

# **The Policy Process in The HKSAR**

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## Introduction

In spite of some changes to the external environment and modest reform of the accountability system, the past two decades of public policy making and implementation in the Hong Kong Special Administrative Region (HKSAR) are remarkable for their continuity. Continued turbulence in the HKSAR's external environment has only occasionally moved decision makers toward non-incremental decision making. The Region's disarticulated political system (Scott, 2000) continues to leave the bureaucracy in control. Although the civil service has lost some power to politically-appointed ministers, no other group has the resources to challenge the bureaucracy. The Basic Law, Hong Kong's mini-constitution, gives exaggerated importance to consensus decision-making, which provides strategic veto points for some, especially business, interests. Still, in most cases the civil service has been able to prevail.

In this paper we compare the public policy process in 2002 to the one that existed in the mid-1980s, as described by Scott (1986). We define policy as 'a web of decisions and actions that allocate values' (Easton, 1957), indicating that policy is not usually the result of a single decision, but bundles of decisions. Following Heidenheimer, Heclo and Adams we acknowledge that policy may be both a course of action or inaction (Heidenheimer, Heclo and Adams, 1990; 5) and may result from what Bachrach and Baratz call non-decision-making (Bachrach and Baratz, 1962). In the later case policy is made when 'dominant values, the accepted rules of the game, the existing power relations among groups, and the instruments of force, singly or in combination, effectively prevent certain grievances from developing into full-fledged issues which call for decisions' (Bachrach and Baratz, 1962). In this paper, however, we are more concerned with explicit public policy adopted by the HKSAR government.

Following the literature on public administration we conceive of the policy process as involving a number of stages ranging from agenda setting and policy formulation and adoption to policy implementation and evaluation (See Cooper et al., 1998; Sodaro, 2001; Almond and Powell, 1996). We find that different types of policy (extractive, distributive, or regulatory [Almond and Powell, 1996; 126]) are characterized by different decision making styles. We will consider each of these in the paragraphs below.

## The Environment

Compared to the mid-1980s Hong Kong's environment has gone from one kind of turbulence (politically induced) to another (largely economically induced). Turbu-

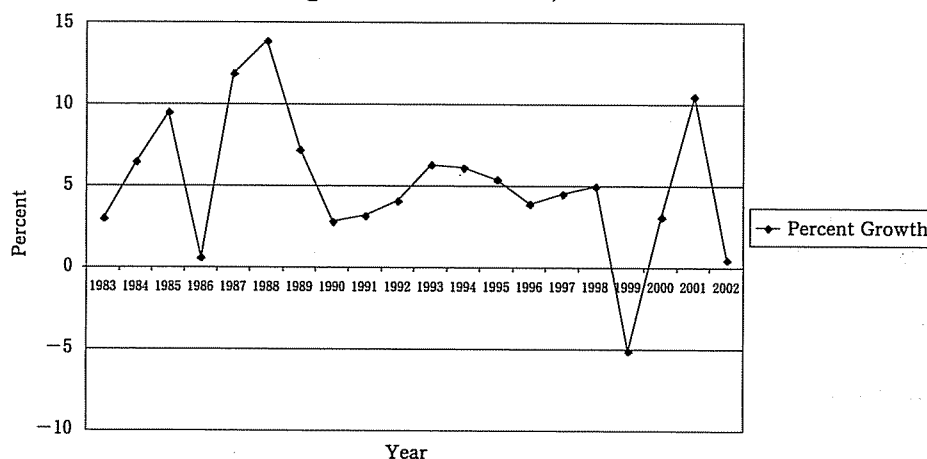
lence in the mid-1980s resulted from uncertainties and interventions surrounding the impending change of sovereignty over Hong Kong (See Scott, 1986) while by mid-2002 turbulence was mostly associated with the impact of low or negative growth and economic recession. During the past two decades Hong Kong had gone from a position of relative affluence to one of relative scarcity. Domestic political factors were also at play, however.

An external shock in the form the Asian Financial crisis hit Hong Kong hard in 1997–1998. As a result growth of GDP plunged in 1998–99 and although it recovered the following year, growth for 2001–02 was still estimated to be very low (See Figure 1). Unemployment went from historically low rates of about two percent in the 1980s to a post World War II record of 7.8 percent in 2002 and the economy witnessed an unprecedented 46 months of deflation. The economic problems burst a property bubble that sent prices down by from 50 to 60 percent from their historic peak in mid-1997 (SOURCE).

Hong Kong's economy faces longer-term structural problems associated with its high land and labor costs which undermine the Region's competitiveness. Beginning in the 1980s manufacturers moved their operations across the border to Shenzhen to take advantage of lower costs there. In Hong Kong tertiary services have replaced manufacturing as the major component of GDP. Improved infrastructure on the mainland and China's accession to the WTO have prompted many of these and other businesses to relocate to the mainland. Hong Kong's role as a transit point between Taiwan and the mainland is also threatened by an imminent change of policy that will permit direct links. These trends all require long term structural adjustments in Hong Kong to maintain economic growth. Although the government realizes the need, authorities have yet to effectively address the issues.

The economic shocks have had a significant impact on public finance. Demand for services has increased dramatically since 1998. Welfare payments to support the

Figure 1 Growth of GDP, 1983–2002



Source: Hong Kong Government.

growing number of unemployed have increased from \$21.7 billion in 1997–98 to \$30.7 billion in 2001–02, an increase of 40.5 percent. Expenditure on public health as health care costs spiraled up rose from \$27.9 billion to \$34 billion or 38 percent, and spending on the government's ambitious public housing schemes, designed in 1997 to provide 85,000 units of public-private housing per year, rose by 35 percent during the same period (Hong Kong Government, 1999 and 2001). Since 1998–99 revenues have been unable to keep up and for 2002–03 the government estimates a deficit of about \$60 billion (SCMP Oct. 31, 2002). Reflecting the slow down in the economy government revenues fell from a total of \$281 billion in 1997–98 to an estimated \$174 billion in 2001–02. As a result of the steep fall in property prices revenue from land sales and rates, traditionally the largest sources of revenue after salaries and profits tax fell from \$89 billion to \$22 billion over the period. Economists predict continuing and chronic deficits unless radical changes are made to the budget (See Ogden, 2002). The government has announced plans fulfill its constitutionally imposed duty to achieve a balanced budget (Basic Law, Art 107) by 200–2007, plans that many observers believe to be unrealistic (SCMP Nov. 15, 2002). Thus, the environment for public policy making in Hong Kong has gone from one of munificence to one of scarcity in a little over five years.

The domestic political environment has also changed during the past twenty years or so. Compared to the mid-1980s, the people of Hong Kong now have higher expectations of the government. Survey research indicates that they have come to expect that 'good government' would intervene in social and economic affairs (Kuan and Lau, 2000; 291). Kuan and Lau write that 'People have become receptive to activist social policies such as redressing the [increasing] gap between the rich and the poor. The government's policy of economic *laissez-faire* has also experienced a decline of popular support' (Kuan and Lau, 2000; 292). A variety of social and political factors including the expansion of social services now encourage people to become more dependent on and have higher expectations of government. Moreover, the economic problems facing Hong Kong in the late 1990s and early 2000 mean that people are making more demands on government. Pressure groups articulate the interests of the needy and disadvantaged in society in a whole range of social welfare issues from housing and public health, to education and benefits for the unemployed (See Lo, 2001; 227–230). Thus, the density and resourcefulness of civil society in Hong Kong has grown during the past two decades.

