the right of Li Peng, is Henry Tang, later briefly China’s leading candidate to become Chief Executive of Hong Kong.

None of the business leaders wished to confront the man who was known as the “Butcher of Beijing” for ordering the military crackdown in Tiananmen Square. So they asked me to do it, and I did, enthusiastically, telling him that legal uncertainty would deter investment and create an economic crisis the year before the handover of Hong Kong’s sovereignty, thereby ruining the tone of the handover. Li responded, testily, “Your job as businessmen is to build roads and ports and telecommunications, and my job is to decide about courts. You do your job and I’ll do mine.” I continued vigorously to press the case. He and I had quite a vigorous exchange, joined by others, and then, with conspicuous irritation, he dismissed us. But the next morning the Beijing newspaper carried an article about our visit, headlined “Premier calls for early decision on Court of Final Appeal.”

Hong Kong’s British legal system continues to thrive, no thanks to Chris Patten.

Li Peng’s initial reaction to developments in Hong Kong, but so far not his afterthought, has turned out to be a precursor for developments under Xi Jinping.

ROLE OF THE WESTERN MEDIA

Western understanding of “one country, two systems” was informed by the media in what may have been the most irresponsible sustained period of Western journalism in the 20th century. The virtually universal story was of the death of Hong Kong. According to this narrative, Hong Kong was being depleted as its population fled around the world, Hong Kong people and businesses were particularly moving en masse to Singapore, and the economies of Hong Kong and southern China were a mess. Almost all newspapers reported that 64,000 people left Hong Kong in one year. As far as I could tell, not one paper reported the fact, easily available from Hong Kong’s official statistics and well known around the region from my own reports, that 80,000 people moved into Hong Kong that same year. If the death of Hong Kong story had been valid,

as 1997 approached more people should have been leaving, but actually the number leaving declined to around 40,000 while arrivals increased, to about 120,000.¹

Many people did get permits to move to Singapore as insurance, but few used them. Initially the Singapore and Hong Kong governments both treated the migration numbers as secrets but Singapore’s prime minister, Lee Kuan Yew, mentioned in his National Day speech the number of Hong Kong immigrants to Singapore. It was fewer than 40 in the previous four years—not even 10 people a year. A senior Hong Kong official leaked to me the number of Singaporeans who had moved to Hong Kong in that period. It was thousands, so many that Hong Kong had to build a new Singapore International School to accommodate their children. Likewise, the Singapore government confirmed that there was no substantial migration of business from Hong Kong to Singapore.²

After I published these numbers in Bankers Trust research reports and a major speech, they became well known in Hong Kong but were not republished in any major Western newspaper. The Monetary Authority of Singapore collected copies, a book-length sheaf, of the many places they were published, highlighted the key statistics in yellow on each one, and wrote to the chairman of my employer, Bankers Trust, demanding to know why the bank was “harbouring this anti-Singapore economist.” Since Singapore was a major profit center for the bank, usually something like that would end an analyst’s career, but after months of deliberation the bank’s chairman wrote back that it was difficult to fire an economist for publishing numbers that the Singapore government agreed were true. The Monetary Authority continued to press for my firing whenever a senior Bankers Trust executive visited Singapore but relented only when, in a later National Day speech, Lee quoted both Henry Kissinger and me at paragraph length.

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1 These numbers are from memory, which I believe to be quite clear because of the intensity of the controversies at the time. The Hong Kong government has changed the way migration numbers are accounted. Now it just publishes “net movement” and the numbers are inconsistent with publications at the time but the trend is even stronger (more positive) than the one I report above. The available statistics are in the table “Demographic Trends in Hong Kong 1986–2016,” <https://www.censtatd.gov.hk/hkstat/sub/sp150.jsp?productCode=B1120017>. After a brief outflow in 1990, the year after the Tiananmen Square massacre, the numbers are always positive, rising steadily from 7,400 in 1991 to 119,300 in 1996. Subsequent numbers are well below that peak, but always much higher than the numbers that prevailed before that period. Paragraph 2.2 of the publication says, “There is no direct and complete measure of immigration and emigration in Hong Kong. Only the net balance of population movements into and out of Hong Kong is available and this is referred to as net population movement.”

2 See for instance, “Singapore Trumped by Hong Kong’s China Card,” *Asia Times*, June 17, 1997.

On a later occasion, when he visited Hong Kong, Lee and his wife took me to dinner. When I complained about his government’s treatment of the issue, he joked that when Hong Kong was in trouble naturally Singapore would send lots of people to help it out.

Another myth was that Beijing would deliberately undermine Hong Kong in order to bolster Shanghai. On the contrary, the Chinese leadership has consistently acted to boost the Hong Kong economy and financial sector, for instance forcing neighboring provinces to open up to Hong Kong business after a property bubble popped in the early years of the new century and giving Hong Kong special early privileges to trade the internationalizing renminbi a decade later.³ Chinese leaders were familiar with the historical co-dependency of the two cities.

