The politics of structural reform in Hong Kong: an institutional perspective

Shui-Yan Tang, James L. Perry and Wai-Fung Lam

Public-sector reform has been a major trend worldwide since the early 1980s. Countries ranging from the United States and Canada to Malaysia and the Philippines have launched structural reform programs of one form or another (Caiden, 1991). While the stated objectives of many of these programs are to reduce costs and to increase the responsiveness of the public sector to citizens’ needs, the formulation and implementation of many of these programs are affected by the historical and institutional contexts of specific countries. Without an understanding of these contextual factors, one cannot fully understand the causes and effects of these structural reform programs.

Hong Kong is an excellent case for illustrating how historical and institutional contexts affect public-sector reform. In the past decade, the Hong Kong government has implemented steps to introduce a limited number of directly elected seats to its legislature which, historically, was entirely filled by government officials and appointees. On the administrative side, restructuring efforts have been undertaken to diversify organizational frameworks for service delivery. The formulation and implementation of these structural reform programs have been heavily influenced by one dominant political factor — the Sino-British agreement in 1984 to revert the sovereignty of Hong Kong to the People’s Republic of China (PRC) in 1997.

The Sino-British agreement has created a different political landscape in Hong Kong. While the British seek to make a smooth transfer of sovereignty to the PRC, they also seek to maintain their authority to rule during the transition period and to preserve their interests in Hong Kong before and after 1997. Although the PRC shares the British concern about a smooth transition, it is suspicious of any British attempts to reform the political and administrative structures in Hong Kong before their departure in 1997. Although much of the

Shui-Yan Tang is Assistant Professor, School of Public Administration, University of Southern California, Los Angeles, CA 90089-0041, USA; James L. Perry is Professor, School of Public and Environmental Affairs, Indiana University, Bloomington, IN 47405, USA; and Wai-Fung Lam is a Doctoral Candidate, Department of Political Science and School of Public and Environmental Affairs, Indiana University, Bloomington, IN 47405, USA. CDU: 35.047(512.317).

negotiation between the British and the PRC was undertaken in secrecy, their differences on structural reform issues are well documented in various official and unofficial sources. The reform experiences in Hong Kong provide valuable materials for furthering our understanding about the politics of structural reform, which is often less visible in other countries where conflicts among competing interests are not as sharp and well documented.

In using Hong Kong to illustrate the value of institutional analysis in understanding the politics of structural reform, this article first presents some propositions relating institutional factors to political processes surrounding structural reform. Then, it discusses how institutional factors in the pre-1982 period shaped the choice of governance structures in Hong Kong. Next, it examines how changes in institutional settings and increased political uncertainty since 1982 have affected the direction and process of political and administrative restructuring. Finally, it discusses the implications of the case for understanding the politics of structural reform.

The institutional context of structural reform

Structural reform can be conceptualized as a process in which political actors decide on whether they support changes to existing governance structures. In such a process, actors consider expected benefits and costs associated with prospective structural changes. Actors are likely to differ in their preferences and they attempt to bring about structural arrangements that are congruent with their respective preferences. Thus structural choice in the public sector is neither a purely technical question about efficiency nor about democratic control. To understand why a certain structural choice is adopted, one must examine the preferences of major political actors, the sources of their preferences and the institutional and historical contexts in which changes take place (Bates, 1990; Ferris and Tang, 1993; March and Olsen, 1983, 1984; Kiser and Ostrom, 1982; Knott and Miller, 1987; Moe, 1990, 1991; North, 1990; Olsen, 1991; Perry and Tang, 1987; Seidman and Gilmour, 1986; Simon, 1953).

Governance structures affect how public policies are made and implemented. Different structural arrangements may have divergent distributive implications for different groups. In considering their positions on various structural alternatives, political groups are interested not only in the efficiency feature of structural arrangements, they are also interested in creating secure channels for them to influence policy-making and implementation within structures (Knott and Miller, 1987; Moe, 1990).

Although actors prefer governance structures that favor their interests, their ability to shape structural choices is affected by their positions within the larger institutional setting. As defined by Kiser and Ostrom (1982: 179), ‘institutional arrangements are the rules used by individuals for determining who and what are included in decision situations, how information is structured, what actions can be taken and in what sequence, and how individual actions will be aggregated into collective decisions’. If an institutional setting allows one dominant group
(or coalition) to dictate structural decisions for an unlimited period of time, that group’s major concern is to identify structural arrangements that can promote its interests and values in the most effective way (Moe, 1990; North, 1990). Because other groups are excluded from the decision process, the dominant group can impose its structural preferences on society.