### The Political System

Hong Kong's post-1997 political system has been variously described as 'disarticulated', 'disabled', and 'decayed' (Scott, 2000; Cheung, 2002; Lo, 2001). Generally, these analyses refer to the fact that the legislature is not elected on a one person one vote basis; that neither the legislature nor the people choose the government or the political executive; and that the political executive is in practice answerable but not responsible to the legislature. These features of Hong Kong's 'disarticulated' political system which also characterized the political system in the mid-1980s leave the

bureaucracy in a strong position in the policy process.

The Basic Law, like the Letters Patent and Royal Instructions during the colonial era (See Miners, 1998; 273-285), lays down the key elements of the HKSAR's policy making institutions. According to the Basic Law, final policy making authority rests with the Chief Executive who is charged with 'decid [ing] on government policies' (Art 48). The Executive Council, appointed by the CE from among the principal officials, members of the Legislative Council and public figures (Art 55) 'assists the Chief Executive in policy-making' (Art 54). Although the CE is required to consult the Executive Council before making 'important' policy decisions (Art 56) he is not bound by Council decisions. Thus, if the CE does not accept a majority opinion of the Council, he need only 'put the specific reasons on record' (Art 56). From 1997 until the time of writing the CE has been supported by the Executive Council.<sup>1</sup>

The Basic Law also charges the government of the HKSAR, which is composed of the principal officials and led by the CE, with 'formulating and implementing policies' and with 'conducting administrative affairs' (Art 62) which presumably refers to implementing policy. The Legislature also has a role to play because its approval is required for some critical public policies, such as the budget and taxation and public expenditure policies (Art 73). The Basic Law places severe restrictions on the ability of Legco to introduce new policy or amend policies proposed by the government (Art 74 and Annex II). Functional constituencies that give specific groups in Hong Kong privileged access to the policy process are also constitutionally laid down. Annex II establishes the existence of functional groups for at least the first three Legcos (1997 to 2007) and Annex III identifies the sorts of functional groups that should be included (industrial, commercial, and financial groups [25 percent]; the professions [25 percent]; labor, grass-roots, and religious groups [25 percent] and others). In practice the business community is substantially over-represented through this procedure. Although the Basic Law also provides that the colonial system of establishing advisory bodies 'shall be maintained', the Law fails to identify a specific role in the policy process for them.

These post-1997 constitutional arrangements are similar in some respects to those that existed in the mid-1980s. Colonial governors had final policy making authority and although they consulted the Executive Council, the Council's role then also was advisory. There were no provisions, however, that the Governor had to record reasons for overruling majority opinion in the Executive Council. The post-97 constitutional role of Legco in the policy process has been strengthened, however. Legco is no longer advisory and budgets and other important legislation must ultimately be passed by it.

In a departure from the mid-1980s constitution, the Basic Law lays down broad policy parameters that should be followed by the HKSAR government. These are laid out in a chapter on the economy and include provisions that appear to require a balanced budget (Art 107), low tax policy (Art 108), backing the Hong Kong dollar with a 100 percent reserve fund (Art 111), free convertibility of the currency (Art 112), and the maintenance of free trade (Art 115). In the Preamble, the Basic Law

states that 'the socialist system and policies will not be practiced in Hong Kong'. Elsewhere the Law states that the 'lawful traditional rights and interests of the indigenous inhabitants of the "New Territories" shall be protected' (Art 40) and that civil servants benefits shall be 'no less favorable than before' (Art 102). These provisions taken together were meant to provide policy continuity beyond 1997, but they also constrain the further development of public policy in the HKSAR.

Public policy in the mid-1980s was made within a broad elite consensus that the government should intervene as little as possible in the market, described as 'positive non-interventionism' by former Financial Secretary and then Chief Secretary Philip Hadden-Cave (Miners, 1998; 47). This permitted government to intervene to regulate the stock exchange, banking, insurance, and other aspects of the economy and public utilities, often in reaction to market failures. Through its ownership of all land and an extensive public housing program government was an active participant in the economy. By 2002, government continued to endorse a market economy: 'The government firmly believes that the market can allocate and utilize resources more effectively and has greater capacity to foster creativity, provide economic impetus and create employment opportunities' (Hong Kong Government, 2002; 61). However, the government asserted a more activist role in the economy than it did in the mid 1980s, perhaps reflecting the economic difficulties the HKSAR now found itself in. Official policy requires the government elaborate a 'clear vision of the direction of economic development, be a proactive market enabler and take care of those who are disadvantaged or in hardship' (Hong Kong Government, 2002; 62), an orientation that clearly recognizes a major social welfare role for the state that was less obvious in the mid-1980s. According to official policy, the HKSAR government should provide the institutional infrastructure necessary for market development; necessary infrastructure that the private sector will not provide; the environment and appropriate resources to raise the quality of human capital in Hong Kong; secure more favorable market access for Hong Kong businesses to regional and global markets; and 'take appropriate measures to secure projects beneficial to the economy as a whole when the private sector is not ready to invest in them' (Hong Kong Government, 2002; 62), a reference perhaps to the government's investment in the Disneyland theme park to boost tourism. The government has become more interventionist while maintaining its basic pro-market orientation as we will see below.

The structure of the HKSAR's political system centralizes policy making in the hands of politically-appointed officials. In an arrangement that dates from the mid-1970s the central government is organized into eleven policy and resource bureaus located in the Government Secretariat and over 100 departments and agencies that are supervised by the bureaus. Generally, policies are formulated in the bureaus and implemented by the departments.<sup>2</sup> Until July 2002 policy bureaus were headed by career civil servants, mostly drawn from the elite administrative officer grade. Since July, 2002, policy bureaus have been headed by politically appointed principal officials (ministers), only five of whom were former career civil servants<sup>3</sup> (See Table 1).

The politically-appointed officials (or 'ministers') are charged with making

**Table 1** Politically-Appointed Principal Officials, 2002

<i>Position</i>	<i>Name</i>	<i>Former Position</i>
Chief Secretary	Donald Tsang Yam-kuen	Same ( <i>career civil servant</i> )
Financial Secretary	Antony Leung Kam-chung	Same (banker)
Secretary for Justice	Elsie Leung Oi-sie	Same (solicitor)
Commerce, Industry and Technology	Henry Tang Ying-yen	Head of textile firm
Home Affairs	Patrick Ho Chi-ping	Doctor
Education and Manpower	Arthur Li Kwok-cheung	University head
Environment, Transport and Works	Sarah Liao Sau-tung	Head of environmental protection business
Financial Services and the Treasury	Frederick Ma Si-hang	FCO of large telecoms firm
Secretary for Civil Service	Joseph Wong Wing-ping	Same ( <i>career civil servant</i> )
Housing, Planning, and Lands	Michael Suen Ming-yeung	Constitutional Affairs ( <i>career civil servant</i> )
Secretary for Security	Regina Ip Lau Suk-yee	Same ( <i>career civil servant</i> )
Economic Development and Labor	Stephen Ip Shu-kwan	Economic Services ( <i>career civil servant</i> )
Health, Welfare and Food	Yeo Eng-kiong	Health Welfare and Food (former Head of Hospital Authority)

Source: South China Morning Post and Wenhui bao June 25, 2002.

policy, securing support for the policy, and supervising its implementation by executive departments. Moreover they may be held 'totally responsible' for policy outcomes and the delivery of services by the relevant departments (Framework of Accountability System for Principal Officials, 2002) (See Box 1). Permanent Secretaries, the career civil servants that report to the politically-appointed officials, are supposed to support the political officials, but not shoulder public responsibility for the performance of the bureau. Still, permanent secretaries are officially described as 'responsible for formulating and implementing policies, listening to the views of the public and Legco, explaining policies to these respective groups, responding to questions raised and gaining support from different quarters for government policies' (Tung, 2002). There is, thus, some overlap in the activities of ministers and permanent secretaries.