How did the story get so misrepresented in the Western press? Reporters from the leading newspapers would fly into Hong Kong, spend a day with Patten and Martin Lee, the obsessively sinophobic head of the Democratic Party, dutifully taking notes about the imminent demise of Hong Kong, and fly out. Patten, Martin Lee, and the Singapore government (notwithstanding Lee Kuan Yew’s singular candor) were deliberately spinning the death of Hong Kong story for political reasons, but Patten and Lee were regarded as heroes of democracy and therefore sufficiently authoritative that it would appear no one checked facts, added context, or presented alternative views. The *New York Times*, the *New Yorker*, the *New York Review of Books*, the *Washington Post*, and all the other leading papers played a shameful and consequential role during this period. *Newsweek*’s reporter in Hong Kong Dorinda Elliot, an outstanding and careful journalist, complained that her New York editors changed the stories she wrote about the booming southern Chinese economy. On the evening of the handover, when Communist Party General Secretary Jiang Zemin quoted parts of the Joint Declaration to reassure Hong Kong people that China’s promises would be honored, CNN reported that he was trying to frighten them.⁴

Fact-checking was not given priority. An example characteristic of the time was the profile of Patten published by the *New Yorker*; in a magazine that would have published a correction regarding a one-letter typo in the middle name of a corporate executive, the

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3 Those privileges are documented in William H. Overholt, Guonan Ma and C.K. Law, *Renminbi Rising* (London: Wiley, 2015)

4 The full text of Jiang’s speech was published in the *South China Morning Post* on July 2, 1997.

article’s factual errors even about basics like the composition of the Hong Kong legislature mean that it would have failed as a Hong Kong high school essay.⁵ The *New York Times* periodically told its readers that the annual June 4 protests would be banned after 1997, and it told its readers that prudish mainlanders would close Hong Kong’s girlie bars and ban rickshaws. In reality the annual June 4 protests became much bigger. The supposedly prudish mainlanders actually had sexy nightclubs and brothels in every major city, mostly run by the Chinese Army; Hong Kong’s girlie bars were never challenged. And the British were shutting down Hong Kong rickshaws while at that time rickshaws were briefly reviving in the mainland. Even minimal effort at fact checking would have corrected such errors, which were omnipresent.⁶

Some writers were particularly resistant to facts. I spent a breakfast of well over two hours with Ian Buruma, who was writing the principal article about Hong Kong for the *New York Review of Books*, giving him my full briefing of all the numbers that showed the death of Hong Kong thesis was wrong. After all, this was the time when people from all over the world were flocking to Hong Kong for the opportunities. It was when Hong Kong’s financial sector takeoff was overshadowing Tokyo; henceforth financial columnists would refer to the great financial sectors of the world as London-New York-Hong Kong and not mention Tokyo. And the Hong Kong economy was like a global empire, managing more than a trillion dollars of offshore business that made Hong Kong prosperous but wasn’t included in Hong Kong statistics. Your ski jacket that said “Made in Bangladesh” or “Made in Mauritius” or your shirt that said “Made in Jamaica” was likely made by a Hong Kong company or manufactured in accordance with decisions by one of Hong Kong’s 30,000 supply chain managers. Your shirt labeled Saks Fifth Avenue or Brooks Brothers or Nordstrom more likely came from Hong Kong’s Esquel than from any other manufacturer. But Buruma’s essay about Hong Kong as a “crumbling city”

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5 John Newhouse, “Tweaking the Dragon’s Tail,” *The New Yorker*, March 15, 1993.

6 On the Sunday exactly one year before the July 1, 1997, handover, the *New York Times* “News of the Week in Review” section, the most prestigious section of America’s most prestigious paper, published a full page photo essay with such assertions: “In Hong Kong, Last Looks at the Empire,” June 30, 1996. It has been replaced in the archive by a very short summary that changes the assertions to speculations about what might happen. When Tom Friedman, a punctilious journalist like his colleague Nick Kristof, interviewed me at Hong Kong’s Marriott Hotel, I showed up with a sheaf of less than punctilious articles by his local colleague. Tom responded, wisely, “Bill, I am not my brother’s keeper.”

solved the problem of all the contrary numbers by just not mentioning any of them. Buruma’s brilliantly written *zeitgeist*-based journalism propelled him to leadership of the *New York Review of Books*.

This journalistic malfeasance created a happy time for business consultants. Companies like Charles Schwab would fly people like me first class to the U.S. to spend an afternoon with their boards. It was pretty simple to provide a full set numbers and context in return for a nice fee. Schwab and many others established new offices and their decisions proved profitable. Citibank built two skyscraper towers at the height of the death of Hong Kong story and made enormous profits.

THE TRANSITION AND ITS AFTERMATH

Hong Kong people were nervous about what China would do but were mostly happy to be rid of the colonial British. I had a painful knee for a while after a taxi driver smacked his door into me; when I explained that I was American, he apologized, saying he thought I was British. Local celebrations of the handover were among the best parties I have ever attended. People considered it a wonderful omen when rain drenched the ceremony on the last day of British rule but sunshine brightened the first day of Chinese rule. Nearly everyone in Hong Kong felt Chinese and most were proud to feel part of China’s rapid modernization and emerging success. In my first 16 years of living in Hong Kong I only heard one person—Emily Lau, then a marginalized member of the Legislative Council—express any interest in independence. Given today’s very different situation, that’s an important baseline.

In the early part of the new century China scrupulously honored the letter of the promises of the Joint Declaration and the Basic Law, but it did so in a stingy rather than generous way. Most notably, their promised intention of eventual universal suffrage could be interpreted as anything from instituting Western-style democracy to allowing everyone to vote for a predetermined leader, and Beijing’s interpretation was

much closer to the latter.⁷ Although both Hong Kong and Beijing leaders continued to expect gradual liberalization, in the new century Chinese leaders were fearful and distrustful. They squandered the opportunity to consolidate the goodwill of the Hong Kong people that had been so evident in 1997.

