THE BROOKINGS INSTITUTION

FALK AUDITORIUM

HONG KONG IN THE SHADOW OF CHINA: LIVING WITH THE LEVIATHAN

Washington, D.C.

Tuesday, October 4, 2016

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P R O C E E D I N G S

MR. BUSH: All right, good morning. Thank you all for coming. I understand that there are serious problems on the red line this morning, and I'm in the midst of orange line hell, myself. So I hope maybe some other people will come in, once we get started.

I'm Richard Bush. I'm the speaker today, and I'm really grateful for your coming. Actually, I'm grateful to a lot of people; to Jim Keith, my friend and former government colleague for being my commentator. I'm grateful to my staff for their support, and particularly Maeve Whelan-Wuest, my assistant, who did assist in a myriad of ways.

I have a lot of colleagues in the foreign policy program who have been very supportive; particularly, Bruce Jones and Michael Hanlon. Then there are the outstanding folks at the Brookings Press who turned my Word documents into a really nice looking book. Most of all, I'm grateful to countless friends in Hong Kong who were very generous with their time and their ideas, and who have made a major contribution to the findings of my book. I'm sure I've left out a lot of people. I apologize for doing so. Oh, my friend, Al Sung, who came down from Connecticut just for this program. I did forget somebody.

Now, we started today's program with this very cool video of the streets of Admiralty on the waterfront in Hong Kong, taken from UAVs. And we did so because it reveals something remarkable about the place. You know, by and large, the Umbrella Movement of the fall of 2014 was a very peaceful, well organized and civilized protest. Most of those participating where highly idealistic, and they sought only the best for the future of their city.

It's true that the Hong Kong police used pepper spray and tear gas in the

beginning, but after that, they showed pretty remarkable restraint in the Admiralty and causeway bay areas of occupation. Mong Kok on Kowloon had more conflict, but Mong Kok has always complicated socially.

What the demonstrators were doing was technically legal; occupying a public thoroughfare and disrupting the life of the city, but the police let it continue. They occupiers demonstrated a high degree of organization in the areas where they camped out. The tends were numbered, and you know, if you were the parent of somebody concerned, you could send a letter to tent number 240 in Admiralty, and the very conscientious Hong Kong post office would deliver the letter to tent number 240.

And the protest ended not with Tiananmen style violence, but as a result of street clearing actions ordered by the courts. The movement may have changed the rules of the political game in Hong Kong, but it could have ended much worse. But this was only the middle and the most electrifying episode in a long-running debate over electoral reform in Taiwan -- in Hong Kong.

It was an improvised instrument that one side in this debate used to get the outcome it wanted. But one has to say that the students and others that led the Umbrella Movement failed in that objective. The other maiden players in the contest were the government of China, Hong Kong sovereign and the Hong Kong, Beijing's main agent in the city.

And they wanted to change the method of selecting the chief executive of the Hong Kong Special Administrative region. Beijing was willing to end selection by a 1,200-person election committee composed mainly of China-friendly people, and institute a universal suffrage election, but there was a catch. Beijing insisted that the candidates for that election be picked by a 1,200 person nominating committee composed of, you guessed it, 1,200 members, most of whom were friendly to Beijing. It was this proposal

that the Umbrella Movement was protesting. It wanted a system where even a fairly small percentage of registered voters could place someone in nomination.

Now, so you have the protestors on one side, the two governments on the other. In the middle, there were a lot of sensible people who understood that the demands of the occupied people were excessive, and that Beijing was being too rigid. They understood that the system Hong Kong needed was one that permitted a competitive election by candidates who represented the major viewpoints in Hong Kong society; essentially, the establishment versus the democratic camp.

A compromise was not out of the question. Hong Kong has plenty of smart people in government, in business, in universities and civil society. Most of the public figures in Hong Kong know each other. They went to middle school together. They went to university together. They've been arguing and agreeing about politics for decades. Hong Kong really is a small place. This was not beyond the realm of possibility.

The fact that a compromise did not happen is something that needs to be explained, and that's what my book tries to do. But my book goes beyond that, because I sort of came to understand very clearly that reform to the electoral system may be a necessary condition for bringing about good governance in Hong Kong, and facilitate the addressing of the many problems the society faces, but it's not a sufficient condition.

Now, before I offer my explanation of why a compromise didn't happen, I need to give you a short primer on the political system. So from the time the British began to acquire Hong Kong in 1842 until fairly recently, the city essentially had no politics. It was an economic city.

After 1949, the refugees who made up most of the population had to work very hard to keep body and soul together. Politics was the furthest thing from their

minds. And the British had reasons, not all bad reasons, for deferring democracy. When China and Great Britain in 1984 on the terms of transfer of sovereignty from the UK back to China, I suspect that Chinese leaders thought that what they were getting was an economic city.

But by 1997, when Hong Kong became the sovereign territory of the PRC, it was a very political city and still is today. One reason for that was Tiananmen, and the fear that the crackdown provoked in Taiwan. Second, the British took steps, starting in the 1980s, to move the city towards democracy. Third, as a result of globalization, technological change and government policy, inequality in Hong Kong got very high. Its income genie coefficient is 53.7, which is the 11th most unequal in the world. But inequality exists also in education, employment and particularly, housing, and the sense of grievant about inequality fed political protests.

And more recently is what one might call the millennialization of the politics, which has occurred in most societies. Beginning in 1989 Hong Kong developed a culture of protest. For a long time, this meant orderly demonstrations by middle-class people. In the last decade, however, the protests have been increasingly less orderly and dominated by young millennials. The Umbrella Movement was the culmination of that trend.

The final reason why Hong Kong is a political city is China. Ironically, Beijing agreed back in 1984 to preserve in Hong Kong, the rule of law and civil and political rights, a liberal order, even as it refused to permit popular elections for some key political offices, like the chief executive. And all of this was enshrined in the basic law.

So, the Chinese-Communist party permitted demonstrations and generally lively free press and vibrant civil society in at least one jurisdiction of the PRC. Hong Kong has what political scientists call a hybrid regime. It has some elements of

whole democracy, but not all. And so, about half of the members of the legislative council, LEGCO, for short, are picked in popular elections. The other half are picked in so-called functional constituencies, many of which represent business interests and have a small number of electors.

But in those elections that reflect the popular will, such as some of those that, in the LEGCO elections one month ago, the Democratic or anti-establishment campus consistently received the support of between 55 and 60 percent of the public. But despite these sentiments, Beijing created and has preserved a system where it could control which Hong Kong people would be Hong Kong's political leaders. It co-opted the business community and other loyalists to block majority rule.

Now, coming back to the Umbrella Movement, in 2007, Beijing announced that it would move towards a system of electing the chief executive by universal suffrage, by which they meant one person, one vote. But there was this catch that the nominating committee would decide who actually got to run. This is what came to be called screening. China also signaled a willingness later on, to end functional consistencies for LEGCO, but there was another catch; this couldn't happen until the first election of the CE under the new system occurred.