Discipline among the new politically-appointed officials is not imposed by a political party an effective mechanism in many other political systems. Indeed, Hong Kong's political system has been largely hostile to the further development of political parties (See Sing Ming, 2001). Yet, one of the benefits of the new arrangements is said to be a 'shared common agenda' (Tung, 2002). The team, the CE said, 'will be motivated by common perspectives, shared policy goals and a collective mission.' How this will be achieved without relatively disciplined political parties is

**Box 1**  
**Duties of Politically-Appointed Principal Officials**

1. "Gauge public opinion and take societal interests into account in serving the community;
2. Set policy objectives and goals, and develop, formulate and shape policies;
3. Take part as a member of the Executive Council in all of the deliberations and decision making at the Executive Council and assume collective responsibility for the decisions made;
4. Secure the support of the community and Legco for their policy and legislative initiatives as well as proposals relating to fees and charges and public expenditure;
5. Attend full sessions of Legco to initiate bills or motions, respond to motions and answer questions from Legco members;
6. Attend Legco committee, subcommittee and panel meetings where major policy issues are involved;
7. Exercise the statutory functions vested in them by law;
8. Oversee the delivery of services by the executive departments under their purview and ensure the effective implementation and successful outcome of policies; and
9. Accept total responsibility for policy outcome (*sic*) and the delivery of services by the relevant executive departments."

Source: Framework of Accountability System for Principal Officials, 2002.

unclear.

These arrangements mark a sharp departure from the policy making system that existed in the mid-1980s. Then, and until July 2002, the most senior posts in government were reserved for career civil servants, mostly from the administrative officer grade, and it was they, together with the Governor/Chief Executive who made policy. The new arrangements add an additional layer of officials on top of the former career policy secretaries (who continue to be paid at the D8 rate for bureau directors on the directorate pay scale or about \$181,700 per month exclusive of benefits).<sup>4</sup> Politically appointed officials are paid about \$298,115 per month inclusive of benefits. These arrangements remove administrative officers from the apex of the policy making system — this is now reserved for politically-appointed officials. The change has meant that administrative officers have had to lower their career expectations. Still, in practice, permanent secretaries (and department heads) are deeply involved in the policy process. Thus, the Head of the Social Welfare Department, Carrie Lam Cheng Yuet-ngor, and not the policy secretary, led the government's campaign to cut social welfare payments in 2002 (See *SCMP* Nov. 15, 2002). Moreover, the politically appointed officials, who arrive in office without their own staffs, are heavily dependent on the civil service for policy advice. We conclude, therefore, that the civil service still makes policy in Hong Kong — the system continues to be dominated by the bureaucratic elite.

The 2002 arrangements were designed to turn the Executive Council into an effective policy making body. Although the Chief Secretary, Financial Secretary, and the Attorney General were ex-officio members of the 1985 Executive Council ten

of the other 12 members came from business and the professions.<sup>5</sup> Generally, policy was put to this body by the civil service for endorsement, approval of which was virtually guaranteed. Members of the Executive Council apart from the government officials had no staffs of their own to evaluate policy proposals nor did they draw on the work of think tanks or other bodies. The 2002 arrangements make all politically-appointed officials members of the Executive Council and move the office of the Executive Council into the Chief Executive's Office. The Government appears to have intended that that the Council become a real policy making body. Still, as we have seen, policy proposals come from the civil service through the ministers to the Council.

In September 2002, the government set up a new high-level policy committee that is chaired either by the Financial Secretary (for financial matters) or the Chief Secretary for other issues. All 11 politically-appointed officials are members. The purpose of the committee is to ensure better co-ordination between policy bureaus and government departments, study the appropriate time for policies to be introduced to the public and/or Legco, and to ensure that government policies are consistent with the CE's policy agenda (*SCMP* Sep. 3, 2002). The Executive Council's role is to discuss 'the impact of the policies and whether they should be implemented'. The new policy committee, which replaces eight other committees chaired by the Chief Secretary before July 2002, is 'not designed to sideline the Executive Council'. Still, the new policy committee does not come under the Executive Council.

Not invited to attend the policy committee meetings are three Executive Council 'ministers without portfolio', including leaders of two pro-government parties, the Liberals, the Democratic Alliance for Betterment of Hong Kong (DAB) and the head of the Federation of Trade Unions. When the government set up the new policy committee, the Chairman of the Liberal party vowed to block policy if he was not consulted beforehand. 'If they ignore me, they are looking for trouble,' said James Tien Pei-chun. 'I could oppose the policy for the sake of opposition because they hadn't asked me beforehand, even if I found the policy acceptable' (*SCMP* Sep. 4, 2002). Government then revealed that the ministers were expected to 'unofficially consult the views of the five non-official Executive Council members and party spokesmen on a particular policy issue' (*SCMP* Sep. 4, 2002). Only then would the policy go to the new Chief Secretary's policy committee before a detailed proposal is drawn up and submitted to the Executive Council. Still, the media pointed out that these arrangements had 'raised concerns' that the Liberals, the DAB, and the head of the Federation of Trade Unions 'would be sidelined' (*SCMP* Sep. 4, 2002). This outcome seems a very real possibility and reflects the continuing domination of the policy process by the civil service.

The role of the legislature in the policy process has changed some what. Although the 1985 Legco examined policy proposals, its membership was entirely appointed by the government. Accordingly, proposals were given a relatively smooth ride. By 2002, 24 of Legco's 60 seats were directly elected in geographic constituencies, and of these at least eleven were held by critics of the government (the Democratic Party, the Frontier). If the 30 functional constituency and 6 election commit-

tee seats are added, the critics probably number around 17 or so, that is, less than one third of the total seats. Still, representatives from these parties and some members of the usually pro-government parties scrutinize government bills and policy in a way completely unheard of in the mid-1980s. As we have seen, Legco's powers are no longer advisory — the government must obtain Legco approval of important policies, including the budget, and taxation and public expenditure policies, before they may be implemented. To ensure less opposition to the government's proposals in the legislature, as we have seen, the government invited the leaders of the two largest pro-government parties, the DAB and the Liberals, to join the Executive Council as members without portfolio. Undoubtedly the executive hopes that their participation in the formulation of policy will ensure their support at the legislative stage.

Just as it did in the mid-1980s, the political system in 2002 provides no mechanism for the people to choose the government. The central government appoints the Chief Executive upon his 'election' by an Election Committee, the membership of which is for the most part determined by the central government.<sup>6</sup> The CE nominates all principal officials (including the politically-appointed officials) for appointment by the central government, a process in which neither Legco nor the people play a role.

### **The Policy Process**

As it did in the mid-1980s, the bureaucracy continues to dominate the policy process in the HKSAR. Although new groups have been brought into the process, they have not challenged the supremacy of the civil service.

#### ***Agenda Setting***

The HKSAR's public policy agenda is set through a combination of internal and external forces. Internally, the Chief Executive and his ministers set the policy agenda in the course, first, of annual policy and budgetary cycles that revolve around the Policy Address to Legco and the Budget, and, second, through the non-cyclical or ad-hoc identification of policy problems. The Basic Law requires the government to present 'regular policy addresses' to Legco (Art 64) which summarize major policy proposals. These proposals reflect the issues that have been placed on the government's agenda from internal sources such as the CE, the ministers, and the civil service and from external sources such as pressure groups, political parties, the media, society at large, and the central (and Guangdong provincial) government(s), and foreign governments and organizations. The government plays a critical role in determining which issues it should address (rather than, say, the private sector) and in prioritizing the issues (Cooper, 1998; 173). For example, early in his first term the CE placed a high priority on housing, education, and the elderly on the public policy agenda, a fact that was reflected in his First Policy Address (SOURCE).