NERVOUS NEW LEADERS

In 2003 China elevated new leaders. Vice President Hu Jintao had qualified himself for the top job by being very tough on Tibet, and he adopted a tough stance on Hong Kong. The mood in Hong Kong became tense. To my surprise, in 2004 two Shanghai thought leaders flew to Los Angeles, where I was by then working at RAND, to ask my advice on how to handle what they saw as the new administration’s mismanagement of the leadership’s relationship with Hong Kong. I helped them analyze the government’s fears and showed how to assuage them.

- When Beijing’s leaders saw demonstrations in Hong Kong, they feared another Tiananmen Square; I pointed out that (in those days) Hong Kong demonstrators applied for permission, walked where they were allowed to walk, and went home. No Tiananmen Square.
- When the leaders heard demands for democracy, they feared a Taiwan-style independence movement, but Hong Kong had none.
- Beijing tended to see Martin Lee, an obsessively anti-China figure, as the face of Hong Kong’s democracy movement. I told them Lee’s Democratic Party had fewer than 50 members and that in pre-handover polls only 11 percent of Hong Kong people said they could trust Martin Lee as Hong Kong’s leader. (Prior to the 1997 handover Tung Chee-hwa and Anson Chan, whose names were also being floated as candidates at the time, polled in the high 50s and high 60s, respectively.) Lee was an important figure but his stature was higher in Washington than in Hong Kong.

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7 “The method for selecting the Chief Executive shall be specified in the light of the actual situation in the Hong Kong Special Administrative Region and in accordance with the principle of gradual and orderly progress. The ultimate aim is the selection of the Chief Executive by universal suffrage upon nomination by a broadly representative nominating committee in accordance with democratic procedures” (Basic Law Article 45).

In other words, Beijing’s most important fears were unfounded.

I recommended to my visitors that one of China’s senior leaders go to Hong Kong to assuage local fears. Shortly they emailed back that they couldn’t get a senior leader, but the leadership had sent the United Front Minister and she had been quite successful in calming the mood.

However, they said that Beijing’s new leaders remained worried about the coming demonstrations, which had been held annually since 1997 on the July 1st anniversary of the handover. What should they do? I noted that that year, 2004, the democracy movement was reaching out to Beijing by calling the event a “celebration of civil society” rather than a demonstration. I recommended that one of China’s top two leaders go to Hong Kong to keynote the celebration; with RAND’s permission, I even wrote an indicative draft of such a speech. My Shanghai colleagues responded that they couldn’t convince either of the two top leaders to speak at the event, but said that Vice President Zeng Qinghong had flown to Shenzhen and called Hong Kong political leaders across the border to speak with him; the conversations made him much more comfortable with the Hong Kong situation.

I learned two things from this exercise. One was that, although China’s heads of state are perhaps the world’s most experienced, having reached the top only after dealing with numerous levels of government and a broad variety of functional areas, they had no experience of Hong Kong and remained apprehensive about this weird little corner of their country. If “one country, two systems” were to survive, they needed a mechanism for becoming knowledgeable and comfortable with Hong Kong. No such mechanism was created, with ominous consequences for the next transition, in 2013.

The second thing I learned was that the U.S. National Endowment for Democracy (NED) had given sinophobic Martin Lee its big democracy award, a replica statue of the Goddess of Liberty from the Tiananmen Square demonstrations of 1989. That compounded the two worst misperceptions in Beijing of the Hong Kong democracy movement and added the perception that the U.S. was promoting the idea of another Tiananmen Square type movement in Hong Kong. I drew a conclusion that has some relevance for today: the NED is too small and too ham-handed to have much beneficial effect, but prominent enough to be a scapegoat and to damage “one country two systems.”

MANAGED STRAINS, RISING FRUSTRATIONS

There have been stresses and strains at the boundaries of “one country, two systems,” for years, most notably in 2003 over concerns about Beijing’s enacting the anti-subversion law required by Article 23 of the Basic Law, and in 2012 over efforts to enact a “patriotic education” law. In both cases Hong Kong people demonstrated and Beijing leaders reluctantly deferred the issues. Such strains were inevitable but they were successfully managed at the time.

Expectations of electoral liberalization rose yet again in 2014. As quoted above, the Basic Law anticipated “gradual and orderly progress” in electoral liberalization. The pre-handover Chinese leaders had been very clear that they expected a series of substantial liberalizations as long as things were going well. However, while Hong Kong politics had been orderly electoral liberalization had seen little progress. Each time a Hong Kong political transition neared, expectations rose. Frustrating those expectations, China proposed to elect Hong Kong’s head of government, the chief executive, by popular vote but restricted candidates to those who received more than 50 percent support from a committee of 1,200 private citizens and special-interest groups selected by Beijing, effectively allowing Beijing to designate the chief executive. That triggered extensive demonstrations, primarily by students, which petered out when the public tired of having its major streets blocked.

Toward the end, the government used tear gas, a fateful decision that motivated future protesters to prepare for tougher future confrontations with face masks and other gear. The government’s victory, allowing it to ignore popular requests, proved Pyrrhic. The way frustrations poured out five years later, in 2019, is ominous if Beijing leaders achieve another “victory” in suppressing popular demands.

I sympathized with the values of the 2014 Occupy Movement, but interviews with participants left me disturbed. Leaders like the student activist Joshua Wong were exceptionally knowledgeable and articulate, but the students I spoke with on the street were shockingly ignorant. They spoke in memes—most notably, “When the British were here we could stand up, but now we are forced to kneel down.” That had no relationship to the realities of British colonial rule. The majority of these young people were born after or shortly before the handover and had no idea what they were talking about.