A lot of people in Hong Kong argued that China was changing the system in a way that would expand the degree of participation, but preserve control over election outcomes. One reason for this, I think, was that coincident with everything that was going on in Hong Kong, the new Xi Jinping government was becoming more and more concerned about national security and the way events in places like Hong Kong could affect China's own national security.

So the debate from 2013 to 2015, which I cover in tedious detail in my book was about exactly how to reform this system. And the democratic forces in Hong

Kong, which are often divided, sought to exploit the universal suffrage opening to cut out the nominating committee. They used a variety of tactics to oppose screening; questioning Chinese sincerity, appealing to democratic principles, formulating compromised formulas, proposing radical alternatives or approaches, and threatening to engage in protests and civil disobedience.

The democrats had some leverage. China had declared that any election reform proposal had to pass LEGCO by a two-thirds vote, and the establishment forces did not have two-thirds of the membership on their side. So the Hong Kong SAR government, which would formulate the reform bill needed to secure the defection of at least four democratic members.

It was in late 2013 and the first half of 2014 that both preparations for civil disobedience and efforts to improve the nominating committee played out. Beijing chose not to respond to efforts to formulate or facilitate a compromise. It did a terrible job on making its case to the public. It empowered the very radicals that it seemed to fear.

So, civil disobedience became certain. The form it took, the Umbrella Movement, was a surprise. The movement had problems of its own. The occupation that occurred was not what had been was not what had been planned, and the one that happened was driven by impulse. There was a generational difference at work on how to respond to Beijing.

Once the occupation began, the protest movement floundered, because the protestors were divided on goals, strategy and tactics. The leaders found out it difficult or impossible to agree amongst themselves. They lacked an exit strategy and a sense of what they were willing to settle for. So positions on each side just hardened.

Then, something really interesting happened. The Hong Kong government substituted a proposal -- submitted a proposal to LEGCO in April, 2015, that

in my humble and contrarian opinion created a narrow pathway to a genuinely competitive election and the possibility of the election of a democratic chief executive.

Here's how it worked: Essentially, the proposal allowed within the nominating committee, consideration of a range of pre-candidates. Before the nominating committee selected the final candidates, they would consider a larger number you know, up to 10, of people who didn't have to get half or two-thirds in order to be considered. They only had to get one-tenth to one-fifth of the support of the committee. And this process would be transparent, so the public would know the policies and views of each candidate, and public opinion polls would show their relative popularity.

So if under this proposal the Democrats were united and strategic, they could put forward one, popular, moderate candidate, and such people do exist, and have that person nominated and run and have a good chance of winning, because of the underlying strong support for the democratic side.

Now, did this proposal create completely popular elections? No. Would Beijing -- pro-Beijing members of the nominating committee still have the votes to screen out a democratic candidate? Yes. Would Beijing have the formal authority to refuse to appoint someone who had actually been elected from the democratic camp? Yes.

But I'm told that Beijing understood clearly the implications of the proposal that the government was putting forward, and one needs to think about the reaction in Hong Kong, if the nominating committee had rejected a clearly acceptable candidate, or if Beijing had refused to appoint that person. Beijing's commitment to universal suffrage would have been exposed as a total sham, and the protests that would follow, I think, would make the Umbrella Movement look mild by comparison.

Regrettably, by the spring of 2014, the deciding factor in all of this was not the content of the government's proposal, but the deep mistrust that existed between

Democrats in Beijing. There was what one scholar called negotiation fatigue. Just as important was the mistrust within the democratic camp between moderates and radicals; radicals intimidated moderates into casting no votes. Beijing made little effort to reach out to moderates to secure their support. Tragically, the proposal was voted down.

Now, let me speak briefly about the implications of this for Taiwan and the role of the United States. "One Country, two systems", the formula under which the Hong Kong system was set up has never been popular in Taiwan. One of the reasons, of course, is that it created in Hong Kong only a semi democratic system. Taiwan now has full democracy. If you applied the original Hong Kong system to Taiwan, it would limit the power of the democratic progress party.

Taiwan's reaction to the Umbrella Movement was interesting. Initially, there was a lot of media coverage, but public attention soon shifted to other domestic issues. The DPP and the Green Media aligned with the Democracy Movement in Hong Kong to put President Ma Ying-jeou and the KMT on the defensive on the run-up to the 2014 elections. Their slogan was under the KMT, Today's Hong Kong is Tomorrow's Taiwan.

The most interesting reaction was from the public at large. It seems to me that the average Taiwan citizen started with the premise that Hong Kong and Taiwan were two very different cases, whatever the PRC government might say. Therefore, in the mind of the average citizen, what happened to electoral reform in Hong Kong had no relevance to Taiwan. I don't agree with that, but I think that's the view.

Taiwan aside, there is, I think, the more general signal that Beijing's treatment of Hong Kong sends around the region, about what kind of power it's going to be. We can talk about that in Q&A. As to the U.S. role concerning the occupied movement, Washington was actually in an awkward position during the debate over

electoral reform. On the one hand, we generally support democratization everywhere. On the other hand, the U.S. government acknowledges and accepts that Hong Kong is a special administrative region of China and that the basic law is the territory's constitutional document.

Complicating matters, PRC propagandas early on, and right up to today made the totally false allegations that the United States was the "black hand" behind efforts in Hong Kong to radicalize the struggle for electoral reform. The Communist press in Hong Kong worked overtime to create "evidence," to support its allegations, and the hypothesis was that the United States was promoting unrest in Hong Kong in order to bring about a color revolution there, and then use Hong Kong as a platform to destabilize the rest of China.

Such allegations were ludicrous, of course, but the implication for U.S. policy was that overt support of the democratic camp would only strengthen Chinese beliefs in American perfidy. We would become the issue. The Obama administration chose in a very subtle way, to position the United States in such a way that we reaffirmed the authority of the basic law, including the political freedoms that it bestows, but called for a genuinely competitive election.

Even if Washington had been willing to play a more role in support of the democratic forces in Hong Kong and was willing to bear the consequences for that, there was a practical problem, and that is that the democratic was divided. Would it have been in our interest to get in the middle of an interness-ing struggle, one in which mistrust between moderates and radicals was almost as bad as the mistrust between Democrats in Beijing?

So, let me take the last few minutes to look forward, and at the issues of economy and governance. I referred to the failure of electoral reform as a tragedy. It

was a tragedy, not only because less rigidity on each side might have led to a good enough outcome, but also because Hong Kong faces a host of policy problems that need to be addressed.

These include maintaining economic competitiveness, s China itself becomes more competitive, Hong Kong's cross-bid over the mainland's development, and for many years, its companies facilitated the development of Chinese manufacturing, but that role is disappearing. Now it's the city's financial service sector that Beijing needs, among other things, to facilitate the internationalization of the renminbi.

But that role won't last forever. Identifying the growth sectors for the future is not easy, and the price of real estate makes it expensive to do startups. Hong Kong has a first class education system, but some question exists whether it's creating the right kind of human capital for the future. All of these problems need to be addressed.