If clearly specified and commonly accepted, institutional rules facilitate mutual accommodation between actors, thus reducing conflict and chances for gridlock (North, 1990; Ostrom, 1990). When rules are ambiguous, actors share no common understandings about what is allowed and what is prohibited. Without stable expectations of one another, each tends to be skeptical of any moves made by the other. Actions by one side are often interpreted skeptically by the other as conspiracies. Debates on structural choice become highly rhetorical and emotionally charged. Because of mutual suspicions, actors may be unable to arrive at any stable agreement.

Structural change is path-dependent; existing governance structures are usually the reference point from which alternative structures are conceived and evaluated. For parties who have vested interests in the existing governance structures, they will oppose any changes that may affect them adversely in the future. Reformers who expect to benefit from changes may need to negotiate with them and to get their support for new structural arrangements. Thus historical and institutional contexts affect the evolution of governance structures (North, 1990). This is evidenced by contrasting the two distinct historical periods of Hong Kong — before and after 1982.

Before the British and Chinese governments began negotiations on Hong Kong’s political future in 1982, the institutional setting in Hong Kong was relatively simple and stable. There was little uncertainty that the British colonial officials held the ultimate authority for structural choice in the colony. Although its monopoly of decision-making power was never directly challenged by other political groups, the colonial government limited itself to maintaining a stable political environment that allowed for the free pursuit of commercial interests. To achieve this objective, the colonial government was careful to isolate the colony from political turmoil in China and to co-opt major business interests into the policy-making process. This setting helped to create and sustain a political system that was tightly controlled by colonial officials and an administrative system that was hierarchical and centralized but limited in scope.

The post-1982 period represents a different institutional setting in which rules about who is to be included in making what kinds of structural decisions are highly ambiguous. The once dominating group, the British colonial officials, is expecting an imminent transfer of authority to another group, the PRC. In this situation, the dominating group needs to be prepared for a future when it is no longer in control. One may expect that the departing master prefers structural arrangements that will be difficult for the future master to control (Moe, 1990). The task for the future master, on the other hand, is to prevent any structural
change that may hinder its future control; this is especially true if the future master sees control congruent with the status quo. There is, however, no unambiguous and mutually accepted rule for resolving conflict about structural design. The post-1982 period is characterized by endless rounds of negotiation and a lack of closure on major reform programs.

**Political context and administrative structure in Hong Kong: the pre-1982 period**

Three groups of actors were the most influential in affecting structural choice in the pre-1982 period: the British colonial government, commercial interests and the government in mainland China. An old adage that Hong Kong ‘is run by the Jockey Club, Jardine and Matheson, the Hong Kong and Shanghai Bank, and the Governor — in that order’ (Hughes, 1968) underscores the primacy of commercial interests and the British government in the three-actor group.

Although the British had originally occupied Hong Kong because of its commercial and military benefits, they did not attempt to expand their influence in the region. Colonial officials in Hong Kong enjoyed a high degree of autonomy from Britain in the way they ruled. Their major concern was to maintain a stable political environment that allowed for the free pursuit of commercial interests in the colony.

The commercial sector of Hong Kong benefited from a government that defined a minimalist role for itself. Major commercial interests were integrated into the governance structure by a system in which major business leaders were selected into the colony’s various advisory committees and top rule-making bodies, the Legislative Council (Legco) and Executive Council. This arrangement ensured that government policies were compatible with major business interests.

For its local population, Hong Kong was a shelter from political and social turmoil in the mainland. The major concern for most people was not to express their political aspirations within the colony but to prosper economically. The rapid economic growth in the three decades since the end of the Second World War had also created a local population that was generally content with the governance structure of Hong Kong (Lau, 1982).

Throughout the history of Hong Kong, China remained an important factor affecting its governance. With the possible exception of a brief moment after the Second World War, the Chinese government never sought directly to regain Hong Kong from the British. Nevertheless, because of its proximity and intricate economic and social ties to Hong Kong, China has always had the potential to affect the governance of Hong Kong. On several occasions, social turmoil in the mainland, such as the economic strikes in Guangzhou in the 1920s and the Cultural Revolution in the 1960s, proved to have a significant impact on the political and economic stability of Hong Kong.

In recent years under communist rule, China has found Hong Kong a source of valuable foreign exchange and other essential economic resources. During its severe isolation of the 1950s and 1960s, China looked to Hong Kong as ‘a
very convenient centre for trade contacts, financial negotiations, and the gathering of commercial intelligence about Western technology' (Miners, 1986: 5). Because China was a major supplier of food and other necessities for Hong Kong, the relationship between the two might best be described as symbiotic. While the Chinese government has refrained from actions that might adversely affect Hong Kong's political stability and economic prosperity, the colonial government in Hong Kong tried to isolate the colony from political struggle and turmoil in China. This symbiotic but politically detached relationship between China and Hong Kong largely served to give commercial interests relatively free reign.