Having started my career analyzing China’s Cultural Revolution, I suddenly realized how it was that Mao’s idealistic slogans were able to mobilize millions of schoolchildren to beat their teachers, parade their political leaders with dunce caps, and throw people out of third-story windows. Hong Kong students are much less worldly and mature, because of a more rote education, than their Western counterparts, and Western high school kids are hardly deep thinkers. However noble the ideals, I have come to believe that the mobilization of schoolchildren for demonstrations is exploitative and dangerous. College students, fine. High school and middle school students, no.

THE DECISIVE CHANGE

Still, Hong Kong politics remained manageable until a decisive change began in 2015, when China moved to shut down a group of publishers and booksellers who disseminated books that recounted embarrassing stories about China’s top leaders. China abducted the booksellers back to China and forced them into public confessions that they had encouraged distribution of the books on the mainland. This had the intended consequences of eliminating that whole segment of book publishing in Hong Kong. In so doing, it ended freedom of the press for book publishers.

Two years after the books crackdown began, people showed up at Hong Kong’s Four Seasons Hotel and spirited Xiao Jianhua, a multi-billionaire businessman accused of very extensive corruption, back to China and forced him to start dismantling his business empire.⁸ So much for Beijing’s promise to rely on Hong Kong’s legal system.

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8 A credible but not officially verified account is that China’s Public Security Bureau made an arrangement with a local Hong Kong gang to kidnap Xiao and take him to the border. At the border he was told to use his fingerprint to verify his voluntary transfer across the border. He refused, so they slapped him until he complied. On the other side of the border, he was taken by Public Security Bureau personnel. Apparently this method was seen by some as evading the Basic Law constraint on Chinese government intervention in Hong Kong. But the Basic Law says that mainland government entities “shall not interfere” with affairs of Hong Kong. Arranging a kidnapping constitutes interference even if execution of the arrangement is done by nongovernment personnel. Similarly, shutting down book publishers contravened freedom of press and speech even if the method for shutting them down was kidnapping them and coercing them to confess that they had encouraged sales across the border.

Then, in 2018 the Foreign Correspondents’ Club hosted a meeting with Occupy leader Joshua Wong and asked the Financial Times editor Victor Mallet to chair the meeting. Afterward, the Hong Kong government refused to renew Mallet’s visa, thereby decisively ending freedom of the press for journalists.

A WATERSHED IN BEIJING’S HANDLING OF COMMITMENTS

In response to complaints that China broke its promises with these decisions, in 2017 Foreign Ministry spokesman Lu Kang called the Joint Declaration a purely historical document that “no longer has any practical significance.”⁹ That’s a very important statement because in actuality the Joint Declaration is a treaty filed with the United Nations that has no provision for withdrawal and that China has never repudiated.

This is one incident in a trend that is disappointing for a country whose record in honoring international commitments until recently had few peers.

In November 1971, the Hudson Institute asked me to write my first professional paper—an analysis of China’s record in honoring commitments so that Henry Kissinger, preparing for Nixon’s February 1972 trip to Beijing, would know whether Beijing could be trusted to honor any deal that might be made regarding Taiwan. To my surprise, and to the surprise of my conservative boss, Herman Kahn, China’s record was impeccable.¹⁰ In my two decades as a banker I firmly supported many contentious decisions based on that superb record and, sure enough, the central and Shanghai governments always honored their commitments. That era is now past.

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9 “China says Joint Declaration on Hong Kong no longer has meaning,” Reuters, June 30, 2017, <https://www.reuters.com/article/us-hongkong-anniversary-china/china-says-sino-british-joint-declaration-on-hong-kong-no-longer-has-meaning-idUSKBN19L1j1>.

10 A version of this was later published as “Would Chiang Find Mao an Unacceptably Strange Bedfellow?” *Asian Survey* XIV, 8 (August 1974). Ironically, given my banking history, in December 2012 a think tank affiliated with the Shanghai government invited me to a conference, promising to pay my airfare, then refused most of the promised reimbursement—the first time in 30 years. The changed attitude goes from top to bottom and includes international issues like China’s commitments under the Law of the Sea (UNCLOS) treaty as well as domestic commitments. China’s Party government has always dishonored its own constitution but until recently that was a special situation.

For Hong Kong, Lu Kang’s denigration of the Joint Declaration is legally irrelevant because the Basic Law, written by China as a constitutional commitment to Hong Kong citizens, contains virtually the same promises. Its Article 27 says: “Hong Kong residents shall have freedom of speech, of the press and of publication; freedom of association, of assembly, of procession and of demonstration; and the right and freedom to form and join trade unions, and to strike.” There is no way such language can be squared with shutting down book publishers, however embarrassing, or canceling journalists’ work visas. Or, for that matter, denying permits for peaceful demonstrations, as happened many times in 2019.

Basic Law Article 22 says, “No department of the Central People’s Government and no province, autonomous region, or municipality directly under the Central Government may interfere in the affairs which the Hong Kong Special Administrative Region administers on its own in accordance with this Law.” This absolutely precludes the Public Security Bureau from arranging the kidnapping of individuals in Hong Kong, however serious their crimes. Beyond that, pervasive Public Security Bureau and Party activities in Hong Kong clearly infringe Article 22.

In short, after scrupulously honoring its promises to Hong Kong from 1997 to 2015, Beijing decisively began to repudiate both its international treaty and its domestic constitutional commitments to “one country, two systems.”