Second, there is the needs of the aging population. Already, 15.3 percent of the population is over 65, and the same percentages between 55 and 64. Third, there is the need to find the right balance in the government's budget among growth, social welfare and taxes, and fourth, there's the issue of the high inequality. Income, wealth, access to education, employment, and so on. Young people doubt today that they will achieve the same standard of living as their parents.

Tackling these problems requires an effective political system. That certainly requires a government that gains legitimacy because of its performance, but it also requires leaders who secure legitimacy from how they are chosen. The establishment camp has focused on policy performance and was willing to see gradual change in leadership selection.

The democratic camp has emphasized how leaders are selected and

less on performance, and this conflict gets played out in a variety of ways. For example, democratic members of LEGCO filibuster during consideration of the government's policy proposals. So little or nothing gets done, or it gets done far too slowly. What the city needs, I think, is a convergence between the two camps to revive the government's reputation for quality performance, and a greater role for the public in selecting leaders, and to facilitate a number of policy steps thereafter that will promote competitiveness and good government.

As a practical matter, that convergence cannot take place without electoral reform. That's the failure to move to universal suffrage was doubly tragic. Being the chief executive through genuinely competitive election would not have solved Hong Kong's problems, but I doubt that they can be addressed without more democratization.

I mentioned political and economic inequality before. Economists actually debate how important it is to reduce inequality in order to preserve a competitive economy. It's my judgment, however, that if China and the Hong Kong elite fail to address the issues of economic and political equality, they will find it difficult to induce the political stability on which competitiveness depends. And the only good way to encourage political stability is to give Hong Kong people reasons to believe that the system will work for them. The starting point for creating that political belief is to move towards full democracy, and to do so fairly quickly.

So at this point, what's the status of "one country, two systems?" What are China's options? As I've outlined, it seems like "one country, two systems" is not doing so well. An economic city has become a very political city, and young people are the ones who have the greatest sense of grievance. Many of them have a strong sense of localism; Hong Kong only identity, and then a smaller subset favor Hong Kong

independence, which in my view is impossible and impracticable, but they still believe it.

In the LEGCO elections that occurred a month ago today, what we used to call the democratic camp, and what I now call the anti-establishment camp actually made gains. If Chinese leaders had hoped that Hong Kong voters would punish anti-establishment candidates for their support of the Umbrella Movement, they were sorely disappointed. And so the establishment forces lost two seats and 60 percent of all voters chose anti-establishment candidates, and six localist candidates have entered LEGCO.

China faces three options, and I'll only summarize them for reasons of time. The first is to continue the approach of the last few years and add new efforts at mainland (Inaudible) and nibbling more at the liberal order, which has happened before. This isn't a terrible scenario, but it won't solve any of Hong Kong's problems.

The second option, a really bad one in my view, is to restrict the very political freedoms and legal order that made "one country, two systems" tolerable to Hong Kong people. The Hong Kong hybrid would evolve in a negative and anti-democratic election. That would create, I think a bad outcome, but there are signs that this is actually happening. The main case was the detention in Hong Kong, as far as we know, of a minor bookseller at the end of 2015. But this action raised a lot of questions about who gets to enforce what laws in Hong Kong, and whether people so detained will receive due process of law.

I actually believe that the central government didn't authorize the detention removal of Mr. Lee and it's taking steps to ensure that it won't happen again. And there have been sort of new ground rules set forth between the Hong Kong government and the Beijing government on the transfer of detainees. Another worrisome move was requiring candidates in the LEGO elections to sign a form saying that Hong Kong is an inalienable part of China when that's implicit in the basic law already.

By the way, if there are significant moves to erode Hong Kong's liberal order and cut back on political freedoms, and if the Hong Kong government and the courts can't stop that, I believe that the United States and other like minded countries should voice strong objections and elevate the salience of the Hong Kong issue in their relations with Beijing.

Beijing's third option is to surprise Hong Kong by doing the unexpected, to liberalize the political system to permit popular elections of all senior political leaders. In my view, that would be the starting point to creating a stable system, but only the starting point. As I've said, there are a lot of other problems that need to be addressed.

I think the earliest that Beijing might return to electoral reform is after the 19th party Congress, a year from now. I'm realistic enough to know that Beijing will probably not abandon the nominating committee, but the goal should be to facilitate a genuinely competitive election and foster confidence in Hong Kong that it will occur.

As you can imagine, I hope that Beijing doesn't do more of the same. I really hope that it avoids restricting freedoms, and I really hope that it chooses to surprise Hong Kong and the rest of us by reinvigorating electoral reform. I also understand that it's not just actions from Beijing that will bring about the positive outcome. Democratic transitions work best when progressives in the regime and moderates in the opposition negotiate a transition pact.

That means that the more unity within the opposition, the better, but the trends here aren't good. Within the anti-establishment camp, we now have moderate democrats, radical democrats and localists. That division and the mistrust that comes with it can be an obstacle to future electoral reform. It's not the only obstacle. Beijing's policy is an obstacle, as well, and it is Hong Kong's sovereign.

So if there is to be a good outcome in the future, all factions must do their

constructive part, and I think the people of the city deserve no less. Thank you very much. (Applause) So James, do you want to come up?

(Break in recording)

MR. KEITH: So thank you, Richard. I'm grateful for the chance to be here. Forgive me while I pour some water. I'm grateful for the chance to be here, and not just because I want to be part of this presentation, but also because this is a subject near and dear to my heart, not only as former counsel general in the early part of the century in Hong Kong, but also literally, a child of Hong Kong, or I guess you could say a son of Hong Kong, in that I lived in the late '60s in Hong Kong.

So I have not quite the same sweep of history that you do, but certainly, I am in the position to appreciate the sweep, and certainly, to appreciate the opportunity at 2016 to look back on what your book covers. And I think Richard has done us a service in looking back from today's vantage point on the colonial period, as well as the run up to '97 and the post-period '97 developments.

I think during my time, and I'll do my best to stay on time -- you'll stop me if I start to run over -- what I'd like to comment on during my period, and forgive me, I have a bit of a cold. One presidential candidate might accuse me of having low energy (Laughter). But what I would say -- what I'd like to focus during my time on really, are two points.

I think implicit in Richard's comments just now, and also, of course in the book are two key themes. That is, will this hybrid in Hong Kong work? And does it matter? On both points, I think the theme that runs through it, which again, Richard just touched on, so you'll hear me say this over and over, it's always a challenge sharing the stage with Richard, because he doesn't leave much to be discussed.

MR. BUSH: (Laughter) Sorry.

MR. KEITH: He's so thorough and comprehensive. Not at all. You shouldn't be sorry. But from my perspective, civil society is the theme that runs through all of these remarks. Indeed, going back to the recap of the colonial period that appears in the book, running up to the hasty effort at the last part before '97 to address the political issues, and I can certainly attest personally to this notion that we took economics first and politics second, as we looked at U.S. policy toward Hong Kong.

