

# Loud and clear

**Wilson Leung** says that while democracy is indigestible for many, it is the best system for Hong Kong to progress as a whole and avoid the problem of 'bad emperor' rule

**“Y**ou can't eat democracy.” This is the attitude – sometimes expressed, but usually lurking beneath the surface – held by many of those in Hong Kong who are indifferent to the current debate on the chief executive electoral reforms.

This is a vital issue that must be addressed by those who are calling for greater democracy in Hong Kong. Democracy advocates have a responsibility to answer the question posed by the ordinary man or woman on the street: “What does democracy have to do with me?”

One of the most important features of democracy is accountable government. When free and fair elections are in place, those in government know that, unless they are responsive to the needs and wishes of the people, they will be voted out in the next election. Thus, a study in Brazil conducted in 2010 showed that mayors looking for re-election became significantly less corrupt (in other words, less likely to steal from their constituents).

But elections are only part of the equation. Other ingredients are also essential, most notably, human rights (including freedom of the press and freedom of political participation), the rule of law and an independent judiciary. These elements act as a check against the excesses of the government, even one which is elected by a majority.

In the same way that companies in a capitalist system have an economic incentive to keep their customers satisfied, decision-makers in a democratic system have a political incentive to take into account the needs, interests and opinions of most people in society. If they fail to do so, they will be criticised in the press, probed by civil society groups, sued in the courts – or given the ultimate sanction of being ejected from office.

The Nobel Prize-winning economist Amartya Sen has pointed out that no substantial famine has ever occurred in an independent country with a democratic form of government and a free press. In his words, “A responsive government intervenes to help alleviate hunger.” By contrast, Sen cites numerous examples of famines occurring in non-democratic countries, where disastrous government policies went unchecked because there was no opposition party, no free press, and no multiparty elections (for example, the Soviet Union in the 1930s, China's Great



Leap Forward in 1958-61, and Sudan in 1998). In a similar vein, political scientists Matthew Baum and David Lake have found that democracies are markedly superior to authoritarian countries in providing public services such as health and education.

Among other things, democratisation in developing countries increased female life expectancy, while enhancing democ-

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racy in more developed economies improved female secondary school enrolment rates.

Those who are unenthusiastic about democracy often argue that it produces gridlock. They point to examples such as Thailand or the Philippines (or even the United States), and argue that a dose of dictatorship is what is needed to get things

done. That argument may be right – but only to a limited extent. Where there is a benevolent and wise dictator, the system works reasonably well. The government can do things relatively quickly, such as building a new airport or reallocating resources to different sectors of the economy. However, the overriding problem is that if you have a dictator who is incompetent or malevolent (or both), there is little to stop him from adopting catastrophic policies.

This “bad emperor” problem has been examined by political science scholars such as Francis Fukuyama, who observes that imperial China was governed by a centralised bureaucracy grounded in the Confucian moral system. This worked reasonably well when there was a wise and benevolent ruler – but, periodically, the country would be plunged into chaos and unspeakable suffering whenever a terrible monarch emerged. Democratic accountability is the best – and perhaps only – way to curb the bad emperor problem.

It should also be remembered that the pressing question at hand is which political system is best for Hong Kong.

As Fareed Zakaria pointed out in his essay, “The Rise of Illiberal Democracy”, many so-called democracies fail because they lack a liberal system – the rule of law, separation of powers and basic liberties

such as the freedom of speech, assembly and property. This causes elected leaders to fall into the same rabbit hole as dictatorships: ignoring constitutional limits on their powers, denying citizens their rights and freedoms, and so on.

Hong Kong, however, is different. We have the rule of law, a robust judiciary, and a mini-constitution which expressly protects the rights and freedoms of its residents. The city also has a highly educated population and keen levels of participation in the (limited) elections which do exist. Indeed, Zakaria (writing in 1997) cited Hong Kong as an example of one of a handful of curiously “liberal non-democracies” in the world.

Therefore, when we ask, “which system would be the best for Hong Kong?”, the clear and obvious answer is democracy. Democracy is not only likely to succeed here; it is also the only natural progression for us as a society.

It is true that one cannot eat democracy. But democracy – genuine democracy that offers a free choice of leaders and protection for the rights of citizens – allows the common man's voice to be heard, and thus the best chance of ensuring that he has plenty to eat.