There has been some continuity in the configuration of forces that sets Hong Kong's public policy agenda. For example, both the CE and colonial governors as

individuals have sometimes influenced the public policy agenda. Murray (later Lord) Maclehouse, for example, gave a high priority to expanding the provision of public housing, education, and social welfare soon after he arrived in Hong Kong (Scott, 1989; 153). These interventions from the top have been relatively rare, however.

The introduction of the executive accountability system in 2002, however, introduced some change at the top. The new arrangements mean that the administrative officer grade and the civil service generally have probably lost *some influence* over the agenda to the CE and his ministers.

Sources of external influence on the policy agenda have probably changed less dramatically since the mid-1980s. They include pressure groups, the media, society at large, the central government, foreign governments and organizations and events (such as the outbreak of avian flu) or crises that have occurred within Hong Kong and abroad. Hong Kong's rich civil society includes thousands of groups (in the late 1990s, over 8,000 organizations registered as societies, 535 unions with a membership of about 375,000 people, hundreds of religious organizations, and 291,000 businesses [DeGolyer, n.d.]). To this must be added a lively and independent media that includes over 50 daily newspapers, 700 periodicals, two free-to-air TV channels, five subscription TV licensees, and so forth (Hong Kong Government, 2001; 364).

Beijing's banning of the Falungong put the issue of how to deal with the group on Hong Kong's agenda. Pressure from Beijing to enact legislation to implement Article 23 of the Basic Law probably put that issue on the government's agenda in mid-2002. The US government and events overseas have put more mundane concerns such as the need to protect intellectual property and more urgent concerns such as the need to guard against terrorism on the government's agenda.

Political communication takes place through a variety of channels, both formal and informal. Citizens approach the government directly or indirectly through Legco or District Councillors. When these channels fail, they demonstrate to express their views. From 1997 to 2000, more than 6000 demonstrations were held in Hong Kong, a substantial increase over the mid-1980s (See Cheung and Louie, 2000). Still, as Cheung and Louie point out for the mid-1980s: 'The people have become more willing to agitate, by way of conflict, for an improvement in the quality of life and in their political and civil rights' (2000; 106). This trend, they argue, points to rising social awareness and sense of political competence among the Hong Kong people. This trend continued throughout the 1990s.

Since the mid-1980s, however, more organized political parties have emerged that have attempted to influence the policy agenda. Parties have campaigned for seats in Legco since 1991 and their presence forced some debate about the relative importance of issues such as the expansion of social welfare spending, on the one hand, and the need to maintain a low tax regime, on the other.

Although groups legitimized by the change of sovereignty in 1997 loosely identified as pro-Beijing have attempted to influence the public policy agenda, they have had relatively little success. Leftist publisher and member of the Chinese People's Political Conference in Beijing, Xu Simin's criticism of the independence of govern-

ment-owned Radio Television Hong Kong in 1998 was refuted by then Chief Secretary Anson Chan and by the CE. Still, Xu's criticism may have played some role in helping to hasten the departure of its long serving director, Cheung Man-yee in October 1999. For the most part, however, the left in Hong Kong has supported strong executive power, including a dominant role for an *obedient* civil service. Indeed, former Basic Law drafter and Executive Councillor Leung Chun-ying's intervention during a Provisional Legco panel meeting in July 1997 to criticize the way the panel was grilling government officials served only to reinforce the dominance of the bureaucracy. In the end, he failed to convince his colleagues in the legislature that they should endorse whatever policies government proposed.<sup>7</sup>

### ***Policy Formulation***

In spite of recent changes that reduce the power of the bureaucracy in the policy process, the civil service still clearly plays the dominant role. In most policy arenas decisions are taken incrementally. This is especially true of budgetary policy. Still, policy in some areas has occasionally been made non-incrementally.

Following Almond and Powell (1996) we conceive of public policies as either extractive, distributive, or regulative. Extractive policies take resources from the environment to provide government revenue. The most common forms of extraction are taxation and borrowing. Distributive policies (which may also be re-distributive) involve 'the allocation by government agencies of various kinds of money, goods, services, honors, and opportunities to individuals and groups in society' (Almond and Powell, 1996; 128). Examples of re-distributive policies are public housing and social welfare policies for the needy. Finally, regulatory policies are designed to 'exercise control over the behavior of individuals and groups in the society' usually to protect the community. Examples are the policies to regulate the stock and futures exchanges, banking, insurance, and travel agents.

Although most public policy is made incrementally, we can identify some examples of non-incremental decision making (that is, decision making that results in policies that differ radically from past precedent) (See Table 2). Among distributive

**Table 2** Types of Policy and Decision Making in Hong Kong

	<i>Extractive</i>	<i>Distributive</i>	<i>Regulatory</i>
<i>Incremental</i>	Not to have sales tax; Raise or lower taxes, rates, fees, and charges	Build HOS Housing; Charge for emergency services in hospitals; Build logistics base at Chek Lap Kok Airport	De-list penny stocks; Promote mother-tongue teaching; English benchmark test for teachers; Permit football gambling
<i>Non-incremental</i>	?	Provide Public Housing in 1953; Build Chek Lap Kok Airport; Set up Hospital Authority	Use public funds to buy stocks on stock market August 1998

Source: Adapted from Almond and Powell (1996).

policies, perhaps the best example was the decision by the Hong Kong government to provide public housing following the disastrous fire in the Shek Kip Mei squatter area on December 25, 1953 that left 50,000 homeless (Scott, 1989; 74–75). Hong Kong's public housing program now benefits about 44 percent of the population. In the distributive arena possible non-incremental policies might be the decision to build a new airport taken in 1989 in part as a confidence booster in the wake of the impact of the June 4, 1989 Incident in Beijing on confidence in Hong Kong, and the decision to set up the Hospital Authority in December 1990. Among regulatory policies, non-incremental policy decisions include the government's unprecedented decision to use \$118 billion of public funds to buy stocks in the stock market in August 1998 to 'counter speculative attacks and market manipulation' (Hong Kong Government, 1998; 88 and 91). Although it may be argued that these decisions were taken during times of environmental turbulence, policy in many other sectors continued to be made incrementally during the same period. A sector-by-sector approach is required that acknowledges multiple factors that might account for non-incremental decisions, such as the severity of the problem, learning, new leadership, and so forth.

Public policy starts as a problem recognized as appropriate for government action by a department or policy bureau. Bureaus then typically carry out research (either in house but often contracted out to consultants) to identify the causes of the problem, possible courses of action, and the feasibility of these actions. Generally, only a limited number of options is considered to solve (or sometimes only to ameliorate) a problem. Government studies the feasibility of a limited number of options that are found to be acceptable (politically, socially, economically, and so forth).

Critical problems that straddle several government agencies may be handed to the Central Policy Unit, a body set up in April 1989 to advise the Governor/CE, Chief Secretary, and Financial Secretary. In the late 1990s much of the work of the CPU was related to the annual policy address and budget exercises,<sup>8</sup> especially coordinating the annual Policy Address. The CPU reportedly 'consults widely with business and professional circles, political organizations and concern groups and the academic community' (Hong Kong Government, 2001; 20). In practice, CPU consultation is relatively narrow.