You know, I recall some of you in the room will recognize this name. In the mid '80s, before the '84 agreement, the United States of course, was playing a support role, as the British had direct responsibility for the negotiations. But Alan Wallace was our undersecretary for economic affairs, a trained economist who spurred the State Department into action pre-'84, because he saw Hong Kong as a paragon of free market economics.

He wanted to be sure that we did everything that we possibly could to preserve this demonstration effect for the world of Hong Kong's free market. Obviously, that had political implications, but almost by human nature, and what we could address, what we could get our hands on deal with in a practical matter as statesmen was the economic side. The political side was much more difficult to address, and much more you know, to use a not very technical term of art, swampy set of issues.

The effort was made, of course, in the run-up to '97, and certainly in the crafting of the basic law to embed the rule of law in civil society in whatever was going to happen in Hong Kong going forward. But as Richard rightly notes in the book and this morning, ultimately, that depends on trust among the various players, and clearly, that's missing today, and most importantly, in Hong Kong, let alone between Hong Kong and the mainland.

So addressing this first question of what's the prospect for success of

this hybrid model in Hong Kong, all those people who now I say "I told you so" about where Hong Kong is, I urge you to take that with a grain of salt, because having watched this for a long time, I couldn't say that. People could say that some years hence, there will be trouble. If that's what they mean when they say, I told you, so fine; fairly easy to predict.

But no one saw it coming in precisely this way, and the way I would describe that is, as Richard noted, the political side of development in Hong Kong has come about in ways that I personally wouldn't have predicted, at least, in the sense that you know, early on, there was -- if I could use a bit of shorthand to simplify too much, there was a sense that the communist party in China couldn't keep its hands off the golden goose of you know, the economic powerhouse that was Hong Kong in the day.

And there was a sense that it needed Hong Kong, not only for its demonstration effect for Taiwan, which I'll get to in just a moment as part of this, you know, does this matter, is this relevant, but also, in a myriad of ways in which it absorbed lessons; if the mainland absorbed lessons from Hong Kong and found an opportunity to teach cadre how you operate in a more open system with some sense of controls and experiments.

That is, you could let people make mistakes from the mainland and Hong Kong and they wouldn't necessarily go to jail when they could control the outcome, and that way, gradually build a generation of leaders you know, in the financial sector, at the banks, at the regulators. And I think the mainland took good advantage of that prospect in Hong Kong for many years.

But what I certainly wouldn't have predicted is the devaluing of that benefit of Hong Kong for two reasons. One: That's the mainland got better at it on its own, not only through Hong Kong but elsewhere, and so you had, like the rise of all the

rest in terms of the emerging economies around the world, you also had the rise of all the rest in terms of the other major cities on the mainland that began to rival Hong Kong in their ability to deal with the modern world and deal with globalization.

And you know, it proved -- I would argue, it proves to be the case now that Hong Kong is less valuable to China -- less valuable in the sense of a cost benefit analysis where you have to, you know, carefully weigh the final results of engagement with Hong Kong -- much less valuable to the mainland today in the context of a declining rate of growth, a declining economy in a -- you know, obviously, working off a larger base, still creating political pressures on the mainland that that weren't part of the calculation in the early '90s and in the run-up to '97.

So for a number of reasons, those two most prominently in my mind, Hong Kong has become less valuable to the mainland from Beijing's perspective. Something that is in Richard's book, and I think it's very important that he didn't touch on this morning is also the Hong Kong perspective having changed. And what might have been predicted was that the manufacturing bases, textile and apparels for the most part in Hong Kong would move to Guangdong, and you know, there would be a bit of poetic justice associated with this, as the pollution from the power factories that were running those 65,000 institutions in Guangdong shifted and drifted over the border.

But you know, one could predict that -- some of the developments of what Richard calls the establishment sustaining its close ties and mutually productive ties to the mainland. But the demonstration effect of Hong Kong on Taiwan and most importantly now, perhaps, the demonstration effect of Taiwan on Hong Kong hasn't worked out quite the way that I think those in the establishment in Hong Kong, and certainly in Beijing, would have hoped.

Richard knows that one country to assistance was rejected outright from

the Taiwan perspective and not so useful in terms of demonstration effect, but still, the larger question of whether Hong Kong succeeded. I think it inevitably mattered to both Beijing and Taipei. I think today, the dynamic is a little bit different in the sense that --

(Break in recording)

MR. KEITH: -- from Hong Kong's perspective, if the relationship with the mainland is less about how autonomy can be strengthened and how Hong Kong can help the mainland face the challenges of the 21st century, and more, at this point, given the lack of trust and the disappointing track record since 1997, about how Hong Kong can survive and how one can protect one's own position in Hong Kong.

That is, it's less about making autonomy better and more about preserving one's own quality of life, then that becomes a negative demonstration effect for Taiwan. I think from Beijing's point of view, it's useful to point out what's happening in Hong Kong when it's going well, so that that can be -- even if rejected theoretically in terms of "one country, two systems," accepted as a practical matter that one can live with the mainland from a mainland Hong Kong or a mainland Taiwan perspective.

It's now more attractive from the Taiwan perspective, it seems to me, if Hong Kong is going poorly, to point out how one cannot live well with the mainland. And I think the demonstration effect is starting to reverse itself, and this is, I think, part and parcel of the insight in Richard's book, that many of the Democrats are giving up on changing China, if I could put it that way, and just narrowing their sights and lowering their ambitions because of the practical reality of today's mainland Hong Kong relationship.

In addition to the economic changes that occurred as the downshift to you know, a structure entailing lower growth and much more sensitivity to potential political problems on the mainland, I think in Hong Kong, you also see the effects of

globalization. It's certainly true that on the mainland, as information has become available, as people can judge their own situation more objectively, the communist party has recognized grassroots movements.

I mean, it's certainly true that hot button issues like environmental protection or consumer safety in the mainland are part of civil society and an accepted part of the parties' interaction with its people. And I am reminded with a conversation we must have had around 2006 or so, when I was traveling with then deputy secretary of state, Bob Zoellick. We sat down the party's school in Beijing, and Zoellick asked the question, you know, what's the future? What's the political evaluate from the party's school's point of view?

And the answer was, essentially, we recognize the need to allow society to vent. You have to have outlets for these pressures that build up in society, but there was, at the same time, a lack of awareness of the need for that venting to have some sort of an effect, than to have it be a positive feedback loop, so that your potholes actually got filled. You didn't just have to complain about them.

And you know, I think this is a fundamental problem in what Richard describes in great detail in terms of the mechanism of making civil society work in Hong Kong, because I think Richard is right -- there were opportunities missed. I mean, in a different environment, one could have seen the current outcome or close to it as a very positive step on the way to 50 years of preservation of Hong Kong's system, as to say that there wouldn't be everything one wanted, in terms of universal suffrage for the election of leadership in Hong Kong.

But there could be a substantive step, a genuinely positive evolution that could be seen as a step further toward an outcome that was sought by what was originally a fairly unified anti-establishment or opposition set of leaders in Hong Kong.

And as Richard notes quite accurately, the fracturing of that opposition has, I think, been in part the result of this perception that the mainland is not moving in the same direction.