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## Not for debate

**Alice Wu** says no matter whether it's the year of the sheep, goat or ram, there can be no ambiguity on the issue of sovereignty in HK



**A**s we embark on the first days of the new lunar year, the goat/sheep/ram debate is a fun one. It's fun precisely because we don't really need to agree on one, unless maybe you're a linguist, a zoologist or a veterinarian. But even for those whose professions require that they know the difference, this is not a life-or-death issue. Thanks to the ambiguity of the Chinese language – goat, sheep and ram can all be categorised under one Chinese word, *yang* – we get to pick and choose, according to our preference.

Those who prefer things to be warm and fuzzy for the year would probably go with sheep.

Those who see sheep as too docile and weak could always go with the goat. And since the chief executive has called on the people of this city to be inspired by sheep, those adamantly against him may well opt for the goat.

For the alpha males among us, or those who would like a bit more flair, the ram is a great alternative.

The distinction between the three isn't something to lose sleep over. It's a matter of auspicious interpretations, beliefs and opinion.

However, there is zero ambiguity in Hong Kong's relation to the mainland. For civil servants to standardise the use of language in correspondence – including that of the city's sovereignty and its relations with the mainland – is nothing to fuss over. Perhaps the only surprising thing is the fact that a “correct use of terminology” circular had to be issued in the first place.

Sovereignty is not a fuzzy issue and neither is it an issue up for debate. Addressing the city's relations with its country as “China-Hong Kong” relations is factually inaccurate. Period.

What exactly did the 1997 handover hand over if not sovereignty? If we dispute the sovereignty issue, which would essentially be to challenge the existence of “one country”, there would be no “two systems”, no Basic Law, no SAR, no high degree of autonomy. There would be no constitutional reform as there would be no constitution.

Some see the circular as Orwellian “Newspeak”. But the name of the bureau headed by Raymond Tam Chi-yuen is called – correctly – the Constitutional and Mainland Affairs Bureau. That's not up for debate.

The fact that this is causing grief in some quarters is perhaps indicative of how bad things have become in Hong Kong's relations with its country. But as tense as these relations are, it is dangerous to mix a “high degree of autonomy” with “sovereignty”.

Striking a careful balance in weighing the “one country” and “two systems” is not only a matter of legitimacy for the country, but for Hong Kong's way of life and rule of law. This political formula ensures that the same amount of damage done to one side of the equation would be inflicted on the other side.

Since Beijing resumed “the exercise of sovereignty over Hong Kong” in 1997, the more that some people have tried to deny Beijing the right to do that, the more it has, in fact, asserted its sovereignty.

Some may dismiss this all as “just semantics”, but semantics for this is a matter of grave import.

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## Hong Kong can stay out of mainland's shadow by upgrading its services

**Po Chung** says the city should play to its strengths rather than trying to develop hi-tech industry

**R**ecent articles have suggested that Hong Kong is sinking into irrelevance. We've heard the arguments before; that, in order to compete with mainland China, Hong Kong must invest in, and revitalise its commitment to, research and development.

As a result of globalisation, China has consistently attracted more investment for bigger and better production lines. Like many manufacturing centres, Hong Kong suffered.

These days, companies are moving their plants to other countries in Asia, Africa and also back to the US. More recently, China has been trying to climb the value chain, from the production line to where the real profits are. So far, nothing new, so let's try another perspective.

Consider the service industry and services that are embedded in products off the production line. Starting in the 1970s, Hong Kong developed from having 65 per cent of the workforce in service jobs to 95 per cent last year; many of these are embedded services.

If manufacturing is the standard, then yes, Hong Kong has lost. But if service is the measure, then our competitiveness couldn't be stronger.

Service is less visible but it's also the source of higher-value-added transactions. This is where Hong Kong has come out far ahead in the region.

Comparing manufacturing with services is like comparing apples to oranges. Manufacturing is physical and visible, whereas many services

are intangible and less visible. Manufacturing is for making excellent things; service is for making excellent things happen.

Manufacturing aims at simplifying tasks so that they deliver repeated, predictable outcomes on a production line, far from the end user. Service is about performing complex tasks that have unpredictable outcomes, with, and in front of, the end user. Products are pre-designed and services are co-created between the end user and the server.

**Service hubs and ecosystems can't be invented, no matter how much money is thrown at them**

As Hong Kong's service organisations have shown time and again, using top-down leadership structures from manufacturing is a disadvantage. To be the most competitive, service organisations use both top-down and bottom-up decision-making. Distributed leadership, which can be a nightmare on the production line, is critical for people to create on-the-spot solutions and deliver outstanding service.

Hong Kong's service-driven economy is not only about customer service, but the kind of

service that leaders provide, that professionals deliver to clients, and what happens when you're off the production line.

Note that products from China are not exported by manufacturers. Instead, they are imported by the companies that come to buy.