Beijing’s sequential infringement of the most important promises of “one country, two systems” created a buildup of frustration that spilled over into action with the introduction of the Fugitive Offenders and Mutual Legal Assistance in Criminal Matters Legislation Bill in February 2019, commonly known as the extradition bill. When someone is kidnapped or a visa is denied, the incident is over before anyone can act. But the legislative process required to enact the extradition bill gave people time to mobilize. As this is written, they have been protesting for months on end, even though Chief Executive Carrie Lam suspended the bill indefinitely in June. A bill to extradite credibly accused criminals was in itself defensible, but in the context of Beijing’s infringements of Hong Kong’s Basic Law, and the Hong Kong government’s acquiescence in them, Hong Kong public opinion overwhelmingly rejected the bill and then expressed its frustrations about the infringements.

The ultimate repudiation of the promise of free speech is the government’s demand, in response to protests, that companies with a presence in Hong Kong censor their employees’ posts or face destruction of their businesses, a demand that has been imposed on Cathay Pacific, PwC, and the USA National Basketball Association, among others. That demand, which affects not only companies based in Hong Kong but also overseas companies, has the potential for a civilizational clash. Miniature versions of this exported censorship have occurred, for instance in Chinese students’ attempts to intimidate Australian professors from articulating views that Chinese leaders dislike. Free speech is the core value of the Western world. If continued, efforts to export Chinese censorship will lead to massive business disruption and political tension.

DEMONSTRATIONS

This year’s demonstrations have drawn hundreds of thousands of protesters, sometimes over a million at a single event. This is a huge proportion of Hong Kong’s total population of 7.5 million. Even in an era of many demonstrations around the world, it is extremely rare for such a large proportion of the population to participate in public protests.

Every poll shows that the primary driver of peaceful demonstrations is the political fear that Hong Kong’s freedoms, and the promised of a widened electoral franchise, are being eliminated.

Mainland scholars have attributed the crisis mainly to severe economic inequality driven by Hong Kong’s housing crisis. Severe inequality is not actually the main cause of Hong Kong current political malady, but their diagnosis of the severity of the economic problem is correct and may contribute to later amelioration of Hong Kong’s appalling social disparities. The Hong Kong system is a congeries of monopolies and oligopolies originally designed to channel money out of local pockets into British businesses. Gradually most of these businesses have migrated into local hands, but they

still have the effect of making a handful of people immensely wealthy while impoverishing the rest of society.¹¹

Inequality does probably explain some of the early violence that erupted alongside the peaceful protests. According to local scholars, the early violent protesters tended to be from broken families and other groups that were fearful and angry and felt that they have nothing to lose—groups particularly affected by inequality. Later, violence broadened as a reaction to the government’s unresponsiveness and police abuses. Above all, police actions, such as firing tear gas in enclosed spaces like the subway stations, radicalized a large number of students and mobilized support from their family, friends, and antagonized business groups.

CONSPIRACY THEORIES

China’s Propaganda Ministry has blamed the protests primarily on foreigners, especially “black hands,” meaning a few powerful individuals operating secretly, supported by the U.S. and Taiwan. The mainland-produced propaganda videos and social media campaigns have been technically brilliant. The ministry argues that the protesters are paid. Are the Americans or Taiwanese really able to pay a million educated middle-class people to march? Or are they really able to pay a few people, who in turn by some magic are able to motivate a million people? If so, what is the magic?

If it is just the violent protesters who are being paid, is that consistent with what we know about American and Taiwanese government motives? I have never met or heard of an American of stature who believes that committing violence or advocating Hong Kong’s independence will accomplish anything other than ensuring forceful defeat. Violence is a great way to destroy democracy and autonomy, not promote it.

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¹¹ See William H. Overholt, “Hong Kong Between Third World and First,” Nomura, November 5, 1999, available at <http://www.theoverholtgroup.com/publications/asia/hong-kong/index.html>. This reality has long been obscured by nonsense like the Heritage Foundation’s annual ranking of Hong Kong as one of the world’s two freest economies—the product of a cozy and lucrative relationship, not objective analysis. Like Singapore, the other of Heritage’s two top-ranked economies, Hong Kong is very open to foreign trade and foreign investment but tightly managed at home.

Are some wealthy individuals subsidizing some of the violence? Possibly, but local people and local scholars are quite clear that most of the support comes from family and friends of the protesters and middle class people who support them.

Likewise for arguments that Taiwan’s government has brought young Hong Kong men to Taiwan for military training. Everything we know about President Tsai Ing-wen’s policy is that she does what is necessary to pacify her political base and avoids doing anything to provoke China. Promoting violence in Hong Kong would be the ultimate provocation.

Another conspiracy theory that has a significant following is that Beijing enemies of Xi Jinping, the general secretary of China’s Communist Party, are stirring up trouble to make him look weak. No one outside of China’s inner circles can judge the credibility of this theory. Is it plausible that opponents of Xi would desire to support something like this that would weaken him? Yes. Is there any evidence of it? No. Is it plausible that a Beijing faction could get hundreds of thousands of peaceful protesters to turn out, or thousands of students to do violent acts? No. A similar theory circulated at top levels in Beijing about the 2014 Umbrella Movement. No evidence or plausible story has ever emerged to support that theory either.

Finally, some believe that a vast international conspiracy is backing the violence, which is why in some areas shops marked with a symbol, the Jewish Star of David with a rectangle overlaid on it, are left alone while ones without the symbol are attacked. The use this symbol, though, can only inspire contempt and disgust from any Western government—a clear indication that none would have any connection. The symbols could even have been planted after the fact.