One is struck by -- that is, not moving in the same direction as Democrats would like to see movement happen in Hong Kong. On the contrary, politics is in reverse, from the perspective of many in Hong Kong who would like to see the mainland a little bit more committed to dealing with the issues of civil society than was evident in something that Richard does deal with in his book, “The Fourth Plenum.”

And I think this civil society theme that runs through the two questions, is there a future for the hybrid in Hong Kong, and does it matter to the world -- you know, the sense that civil society on the mainland is under attack or in retreat, I think feeds directly into this mistrust on the part of Hong Kong. And one is struck by the situation in which Hong Kong dealing with the mainland sounds a lot like the U.S. dealing with the mainland.

At the same time and also perversely, the U.S. dealing with Hong Kong now sounds more like the U.S. dealing with the mainland. And I would point to something that we haven’t talked about yet this morning as evidence of that. And again, it relates to civil society and the rule of law, and that is the Snowden case.

I thought as I was reading through the book, I finally came to a point where I would disagree with Richard (Laughter), but sadly, no, I couldn’t do it, because in fact, my thought was the Snowden case implicitly in the way it’s presented in the book is essentially -- implicitly, I should say, equal in import with the Occupy Umbrella Movement. And I think on reflect, you know, my first instinct, looking at it more from the perspective of an American diplomat, was wrong, in that these are two components of the same set of issues.

That is, from the U.S. point of view, the Snowden case could not have

come out worse. If you were seeking to construct a case that was as bad for Hong Kong as it possibly could be in terms of Hong Kong-U.S. relations, I don't think you could exceed what actually happened in the Snowden case. But that was a reflection of the U.S. perspective, that a big part of our relationship, you know, the underpinnings of the U.S.-Hong Kong policy act was that legally, we treat Hong Kong as a separate entity.

Legally, Hong Kong has a separate customs territory. It has separate immigration quotas. It has weight in terms that you can actually point to and see in day-to-day operations as an autonomous entity. The special administrative region really is special. The S means something.

And the Snowden case, it seems to me, you know, undercut all of that. That is to say yes, there is an argument that this was foreign policy and defense that this was the purview of the mainland, but in its execution, it no doubt diluted the sense on the American side that Hong Kong could make its own decisions with regard to legal matters which in the past, prior to Snowden, after 1997, actually had been strengthened.

I think there was a great sense of confidence on a number of different issues where the FBI and the DEA and other American institutions of law enforcement cooperated quite well with Hong Kong, and took, you know, somewhat politically difficult decisions; that is, connected people in Hong Kong were made vulnerable, et cetera.

So I think the Snowden case illustrates the problem with the Fourth Plenum, which was as useful as it was to shine the party's attention on the subject of the rule of law. From my point of view, the outcome of the Fourth Plenum was essentially that the party declared that it's important that the system work better, one. And that it's important, two, that the party be above the system. And that's the problem with trust between Hong Kong and the mainland, and trust between the United States and Hong Kong, as a result.

The second point -- you know, the Occupy Umbrella Movement, I think also reflecting how you get things done in civil society; how citizens organize themselves in such a way that their government is representative and actually has a feedback loop and does respond to their priorities. And it seems to me that the evolution since 1997 has been inexorable and downward. And I'd be happy to say a little bit more about that after time runs out in the question and answer period.

So, does it matter? I think Richard does not make a persuasive case, or really doesn't try on the answer to the first question, is hybrid successful. He outlines paths towards success and handicaps those paths. I think as you heard, the three options -- as Yogi Berra said, it's really hard to predict, especially about the future. So you're wise not to have gone there.

But I think he does, on the second question, make the persuasive case that indeed, it is relevant. It does matter. It matters to other emerging economies that are seeking, granted, not the unique hybrid that Hong Kong has, because nobody has this direct connection to the mainland. So it's you know, both a tremendous advantage that Hong Kong has had as it's tried to answer the question, what do I want to be when I grow up.

And it's a tremendous disadvantage, because it's necessarily tied to the huge market of either the first or second largest economy in the world. But other emerging economies and other emerging economies that have political issues that they're trying to face need to see what's happening in Hong Kong, and need to learn from Hong Kong's experience.

And more narrowly, and I suppose selfishly, from the U.S.-China, U.S.-Hong Kong perspective, it matters, in the sense that what Hong Kong is stumbling towards and starting to grapple with as its opposition fractions, and as it has strategic

distrust with the mainland, I think you know, inform U.S.-mainland relations and has been the case since we started struggling with this question in the 1980s -- struggling actively with this question of whether Hong Kong, and what does it mean for U.S.-China relations.

It's still relevant today, because the mainland is facing these same questions. If, as Richard concluded in his remarks, it's necessary for Hong Kong to succeed, for it to succeed both economically and politically, isn't that also true of the mainland? If you go back 30 or 40 years, the phrase New Authoritarianism was popular. And of course, it wasn't really new. I mean, it went back many centuries to city states.

The notion that essentially, the Russians were wrong. The Chinese were right. You can do economic reform without political reform, and you only need to do that modicum of political reform that's required to make your economic reform work is still being tested on the mainland today. And as many commentators have said, it's much easier to conduct that experiment in a growing economy with more economic goods for everyone than it is in a declining economy.

Granted, it's declined in the rate of growth, but still, you have got this problem of the mainland almost certainly through not just the first five years of General Secretary Xi Jinping's term of office, but the second five years, as well. The focus is on getting the economy right, and therefore, constricting the politics to the point where you can control them. That has obvious implications for Hong Kong.

When we thought of Hong Kong as just another city, another phrase that Richard takes one -- and concept that Richard takes on in the book, you know, from our perspective, that was -- I should say from Hong Kong's perspective, that was a negative outcome. Right? That it would be just another mainland city. You know, in today's world, if Hong Kong were treated as well as other cities on the mainland, it might be an improvement (Laughter).

(Discussion off the record)

MR. BUSH: Thank you very much, Jim. Very helpful to me. We'll let you rest your voice.

MR. KEITH: Thank you.

MR. BUSH: So, we have time for some questions. Please once identified, you wait for the mic, and you let me know who you are and where you're from, and we'll go from there. Right over here?

MR. GRIFFITH: Hi. Glenn Griffith, Naval Institute Press. I worked in Hong Kong for three years for another publisher. I left in August, 2014, right before this kicked off.

MR. BUSH: Mm-hmm.

MR. GRIFFITH: There was a real sense of lingering economic resentment, and there is no better word than resentment at mainlanders coming in and taking jobs from locals.

MR. BUSH: Mm-hmm.

MR. GRIFFITH: And it's something you know, I hear my coworkers talk about. It's something they expressed almost daily. You have the language going away. You have the sense of what made Hong Kong unique being diminished. Butangwa is spoken more often. Less economic power for locals.

How much do you think that the movement was the result of economic resentment and not just political determination?