Buyers inspect the stock, get products held “ex-factory”, foreign importers take possession, and route the goods through the multitude of freight forwarders. The value chain – where most of the profits are captured – isn't strongest at the plant. Instead, the highest value is captured across the service network.

Quality assurance, logistics, marketing, wholesale distribution, sales, consumer relations, after-sales service, and others are where the real money is. This is true for electronics, industrial motors, bread and everything else leaving China's plants.

Apple is renowned for its products and is now one of the world's most (if not the most) profitable company. Mostly manufactured by suppliers in China, the lion's share of the value doesn't go to the manufacturers but to the services that wrap around each Apple product off line.

Recognising that all products ride on a network of services explains why Hong Kong has done so well by going into services.

As gaps surfaced and demand for great service partners increased, Hong Kong's service ecosystem has evolved. In other words, service

ecosystems and hubs can't be invented, no matter how much money is thrown at them.

If all you look for are the tangibles of manufacturing, then the intangibles needed to let services thrive can go unnoticed. A plant can be built anywhere, provided the raw materials that feed the production line are available. This doesn't work in service. The “build it and they will come” mentality doesn't apply for global service hubs.

In *Positioning: The Battle for Your Mind*, celebrated business authors Al Ries, Jack Trout and Philip Kotler wrote that organisations must “differentiate or die”. Hong Kong's differentiation is in service. It would be stupid to try to compete in manufacturing or create the research and development infrastructure needed for hi-tech industry development.

How could Hong Kong compete against the biggest, most efficient, and now highly experienced factory in the world? Instead, since Hong Kong's place as a trusted partner is in service and it's now ours to lose, investing in our strengths is the most relevant step we could take.

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## China's property market has reached a turning point

**G. Bin Zhao** says policy tweaks will see return of normal supply-demand

**D**uring the past year, Beijing has taken moderate measures to control the property bubble, as I expected. As a result, large developers have accelerated their international investments.

Today, some worry that as China's economic development continues to slow, the government may make more changes in the property sector to maintain growth. While last year's GDP figure of 7.4 per cent was way ahead of other economies, it was the lowest rate in 24 years, and many industries saw a slump in business.

In addition, European economies are still stuck in a quagmire, the US recovery is weak and the Ukraine crisis has potential to expand. Thus, you could say that China's domestic macroeconomic situation is fraught with internal and external troubles. The monthly economic indicators also show that China's growth is likely to continue on a downward trend.

Wang Shi (王石), chairman of Vanke Group, the godfather of the Chinese real estate industry and for many years the country's biggest developer, said recently that although there is a domestic real estate bubble, whether it will burst depends for the moment on whether more stimulus measures are implemented.

Shortly after Wang spoke, the People's Bank of China announced that the deposit reserve ratio would be cut by 0.5 percentage points from February 5, a move expected to release 700 billion yuan (HK\$882 billion) of liquidity into the banking system. This is the first time the

central bank has dropped the deposit reserve ratio since May 2012, and the second recent measure designed to increase liquidity after the cut in interest rates by 0.25 percentage points last November. This year, more easing measures are likely as pressure from a slowing economy continues.

However, these moves are not enough to give the real estate industry any illusion, let alone expectations, that the government will introduce bailout policies. Wang's

**A burst property bubble is a political issue strong enough to affect China's social stability**

conclusion only told part of the story. The Chinese property market bubble will not burst in the short term because everyone knows that a collapse would be a huge disaster, more lethal to China and the global economy than the 2008 financial crisis in the United States.

Furthermore, the speed of development in the real estate industry is an economic issue, but a burst bubble is a political issue strong enough to affect China's social stability. For example, when the largest real estate company in Shenzhen, Kaisa Group, was recently on the

verge of bankruptcy, the first reaction of many affected property owners was to go to the city government to protest. While the company's troubles continue to mount, can the Shenzhen municipal government really afford the social cost if the company goes bust, not to mention the potential country-wide range of disasters that may be triggered?

Wang's comment was also a warning that monetary policy stimulus will further inflate the housing bubble. This fear seems redundant, because the current control policies are mainly based on purchase and credit limitations designed to inhibit investment behaviour, rather than to temper demand for housing as a place to live. Although a partial easing will tend to stimulate investment, its impact will be limited.

Furthermore, a unified property registration system is expected to be implemented in some areas this year, which will lay the groundwork to not only combat the multiple property holdings of corrupt officials, but also implement future tax policies on investment property.

Gradual improvements to these policies will fundamentally curb the property bubble, and enable the market to return to normal supply and demand.

With sales dropping, and developers diversifying, it seems that China's property market has reached a turning point.

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