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COMMENTS & NOTES

A Neo-functionalist Model of China–Hong Kong Integration

Mathew WONG Yee Hang

This article applies neo-functionalist models to explain the process of integration between China and its Special Administrative Region, Hong Kong. Neo-functionalist models are often used to analyse the configuration of regional institutions, in particular European integration. An overview of the model that examines the process mechanisms and factors that have integrative potential can better facilitate our comprehension of the deepening integration of the Chinese and Hong Kong systems, as well as some of the challenges and resistance faced by supporters of integration. This article conveys theoretical and practical implications for China–Hong Kong interactions, the future of the “one country, two systems” principle, and the potential integration of the Greater China region. It also attempts to explain the within-country integration, thereby extending and enriching the neo-functionalist literature.

The theoretical application of regional integration to the analysis of international relations has a long tradition and is evident in the pioneering works of Deutsch et al., Haas and Schmitter.¹ The neo-functionalist model used in this article was first introduced by Haas and Schmitter and later extended by Joseph Nye.² As summarised by Dolan, the core idea of the theory is to view the integrative process as one spilling over from sector to sector; from one economy sector to another; and gradually, to the

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¹ Karl Deutsch, Maurice Lee Jr., Robert Kann and Sidney Burrell, *Political Community and the North Atlantic Sea: International Organisation in the Light of Historical Experience* (Princeton, NJ: Princeton University Press, 1957); Ernest Haas, *Beyond the Nation-State: Functionalism and International Organisation* (Stanford, CA: Stanford University Press, 1964); Ernest Haas, “The Uniting of Europe and the Uniting of Latin America”, *Journal of Common Market Studies* 5 (June 1967): 315–43; Ernest Haas and Philippe C. Schmitter, “Economics and Differential Patterns of Political Integration: Projections about Unity in Latin America”, *International Organisation* 18, no. 4 (October 1964): 705–37.

² Joseph S. Nye, “Comparative Regional Integration: Concept and Measurement”, *International Organisation* 22, no. 4 (October 1968); Joseph S. Nye, “Comparing Common Markets: A Revised Neo-Functionalist Model”, *International Organisation* 24, no. 4 (October 1970).

political sector as well.³ According to Haas and Schmitter, the spillover effect is caused by miscalculation or disappointment with the initial purposes of integration.⁴ In response, actors consent to the expansion through appropriate means of goal attainment, resulting in the delegation of authority and power to the centre. The creation of supranational authority in turn changes the expectations and behaviours of social actors, leading to a higher level of resources and policy efforts being directed to the supranational level.⁵

The development of a common European market sparked revisions to the theory. Haas places greater emphasis on the role of political leadership, whereas Nye sees national actors as critical to the process.⁶ Although the theory almost became obsolete by the 1980s, following the stagnant process in European integration, subsequent political development revived the theory and elevated it to a classical status.⁷ Currently, neo-functionalism is one of the most established theories in studying economic and political integrations. The theory finds considerable success in explaining the case of European integration, and there is no reason why it cannot be applied elsewhere. In fact, an initial objective to neo-functionalism is to form a grand theory of international relations, with cases such as Latin America to be incorporated.⁸ The idea of spillover, a concept central to neo-functionalism, is actively applied on a wide range of issues including cross-border cooperation, conflict resolution and trading.⁹ Besides the usual application on Europe, neo-functionalism is also used to analyse China–Taiwan relations and devolution in the United Kingdom.¹⁰

This article suggests that the neo-functionalist model of integration is applicable to the integration between Hong Kong and mainland China. The former British colony of Hong Kong became part of China in 1997 under the “one country, two systems” arrangement, by which China controls Hong Kong’s sovereignty but allows it to retain a “high degree of autonomy” (although the actual degree of autonomy is

³ Michael Dolan, “The Study of Regional Integration: A Quantitative Analysis of the Neo-Functionalist and Systemic Approaches”, *International Studies Quarterly* 19, no. 3 (September 1975): 285–315.

⁴ Haas and Schmitter, “Economics and Differential Patterns of Political Integration”.