**Structural features of the public sector**

The interplay of the British and Chinese governments and commercial interests and the resulting institutional setting produced a governance system that was simultaneously dominant and unobtrusive. The governance system was highly centralized with the Governor as the dominant figure in the political and administrative hierarchies. At the same time, the government was reluctant to intervene in private markets except in areas such as the provision of law and order where clear market failure occurs (Perry and Tang, 1987, 1989).

Constitutionally, the Governor, a civil servant, ruled Hong Kong on behalf of the British government and had the authority to appoint individuals to legislative and consultative bodies. While individuals from various business, professional and social interests were represented in the Legislative Council (Legco) and various advisory bodies, these individuals acted only as consultants on government policies. Major policy initiation and decisions remained the prerogatives of the Governor and the secretaries under his command.

In societies where legislators and executives are elected through electoral competition, the concern for re-election poses a major constraint on their policy positions (Herzberg and Ostrom, 1986). In Hong Kong, government officials and Legislative and Executive Councilors were not subject to electoral concerns. They were also relatively free from any detailed scrutiny by the British government.

The Hong Kong government advocated the idea of 'government by consent', meaning that government would avoid imposing policies that were clearly opposed by the majority of the population. This principle was reinforced by the government's reluctance to intervene in private markets. In the 1960s and 1970s, the government became more involved in the provision of additional public services such as housing, education and transport. The government, however, was never under strong pressure to undertake massive redistributive programs.

Like many Western countries, the government bureaucracy in Hong Kong was a career and merit-based system. Young graduates were recruited into the administrative class through examinations and worked their way up the bureaucratic hierarchy. Hong Kong's bureaucracy operated within the rule of law. Especially since the establishment of the Independent Commission Against Corruption in
the early 1970s, corruption and abuses of power by civil servants have been uncommon.

The administrative system of Hong Kong in the pre-1982 period was characterized by several prominent features. First, it was highly centralized. Most public services were delivered directly by the central functional departments. Although local district boards were established in the early 1970s as a channel for gathering public opinion at the local level, they served very limited direct service delivery functions. The bureaucracy itself followed strictly hierarchical principles. Civil servants had to climb up the hierarchical ladder from within. Few lateral entry points existed in the higher civil service.

Second, the bureaucracy was relatively isolated from outside social and political pressures. The head of the Executive establishment, the Governor, was himself a civil servant. Until recently, heads of major government secretaries and departments sat in the Legislative and Executive Councils. These civil servants exercised great influence in top-level government decision-making. Although they had to consider major business interests in the territory, their suggestions and decisions were seldom challenged openly by the appointed members in the two Councils nor by any organized interests outside the government establishment. Third, because of its strict hierarchical structure and its isolation from outside political pressures, the government bureaucracy in Hong Kong had developed an orientation toward technicalism. Very often, cost saving was considered more important than effectiveness in evaluating performance (Lau, 1982; Cooper and Lui, 1990).

As a whole, pre-1982 Hong Kong represents an institutional setting that allows one dominant group, the British colonial officials, a relatively free hand in selecting structural arrangements. The setting helped to create and sustain a political setting that was tightly controlled by colonial officials and an administrative system that was hierarchical and centralized but limited in scope. Technical efficiency became the guiding principle for structural choice.

**Political and administrative restructuring in Hong Kong: 1982–92**

The institutional setting in Hong Kong began to undergo major changes with the inception of the Sino-British negotiation in 1982. The negotiation signifies the end of the period in which British colonial officials were the only dominating group in the governance of Hong Kong. The Sino-British Joint Declaration gave the PRC a legitimate role in the domestic affairs of Hong Kong by providing the Chinese government with an active role in ensuring a smooth transition to 1997.

By portraying itself as the future master of the territory, the PRC has never hesitated to push on the idea of ‘convergence’, which means that any political and administrative reform within the transition period should be consistent with the Basic Law, the mini-constitution of the future Special Administrative Region (SAR), adopted by the Chinese National People’s Congress in 1990. Although some prominent people in Hong Kong were involved in drafting it, the Basic
Law represents the basic position of the PRC on the future governance of Hong Kong. It reiterates the principle of guaranteeing Hong Kong a high degree of autonomy and the preservation of the capitalist system and way of life. This guarantee is qualified, however. For example, the Standing Committee of the Chinese National People’s Congress has the right to invalidate any law enacted by the legislature of the SAR as in violation of the Basic Law.