All the conspiracy theories fail to explain how a million or more people are motivated to demonstrate other than by political or economic anger. But by distracting attention from the core problem of very widespread discontent, these rumors interfere with dialogue about solutions. The idea that a foreign country or some small group of black hands could manipulate or buy a million protesters is the ultimate insult to the Hong Kong people.

STRUCTURAL POLITICAL PROBLEMS

Efforts to resolve Hong Kong’s problems encounter four difficulties.

The most important one at this point is that by its acts Beijing repudiated its own constitutional promises. The only way out of that is for top leaders to say that lower ranking officials made mistakes, which will not happen again.

The second problem is a fundamental flaw in the conception of “one country, two systems.” China conceptualized Hong Kong as a business entity, not a polity, so it has a chief executive, not a mayor or governor. To fill the chief executive role China chooses business executives and civil servants—mostly well-meaning people with no political skills. They have no idea how to mobilize popular support or mediate conflicts. They have no experience defending their city’s interests against pressure from above—something any Shanghai mayor would do with alacrity. They have no idea how to reassure Beijing about Hong Kong or to reassure local people that their interests will be protected. No mainland city would ever be governed by someone with negligible political skills. The problem is that Hong Kong is a polity, not a business unit. This can be solved only by creating a more competitive political process that trains leaders.

The third problem is the structure of the democracy movement, which is fragmented into small groups. To take one example, the Democratic Party, which is the one Washington has promoted, is essentially a tiny group with a Leninist structure that doesn’t work well with others and is not widely trusted. It’s virtually impossible for Beijing to cut a deal with the democracy movement, because if one group agrees then other groups will accuse it of selling out. The democracy movement needs to show that it really believes in democracy. It needs to combine all the groups, elect a leader with broad popular support, and cut incremental deals that gradually build trust.

Fourth, when even peaceful leaders support peaceful protests, the Hong Kong government rushes to find ways to arrest them, as it did after the 2014 Occupy movement. Hence the evolution of a seemingly leaderless protest movement with Bruce Lee’s guerrilla slogan, “Be water,” appearing unexpectedly and vanishing when under pressure. If the government wants to reach a resolution, it needs to negotiate with the leaders of an organized movement. Jiang Jinguo, who led Taiwan in the 1970s and ’80s, understood this. For years, he retained the laws that made the dissident

movement illegal, but he informally encouraged them to organize so that, when there was a problem, he had effective interlocutors for a deal. The Hong Kong government should learn that pragmatic political wisdom: Always nurture a valid interlocutor.

LOCAL-MAINLANDER TENSIONS

Early in the new century, Beijing’s misunderstanding and distrust of Hong Kong were beginning to induce mirror-image distrust of Beijing in Hong Kong. When I returned to Hong Kong in 2013–2015 I was amazed to find a nascent nativist movement and a very small but loud group advocating Hong Kong independence.

Hong Kong and neighboring Cantonese-speaking areas have always had nativist tendencies. When I moved there in 1985, shopkeepers often treated Putonghua speakers with disdain while being unctuous toward Japanese customers. Over time the Japanese faded and a tide of wealthy mainlanders persuaded shopkeepers to drop Japanese, learn Mandarin, and become polite. But this shift didn’t affect many people along the Hong Kong/mainland border. They reacted against an influx of mainland visitors who created traffic jams and crowded shops and depleted local stores of items that were in short supply over the border, such as trusted supplies of infant milk formula.

Tensions also rose between mainland college students and locals. Due to inadequacies of the Hong Kong educational system, and to local emphasis on Cantonese, the mainlanders spoke both better English and better Mandarin, and emerged from a more competitive system, so they had an advantage. The heightened competition was an inevitable result of Hong Kong’s openness, and in a logical world Hong Kong students’ resentment would have vented against their local educational system but instead there was resentment of the better-prepared mainlanders.¹²

Similarly the huge influx of wealthy mainlanders, and mainland money buying large amounts of property even without residence, drove property prices and rents through the sky. Hong Kong rents became about eight times Tokyo’s. Many Hong Kong

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¹² When I lived in Hong Kong, there was an attempt to impose a rule that local teachers who taught in classes in English should actually be able to speak English. The teachers union, with support from fellow civil servants, decisively defeated the proposal.

people with otherwise decent incomes ended up living in homes that were smaller than a small U.S. closet. Resentment was inevitable.

Moreover, in the early days of large-scale mainland tourism, nouveau riche mainlanders often behaved like gauche American tourists of the 1950s, tossing McDonald’s containers onto the street from their Mercedes 500s and, famously, sometimes even allowing their toddlers to defecate on the street.

The 2019 protests illuminated a much deeper divide. Hong Kong people were nurtured from childhood with the values of free speech, freedom of the press, rule of law, and freedom of demonstration. These values became part of their identity. Until recently, city leaders often spoke of these as Hong Kong’s “core values.” These special qualities of Hong Kong were very attractive to mainlanders, who are generally outspoken about how much they enjoy Hong Kong’s freedoms. Mainland businesses like to domicile in Hong Kong to take advantage of its freedoms and particularly its legal system.

However, the crisis of 2019 revealed a fundamental gap of values and perceptions between local Hong Kong people and the mainlanders resident in Hong Kong. The majority of local Hong Kong people saw the demonstrators as fighting desperately for vital freedoms that were being gradually stolen. Demonstrators and their supporters argued that the battle for freedoms had to be fought now, lest future generations be inured to lack of fundamental freedoms. As a core part of their identity, they saw those values as worth fighting for, even at the risk of life and freedom.