⁵ Alec Sweet and Wayne Sandholtz, “Neo-functionalism and Supranational Governance”, in *The Oxford Handbook of the European Union*, ed. Anand Menon, Erik Jones and Stephen Weatherill (Oxford: Oxford University Press, 2012), pp. 18–33.

⁶ Haas, “The Uniting of Europe and the Uniting of Latin America”; Nye, “Comparing Common Markets”.

⁷ Sweet and Sandholtz, “Neo-functionalism and Supranational Governance”.

⁸ Haas and Schmitter, “Economics and Differential Patterns of Political Integration”.

⁹ Etain Tannam, “Cross-Border Co-Operation between Northern Ireland and The Republic of Ireland: Neo-Functionalism Revisited”, *British Journal of Politics and International Relations* 8, no. 2 (April 2006): 256–76; Gezim Visoka and John Doyle, “Neo-Functional Peace: The European Union Way of Resolving Conflicts”, *Journal of Common Market Studies* 54, no. 4 (July 2016): 862–77.

¹⁰ Lin Gang, “Beijing’s New Strategies toward a Changing Taiwan”, *Journal of Contemporary China* 25, no. 99 (January 2016): 321–35; Jonathan Bradbury, “The Political Dynamics of Sub-state Regionalisation: A Neo-functionalist Perspective and the Case of Devolution in the UK”, *British Journal of Politics and International Relations* 5, no. 4 (October 2003): 543–75.

debated).¹¹ Nevertheless, geographical proximity and the one country framework, among other things, have provided strong momentum for a closer-knit connection. The Hong Kong–China integration process therefore serves as an interesting case study of how and whether integration between two regions would take place *despite* a constitutional framework that nominally prevents it.

To avoid doubt, this article suggests that integration does not necessarily occur among/between states. Although the theory that the author used is commonly applied to interactions between countries (terms such as supranational governance are often invoked), Hong Kong is a Special Administrative Region of China and not a sovereign state. This article borrows insights from the theory to analyse the degree of integration between China and Hong Kong. Such an attempt is a novel application of the theory demonstrating the utility of neo-functionalism beyond cross-national relationships and quasi-autonomous regions. Conceptually, the author perceives the integration process between Hong Kong and the Mainland as two entities under China as one country. In a similar vein with analyses on China–Taiwan or the United Kingdom, neo-functionalism refers only to the dynamics of integration between political units without any explicit requirement imposed on their sovereign status.¹² Although this article emphasises the extent of integration in Hong Kong for a more focused discussion, Cheung suggests that Hong Kong’s influence on politics and governance in China should not be overlooked.¹³

REGIONAL INTEGRATION: A NEO-FUNCTIONALIST MODEL

This article focuses on two aspects of integration between Hong Kong and China: the mechanisms that initiate and induce integration (process mechanisms), and the conditional factors that mediate the potential to further integrate (integrative potential). This framework is based on the work of Nye, who adapts and revises earlier neo-functional models including Deutsch et al. and Haas and Schmitter, among others.¹⁴ Process mechanisms outline the pressure that political actors faced in making decisions to integrate (or disintegrate) depending on the conditions represented by integrative potential. These factors are discussed in this section; the next section applies the factors in the analysis of Hong Kong–China integration.

¹¹ Ian Holliday, Ma Ngok and Ray Yep, “A High Degree of Autonomy? Hong Kong Special Administrative Region, 1997–2002”, *Political Quarterly* 73, no. 4 (October 2002): 455–64.

¹² Lin, “Beijing’s New Strategies Toward a Changing Taiwan”; Bradbury, “The Political Dynamics of Sub-state Regionalisation”.

¹³ Peter T.Y. Cheung, “Who’s Influencing Whom? Exploring the Influence of Hong Kong on Politics and Governance in China”, *Asian Survey* 51, no. 4 (July/August 2011): 713–38.

¹⁴ Nye, “Comparing Common Markets”; Deutsch, Lee, Kann and Burrell, *Political Community and the North Atlantic Sea: International Organisation in the Light of Historical Experience*; Haas and Schmitter, “Economics and Differential Patterns of Political Integration”.