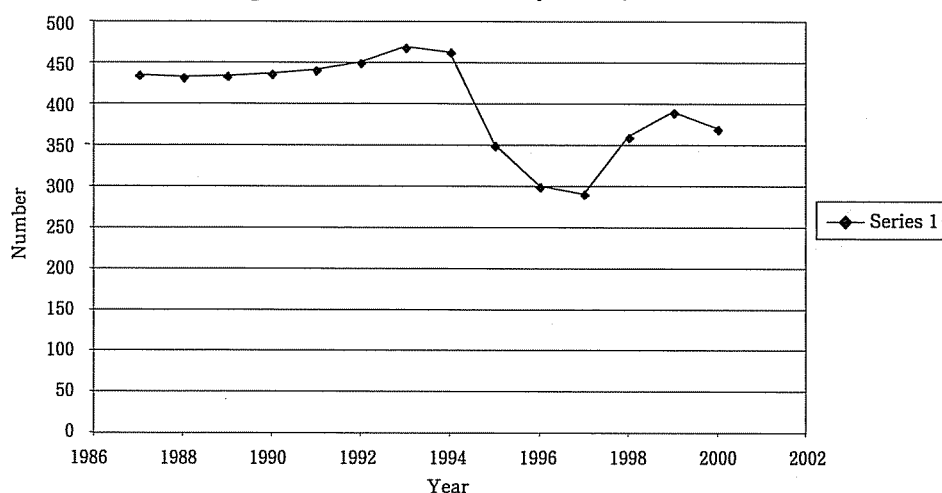
Having identified a few policy options and evaluated their feasibility the bureau may consult interested parties about their preferences, and the proposals' appropriateness and feasibility (including, as we saw above, representatives of political parties in Legco). In most cases, consultation is undertaken after the government has identified a preferred course of action. Consultation may be either relatively narrow (for example, informally discussing the proposal with interested parties or formally bringing a policy proposal to an advisory committee set up by the bureau or department) or relatively wide (for example, publicly issuing a consultative document and declaring a period of time during which members of the public may express their views). Both types of consultation may go on at the same time. Consultation on most public policy is of the narrow variety. Usually only those issues that the government perceives have a wide impact on the community or are likely to spark

controversy will be consulted on more widely.

The government has established a network of advisory committees that it consults on policy matters. The government established more than 400 of these bodies in the 1980s. From 1995 to 1997, however, the number of advisory bodies was cut back, but has grown again since 1997 (See Figure 2). The total number of members of these committees has ranged from about 4,700 in 1987 to 5,720 in 1994. In 2001 the government reported that it consulted 600 advisory *and statutory* bodies or about 5,900 members of the public on various issues (Hong Kong Government, 2001; 18).

According to the government, it consults advisory committees to obtain 'the best possible advice on which to base decisions' (Hong Kong Government, 2001; 18) and people are appointed to the committees and boards 'in view of their specialist knowledge or expertise, their record or interest in contributing to community service, and the specific needs of the concerned bodies' (Hong Kong Government, 2001; 18). In practice, however, the government draws on a narrow group within society to staff advisory committees. According to one study, advisory positions are circulated around a group of 300 or so people (Cheng, 2001 in Lo, 2001; 240), most of whom are government supporters. Close to 100 seats are filled by Legco members, mostly drawn from among DAB and Liberal Party members (SCMP Oct. 14, 2002). Multiple committee memberships are common for the elite. Committee membership may be a form of patronage to recognize the support of friends (SCMP Oct. 14, 2002; Lo, 2001; 240). As Lo Siu-hing observes, since 1997 'more friends and supporters of the HKSAR government are rewarded with appointed positions in advisory committees, whereas the critics and opponents are consistently excluded' (Lo, 2001; 240). Since the mid-1980s government has brought new groups into the consultative process, especially those with close ties to Beijing. Representative of this change of orientation was the appointment of the former editor of *Ta Kung Pao*, a newspaper con-

Figure 2 Number of Advisory Bodies, 1987–2000



Source: Hong Kong Government Annual Reports, various years.

trolled by the Chinese Communist Party in Hong Kong to a senior position in the Central Policy Unit in 1997.

It is likely that the consultative bodies have relatively little impact on policy outcomes. Writing in 1996 Miners concludes that 'the main function of advisory committees is to bolster the legitimacy of the colonial government and to build a consensus in support of its policies' (Miners, 1996; 251). As Miners points out, because they are consultative bodies, advisory committees do not have veto power over government proposals. Rather, business leaders have adopted the strategy of 'conced[ing] in principle that the bill is necessary, but seek[ing] to modify the details of the application of the policy so as to minimize the costs that the industry will incur' (Miners, 1996; 253). The role of advisory committees has changed little since then.

Relatively wider consultation may involve issuing a consultation paper and inviting comments from the public during an official consultation period. Since 1997 the government has issued XX consultation documents, considerably more than in the mid-1980s. Generally, consultation documents identify several ways forward and, through their presentation of the options, indicate the government's preferred policy.

Consultation exercises serve a variety of functions. First, they allow government officials to prepare the public for the introduction of controversial policies. The policy of charging for emergency services in public hospitals was first mooted in a consultation document on public health policy in 200X. So too were the policies on social welfare, housing, education, civil service reform and so forth. Second, consultation exercises require government to defend policy options, which may either win support for a particular course of action or alert the public to unpopular policies and permit them to mobilize some opposition.

Consultation exercises do not usually result in major changes to policy proposals, however. As the consultation exercise associated with the introduction of the 1999 civil service reforms reveals (Civil Service Bureau, 1999), virtually all of the government's preferred policies were adopted even though some of them were strongly contested by staff unions. Pressure from unions, however, resulted in a significant number of civil servants (the disciplined services which makes up about 30 percent of the total) being exempted from one of the major policies. Pressed especially by police staff associations, the government did not implement its policy of granting permanent contracts after 6 years rather than 3 to the disciplined services (See Table 3). In virtually all other areas government imposed the reforms on the civil servants in spite of opposition expressed during the consultation exercise. Government could do so, in part, because the reforms had strong public support.

As we have seen, once a bureau has decided on a policy it will be discussed by the Chief Secretary's policy committee. Submitting the policy to the Executive Council follows approval by the committee.

Policy changes are the result of changing policy contexts but leadership changes and changing bureaucratic configurations can also make a difference, as the case of the government's 2002 decision to shelve the building of a highway in favor

**Table 3** Impact of Consultation on the 1999 Civil Service Reform Policy

Proposal	Accepted or Contested	Became Policy (Yes or No)	Remark
Extend probationary period from 3 to 6 years on appointment	Contested	Yes	Implemented from 1 June 2001; Disciplined services exempt
Replace pensions with provident fund	Contested	Yes	Being implemented
Relax permanent tenure for civil servants	Contested	Yes	
Introduce voluntary redundancy scheme	Accepted	Yes	9,700 took advantage of scheme
Introduce management-initiated retirement for directorate	Contested	Yes	At least 10 have been removed based on this policy
Carry out starting salaries review	Contested	Yes	Entry pay cuts of from 17–31% implemented in 2001
Implement performance-based pay	Contested	Yes	Trials in selected departments and units
Review pay mechanism	Accepted	Yes	Initial reports published;
Cut or monetize fringe benefits	Accepted	Yes	Implemented since 1 June 2001
Simplify disciplinary procedures	Accepted	Yes	Implemented?
Set up central secretariat to handle discipline cases	Accepted	Yes	Implemented
Invest in more training and development	Accepted	Yes	\$50m additional funds invested in training
Service-wide pay cuts	Contested	Yes	Implemented on Oct 1, 2002

Sources: Civil Service Bureau (1999), *Civil Service into the 21<sup>st</sup> Century* HK: Printing Department; CSB Newsletter.

of extending a railroad on Hong Kong Island reveals (See *SCMP* Oct. 7, 2002). Although the government's official policy accorded priority to rail as the 'backbone of the transportation system' (Transport Bureau, DATE), in 199X officials announced that they would build a 6-lane highway along the coast of Hong Kong island to connect Kennedy Town to Aberdeen. Elected legislator Christine Loh then mobilized forces outside government to oppose the highway, which eventually coalesced into an NGO, Save Our Shorelines (SOS). The highway was, however, supported by appointed District Councillors of the affected area. SOS lobbied government to stop the highway and replace it with rail. Lobbying was directed at the Transportation Bureau and the Transportation Department, both headed by career civil servants (administrative officers). Officials pointed out that rail would be much more costly than building the highway and that the population of the southern side of the island did not justify rail (that is, the Mass Transit Railway Corporation, which is a commercial venture would be unable to make money on the line). SOS challenged the

government's planning assumptions which, they said, did not provide for a level playing field. Government was prepared to build (subsidize) highways at no return (use was free) but not prepared to subsidize rail where users would pay. SOS also pointed out the relative benefits to the environment of rail over roads.