MR. BUSH: I think it was both. You know, at its core, it was a sincere desire to open up the political system. But the economic concentration of power was seen as part of a political concentration of power, and that the difficulties that people were having in achieving a decent standard of living, of getting education for their kids, of

getting good jobs in the midst of a growing number of very smart, very eager, very sophisticated mainland people coming down. And just getting a place to live, sort of fed the political grievances that people had about the nature of the system.

And so the answer, I think, that people arrived at was, the only way we're going to deal with these economic inequalities and our economic grievances is to open up the political system. That's the only way we have a check on a system that works against us. And you know, Hong Kong is not the only place that you get this political answer to what you might call an economic problem. I mean, it took place in Hong Kong in unique ways.

The other -- I agree with you on the resentment in 2014. The other thing was tourists coming down. I think not so much the tourists that frequented the luxury shops of Pacific Place, but the ones who came across the border every day to buy a milk powder or other necessities, so it just made life hard. So they had to do something about that.

Alan? You're on the center.

SPEAKER: Thank you. Alan Robricks, Dimsun Center. Richard, thank you very much. And Jim, thank you for your comments. Richard, you talked in a very negative scenario of the U.S. raising the salience of Hong Kong in its approach to Beijing. How far would you take that, and how effective do you think we could be in actually affecting the situation?

MR. BUSH: I knew somebody would ask that question (Laughter), or I was afraid that somebody would ask that question. And frankly, I haven't thought it through. You know, obviously, one way is just to make it a recurring issue in the high level meetings that occur between our two governments, and which the Chinese view as an indicator of how well the relationship is going.

President Obama actually raised Hong Kong in November, 2014 in his meeting with Xi Jinping. But to do that on a recurring basis and to be seen doing it, I think is good. And to you know, specify the range of interests that we have in Hong Kong.

(Break in recording)

MR. BUSH: I haven't thought it through. And you know, it's easy to say, but not so easy to implement. But I think, you know, the first step is ensuring that people at the top of the Chinese government understand that this is something we care about.

MR. KEITH: Richard, I might add a point?

MR. BUSH: Please.

MR. KEITH: If I may? Alan, it seems to me that (Inaudible portion) is the democracy movement in Hong Kong. As one having been accused of being a black hand (Laughter), I can tell you that there are voices from Hong Kong that will tell us when we're going so far as to hurt their own efforts. I think that's part of the difficulty in defining the line, because that changes with time and context.

And the other thing I would say is we're used to dealing on the Hong Kong issue -- not just we, but the British, as well, in a situation where we have very little leverage. You know, the leverage we have day-to-day, as you know better than I do, is quite limited. On the other hand, as I tried to articulate in my remarks, it seems to me "one country, two systems" aside, both China and Taiwan do care what happens in Hong Kong, and we have that to work with.

MR. BUSH: On the aisle here. And then we'll go over there.

MR. GOLDSTONE: Hi. Jack Goldstone, George Mason University. I was director of the Institute for Public Policy at Hong Kong University of Science and Technology.

I haven't read the book. Everything you said today was right on target. But I think at least in the presentation, you underplayed the dramatic change in China in the last two years.

MR. BUSH: Mm-hmm.

MR. GOLDSTONE: Xi Jinping seems to have discarded the notion of it doesn't matter whether a cat is black or white; as long as it catches mice. Instead, political loyalty seems to be the top goal. That is what's demanded. And I don't think the worry about Hong Kong is whether it's an economic benefit or not; a prosperous democratic Hong Kong would be an adverse example from Beijing's point of view.

They want Hong Kong to be loyal, above all else. And might it not be better to just, say, focus on domestic issues and the economy, inequality? Because politically, it just seems like a brick wall. And until things change in Beijing, which perhaps they will in 5 or 10 years, all of the agitation; the independent movement, the democracy movement, it wastes a lot of energy, and it seems to increase hostility between the mainland and Hong Kong.

MR. BUSH: Thanks very much for that comment. I can't disagree, and I do devote a certain amount of space in the book for talking about how this greater concern with national security broadly defined animated Xi Jinping when he came into office, and was happening when all -- at the same time all of this was happening in Hong Kong.

In my more cynical moments, I ask whether there are not forces within the Chinese government who actually prefer that there be a certain amount of turmoil in Hong Kong, because it might justify their existence. It might just justify the viewpoint that we can't take chances. We can't take risks, and that's a sad outcome. But we certainly can't rule that out.

The gentleman over here?

SPEAKER: Hello, I'm Ben from the Carnegie Endowment for International Peace. So my question has to do with Hong Kong's diminishing value for China.

MR. BUSH: Mm-hmm.

SPEAKER: Given Hong Kong's diminishing value for China, do you think in the long run, is there any potential for Shanghai to replace Hong Kong as the financial center of China, or even Greater Asia?

MR. BUSH: It's a very good question. The answer that I hear is that until China gets a true and effective rule of law, and until China opens up the capital account, it will have a hard time competing with Hong Kong. I hope that those two things happen at some point. I've been a Shanghai fan for a long time.

One answer I hear on these issues is that maybe there could be a division of labor between Hong Kong and Shanghai, and that Shanghai could be the financial center for China, and Hong Kong could be the financial center for all of Asia -- for the rest of Asia. And the loser in this would be Tokyo. But that may be optimistic. Okay, back here, and then we'll come up to the front.

MR. CHU: Thank you very much. Vincent Chu from (Inaudible) China studies. I used to work and live in Hong Kong, so I definitely benefit from both of your discussions. Thank you.

So my question is, I would like to follow up on that immersion value of Hong Kong. So as you mentioned, there is this theory to the (Inaudible) perhaps, of the development weight of Hong Kong is diminishing, and I think many of us here will agree that that trend is not going to reverse in the future. So that theory goes, Beijing will only be ruthless in the future as Hong Kong's economic weight is diminishing. So I'm

wondering, what is the counter argument to that?

MR. BUSH: Well, one counter argument was that it would be that there are still ways that Hong Kong can be useful in certain aspects of the Chinese economy. The internationalization of the renminbi is the main one. And this is actually a very complicated process with many different aspects to it.

And what is happening is that the Hong Kong financial services sector is doing test runs on a step by step manner to identify problems before China sort of fully adopts a certain set of rules or procedures. And so at least for that part of China's policy goals, and this is a significant policy goal, Hong Kong is useful.

I also think and talk some in my book about Hong Kong is a test bed for policy changes in the mainland. You may know that during the Chinese-Communist party's rise to power, and then after the Communist party was in power, a policy was never implemented on a nationwide basis all at once that was tested out here, there and other places. So agricultural reform in the late '70s was tested out in Anhui and Sichuan and so on.

Hong Kong has certain institutional features that China says that it wants to have; a good system for controlling corruption, a real rule of law, as opposed to a party controlled rule of law. Might Hong Kong be useful in working out the process of transitioning to those -- to a different kind of system in these respects? A Hong Kong where greater democracy is allowed is one that could be instructive for PRC leaders, if they ever decide to go in that direction. I don't think this leadership will, but there may be ones in the future.