Process Mechanisms

To explain how an integrated system comes into existence, Nye suggests seven process mechanisms (Table 1).¹⁵ The first indicator, inherent functional linkages of tasks, captures the extent of a central phenomenon in neo-functionalism, i.e. spillover. According to Nye, the inherent linkages of economic tasks to political issues allow, or even encourage, political actors to redefine the common tasks to overcome difficulties in attaining some original goals.¹⁶ When an original aim cannot be attained, members would expand the authority of the regional institution to new areas to overcome the initial crisis.¹⁷ Usually this leads to the spillover of integration from one economic field into another field that is not previously affected, then gradually into political areas as well.¹⁸ The more connected economic and political matters are, the more likely political integration would occur. It is noteworthy that this does not necessarily imply that political integration occurs due to previous economic factors, as the agency of political actors is still required.

TABLE 1
THE NEO-FUNCTIONALIST FRAMEWORK OF INTEGRATION AND APPLICATION ON HONG KONG–CHINA INTEGRATION

Dimensions of Integration	Factors	Impact on HK–China Integration	
Process Mechanisms	Inherent Functional Linkages of Tasks	+	
	Increasing Flow of Transactions	+	
	Deliberate Linkages and Coalition Formation	–	
	Elite Socialisation	+	
	Formation of Regional Groups	+	
	Ideological-Identitive Appeal	–	
	Involvement of External Actors	N/A	
Integrative Potential	Symmetry of Units	–	
	Structural Conditions	Elite Value Complementarity	+
		Pluralism	–
	Capacity of Members to Adapt and Respond		–
	Perceptual Conditions	Perceived Equity of Distribution of Benefits	Mixed
		Perception of External Cogency	Mixed
		Visible Costs	Mixed

Notes: Dimensions and factors of integration adopted from Joseph S. Nye, “Comparing Common Markets: A Revised Neo-Functionalist Model”, *International Organisation* 24, no. 4 (October 1970).

+ denotes positive; – denotes negative.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Philippe C. Schmitter and Zoe Lefkofridi, “Transcending or Descending? European Integration in Times of Crisis”, *European Political Science Review* 7, no. 1 (February 2015): 3–22.

¹⁸ Haas and Schmitter, “Economics and Differential Patterns of Political Integration”.

Increasing flow of transactions, the second indicator, refers to the rise in the capacity of institutions in response to the overburdening of existing ones. As different members have separate legal regimes that hinder interregional transactions and communications, an increase in the capacity of regional institutions might be needed to overcome the hindrance.¹⁹ The third process mechanism pertains to deliberate linkages and coalition formation, referring to the efforts made by governments to broaden the coalition in support of integration.

Fourth, elite socialisation refers to the promotion of relationships and personal ties among elites from different places to foster support of coalitions and to lessen their resistance against the surrender of local power to supranational organisations.²⁰ This could be done by organising roundtables, working groups and committees that convene elites and interest groups to participate in regional policy designs.²¹ This leads to the fifth mechanism: the formation of regional groups. Governmental and non-governmental regional groups may be established to reflect their common interests at the regional level and coordinate policymaking across economic sectors as they integrate.²²

Ideological-identitive appeal, the sixth mechanism, refers to the transformation of elite and group allegiances from the local to the regional level as a result of increased economic integration and strengthened regional institutions. A strong appeal would reduce members' opposition and increase their willingness to tolerate short-term losses in exchange for possible future gains.²³ The seventh process mechanism is the involvement of external actors, which likely refer to other governments, international organisations and non-governmental actors. Depending on the actor's attitude and interest towards integration, the last process mechanism may exert either positive or negative impacts.²⁴

Integrative Potential

There is also another set of seven factors that captures the integrative potential of the process (see Table 1).²⁵ While process mechanisms affect the initial creation of the system, factors of integrative potential provide the context for the process mechanisms and influence the subsequent strength of integration. Starting with the first factor, the symmetry of units suggests that participating members' similarity in their industrial

¹⁹ Sweet and Sandholtz, "Neo-functionalism and Supranational Governance"; this factor is distinct from the first factor as it entails the degree, rather than the scope or width of integration; Nye, "Comparing Common Markets".