In 2001–02 the policy environment changed radically. First, because of continued economic recession, government became more concerned about budget deficits. Second, the collapse of the property market meant that the traditional way of financing rail through property development along the rail right of way, was no longer viable. As a result, the MTRC began to demand that government subsidize its activities (SCMP Oct. 10, 2002). Third, government realized that it would be cheaper to subsidize the cost of building the rail line (because fees would be charged for its use) than to build the road (which would be used for free). The MTRC has requested a subsidy of \$4 billion for the line, compared to an estimated cost of HK\$ 6 billion to build the road (SCMP Oct. 7, 2002 and <http://www.netvigator.com/eng/environment/route><sup>7</sup> [Nov. 6, 2002]).

In addition to these changes to the policy context the CE re-organized the government and brought in leaders from outside the civil service, changes which have likely had an impact on the result. As a result of the new accountability system, and after considerable debate and some last minute changes, environmental protection was combined with transport and works into a single policy portfolio. Critics feared that as a result, environmental protection issues would receive a relatively low priority. However, the CE then appointed Sarah Liao Sau-tung, an outsider with impeccable environmental protection credentials, to take charge of the new portfolio. These forces coalesced to support a decision to replace road with rail in the area. Had the new portfolio gone to someone less interested in environmental issues, the outcome might have been different. Moreover, when she took over the portfolio, a viable alternative to the highway already existed, prepared by the SOS. In this case, an NGO may have had some influence. Still, the necessary conditions for the change of policy were economic recession and budget deficits, which forced the government to re-examine its planning assumptions.

### ***Implementation***

For many years well before the mid-1980s the Hong Kong government has relied on public-private partnerships to deliver public services. The partnerships tend to be directly funded by government through a subvention system that subsidizes producers (not consumers) and exercise controls through administrative regulation. The result is a relatively centralized and uniform provision of services, an outcome perhaps related to Hong Kong's small size. Hong Kong's economic problems in the 1990s have encouraged authorities to seek ways to downsize the state through corporatization, contracting out and privatization. Reliance on markets that might include consumer subsidies, vouchers or trading of the right to pollute is only now being discussed in Hong Kong but has yet to be implemented.

In some respects, housing policy is generally representative of public policy implementation in Hong Kong. First, government has relied on a variety of policy

**Table 4** Public Policy Instruments

<i>Policy Arena</i>	<i>Provision</i>	<i>Instruments</i>
Education	Public/private	Mostly provided by subsidized private operators, controlled through regulation
Social Welfare	Public/private	Mostly provided by subsidized private NGOs, controlled through regulation and contracts
Housing	Public/private	Public housing directly provided; 44% of the population live in public housing; indirect control of property market through ownership of all land
Public Health	Mostly Public	Mostly provided by public sector through Hospital Authority; 90% of population relies on public sector health
Transport	Private regulated	Infrastructure publicly provided; Mostly provided by private sector under scheme of control without subsidies
Public Utilities	Mostly private regulated	Mostly provided by private sector monopolies under scheme of control (gas, electric) Water is a public monopoly
Environmental Protection	Regulated	Administrative rules

instruments including direct provision, public-private partnerships, privatization and contracting out. Second, although government has permitted some public participation via the Housing Authority (see below), the civil service continues to dominate policy in this area. Third, the case reveals the government's reliance on administrative controls and market intervention to achieve its objectives.

Hong Kong's entry into the direct provision of mass public housing dates from 1953. By 1985 about 45 percent of Hong Kong's population lived in some kind of public housing, either rented or purchased at subsidized prices (Hong Kong Government, 1985: 164). In 1985 government spent only 4.2 percent of its recurrent and capital expenditure on housing. By 2001, approximately the same percentage of the population lived in public housing of one kind or another<sup>9</sup> but the government was spending about 13 percent of its budget on housing.

Hong Kong's public housing policy is made by the Housing Planning and Lands Bureau, which in July 2002 was merged with the Housing Department. The new Bureau is responsible for making and implementing housing policy and is a major direct supplier of public rental and home ownership scheme flats in Hong Kong (<http://www.info.gov.hk/hplb-h> [Nov. 7, 2002]). A separate statutory body, the Housing Authority, set up in 1973 under the Housing Ordinance, also has public housing policy making and implementation duties. The HA describes itself as 'a statutory body responsible for implementing Hong Kong's public housing programme within the objectives of the Government's Long Term Housing Strategy'. The Chairman of the HA is appointed by the Chief Executive and is not a civil servant or minister (The current Chairman, Cheng Hon-kwan is a former Legco and Exco member, and a structural engineer by training.) Membership consists of a Vice Chairman who is the Director of Housing, and 24 members. The Secretary of Hous-

ing, Planning and Lands, the Secretary for Financial Services and the Treasury, and the Director of Lands or their deputies are official members of the HA. The membership is drawn from among the Legislative Council, business and the professions to provide some kind of vehicle for public participation. The HA's principal source of income, Home Ownership Scheme flats, was used to subsidize public rental flats.

The HPL Bureau directly provides public housing services, which were provided previously by a separate Housing Department, as the implementing agency. The Bureau makes policy (currently to 'achieve better housing for all' by reducing the number of inadequately housed people, help all households to gain access to affordable housing, and encourage home ownership in the community) and then arranges and supervises its implementation. This involves building and managing public rental flats, tasks which increasingly are managed under contract or outsourced. The bureau is also responsible for the sale of public rental flats and for the construction and sale of Home Ownership Scheme flats.

When he took office in 1997, the CE announced very clear targets for public housing: the annual production of 85,000 units of public and private housing per year; raising the home ownership rate to 70 percent by 2007 (it was 52 percent in 1996); and shortening the waiting time for public rental housing to three years by 2005. These targets had emerged from a consultation exercise begun in January 1997 on the government's long term housing strategy. The targets were based, however, on planning assumptions that the pre-1997 economic boom, property bubble, and high interest rates would continue. As Chiu points out, the planning assumptions turned out to be unrealistic and the government could not reach the targets (Chiu, 1999). By July 2000 the CE admitted that the target had been abandoned in 1998 (See Table 5). (Curiously, the Secretary for Housing, the HA, and the Housing Department reportedly were unaware that the policy had been abandoned in 1998. Thus, the 1999 Policy Address continued to refer to it.)

As the property bubble began to burst in late 1997-early 1998, government announced that it would begin selling off public rental housing at steep discounts in phases (Lok, 2002; 175-197). By 2001, some 107,900 units had been offered for sale, and more than 70,000 households had bought flats under the scheme. Critics of this policy have argued that the knock-on effects of this policy contributed to Hong Kong's economic decline in 1998-99 (Lok, 2002). Rather than purchasing HOS flats from HOS tenants who could sell them after a fixed period as they upgraded, richer tenants in public housing flats bought these flats at large discounts.

The sell-off of public rental housing meant that the Housing Department no longer would manage the now privately-owned properties. As a result of this and other changes, the HD shed almost a third of its work force (the Department downsized from a headcount of 14,017 in 1998 to 10,220 in 2002, a cut of about 27 percent) (Civil Service Bureau, 1998 and 2002). Housing Managers protested vigorously at the loss of their jobs but to no avail. The Housing Department helped them to set up their own management companies and promised to steer management contracts to the companies for a fixed period of time. That is, management of many of Hong Kong's former public housing estates has been privatized.