The Basic Law also provides for an executive-centered system of government (Davis, 1990; Kuan, 1990). The future chief executive will be selected by an electoral college, the 800 members of which will be selected by a committee appointed by the PRC. Although the chief executive can be impeached by the Legislative Council under extraordinary circumstances, he or she is not directly accountable to the Council. There are also serious restrictions on an individual legislator’s right to introduce bills, thus strengthening the executive’s power in making law and policy.

The Basic Law, as a whole, reflects China’s preference for maintaining a highly centralized governance structure in Hong Kong. By controlling the composition of the electoral college, China is poised to influence the choice of the chief executive. With an executive-dominated system, China can be assured that its interests are adequately represented in the SAR.

While the PRC is actively preparing to take over Hong Kong in 1997, British officials in Hong Kong find their power to reward and punish in the transition period drastically reduced. Various political groups find that they can no longer count on the colonial government to protect their interests; pleasing the future political master seems necessary. Among them, commercial interests were especially enthusiastic about pleasing the PRC. In fact, the political groups know that they can afford to offend the dying colonial government (Weng, 1991).

The Hong Kong government’s authority to decide on major policy issues has also been repeatedly challenged by the PRC. A good example concerns the decision made by the Hong Kong government to build a new airport. The decision was made shortly after the 1989 Tiananmen massacre, ostensibly as a means of restoring business confidence and of boosting the economy through to 1997. The PRC has exerted pressures to ensure the cost of building the airport will not deplete the financial reserves of Hong Kong. Because it would be almost impossible to arrange financing for such a long-range construction project without the support of the PRC, the British and Hong Kong governments have been forced to negotiate with the PRC over the details of the plan.

The airport issue illustrates the PRC’s ability and readiness to exert its influence on major policy decisions in Hong Kong during the transition years. British officials in Hong Kong can no longer take their authority for granted. They are determined to show that they are still in command and are willing to undertake major policy initiatives during the transition period. For example, in view of the serious brain drain triggered by the ‘confidence crisis’ and the perceived need to further develop human resources for economic development, the Hong Kong
government has implemented a plan to expand higher education rapidly from about 14 percent of the relevant group in 1990 to 25 percent in 1995 (Kuan, 1990). It is important to note that both the airport and the higher education decisions were made in very short periods of time, with limited planning. The Hong Kong government seems to be interested in the symbolic values as much as economic benefits of the projects.

More importantly, the Hong Kong government has not confined itself to making non-structural policy decisions. It has also taken steps to restructure the governance system by introducing directly elected seats to the Legislative Council and by gradually transforming a relatively closed and centralized bureaucracy into a more decentralized one. While increased public accountability and efficiency may be part of the rationale for these political and administrative changes, these changes can also be interpreted as preparations by British officials for the transfer of sovereignty to the PRC. For the British, a diversified governance system with its authorities originated in the local community is likely to be more hospitable to Britain after 1997 than one that is dominated by the PRC.

Since the PRC is determined to ensure its effectiveness in controlling Hong Kong after 1997, it has strongly opposed British restructuring efforts it believes would create unwarranted diversities in the system. The PRC’s position has seriously restricted the extent of restructuring initiated by the British because the British want to minimize the level of confrontation with the PRC. The British understand that too much open confrontation with the PRC would undermine the political confidence and economic prosperity in Hong Kong, making their rule during the transition period even more difficult. As will be shown in the following discussion, up to 1992, this consideration has largely limited the extent of political and administrative restructuring in Hong Kong.

**Political and administrative restructuring**

To make the Joint Declaration acceptable to the people of Hong Kong, both the Chinese and the British had initially promised a more representative government. While the Chinese had been hailing the ambiguous idea of ‘Hong Kong people rule Hong Kong’, the British tried to introduce some sort of electoral reform into the Legco. In 1984, the Hong Kong government issued the White Paper, ‘The Future Development of Representative Government in Hong Kong’. It introduced the element of functional representation and members indirectly elected through district boards and electoral colleges to the Legco. The White Paper also strongly hinted that further democratization would be possible in 1988 when directly elected members might be introduced to the Legco.

The 1984 White Paper sparked high expectations from various groups seeking increased representation in governance. More important, it drew the line between liberals and conservatives and destroyed any notion that a consensus on future political development was possible (Scott, 1989). However, the British soon realized that the PRC would not tolerate any form of governance structure
other than one that was executive-dominated. With strong opposition from the PRC, the plan to introduce direct election to the Legco in 1988 was temporarily shelved.