²⁰ Nye, "Comparing Common Markets".

²¹ Sweet and Sandholtz, "Neo-functionalism and Supranational Governance".

²² Nye, "Comparing Common Markets"; Haas and Schmitter, "Economics and Differential Patterns of Political Integration".

²³ Ibid.

²⁴ Nye, "Comparing Common Markets".

²⁵ Ibid.

powers and development level increases the likelihood of integration, thus facilitating equal distribution of benefits.²⁶

The next factor is elite value complementarity, which is defined as the internalisation of similar values, identities and goals among the elites of the regional community. This is achieved through coercion (presence of regional rules), persuasion (social interactions between member states) and incentives (benefits of integration). Pluralism, the third factor, refers to a high level of interest group participation. The absence of a pluralistic interest group system would hinder integration, depriving governments of potential allies and information useful for forming economic policies.²⁷

The fourth element of integrative potential is the capacity of member states to adapt and respond. Building on Haas and Schmitter's concept of "internal noise", Nye argues that competing demands impede decision-makers to respond to problems.²⁸ Therefore, high instability and weak state capacity have negative impacts on integrative potential, as is the case of most developing countries.

While the aforementioned factors concern structural conditions of the system, the remaining three factors are more perceptual in nature ("perceptual conditions"). The fifth factor relates to perceived equity in the distribution of benefits—that is, the public will support integration if they perceive that the benefits from the integration are evenly distributed across regions.²⁹

The sixth factor is about perception on external cogency—that is the leaders' awareness of how the level of dependence would affect their decision for further integration. The perception could be positive (e.g. benefits from trade and investments) or negative (e.g. loss of freedom, external threats). The seventh factor is related to perceived costs of integration, i.e. the visible costs. Regional institutions usually induce other countries to join by providing external aids, lowering the initial cost of integration. However, it is highly likely that the costs will rise and become more visible over time.³⁰

ANALYSING HONG KONG–CHINA INTEGRATION

This section assesses the ongoing Hong Kong–China integration and how it could be further carried out. Two dimensions of integration, namely the factors of process mechanisms (structural conditions) and integrative potential (mediating factors), are taken into consideration. The author cautions that there is a degree of subjectivity when classifying the factors' positive/negative impacts on integration, despite the attempt to use as much empirical evidence as possible in the analytical discussions. A summary of the classifications is provided in Table 1.

²⁶ Haas and Schmitter, "Economics and Differential Patterns of Political Integration".

²⁷ Ibid.

²⁸ Ibid; Nye, "Comparing Common Markets".

²⁹ Philippe C. Schmitter and Zoe Lefkofridi, "Neo-functionalism as a Theory of Disintegration", *Chinese Political Science Review* 1 (March 2016): 1–29. This factor differs from the first (symmetry of units) in that it depends primarily on the actors' perceptions. Nye, "Comparing Common Markets".

³⁰ Nye, "Comparing Common Markets".

Process Mechanisms: Structures of Integration

To begin with, in examining the first factor of process mechanism, the infrastructure of Hong Kong–China integration demonstrates a high level of inherent functional linkages. It is suggested that, for the period immediately after the 1997 handover to 2003 at least, the Chinese government largely adopted a hands-off approach to Hong Kong affairs.³¹ This changed with Beijing's shift in its Hong Kong policy following the governing crisis in 2003. Retrospectively, while one could argue that the shift was both economic and political in nature, the initial integration policies appeared to be predominantly economic in nature. The Closer Economic Partnership Agreement (CEPA) was considered to be a major concession by China to rejuvenate Hong Kong's economy. The CEPA had lowered the threshold of entry into the mainland market for Hong Kong's service industry, which was desperately in need of more business opportunities during the economic recession. In addition, the CEPA had expedited the integration process by expanding opportunities to new sectors according to needs, such as mutual recognition of certification/testing services including manufactured products and food, and of professional qualifications in the legal, accounting and construction sectors.³² These new frameworks were created nominally to overcome hurdles imposed by the different systems of recognition and to improve efficiency in the regional economy.

