A sign of desperation: Beijing ousts Hong Kong’s chief executive

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After weeks of media speculation, Hong Kong’s chief executive Tung Chee-hwa formally resigned his post on March 10 in the course of the National Peoples Congress in Beijing. Despite official denials and Tung’s declaration that he had stepped down for health reasons, there is no doubt that he was pushed out of the top post.

Tung’s departure midway through his term of office is sign of the continuing crisis surrounding the Beijing-installed administration in Hong Kong. The Chinese leadership is deeply concerned that government in Hong Kong has been paralysed in the face of widespread political opposition and mounting social and economic problems.

Beijing installed the 67-year-old billionaire as the head of the Hong Kong government in 1997 when Britain handed its colony handed back to China. Having bailed out his shipping company in early 1980s, Tung was one of a number of “red capitalists” loyal to, and dependent on, the Chinese bureaucracy.

From the outset, Tung was unpopular. He was imposed via an 800-member Electoral Committee of Beijing, a hand-picked body including real estate barons, bankers and middle-class professionals. His policies have further antagonised the democratic and social inspirations of Hong Kong people.

On July 1, 2003, a massive protest of half million people forced Tung to back away from and finally withdraw draconian anti-subversion legislation being demanded by Beijing. One of the effects of the bill would have been to outlaw dissident organisations banned in China from operating in Hong Kong.

From being a ceremonial day to mark the hand back of Hong Kong to China, July 1 has become a day for voicing political opposition. Last year on the same day hundreds of thousands of people defied intimidation and took part in protests to demand full elections for Hong Kong’s Legislative Council and the post of chief executive. Much of the anger at the demonstration was directed explicitly against Tung.

Despite continuing popular opposition, Beijing stood by Tung. Over the last six months, however, there have been growing signs of the Chinese leadership’s displeasure with Tung over his failure to impose anti-subversion laws, to quell political unrest and to address Hong Kong’s declining economic position.

During a visit to Macau last November, Chinese President Hu Jintao publicly criticised Tung. Hu unfavourably compared Hong Kong’s social and political instability with the apparent calm in Macau. He specifically urged Tung to “look back” and find out what has gone wrong since 1997. Hu also urged Tung to give “substantial [economic, not political] concessions” to the people of Hong Kong.

Hu’s expressions of concern for the people of Hong Kong were completely hypocritical. Beijing’s real fear was that unrest in Hong Kong would spill over into China where social tensions are even more acute. In response to the criticisms, Tung set up a cosmetic poverty relief committee.

A survey conducted by Hong Kong University in January found that the level of “distrust” in the government dramatically increased from 15 percent last November to 35 percent—the same level as prior to the mass protest on July 1, 2004.

Time was clearly running out for Tung. But his removal had the potential to raise the issue of a direct election for his replacement and thus to reignite the protest movement. The Chinese leadership bided its time until this month’s National Peoples Congress.

As a face-saving device, Tung was installed as a vice-chairman of Chinese Peoples Political Consultative

Conference—a powerless advisory body that already includes a number of Hong Kong tycoons. Tung joins the long list of some 20 other vice-chairmen on the body.

Hong Kong's chief secretary Donald Tsang has been inserted as acting chief executive and appears likely to be "elected" to the post when the 800-member Electoral Committee is convened within the next six months. Tsang was a senior career bureaucrat under the British and received a knighthood for his services. While he has far more influence than Tung within the Hong Kong state apparatus, Beijing is nervous about his loyalties.

The Chinese leadership has limited the next appointment to the two remaining years of Tung's term, rather than a full five years. But this decision has triggered a new controversy in Hong Kong. Opposition politicians have pointed out that Beijing's unilateral imposition of a shorter term has no basis in the Basic Law—the 1997 legal protocol that serves as the basis for Hong Kong's status as an autonomous special administrative region.

At the top of Beijing's agenda are Hong Kong's economic problems. The city recorded an 8 percent growth rate last year and a $HK12 billion government surplus, but the sudden "recovery" was largely the result of a Chinese bailout. Beijing liberalised the rules governing the entry of mainland tourists into Hong Kong and used Chinese social security funds to invest heavily in the Hong Kong stock market.

Financial secretary Henry Tang recently commented: "The main reason for the surplus is that revenue from land premiums is far greater than expected. As such revenue is volatile and is affected by a number of factors, we cannot rely too heavily on it."

Following the release of the 2005 budget on March 16, Hong Kong officials highlighted a plunge in the government's monetary reserves of 37 percent or $US170 billion since 1997. While Tung's policies were blamed for the city's deteriorating financial position, the government's "structural deficit" is a product of Hong Kong's long-term economic decline.

Hong Kong's traditional function as the gateway for foreign trade and investment in China has been seriously eroded over the last decade and a half. Most of manufacturing has moved to China leaving the economy heavily dependent on finance and tourism. The main areas of economic growth have been in financial and property speculation.

As its tax base has eroded, the Hong Kong government has become heavily reliant on "informal" income sources, such as selling public land, investment in foreign currency funds and stamp duty on stock market transactions. Prior to the collapse of the city's real estate bubble in 1997, 40 percent of government revenue came from these sources.

Any attempt to rein in the budget deficit, either through cutbacks in spending or new taxes will inevitably fall hardest on working people, particularly the poorest layers. For all its rhetoric about the welfare of the Hong Kong people, Beijing's demand for financial reforms will only exacerbate the divide between rich and poor.

Kevin Chan, an analyst with Hong Kong & China Nomura International, told the *International Herald Tribune*: "They [the Hong Kong administration] gave small tax breaks to the elderly and children, but they were peanuts. The surprisingly large revenues this year have allowed them to avoid making hard decisions."

The acting chief executive Tsang has already made clear that his administration's policies will be directed to the wealthy. He has just announced plans to abolish the inheritance tax in order to attract foreign investors. A discussion is also underway over the imposition of a regressive sales tax, a measure that will hit the poor. Any new revenue will be used to cut the deficit rather than extend social welfare.

A protest by hundreds of workers on January 1 highlighted growing social grievances. According to their leaflets, more than 780,000 workers in Hong Kong—about a quarter of total workforce—work more than 60 hours a week—nearly double the figure in 1997. Many workers face dismissal if they complain over the failure of employers to pay for the overtime.

Far from ending the political crisis in Hong Kong, the ousting of Tung has simply set the stage for more explosive confrontations over demands for democratic rights and decent living standards.