One lesson you could draw from Hong Kong is that electing your legislators through a proportional representation system is a bad idea, because it actually facilitates the emergence of radicals, and that what is sort of better for the development

of compromise and building consensus is a single member district. Well, that's useful. That's a good thing to know before you set out to design your own democratic system. So I hope that Chinese leaders understand that Hong Kong is its test bed.

One final way that it's a test bed has to do with the issue of millennials. And I confess, you know, I'm of an age where I don't understand millennials (Laughter), and I don't think Chinese leaders understand millennials either, whether they're Taiwan millennials or Hong Kong millennials.

But young people in Taiwan and Hong Kong could be -- provide a good education for mainland leaders about where their own young people are going, because I think millennials in this country or that place have more in common with each other than they do with their parents' generation and their grandparents' generation. And this is a trend that leaders in all advanced countries are going to have to deal with. So you had a question?

(Break in recording)

SPEAKER: -- from Radio Free Asia.

MR. BUSH: Yeah.

SPEAKER: I'm a Hong Kong-er, also an American.

MR. BUSH: Yes.

SPEAKER: The first question is for Dr. Bush.

MR. BUSH: Mm-hmm.

SPEAKER: You mentioned that the best option for the Beijing government is to give Hong Kong certain surprises.

MR. BUSH: Mm-hmm.

SPEAKER: I hope it's a friendly surprise.

MR. BUSH: Yes.

SPEAKER: In these two days, we have seen so many surprises, including the third most important political figure in China, (Inaudible) equivalent to the speaker of the NPC, also the standing member of the political bureau was heavily criticized by Ming Pao for two consecutive days. And then (Inaudible portion) is being criticized as the Gang of Four and the creator of Hong Kong's independent movement.

So I'm not sure -- is that part of the surprise that the Beijing government wants to create? If that was part of the surprise, would it be getting out of hand? So this is the first question for Dr. Bush. The second question is to Ambassador Keith. Good to see you here again.

MR. KEITH: Thank you.

SPEAKER: You mentioned the Snowden case at least four times at the end of your speech. I know that two years ago, the Hong Kong diplomats here were (Inaudible portion) because the revealing of the Hong Kong Policy Act by the House. So they don't want to lose the favorite status because of the protection of the Hong Kong Policy Act.

But after the Snowden case, the House is taking very seriously that should the U.S. take Hong Kong as an authority region anymore? So, are there any chances that the U.S. government will drop the favored status that the Hong Kong government has enjoyed for so many years? And in what tipping point that Americans will take a step?

And one more thing to penalize Hong Kong, since you had mentioned that now dealing with Hong Kong is as difficult as dealing with China. So I think in what time the Hong Kong government should wake up and see that it's better back to the basics in dealing with the U.S.? Otherwise, the protected status under the Hong Kong Policy Act will be relinquished. Thank you.

MR. BUSH: I haven't heard about this episode with Mr. Jung Young Chun. It seems like what we call a bum rap, the idea that he would promote Hong Kong independence. It's kind of quite implausible. Between something is going on here, and it's probably not a good idea for me to speculate on what's going on. But I will look more closely at it. Thanks for pointing it out. Do you want to -- I can talk to this, as well.

MR. KEITH: Sure, of course. I'll take a first shot at it, if that's all right.

MR. BUSH: Yeah, please.

MR. KEITH: So I think with appropriate respect to my former colleagues and current practitioners of diplomacy, I think the signs that Hong Kong people and government should be most worried about are economic, not officials. I think what will drive the American government more than discrete acts in the aftermath of the Snowden affair will be American private sector interests in Hong Kong.

And let me just give you one example. If you are, in the 21st century economy, thinking of putting a data center somewhere in Asia, would you put it in Hong Kong today? And that says a lot about where we are post-Snowden in Hong Kong, and why the rule of law is so important and why, as Richard answered in a previous question, you know, why Hong Kong still has demonstration effect.

And maybe you know, given human nature, it has to be negative demonstration effect, in the sense that if you don't take the right political steps, you start to pay economic costs.

MR. BUSH: On the U.S.-Hong Kong Policy Act and sort of truth in advertising, I was involved in the drafting of the original U.S.-Hong Kong Policy Act back in 1992, and I've always believed that the parts about treating Hong Kong as an autonomous unit and the need for it to be autonomous were the most important parts of that.

You know, you're right. There was discussion about revising the act, and it didn't get anywhere. And the most that happened was that Congress dictated that the report be revived; the annual report. This is done on an annual basis. It will probably be in the appropriations bill this year when it's passed.

(Break in recording)

MR. BUSH: I never detected that there was enough momentum behind a real revision. There was one that was introduced. It wasn't all bad, but it never started moving, and so we can't know how it would actually come out and whether it would really make any significant change in the status quo.

I had basic confidence in the institutions of the Hong Kong government and the understanding of Hong Kong officials about the importance of preserving their own autonomy in certain specific areas for its relationship with the United States and its international standing more generally. A woman back there. Yes? Wait for the mic. A mic is coming.

SPEAKER: Hi. Belinda from the Kleptocracy initiative at the Hudson Institute.

MR. BUSH: Great.

SPEAKER: A lot of the work that we do is tracking the profits from corruption in China.

MR. BUSH: Mm-hmm.

SPEAKER: And what we've found is that a lot of these illegal funds are being invested into Hong Kong real estate and Hong Kong banks.

MR. BUSH: Mm-hmm.

SPEAKER: So my question is, do you think that because there is this network of corruption between China and Hong Kong, does this have any implication at

all on electoral reform in Hong Kong, because the Chinese elite may not have the incentive to promote democracy and transparency?

MR. BUSH: It's a good question. I don't know. I think that this has probably been going on for a while, but that didn't stop Beijing from trying to promote a certain kind of electoral reform, and I think they were sincere in that. But I expect that the findings of your organization only increase cynicism in certain parts of Hong Kong about the practical value of "one country, two systems." Do you want to --

MR. KEITH: I agree with you that this probably isn't new. I think it is a great question and again, it gets to the question of institutions of civil society. The demonstration effect for Hong Kong has to be, it seems to me over time, that checks and balances in the system that increase the opportunity for transparency and accountability are good for the system as a whole. And I think reports like yours, you know, will provide a brick in that wall.

It's a long-term effort. None of us, I think, would predict that it's going to be effective in the short-term. But I do think that over time, economic decision making will drive political decision making, and it's this sort of thing that is already recognized, obviously, on the mainland as a pernicious effect of the lack of checks and balances, will continue to be salient, and over time, start to make a case.

MR. BUSH: Question in the back here, and then we'll go over there.

MR. HARDING: Thank you. I'm Harry Harding.

MR. BUSH: Oh, hi.

MR. HARDING: I hold a dual appointment at the University of Virginia and the Hong Kong University of Science and Technology where I used to work with Jack Goldstone.

My question is this: I sense some subtle differences between the two of

you about how active a role the United States should be playing with regard to expressing its concern about the situation in Hong Kong. And I wonder if we could explore that a little bit more; what the different options are and how the two of you come down in favoring or opposing them?