Besides the CEPA, other types of economic integration also spill over to the political aspects. For example, the building of the new Hong Kong airport runway due to the development plans of the Pearl River Delta would require political negotiation between Hong Kong and the Mainland on the use of airspace.³³ Meanwhile, arising from economic considerations, the proposal for a “juxtaposed border control” at the West Kowloon Express Rail Link station has also become a highly politically sensitive issue, as this would allow mainland law enforcement to operate in Hong Kong, arguably in breach of the “one country, two systems” framework.³⁴ These examples can all be attributed to the concept of inherent functional linkages.

The second factor of process mechanisms, i.e. the increasing flow of transactions, is most apparent in the volume of cross-border trade. Hong Kong's trade with the Mainland currently accounts for more than half of its total trade, compared to 38.6 per cent in 1999. The trend has not shown signs of decelerating. Hong Kong's total trade value with the Mainland exceeded HK\$3 billion in 2010 and reached nearly

³¹ Peter T.Y. Cheung, “The Changing Relations between Hong Kong and the Mainland since 2003”, in *Contemporary Hong Kong Government and Politics*, ed. Percy Luen-tim Lui, Lam Wai-mam and Wilson Wong (Hong Kong: Hong Kong University Press, 2012), pp. 325–47.

³² Closer Economic Partnership Arrangement (CEPA) Hong Kong SAR Government: Innovation and Technology Commission, 2015, at <<http://www.itc.gov.hk/en/quality/hkas/hoklas/cepa.htm>> [12 September 2016]. See Supplements V and VIII to CEPA.

³³ *China Daily Asia*, 23 March 2015.

³⁴ *China Daily Asia*, 29 May 2015.

HK\$4 billion in 2015.³⁵ The Mainland also contributed over HK\$200 billion in capital investment to Hong Kong in 2014, while Hong Kong's capital investment in China amounted to over HK\$600 billion. Although the size of the Chinese economy is much larger, Hong Kong, out of all economies, contributed the most investment to Chinese special economic zones (SEZs) from 1979 to 2001.³⁶ This reflects the importance of Hong Kong capital to China's development as the Mainland's economy was opening up during the period, with the establishment of the SEZs.

TABLE 2
THE 10 MAJOR INFRASTRUCTURE PROJECTS IN HONG KONG SAR

Projects	Descriptions	Estimated cost (HK\$ billion)*
Projects unrelated to integration		
South Island Line	Railway extension on southern Hong Kong Island	16.9
Shatin to Central Link	Railway project connecting Tai Wai to Hung Hom and Admiralty	83.9
West Kowloon Cultural District	Large-scale infrastructure of the West Kowloon area including arts and cultural facilities	40–50
Kai Tak Development	Development project of the Kai Tak area (old airport) including housing	13
	Total cost (approx.)	150
Projects related to integration		
Tuen Mun–Chek Lap Kok Link and Western Bypass	Road linking North West New Territories, Lantau Island, the airport, and the Hong Kong–Zhuhai–Macao Bridge	45–50
Guangzhou–Shenzhen–Hong Kong Express Rail Link	High-speed rail linking Hong Kong with the national network	86.4
Hong Kong–Zhuhai–Macao Bridge	Mega-sized sea-crossing project connecting three cities	35.9
Hong Kong–Shenzhen Airport Co-operation	Cross-boundary rail connecting the Hong Kong and Shenzhen airports	Suspended
Lok Ma Chau Loop	Development of the region immediately south to the border and the Shenzhen river	33.7
North East New Territories and Hung Shui Kiu New Development Areas	Development including housing estates and community facilities. However, former Chief Executive C.Y. Leung suggested the possibility of allowing mainland residents to visit a special zone without a visa [†]	120
	Total cost (approx.)	300

Notes:

* Estimated costs obtained from the latest available information as of 2016 from official sources and media reports: Legislative Council papers, CB(4)1136/15-16(01), CB(4)1115/15-16; Radio Television Hong Kong, 9 August 2013; *Sing Tao Daily*, 4 May 2012; *Oriental Daily*, 3 April 2013; *Apple Daily*, 19 February 2014, 13 July 2014, 23 April 2016.