In contrast, most mainlanders emphatically denied that this was a battle for Hong Kong freedoms. They saw thugs trying to destroy Hong Kong in order to cause trouble for China, by people who must be in the pay of the U.S. and Taiwan. Having lived in Hong Kong for many years, I have many friends from the mainland who live in Hong Kong. Asked about loss of freedom of the press, their answer is that Hong Kong people are spoiled; they have too many privileges already and selfishly demand more. Asked about loss of the rule of law, they say that the Xiao Jianhua case was too important to be left to lengthy battles in the Hong Kong courts. And anyway, they argue, the courts have no credibility because so many of the judges are foreigners. (This of course is exactly why local Hong Kong people and most of the world see Hong Kong courts as having special credibility.) The unarticulated assumption is that one can have freedom

of the press, except when the publications annoy political leaders, and one can have the rule of law, except when political leaders think a case is urgent.

Universally, mainlanders in Hong Kong assert that Western media coverage of the demonstrations has been biased. On the contrary, it has been superb, in sharp contrast to the travesty of two decades earlier. Contrary to frequent mainlander assertions, it has covered the firebombs of the protesters as well as the misuse of tear gas by the police. And it has not diverged widely from the mainland-owned *South China Morning Post*, which has provided the best coverage. Mainland coverage, on the other hand, and the WeChat posts from my mainlander friends, focus on:

- Fully justified outrage at numerous protester abuses like immolating a man who was arguing peacefully with them, or maiming with a manhole cover a man who was clearing protesters’ obstructions from the streets.
- Emphatic denials that the protesters are advocates of freedom and democracy.
- Exclusive focus on the violent minority of protesters, combined with refusal to confront the meaning of hundreds of thousands of peaceful protesters.
- Refusal to acknowledge polls that show the majority of the local population supporting the protesters.
- Equally emphatic assertions that the protesters are motivated mainly by foreign payments and manipulated by foreign agents.
- Insistence that police violence and use of tear gas are responses to protester violence, rather than mainly the other way round.
- Refusal even to discuss Hong Kong complaints about erosion of freedoms and failure to honor promises of franchise enlargement. They say they support democracy and freedom but don’t see threats to those values as justifying action.
- Incessant circulation of Beijing propaganda department videos that even mainland scholars disdain.
- Understandable fear and anger over local attacks on mainlanders.

Unfortunately this kind of advocacy positions mainland residents of Hong Kong as propaganda arms of China’s most repressive administration since the Cultural Revolution. This makes them the enemies of the democracy advocates, who respond with violent anger. On both sides, rage dominates, rendering dialogue virtually impossible.

Most of the mainland migrants to Hong Kong that one meets are exceptionally educated, prosperous and cosmopolitan. Many have lived in the West. But all of my mainland acquaintances believed the story that the demonstrations are just manipulated by foreigners. A will to believe this overrode all evidence and argument. One world-class economist, who has lived in Hong Kong and the West his entire life following horrible experiences in the Cultural Revolution, a scholar whose skeptical mind can unravel almost any games that are played with economic statistics, sent me a video of university students making petrol bombs, saying emphatically, these are not students. They are paid rioters. How did he know? Well, this was what he had “picked up” while traveling. From whom he couldn’t say. When, later, the students were paraded out by police, past crying mothers holding posters of support, there was no recantation. Challenged about the allegation of U.S. payment, he sent an article from an obscure local mainland newspaper saying that each protester was being paid US\$4,000. Likewise, a brilliant woman whom I had helped at Harvard joined many others in a rage denouncing anyone who thought the demonstrators were freedom fighters; it was important, she and many others said, to stop the foreigners from trying to divide the Chinese people. These friends filled my phone with hundreds of awful images of burning offices and subway cars with windows broken out. No photos, however, of police using tear gas in enclosed spaces like the subway—a practice banned virtually everywhere. None of Jimmy Sham, the democracy leader who has to walk on crutches because he was attacked with hammers, or other peaceful democracy leaders who were attacked. None of peaceful demonstrators whose limbs were broken by police.

While such anecdotal experience from a limited number of people and from local scholars’ impressions is inconclusive, pending future scientific surveys that is all we have. While there must be mainlanders with empathy for the values and fears of people raised in freedom, there seems to be a fundamental cultural divide between people who have been brought up treasuring freedom of speech and rule of law, and knowing that they collapse if they don’t apply to everyone, and those who have not had such acculturation, even when the latter enthusiastically migrate to places that do enjoy the freedoms.

The engagement of some mainlanders goes far beyond just living in Hong Kong. The mainland Public Security Bureau is omnipresent and often the arbiter of business

deals. Mainland businesses fill the coffers of pro-Beijing candidates for public office in Hong Kong. Beijing actively directs these and other efforts to ensure that pro-Beijing groups defeat democracy advocates. In conservative North Point, where many families from China’s Fujian province now reside, men from those families sometimes arm themselves with clubs and march with police to suppress the demonstrators.

All of this contributed to a violent rampage during the 2019 demonstrations. Violent demonstrators attacked students from the mainland, in some cases indiscriminately. They burned businesses owned by mainlanders, often indiscriminately. Even Starbucks came under attack, because the local franchise is controlled by a mainland. The anger was inevitable. But the indiscriminate attack on often innocent mainlanders and their businesses deprived the protesters of moral authority and political effectiveness.

These wounds will not soon heal. Cosmopolitan Hong Kong, where everyone—locals, mainlanders, Europeans, Americans, Japanese, Indonesians, Indians, Pakistanis—gets along because everyone is making money, may well remain on the surface but seething anger will remain beneath. That was the consequence of the government ignoring demonstrations in 2014 and it is the magnified consequence of ignoring magnified demonstrations in 2019.