The 1989 massacre in Tiananmen Square heightened Hong Kong people’s suspicion about the PRC leadership’s promise of allowing Hong Kong a high degree of autonomy after 1997. The general citizenry showed increased support for a more rapid pace of democratization. For a short period of time after Tiananmen, the PRC leadership was preoccupied with handling its own political turmoil. These contingencies created a window of opportunity for the British to pass a plan to introduce eighteen directly elected seats (less than one-third of the total) in Legco in 1991.

In the 1991 election, the overriding majority of the eighteen directly elected seats were won by the United Democrats. Although their victory in the ballot box gave them some legitimacy to press for issues ranging from annual budget proposals to more democratization, they have been unable to dominate the policy-making process because they cannot command a majority in the Legco. Since many members of the United Democrats were involved in helping the democratic movement in China, they have been considered as subversive elements by the PRC. The overwhelming success of the United Democrats in the ballot box might have further convinced the PRC leadership about the undesirability of allowing further democratization in Hong Kong.

While democratic reform has drawn the most attention from all sides of the debate, other less visible changes have also been taking place in the administrative system since 1985. For instance, the government has privatized a variety of government services, including abattoirs and tunnel management (Lau, 1991; Leung, 1991). Furthermore, the government has recently sought to enlarge the autonomy of several public bodies, including the Housing and Hospital Authorities and Radio and Television Hong Kong (RTHK). While granting greater autonomy to these public bodies may help to lessen demands on the central treasury, these restructuring efforts represent the general plan of the British to diversify administrative structures.

In April 1988, the Housing Branch of the Government Secretariat was eliminated and the Housing Authority was given responsibility for all housing policies. The Housing Secretary also relinquished his role as chair of the Housing Authority so that it was no longer chaired by a civil servant. In 1990, the Housing Authority was forced for the first time in its history to borrow from the private sector after the government refused additional funds to resolve a short-term cash-flow problem. The Housing Authority’s need to rely on private resources was interpreted by some as a precedent for the government to refuse financial obligations during future financial crises (Lau, 1990). In addition, the Housing Authority has embarked on a scheme to increase the level of privatization of the services it provides, including private management of housing estates and carparks (Leung, 1988a, b, c). These restructuring efforts have met with little opposition from the PRC.
Based upon the recommendations of the 1985 Scott Report, the Hong Kong government decided to establish an independent Hospital Authority to co-ordinate and manage the operations of government and subsidized hospitals. The Authority took over management of the hospitals in December 1991. The Hospital Authority is currently responsible for thirty-five government and subsidized hospitals, employing over 36,000 staff. It has an independent budget and is given full discretion in decision-making and resources utilization. The Authority receives an annual subsidy from the government.

The creation of the Hospital Authority produced other changes in the government’s health-service structure. The Medical and Health Department was replaced by two new departments, the Department of Health and the Hospital Services Department. The former, which remained part of the civil service, was given jurisdiction for hygiene and disease prevention and the latter became the executive arm of the Hospital Authority. Among the changes expected to flow from the restructuring of hospital services is shifting more costs to patients. Patients have historically paid only 2 percent of costs and some anticipate this will rise to 15 to 20 percent. Government officials have acknowledged the need to adjust fees but deny any tie to the plan (Bocirukiew, 1990).

While restructuring plans for the Housing and Hospital Authorities were implemented with little objection from the PRC, it was a different story for another government department, RTHK. The shift to independent authority status of RTHK was first proposed by the Broadcast Review Board in 1985. The Executive Council approved the restructuring in 1989 and it was to have occurred in three phases (South China Morning Post, 1989). The first phase, scheduled for April 1990, was to have involved enabling legislation and the appointment of a nine-member board of governors. In the second phase, RTHK was to have operated as a public broadcasting corporation, with an annual government subsidy. In the final phase, scheduled for 1991–92, the station would operate independently, seeking outside sponsorship and receiving an annual lump sum from the Legislative Council.

The initiation of RTHK’s restructuring has been delayed for several years. One reason for the delay has been difficulties in arranging an end to employees’ civil-service status. A more important reason for the delay is the oft-repeated opposition of the PRC to the plan. Since the announcement of RTHK’s restructuring as an independent authority, the plan has come under intense attack from the officially controlled mainland press, members of the Joint Liaison Group (JLG) and Lu Ping, director of the Chinese State Council’s Hong Kong and Macau Affairs Office. PRC representatives contend that the Hong Kong government is responsible for administering the territory but that the terms of the Sino-British Joint Declaration require that Hong Kong’s existing system remain unchanged.