[†] *Oriental Daily*, 13 June 2012.

³⁵ Census and Statistics Department, *Hong Kong Statistics* (HKSAR Government: Census and Statistics Department, 2016).

³⁶ Kevin Zhang, "Why Does So Much FDI from Hong Kong and Taiwan Go to Mainland China?", *China Economic Review* 16 (December 2005): 293–307.

The increased volume of transactions prompted the governments to improve the capacity of common institutions and set up committees and research teams in order to decide on district planning, infrastructure and other institutions.³⁷ Examples of common infrastructure include the construction of the Hong Kong–Zhuhai–Macao Bridge and the Guangzhou–Shenzhen–Hong Kong Express Rail Link to meet cross-border transportation demand. Furthermore, most of the “Ten Major Infrastructure Projects” introduced in 2007 by former Chief Executive Donald Tsang could be seen as furthering the goal of integration (Table 2). The estimated costs of the integration-related projects were known to double that of the other projects. Hong Kong also cooperated with Shenzhen in building the Qianhai Shenzhen–Hong Kong Modern Service Industry Cooperation Zone to enhance regional commercial development. The Shanghai–Hong Kong Stock Connect and Shenzhen–Hong Kong Stock Connect were introduced to increase the capacity for cross-border financial cooperation. In short, since 2003, policy coordination between Hong Kong and China has intensified, resulting in a wide range of common institutions. The Mainland also supports such coordination, as better relations and higher interdependency between the two localities can increase political integration and regional stability.³⁸

Elite socialisation and the formation of regional groups are factors classified as positive process mechanisms, along with the first and second factors. As the post-1997 Hong Kong political system was designed by Beijing, pro-Beijing elites and businessmen have dominated the executive and legislative branches of government. Having cultivated strong personal ties and networks with their mainland counterparts, who supposedly provide benefits to their businesses, Hong Kong’s pro-Beijing elites and businessmen are therefore supportive of any further plans of integration, be they economic or political.³⁹ Numerous regional official and non-governmental groups representing business interests were formed, including the Consultative Committee on Economic and Trade Co-operation (a statutory body formed in 2013), the Hong Kong Economic and Trade Association in 1993, the Hong Kong Association of China Business in 2003 and the Hong Kong Chinese Enterprises Association in 1991. On the other hand, the One Country Two Systems Research Institute and the Chinese Association of Hong Kong and Macao Studies, established in 1990 and in 2013, respectively, are actively promoting cross-border exchanges and cooperation by leveraging their strong academic/research background. Such efforts, in coordination with those of the Hong Kong government, led to the inclusion of Hong Kong into China’s Five-Year Plans, indeed a chapter dedicated to it (alongside Macao).

Deliberative linkages and ideological-identitive appeal are two factors that display negative impacts in the process mechanisms. The Hong Kong government has been actively promoting deliberative linkages packaged under the notion of national

³⁷ Cheung, “The Changing Relations between Hong Kong and the Mainland since 2003”.

³⁸ Ibid.

³⁹ Brian Fong, “The Partnership between the Chinese Government and Hong Kong’s Capitalist Class: Implications for HKSAR Governance, 1997–2012”, *The China Quarterly* 217 (March 2014): 195–220.

development. For example, it is suggested that integration “facilitate[s] coordinated economic development in the Mainland” and “contribute[s] to national reform and development”.⁴⁰ An alternative suggestion to the notion is that it also appeals to the economic benefits and technological necessity of the scheme, such as “raising Hong Kong’s status as an international financial centre” or “perfecting Hong Kong’s economic structure”.⁴¹ However, efforts in promoting patriotism and a common Chinese identity among the population have been largely unsuccessful. According to surveys conducted by the University of Hong Kong Public Opinion Programme, Hong Kong residents who considered themselves “Chinese” peaked around 2006–2008 (50 per cent) and dropped to a historic low of 29.9 per cent in 2012. By comparison, more than 60 per cent of the population regarded themselves as “Hongkongers”. The proposal to introduce a National and Moral Education Curriculum was shelved due to strong opposition from Hong Kong society, particularly among the youth. The increased interactions between the two regions have even contributed to the recent rise of “anti-China” sentiments.⁴² As evident in the above arguments, deliberative linkages and ideological-identitive appeal are not facilitative factors in Hong Kong–China integration.