Let me focus it by asking Jim to explain what I heard you say in the last sentence in your opening commentary; that if the United States government could treat Hong Kong as if it were just another Chinese city, Hong Kong would be better off. And I'm not quite sure what you meant by that. I might have heard you wrong. I don't think I did. But could you explain what that would mean and how that would be better for Hong Kong?

MR. KEITH: Sure. You did mishear, or more likely I misspoke; in the sense that the history of the concept of just another Chinese city is how Hong Kong is treated by the mainland. And the notion is that, in my mind, perhaps in a bit too facetiously, but still, there is some import to it, it seems to me.

Hong Kong is discriminated against, in a sense, under the "one country, two systems" arrangement, in that while it has many, many benefits that many others on the mainland would be jealous of, and it is part of the resentment that exists, is this jealousy of Hong Kong being treated so well politically, especially. But it doesn't have access to the budget process and some of the benefits of being just another Chinese city.

And you know, given that balance of economic and political benefits, if you start to take away some of the political benefits, then those economic costs of being an SAR you know, start to shine through. But it was mainland treatment of Hong Kong.

But on the larger question, I'm not sure that there is a difference between this. I simply didn't address it much. I mean, I do think that the U.S. treatment of the Hong Kong issue and the larger promotion of universal values, you know, the various

political rights that are embodied in the universal declaration of human rights and United Nations covenants, there is no lack of enthusiasm on my part for keeping those front and center.

But I do think we have to take that with a short, medium and long-term perspective and be realistic about how much leverage we have and what we can achieve over time. You know better than I do, given your expertise, what it will take for a political reform to gradually happen on the mainland. I do think that's a long-term prospect, and one that we can only do so much to drive from the outside without encountering some, not just headwinds, but some counterproductive effects.

MR. BUSH: Thanks, Harry, for your question. There a hand up back here?

SPEAKER: Thank you, Richard. It's Shirley Lynn from the Chinese University of Hong Kong.

MR. BUSH: Oh, hi.

SPEAKER: Hi. I'm a Hong Kong-er and a Taiwanese. I wanted to draw back to your excellent chapter in the book about Taiwan, and if you could expand more on it, because in your talk, you also alluded to the fact that the Taiwanese have not been interested in "one country, two system", ever, and now Hong Kong is a good example of why they shouldn't be.

And I wanted to get back to what you said, which is that basically, Beijing certainly doesn't think so. So Beijing has a different perspective than what the Taiwanese think about the connection between Hong Kong and Taiwan. I wanted to ask about it, especially because you talked about the millennials, and I think you're right that Beijing does not understand what the millennials, or at least doesn't care about what the millennials in Taiwan and Hong Kong think, because they are making it very plain and

obvious, with the rise of localism.

But I am asking this to direct some optimism from your book, but it was hard to find (Laughter). But to expand on your third option, can you tell us the possibility that Beijing would look at the third option and liberalize, thinking that this is one, if they were to do so, of course with the slim chance, Hong Kong would be a great example of how Taiwan also could be unified?

Could you talk a little bit about that, and especially because I think the millennials in China actually do not appreciate the problems that Hong Kong and Taiwanese millennials have? As you know, in Hong Kong, we have a huge polarized population between mainland Chinese students and Hong Kong students.

MR. BUSH: Okay. A lot of questions there. I do think that if Beijing had played electoral reform more skillfully, and if the whole process had succeeded, it might have led some people in Taiwan to think twice about demonstration effect and the trends for Hong Kong, and the whole approach of “one country, two systems.” It doesn’t answer all of the concerns that Taiwan people would give, and the two are different, but I think it would have at least given Taiwan people something to think about.

One of the problems in getting to my scenario of three of pleasant surprise, is, I think, the nature of the Chinese system and how leaders have problems defined for them. You know, they -- Xi Jinping, as far as I know, doesn’t go down to Hong Kong and look around and talk to students and others. There is a vast flow of information that comes up to him and structures the way he thinks about his government’s options in the context of how he defines its interest.

I suspect that the information that top leaders are getting is, shall we say, flawed, and that the -- you know, all the people who are sort of pushing this idea of the U.S. black hand, and a Taiwan black hand, those views don't get properly questioned

and dismissed. You know, if you have a -- if you're presented with a very negative trend view of the trend in Hong Kong, you're less likely to be thinking about a radically new approach.

I hope I'm wrong. I don't think I'm wrong. You know, back in the early '80s, it was hard to be optimistic about the future of political reform in Taiwan. And then all of a sudden, one guy changed his mind in a rather counter intuitive way. It was President Chiang Ching-kuo. And we see the result of that today.

(Break in recording)

MR. BUSH: I think the attachment to "one country, two systems" is very much generational, and for people who were living and politically conscious when this whole idea was formulated and deployed, you know, it was something that one sort of took in and mastered. As time has gone on, sort of there's a lot of distance between today and the environment of that time.

Younger people are not socialized, shall we say, into the importance of "one country, two systems." But I think at the same time, leaders in China have not been prepared to understand the way the world has changed, and how this formula that seemed good in the early 1980s might not apply anymore.

One of my favorite lines in the basic law has to do with the circumstances under which universal suffrage will be the principal for chief executive elections and LEGCO elections. It is that reform will occur based on the actual situation in Hong Kong, and according to the principle of gradually and orderly progress.

Well, surprise, surprise. The actual situation in Hong Kong has changed. It's a very different place from what it was, and I'm not sure mainland leaders have totally caught up with that. I think that in Hong Kong, you can't have gradual and orderly progress at the same time. You can have gradual, but it's not going to be orderly. You

can have orderly, but it has to be fast. And that contradiction has not sort of seeped into the consciousness. So, please.

MR. KEITH: I had a footnote. Just so that I'm not, you know, leaving you with the impression that I'm a pessimist on this completely, I think there is an optimist argument. And it is, again, returning to the economics; that the same thing that made Hong Kong relevant and made statesmen argue on behalf of it, when they didn't have to, if they were outside the British system was the economics.

And I think that will happen again this respect. It's exactly what Richard was saying. Just a footnote to that is, it's not "one country, two systems" that I think, that will persuade Beijing that it needs to invest in Hong Kong for Taiwan, but rather, the potential for negative economic outcomes.

So while success in Hong Kong may only get you marginal progress with the Taiwan side, economic failure in Hong Kong I think, is to be avoided, even if it means accommodating yourself from Beijing's perspective to a certain amount of disorder and disorderly progress, because of the potential use from both a propaganda, but also from this perspective appealing directly to kind of the hearts and minds of failure in Hong Kong. If Hong Kong economically can't succeed, how can Taiwan?

MR. BUSH: I think we've gone over our time, but I want to thank you all for coming. Thanks to Jim, particularly.

MR. KEITH: Thank you (Applause).

MR. BUSH: And thanks most of all, for your interest in Hong Kong. It's a small place, but it needs all the friends it can get (Laughter). Thanks.

MR. KEITH: Well said (Laughter).

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