The opposition to RTHK’s restructuring is viewed suspiciously in Hong Kong because of concerns about the station’s role in the Special Administrative Region’s (SAR) government. PRC officials have publicly expressed interest in the importance of a government organ such as RTHK to promote the SAR
government’s policies after 1997 (Chen and Wong, 1992a). The social control value of a government-operated station helps to explain the PRC’s opposition to restructuring of RTHK.

The RTHK controversy helps to clarify the general dynamic through which the parties are attempting to assert their influence. In early 1992, Lord Caithness, then minister with special responsibility for Hong Kong, and the Governor, Lord Wilson, contended that the Hong Kong government would make the final decision about RTHK. At the same time, Lu Ping insisted that the Hong Kong government was obligated to abide by any agreement reached by the JLG and, furthermore, that if the JLG was unable to reach agreement that the controversy might be escalated to higher diplomatic levels. In March 1992, the JLG discussed RTHK’s restructuring, reached no agreement but did not schedule the issue for renewed talks at the subsequent JLG meeting in June. In the meantime, the Hong Kong government has taken no action on its original 1989 plan. It appears the PRC may be successful in prolonging deliberations until it enters a bargaining forum in which it is able to achieve a favorable outcome.

The general pattern of change
The processes surrounding structural choices until mid-1992 have varied across different substantive areas. On the political side, the PRC has frequently used the Joint Declaration’s call for maintenance of stability to warn against broad attempts by the British to introduce new structural arrangements. Although seeing long-term British interests in introducing more direct representation in the political system, British officials have largely acquiesced to Chinese pressure to limit and control political restructuring.

On the administrative side, independent authorities appeal to the preferences of the British and commercial interests. They diminish the potential for bureaucratic growth, an important issue for commercial interests, and insulate the agencies from the central government, a compelling interest of the democracy advocates and the departing British. China’s opposition to these restructuring efforts has been selective. Although the creation or proposed realignment of each of the three public authorities decentralizes control to non-civil servants, the PRC has objected to only one of the three reforms — RTHK reorganization. It seems that the PRC has not been overly concerned about efforts to diversify administrative structures as long as it is able to control the major political structures. However, the PRC has shown no hesitation to oppose any administrative restructuring that is perceived to have a negative impact on its long-term political efficacy, as in the case of the RTHK reorganization.

The latest proposal for democratization
Until mid-1992, it seemed that the British had conceded to the PRC in severely limiting the development of representation channels in Hong Kong. The British position changed in October, 1992, when newly appointed Hong Kong Governor Chris Patten announced a proposal to further democratize the governance
structure of Hong Kong. The proposal includes significant changes to the electoral system of Legco, beginning in 1995. Besides including twenty directly elected seats, the proposal adds nine new seats for ‘functional constituencies’ (e.g. groups of accountants, bankers, lawyers, social workers). The existing twenty-one such constituencies are mostly made up of professional organizations with small electorates. The nine new seats, together with the existing twenty-one seats, will be filled by voting by every individual who works in each industry — an electorate of about 2.7 million, the majority of the total electorate of 3.7 million. Furthermore, the electoral college responsible for filling the remaining ten seats will be made up of the elected members of all local district boards. These district board members will choose among themselves for the ten Legco seats. This proposal means that most of the seats in the 1995 Legco will be directly or indirectly elected by the general electorate. This contrasts with the existing arrangement in which only eighteen members (less than one-third of the total membership) are elected by the general electorate.

In addition to democratizing the electoral system of the Legco, the proposal includes other significant changes. All appointed seats in district councils will be replaced by directly elected ones. The minimum voting age will be lowered from twenty-one to eighteen. There will no longer be overlapping membership between the Legco and the Executive Council. The Governor himself will begin to directly answer questions raised in the Legco. If adopted entirely, these new structural arrangements will strengthen the position of the Legco as a legislative body representing the widest spectrum of social interests. The Legco will gain more credibility in checking and balancing the executive branch.

The Governor’s proposal was strongly opposed by the PRC who claimed that it violated the Sino-British Joint Declaration signed in 1984 and the Basic Law passed in 1990. The claim, however, was rejected by the British. The PRC also threatened to reverse all the proposed changes after it took over Hong Kong in 1997. In Hong Kong, democratic groups supported the Governor’s proposal. Conservative business groups including the Cooperative Resources Center opposed it, claiming the need to ensure ‘convergence’ for the 1997 transition.

The Governor’s proposal has opened up a new round of political confrontation between the British and the PRC. It also further polarizes the local élites into two groups: one for and one against democratization. The political configuration in Hong Kong is likely to undergo further changes as the 1997 changeover approaches.