The seventh factor, i.e. external actors, demonstrates minimal impact, both positively and negatively, on Hong Kong–China integration. Unlike other typical cases of regional integration, Hong Kong–China integration is viewed as a national matter. Although foreign countries like the United Kingdom and the United States occasionally comment on Hong Kong affairs, they largely refrain from blatant interventions in order not to risk jeopardising their relationships with China over Hong Kong.

Integrative Potential: Mediating Factors

This section examines the dimension of integrative potential. According to the framework, this group of factors mediates the integrative impact of the process mechanisms. To begin with, systems in Hong Kong and the Mainland could not be more asymmetrical socially, economically and politically. Apart from geographical size, the population of China is over 180 times that of Hong Kong. In 1997, the gross national income per capita of Hong Kong was over 10 times that of China, although the ratio had halved by 2012. After decades of opening up and reforms, China still nominally practises “socialism with Chinese characteristics”, whereas Hong Kong’s capitalist system is guaranteed at least until 2047 as per the Basic Law. These asymmetries were reasons that prompted the creation of the “one country, two systems” framework in the first place, as Hong Kong people were uncertain about their future under

⁴⁰ Regional Co-operation HKSAR Government: Constitutional and Mainland Affairs Bureau, “Regional Cooperation with the Mainland”, 2016, at <http://www.cmab.gov.hk/en/issues/regional_cooperation.htm> [8 September 2003].

⁴¹ Ibid.

⁴² Ma Ngok, “The Rise of ‘Anti-China’ Sentiments in Hong Kong and the 2012 Legislative Council Elections”, *China Review* 15, no. 1 (2015): 39–66.

Chinese sovereignty and also about Chinese leaders' interest in maintaining Hong Kong's pragmatic value and relevance to China.

Due to the sheer difference in size between the two economies, any adverse effects of integration are immediately amplified. For example, the multiple-entry visa policy allows Chinese residents in Shenzhen to make repeated visits to Hong Kong, thus leading to parallel trading and importation of goods (mostly daily necessities) to the Mainland, which takes advantage of Hong Kong's lower prices and higher product quality. This has directly caused shortages of products in Hong Kong, especially those areas neighbouring Shenzhen, thus affecting the daily lives of Hong Kong locals. The same could be said of the influx of tourists from the Mainland despite their economic contributions to Hong Kong's tourism. Popular dissatisfaction has put pressure on the ongoing integration between Hong Kong and China. For instance, in response to the protest against parallel trading, the visa policy was subsequently revised to restrict entry to Hong Kong to one visit per week.

Another constraining factor is the low degree of pluralism. Despite widespread perception that pluralistic values are under constant threat, Hong Kong is still considered to have a high level of civil liberty and freedom of speech, as evidenced by the Civil Liberties index provided by the Freedom House.⁴³ Hong Kong received a "2" in its rating (ranging from "1" [best] to "7" [worst]), whereas China was rated "6". Hong Kong has a vibrant civil society with a wide range of interest groups, which could positively affect the integration process (by allowing the government to collect information and build support). However, this case does not apply to China, where interest groups are affiliated with the government (such as the Hong Kong and Macao Research Institute under the State Council Development Research Center) and are subject to strict supervision.

The quality of government, which is related to the capacity of members to adapt and respond, also poses challenges to integration. The author assessed this factor based on the effectiveness of the two governments. Hong Kong, again, is the better performer in this regard. According to the government effectiveness index from the 2015 World Governance Indicators, on a scale of -2.5 (worst) to $+2.5$ (best), Hong Kong was rated 1.84, whereas China was evaluated 0.34.⁴⁴ The discrepancy in quality between the Hong Kong and Chinese governments is still considerable although China showed some improvements over the last two decades. This reflects the Chinese government's limited capacity to adapt to changing circumstances. For example, the Individual Visit Scheme was initially implemented as a policy to support Hong Kong economically, but negative effects surfaced with the expansion of the scheme, much to the detriment of Hong Kong's capacity to accommodate more visitors. Some Chinese mothers also took advantage of the scheme to give birth in Hong Kong and secured local citizenship for their child, again causing widespread dissatisfaction. The Hong Kong government

⁴³ Civil Liberties index provided by the Freedom House (2016).