Table 5 Hong Kong's Housing Policy, 1997–2002

<i>Date</i>	<i>Policies</i>	<i>Official Comment</i>
July 1, 1997	Targets of 85,000 public and private housing units per year; 70% home ownership by 2007; reduce waiting time for public rental housing to 3 years	Chief Executive: 'Achieving these targets will be a considerable challenge. It is not such a matter of producing more flats, but of ensuring an even annual supply and a high degree of predictability that supply will be sustained'
Jan. 1998	Government begins selling off 107,900 public rental flats to tenants at well-below market prices. By 2001, 70,596 households had bought flats	
June 22, 1998	Suspend land sales for rest of financial year; freeze private treaty grants for Sandwich Class Housing sites; Home Starter Loan Scheme funding doubled from \$3.6b to \$7.2b, increasing eligible families from 6,000 to 12,000; Increase quota of families eligible for the Home Purchase Loan Scheme from 4,500 to 10,000	CE: 'We have decided to re-think the situation. It's not a case of we are doing this today and that tomorrow. We have done all that we should and can do.'
July 1, 2000	Housing Authority (HA) says 16,000 Home Ownership Scheme flats will be used as rental apartments instead of sold over the next 4 years	HA Chairman: 'We will flexibly adjust the scheme in response to changing market needs and conditions and continue to make use of market forces to satisfy people's housing needs.'
July 5, 2000	CE announces that the 85,000 units target was abandoned in 1998	CE: 'Due to the significant changes in the economic environment in 1997 and 1998, the measures for supplying housing units were adjusted in the 1998 Policy Address. As a result, the target of constructing 85,000 flats no longer exists.'
Sept. 3, 2001	Sale of government subsidized HOS flats suspended for 10 months; HOS flat sales to be capped at 9,000/yr up to 2005–06 (if they resume); Quota of first-home buyer families for Home Purchase Loan Scheme raised from 4,500 to 16,500	Chief Secretary: 'It is unfair to say we bowed to pressure from developers to prop up property prices. We have not considered property prices. We have not stopped the construction. We only stopped the sales.'
Nov. 13 2002	Suspended all land auctions until end of 2003; Property development tenders from KCRC and MTRC suspended until end of 2003; HOS to cease indefinitely from 2003; Sales of public rental flats cancelled; All mixed development projects under the HA and Housing Society stopped; Government housing loan scheme continues; Construction of public rental flats continues; Tenancy laws to be relaxed; Anti-speculation measures to be relaxed	CE: 'A major cause of our persistent deflation is the estimated 65% drop in property prices or rentals since the bursting of the bubble economy ... The government will take resolute measures to stabilize property prices and the property market, to restore public confidence in property ownership, and at the end to speed up the recovery of our economy'

Source: SCMP November 14, 2002 and Hong Kong Government, *Hong Kong 1998, 1999, 2000, 2001*. Hong Kong; Printing Department.

By mid-1998 the government became alarmed at the slide in property prices, which by that time had fallen by about 40 percent in about a year. In June, it suspended all land sales until March 1999 and attempted to slow the production of new HOS estates. That is, in a little over a year after the government's ambitious housing target of 85,000 units was launched, authorities were taking steps to cut supply. The CE pointed out: 'We have decided to re-think the situation. It's not a case of we are doing this today and that tomorrow. We have done all that we should and can do' (See Table 5). Government intervened this time to stabilize prices and reduce supply. Further steps were taken in July 2000 when the HA announced that it would rent HOS flats rather than sell them for at least four years. Although the sale of public rental flats was continued, cutting back on the HOS scheme made it less likely that the government would achieve its 1997 policy goal of 70 percent homeowner-ship.

Property prices continued downward in 2000 and 2001. The government announced in September 2001 that it would stop selling HOS flats for ten months and that it would cap the number of HOS flats at 9,000 per year up to 2005-2006. Again, although the Chief Secretary denied this, the goal appears to have been to stabilize property prices. By November 2002 more drastic apparently action was needed and all land sales were cancelled until 2003 and the government announced that the HOS would 'cease indefinitely' from 2003. Moreover, all sales of public rental flats would stop as well (See Table 5).

This discussion reveals the tight relationship between policy formulation and implementation. As circumstances changed in the course of implementation, government adjusted its goals and then further adjusted the policy instruments in an iterative process, a process that looks set to continue. The case also reveals that although the government has used contracting and privatization to achieve its ever-changing goals, its principal instruments were administrative commands. Arguably this policy was made during a period of relatively severe economic turbulence, including the Asian Financial crisis, yet decision making was clearly incremental. Only a limited range of policy options was considered. Moreover, the case reveals the dominate role of the bureaucracy in decision making. Although a public body, the HA, has existed for many years, it apparently played virtually no role in the key decisions to abandon the 1997 policy goals. Finally, the case reveals the very substantial role the government plays in the housing market and, indeed, the economy. The government's decision to sell or not sell land, for example, has direct consequences for housing prices (and, of course, public revenue). In this case the government has acted less as a regulator of the market than as a direct participant. Moreover, government's November 2002 policy of suspending the HOS rather than canceling it outright is an indication of possible further interventions to stabilize prices or achieve other as yet unstated goals.

In other policies in the distributive arena, government has also used forms contracting. In Hong Kong social welfare services are delivered in part by the Social Welfare Department directly, but mostly by about 180 NGOs. Traditionally, SWD has provided subsidies to the NGOs to carry out certain projects on its behalf.

Government has set up a service performance monitoring system to ensure that it gets value for money. Service quality is assessed based on service quality standards and funding and service agreements developed for each specific service (Hong Kong Government, 1999; 203). Generally, NGOs bid for contracts to run SWD service and in 2000–01 HK\$29.775 billion was spent on subventions for services carried out by local NGOs (Wong, 2002).

In January 2001 to increase flexibility and to reduce costs, SWD introduced the lump sum grant subvention system (Hong Kong Government, 2001; 188; Wong, 2002). The system encourages NGOs to manage their services on what amounts in many cases to less money than they received previously. This is the result of the Benchmark approach for determining standard funding levels for all services and which calculates salary costs at the mid-point of salary scales. Consequently, those NGOs that employ more experienced and costly staff will be penalized by the system. Although NGOs have the authority to spend the lump sum any way they want, the new policy in effect amounts to a cut in subsidy level. NGOs have until 2005–06 to implement the scheme (Wong, 2002). By 2001, 127 NGOs had switched to the new funding mechanism covering 90 percent of total subventions (Hong Kong Government, 2001; 188).

In social welfare policy, public-private partnerships are well established. Moreover, NGOs must bid for service contracts and are responsible for managing them under the supervision of the SWD. Through the strategic use of carrots and sticks, civil service manages the implementation of policy in the social welfare arena.

In the regulative policy arena, the government has established trading funds to improve the deliver of public services (See Cheung, 2001; 203–228; Burns, 2002; 275–278). Trading funds were implemented in Hong Kong beginning in 1993, more than 20 years after they first appeared in the UK. Trading funds have been established in the Companies Registry, Lands Registry, Office of Telecommunications Authority, all arguably 'regulative', and in the Post Office, and the Electrical and Mechanical Services Department (E & MSD). Generally, trading funds in Hong Kong have been a form of financial decentralization. Moreover, in all but one case (E & MSD) they have been set up as monopolies, and have not achieved the human resource flexibilities or efficiencies that competition would entail. Still, cultures in the departments have become more service and business oriented, and undoubtedly their performance has improved. In these cases, then, although managers had more flexibility than did their counterparts in traditional civil service departments, market mechanisms were not used as a policy instrument.

Compared to the mid-1980s, Hong Kong policy makers have adopted a wider range of policy instruments. Still, there are remarkable continuities, including the reliance on public-private partnerships and administrative controls rather than market mechanisms.