Discussion
The fluidity of political and administrative organizations in Hong Kong since 1982 can be understood by reference to the theoretical propositions discussed earlier in this article: (1) structural choice in the public sector is not simply a technical question, but also concerns reconciling divergent preferences among actors; (2) institutional contexts affect the way actors interact in structural choice processes; and (3) structural choice is path-dependent.
Divergent preferences in structural choice
Choices on alternative governance structures have far-reaching consequences on who gets what and how. Political actors are not only interested in the efficiency feature of governance structures, they are also interested in securing structural channels for influencing policy-making and outcomes. If multiple actors with competing interests and values are involved in the process of structural choice, the final choice often results from political compromises. The task for many actors is not to find the most efficient governance structure but one that is least opposed by the major actors.

In the pre-1982 period when the British were the dominating group in Hong Kong, their preference was to maintain a governance system that was hierarchical and centralized but limited in scope. Such a system facilitated British rule in Hong Kong. Since 1982 when the PRC became a contending force in the political landscape, the British colonial officials have shown increased interests in developing a more decentralized and democratic governance system. For the British, a democratically elected and relatively autonomous government is likely to be more hospitable to British interests in the future than one that is dominated by the PRC. The PRC, on the other hand, prefers the highly centralized political structures in Hong Kong to remain unchanged. A governance system under the tight grip of the chief executive is favored by the PRC because it would be relatively easy for the PRC to control the entire system by influencing the selection of the chief executive in the future. For both the British and the PRC, their respective structural preferences are premised more on power than on efficiency considerations. Both sides are forward looking, that is, concerned about their power positions after 1997. Since the preferences of the two sides are so diverse, structural choice in the period reflects a mixture of bargaining, compromises and, sometimes, mutual threats.

Institutional contexts and structural choice processes
Structural choice processes in the post-1982 period have been affected by one major institutional factor — the absence of clear-cut rules about who has the right to make what types of structural decision. When no unambiguous rule exists to resolve differences and actors have no stable expectations about one another, each actor tends to choose its strategies based on its perception, and sometimes misperception, of its own bargaining strength and the other’s motives. The political bargaining between the two opposing groups often resembles game-theoretic situations in which no stable equilibrium exists (Ordehook, 1986). In these structural choice games, the British usually initiate moves because they still hold the legitimate authority to govern Hong Kong during the transition period. The PRC plays a largely reactive role in regard to British initiatives. Because it lacks the authority to control the content and implementation of structural reform during the transition period, the PRC’s strategy is to prevent any major structural changes initiated by the British. Maintaining the status quo becomes the major concern of the PRC.
Such an action-and-reaction process was evident throughout the post-1982 period. Initially, the British accommodated the expressed preference of the PRC for convergence between pre- and post-1997 political reforms. The pace and extent of political reform, therefore, was quite limited. At the same time, the British initiated broad decentralization of administrative structures. The decentralization was not initially opposed by Beijing for several reasons. Among them was that administrative decentralization was less fundamental to the transition of sovereignty than political reform, it was more difficult to mobilize support against them and they appealed to the PRC’s preference for financial stability. In the context of the comprehensive reform triggered by the Joint Declaration, administrative reform was not a high priority for the PRC.

The Tiananmen Square massacre in 1989 and subsequent events altered the context within which the parties interpreted each other’s proposals. Governor Wilson’s proposal for a new airport came shortly after Tiananmen, following years of indecision by the British. The British decision was interpreted by the PRC as a move that would further restrict the PRC’s ability to use Hong Kong for its purposes after 1997 because of the large financial outlays associated with the airport project. Economic analyses of the project, which were largely favorable, became a secondary consideration. The distrust reflected in exchanges over the airport has subsequently been repeated over other issues, including RTHK restructuring and the latest democratic reforms. These issues show that each political actor’s position on structural reform is affected by its interpretation of the other’s motives, by its perception of its relative bargaining position and by its estimate of how its actions may affect the chance of a smooth transfer of power.

Britain’s about-turn on political reform since 1992 can also be understood as part of the on-going strategic game between Britain and the PRC. In 1992, British Prime Minister John Major broke with precedent and appointed a politician, Chris Patten, as governor, rather than a member of the foreign service. A few months after arriving in Hong Kong in mid-1992, Patten quickly proposed significant expansion of popular representation, breaking with Britain’s previous policy of severely limiting change in political structures. One possible explanation for this policy change is Britain’s realization that, following events such as Tiananmen Square and the RTHK and airport confrontations, decentralizing the administrative system alone would not guarantee Hong Kong a high degree of independence from the PRC after 1997. Following a ‘trial-and-error’ approach, Patten proposed a political reform package that sought to increase popular representation by enlisting the franchise for functionally elected seats in Legco, instead of by increasing the number of directly elected seats.