CONSEQUENCES

As this is written, demonstration fatigue seems likely to quell many of the peaceful demonstrations, and police clubs and jail cells seem likely to diminish the ranks of violent protesters. Outrage flares anew when a student dies, but barring some extraordinary event the police may win another Pyrrhic victory and democracy may well lose.

Hong Kong local sentiments were vividly demonstrated by local elections on November 26, 2019, when electoral turnout reached an exceptional 71 percent, up from a previous 47 percent, and pro-democracy legislators raised their number of seats from 124 to 389 out of a total of 452. The pro-Beijing group declined from 300 to 58 even though long-resident mainlanders are allowed to vote. Even prominent

pro-Beijing political leaders acknowledged that this reflected local sentiment, not foreign manipulation. (Beijing tried to blame U.S. interference and my revered economist friend said it was like the election that elevated Hitler to office.) The district elections vividly promulgate the opinions of the Hong Kong people, but they will have little influence on Hong Kong’s future.

As I write, Li Peng appears to have won a great posthumous victory. Positive reforms to restore freedoms and expand the influence of the electorate, which would be the only real solution to discontent, are unlikely. This Beijing administration cannot empathize, and it lacks the strength and confidence to compromise. Its diagnosis is that policy has been too soft, not too hard.

Barring some dramatic development that changes this trend, Chinese military or paramilitary forces are not likely to intervene in force. More likely, Beijing will finally impose an anti-subversion law, seek to impose a patriotic education system in Hong Kong, and impose tough surveillance measures and police controls. A degree of free speech and legal guarantees, compared with the mainland, will persist for many purposes but only when the central government feels there is no urgent need to override them. “One country, two systems” will persist as a shadow of what earlier leaders promised.

Beijing may well support, and even impose, much-needed economic reforms to ameliorate Hong Kong’s indefensible system of oligopolies and inequality. The mainland’s focus on economic ills is a diversion from the currently more important political malady, but if it leads to even partial breakup of the extractive economic system the British left behind, that would benefit millions of people.

If some unexpected development were to trigger chaos and a paramilitary invasion, that in turn would probably precipitate some unified Western sanctions, but those might be relatively weak because Trump has so damaged relations with U.S. allies. If the repression were severe enough to trigger U.S. removal of Hong Kong’s exemption from export controls, Hong Kong’s vital financial sector would collapse within two years.

Beijing’s disinformation campaign to blame the U.S. for the demonstrations will in the end have gained the Chinese government nothing substantial, but will be remembered and resented by Americans and democracy-minded Hong Kong people.

In much of the West, images of police using tear gas in crowded subways have joined Xinjiang concentration camps as the defining brands of contemporary China.

Conversely, quixotic demonstrators who advocated independence or waved British and U.S. flags will be remembered for self-destructively enabling Beijing’s propaganda. For people of my generation, the students’ futile hopes that Donald Trump will save them are a tragic caricature of the hopes of Hungarian freedom fighters in 1956. Meanwhile, protesters who terrorized innocent mainlanders or burned their businesses sacrificed all moral authority and harmed their political cause.

Faced with the requirement to censor their employees, many Western companies may leave Hong Kong—ironically in many cases continuing the exodus to Shanghai. There may be a considerable Cantonese exodus. If so, mainland Chinese companies and citizens will replace them. Hong Kong would not collapse but it would be quite different.

Deng Xiaoping’s hopes that Hong Kong would be a beacon for Taiwan unification have been totally defeated. That leaves Beijing with only one option for Taiwan: military conquest, if it can afford the terrible price.

Western dreams that people on the mainland will be inspired by Hong Kong’s bravery to demand freedoms are doomed to disappointment. For now, quite the opposite. The Hong Kong crisis has contributed to Xi Jinping’s authoritarian consolidation. The currently predominant view on the mainland is that Hong Kong people are spoiled and need to be disciplined. There the predominant lesson of Hong Kong 2019 is that democracy means chaos, people crying, buildings burning. The Western view—and this writer’s emphatic view—is that a few simple reforms would have resolved the crisis and consolidated the loyalty to China of most Hong Kong people. But for most people in China the lesson is the opposite. For them the Global Financial Crisis of 2008 discredited the Western market as a valid goal for the Chinese people, and the Hong Kong crisis of 2019 discredits attempts to implant Western democracy. Notwithstanding the triumphant efforts of Deng Xiaoping, Margaret Thatcher, Jiang Zemin, and the Hong Kong business elite at the end of the last century, the intransigent version of Li Peng has posthumously won this round and his victory is likely to endure for some time.

Having said that, history’s wheel turns. The costs of so seriously alienating such an articulate and prosperous population, with universal access to the mainland, are

potentially quite high. Mainland moods may evolve in five or 10 years. Even Li Peng was able to figure out, 24 years ago, the value of rigorously honoring Beijing’s promises to Hong Kong, notwithstanding a feeling (legitimate in that case) of being provoked. If he could figure it out, maybe some current or future Beijing leader can too. Today reconciliation requires just a statement that subordinate leaders have made serious errors, followed by rigorous implementation of the Basic Law promises. That would be embarrassing, but it would snatch real victory from the jaws of Pyrrhic victory. The price of the Pyrrhic victory of 2014 has been revealed in 2019. Five years hence, the price may be far higher. Over a generation the price of victory may be very high indeed.



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