### ***Evaluation***

Since the mid-1980s external evaluation of public policy in Hong Kong has become a growth industry. Hong Kong's more assertive civil society has been accom-

panied by setting up of new public institutions, such as the Ombudsman. Still, because of Hong Kong's political system, holding government to account (that is, both answerable and responsible) is not well developed (Burns, forthcoming).

Evaluation of public policy is carried out through a variety of means, including supervision by the legislature, Ombudsman, audit, interest groups, and the media. Legco's systems of panels and committees hold regular meetings and cross examine officials on policy goals and its implementation. Virtually every area of government policy is covered by Legco panel which meet weekly. Through these meetings and the papers provided by government to them additional details including the rationale for policy decisions and evaluation of policy options is made public.

Hong Kong's Ombudsman, set up in 1989, and initially staffed by seconded civil servants, a practice that will end by 2002–03 when an independent work force will be in place. All government departments except the police (which has a separate procedure for handling complaints) and many other non-government public bodies come under the purview of the office. As one would expect, many of the Ombudsman's direct investigations focus on those policy arenas of most concern to the public: housing, education, and public health (Hong Kong Government, 2001; 26). In 2001 the Ombudsman received more than 4,000 complaints, up from 3,300 complaints the year before. Only a very small number of complaints is substantiated, however (only 69 in 2000–2001).

The Director of Audit also evaluates public policy through value for money studies which have been carried out since guidelines for them were approved in November 1986. These and the Director of Audit's reports are submitted to the President of the Legco and are considered by Legco's Public Accounts Committee. In 2001 the Director submitted three reports: one on the audit certification of the government's accounts for the preceding financial year and two value-for-money audits (Hong Kong Government, 2001; 27). The reports provide important information to Legco, the government, and the community on the extent to which policy is efficiently and effectively implemented.

## Conclusion

'New public management' is, in part, an approach to the management of the policy process that includes specific policies (deregulation, decentralization, decontrol), policy instruments (markets, contracts, privatization, and so forth), and policy structures (separation of policy making from implementation) (See Table 6). We can see that Hong Kong's policy process has adopted some NPM-like approaches.

**Table 6** New Public Management and the Policy Process

Policies	Deregulation, decentralization, small public sector
Instruments	Markets, competition, choice, contracts; contracting out, privatization, vouchers, loans rather than provision;
Structures	Separate for policy making and implementation

Sources: Adapted from Hood 1991; Lane DATE.

First, from the McKinsey exercise in 1972, Hong Kong's central government institutions have been organized along 'NPM' lines. The government secretariat organized into policy and resource bureaus was created at the center to make policy, while departments were charged with implementing it. These arrangements lasted until 2002 when the CE implemented the executive accountability system. In quick succession policy bureaus and departments for housing and education were merged, and further mergers were being considered. The new structures have a number of advantages: they will allow government to cut costs by deleting senior posts and policy makers will be closer to those implementing the policy and thus at least theoretically able to exercise more effective supervision. These structures recognize the truth that separating policy making and implementation although logically possible, in practice is quite difficult. Our housing case, discussed above, illustrates this point.

Second, Hong Kong policy makers have used a variety of NPM-like policy instruments including contracting out and privatization. With the economic recession, further reliance on these mechanisms to downsize the civil service is likely. But Hong Kong has also relied extensively on public-private partnerships to deliver services, a kind of intermediate policy instrument, not strictly in the NPM domain (Thynne, forthcoming). Moreover, the government has eschewed internal markets to improve efficiency within government, preferring instead to set up trading funds that were also monopolies. Exercising tight administrative control through conditionalities built into the subvention system is also a characteristic of Hong Kong's approach.

Third, Hong Kong's approach to public policy in some areas, such as housing, betrays its inability to let market mechanisms operate relatively freely. We have seen that the government is deeply involved in the provision and distribution of housing, so much so that it competes directly with the private sector. In other policy arenas, however, such as telecommunications, government has pursued policies to break up monopoly and spur competition.

Finally, Hong Kong's approach has been to pursue both regulation and deregulation at the same time. Since the mid-1980s, for example, regulation has grown due to market failures (banking, insurance, travel agents, real estate agents, and so forth). At the same time, government has moved to deregulate some industries such as telecommunications and banking.

Compared to the mid-1980s the continuities in the policy process are striking. First, Hong Kong's bureaucratic elite, the administrative officer grade continues to play the dominant role in policy making, although since July 2002 they share some power with politically-appointed officials accountable to the CE. These officials, however, either came from the AO grade themselves or are heavily dependent on AOs to help them sort through policy options. The AO grade has a virtual monopoly on information on the feasibility of policy. Because politically-appointed officials are supported neither by their own staffs brought in from outside or political parties, the role of AOs continues to be very significant.

Second, the consultative process in the course of policy making has changed relatively little over the years. Although new groups legitimately entered the politi-

cal process after 1997 they have not generally been very effective at moving policy away pre-1997 trajectories. Incrementalism has once again triumphed in spite of turbulence in the external environment. Government continues to consult from a narrow group of mainly business and professional elites. Generally consultation now is no more effective at influencing policy than it was in the mid-1980s.

Third, the government's 'disarticulated' bureaucracy (not just political system) has undermined efforts to achieve policy co-ordination. Although a lack of policy co-ordination is not new, its affects and the public's perception of its seriousness have been magnified in recent years by Hong Kong's economic problems. Efforts to address the problem include the decision since 2002 to merge some policy bureaus with departments (housing and education). Further structural reforms are also required.

Fourth, although it may be argued that the government is learning as it goes, inconsistency in public policy (housing and education [mother-tongue teaching, not discussed here]) has undermined public confidence in government's policy capacity. This is a serious problem that must be urgently addressed.

Finally, Hong Kong's disarticulated political institutions (that is the absence of a political *system*) are undermining policy making and administrative capacities. This is because the public's expectations have been raised and government is unable to meet them. Bereft of the most basic integrating political institution, political parties who may take power, Hong Kong's disabled policy process is likely to continue for some time to come.

#### Notes

- 1 The press reported that the Executive Council was divided when it first considered the issue of civil service pay cuts on DATE. At a subsequent meeting to consider the same issue the Council endorsed the cuts (SOURCE).
- 2 See Norman Miners, *The Government and Politics of Hong Kong* 5<sup>th</sup> ed., HK: OUP, 1991. At the time of writing, the government announced that the Education and Manpower Bureau would merge with the Education Department. Similar mergers were also reported for the housing.
- 3 Career civil servants were required to resign from the civil service to take the politically-appointed positions.
- 4 The Chief Secretary earns \$330,565, while the Financial Secretary earns \$319,385 inclusive of benefits (SCMP Nov. 7, 2002).
- 5 The Commander of British Forces was also an ex-officio member as were the Secretary for District Administration and the Secretary for Trade and Industry (See the Hong Kong Government (1985) *Hong Kong 1985*, Hong Kong: Government Printer, p. 345.
- 6 In 1996 the Election Committee was composed of 400 members and in 2002 of 800 members.
- 7 See Minutes of the Joint Meeting of Panels of Housing and Planning and Works, July 24, 1997 (PLC Paper No. CB(1) 146; Ref: CB1/PL/HG/1, CB1/P1/PLW/1).
- 8 In 1995 and 1996 the CPU produced 350 and 380 reports and papers respectively on economic, social, administrative and political issues.
- 9 In 2001 Government reported that 31.35% of the population or 2.12 million people lived in public rental housing. Total housing stock was about 2.1 million flats, of which 0.7 mil-

lion were public rental housing flats and 0.4 percent were subsidized home ownership flats (Hong Kong Government, 2001; 200 and 206).

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