The British might have believed that the proposed reform was relatively limited and that, if they were insistent, the PRC would eventually give in. The PRC leadership, however, sees the proposal as Britain’s conspiracy to prolong its influence in Hong Kong beyond 1997. According to one interpretation, the leadership also believes that the proposal is part of an international conspiracy to spread democracy in China and eventually to undermine its one-party regime.
This partly explains the strong reaction from the PRC leadership, which, at one point, even threatened to invalidate the Sino-British Joint Declaration if the British insisted on implementing the proposal.

The Sino-British haggling over the proposed reform is partly a result of an institutional setting that is unclear about who has the right to make what types of structural decision. In such a situation, each actor may attempt to impose its preferences on the other by demonstrating its resolve in supporting or opposing a certain reform proposal. Even though both sides realize that gridlock may be harmful to both sides, each side is reluctant to yield to the pressure by the other. There is no guarantee that both sides can arrive at any mutually agreeable solution.

Path-dependency of structural choice

Structural choice processes are not just affected by existing institutional rules, historical contexts also affect the way actors perceive the values and practicability of alternative structural choices. The hierarchical and centralized structure of governance in Hong Kong had served the British well for over a hundred years. Since 1982, the British have begun to realize that such a structure would be undesirable for them after 1997. Such a structure becomes the status quo from which the British have attempted to change since 1982. At this time, however, the British are no longer the only dominating group in the territory. They face difficult times in trying to convince all concerned parties that democratization is beneficial to everyone at this particular juncture of history.

Because democratic governance has never taken root in Hong Kong, many local elites are concerned about its potentially de-stabilizing effect on society. Some are also skeptical about its chance of success in the face of stern opposition from the PRC. These people choose to side with the PRC in insisting that the current system be maintained beyond 1997. The PRC has also raised issues about the motive behind British initiatives in democratic reform — why have the British failed to introduce democratic reform in Hong Kong until the very last few years of their rule in Hong Kong? For the PRC, time is on its side. Its current mission is to try to prevent any major democratic reform from taking place before 1997. As 1997 nears, the chances for any democratic change to take root in the territory diminish.

Conclusion

To understand the politics of structural choice, we must recognize that three major factors shape various structural choice situations. First, we identify the set of actors who have political authority or resources to influence structural decisions. Second, we examine the respective interests and values of the actors and how these interests and values affect their preferences for alternative structures. Third, different actors interact with one another within the larger institutional and historical settings.

The dynamic process of structural politics in Hong Kong illustrates the limitation of using technical principles to understand structural reform. Governance
structures are an integral part of a larger political order. If the political order is characterized by competing political actors with divergent preferences and by a lack of clear-cut rules for resolving differences, structural choice processes become unstable. Unstable structural choice is not unique to Hong Kong but also occurs frequently in other settings. As argued by Moe (1990), structural choice in a pluralistic setting is a perpetual process. Political actors constantly look out for opportunities to impose their preferred structures. While there has been an increased awareness among scholars about the political nature of structural choice, more research is needed to develop a systematic understanding about the structural choice process itself. The case of Hong Kong can serve as a building block for such an effort.

The literature on structural reform politics and the case of Hong Kong also help to explain the failure of many administrative reform proposals worldwide (Caiden, 1994). While the stated objective of many of these reform proposals is to improve the managerial system of the public sector, largely missing from these proposals are suggestions as to who would support them, who can implement them and what continuing machinery can be established to sustain them. Reformers tend to recommend abstract management principles without regard to specific institutional and historical contexts. Structural reforms based on faulty assumptions often fail to deliver what reformers promise. As demonstrated in this article, to assess the prospect for any structural reform proposal, one must understand the actors who can influence structural choices, their preferences for alternative structures and the institutional and historical settings.

Notes
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1. The Housing Authority was established in 1973 with jurisdiction over public housing, in which over 50 percent of Hong Kong’s population lives. Other housing policies such as private housing regulation and rent control were assigned to the Housing Branch of the Government Secretariat. The two units were linked by making the Housing Secretary from the Government Secretariat chair of the Housing Authority.

2. Medical and hospital services were traditionally provided by the government through direct provision by government and subsidized hospitals. Although there were many complaints about the adequacy of medical and hospital services, the government provided cheap and relatively comprehensive services. Nevertheless, perceived improvements in hospital services failed to keep pace with the rising standard of living in Hong Kong. Part of the performance problem was attributed to a top-heavy and outmoded administrative system.

3. For some of the recent history of this controversy, see Hughes (1992), Chan and Wong (1992a, b) and South China Morning Post (1993).

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