⁴⁴ World Governance Indicators (2015).

reacted by refusing admission of Chinese mothers into hospitals in 2013. This is in sharp contrast to the Chinese government's passiveness to limit the impact of the policy (except the change made in the multiple-entry visa policy at the request of the Hong Kong government).

Among the integrative potential factors, elite value complementary is the sole factor that is clearly positive. There is a high level of shared consensus between Hong Kong and the mainland elites on the process, since they both have much to gain from closer regional economic integration.⁴⁵ In other areas, business elites in Hong Kong have traditionally perceived democratic development as a threat to their interests, a view shared by Chinese leaders. The formation of an "unholy alliance" between Chinese elites and Hong Kong businessmen highlighted their common interest to maintain prosperity and stability in Hong Kong against the same political enemy, i.e. the democrats.⁴⁶ This arrangement is perpetuated by the design of the post-1997 political system. As a result, the Hong Kong government has often subscribed to the same line of argument as that of the Chinese government when integration is concerned.

In terms of perceptual conditions, all of the three factors demonstrate mixed impacts for further integration. The perception of external cogeny affects the process variously. On the one hand, a participating locality's perceived dependence will influence its interest in regional integration.⁴⁷ Many in Hong Kong believed that further regional economic integration was the best response in the context of the 1997 Asian financial crisis and the 2008 global financial crisis.⁴⁸ As integration deepens, there is a prevailing impression in Hong Kong that its economy or even access to basic provisions (such as water) cannot be sustained unless there is support from China. On the other, the continuing integration with the Mainland may pose a threat to Hong Kong's environment given the differences in legal and economic systems and the extant level of economic freedom. Deficiencies in China's legal system have raised eyebrows even among pro-Beijing elites in Hong Kong.⁴⁹ Various indicators of economic freedom (e.g. the Heritage Foundation) have ranked Hong Kong among the top, whereas China is consistently placed in the lower half of the global ranking. In the global economy which emphasises the imperative of staying competitive, it is debatable whether Hong Kong's increasing reliance on the Mainland is desirable.

The same reasoning applies to the perceived level of visible costs. Large amounts of the costs associated with integration have been contributed by the mainland government or simply hidden from the eyes of the Hong Kong people. For instance, the CEPA is always portrayed as an arrangement that is exclusively beneficial to Hong Kong. On the other hand, a considerably large proportion of the integration costs are

⁴⁵ Fong, "The Partnership between the Chinese Government and Hong Kong's Capitalist Class".

⁴⁶ Alvin Y. So, "Hong Kong's Problematic Democratic Transition: Power Dependency or Business Hegemony?", *Journal of Asian Studies* 59, no. 2 (May 2000): 359–81.

⁴⁷ Nye, "Comparing Common Markets".

⁴⁸ Cheung, "The Changing Relations between Hong Kong and the Mainland since 2003".

⁴⁹ *South China Morning Post*, 17 November 2010.

apparently designated to various large-scale infrastructure projects built primarily for integration purposes (see Table 2). Both the Hong Kong–Zhuhai–Macao Bridge and the Guangzhou–Shenzhen–Hong Kong Express Rail Link are deemed controversial, in view of the expenditure incurred and the necessity of these projects. Also, a key point is that it is hard for the public to gauge whether the benefits are distributed equally across the regions in this process.

THE SPILLOVER OF ECONOMIC INTEGRATION INTO POLITICS AND GOVERNANCE

Spillover is widely regarded as the central phenomenon underlying neo-functionalist models, and Hong Kong–China integration is no exception where a clear trend of political integration follows economic cooperation. While China largely refrained from intervention in Hong Kong affairs immediately after the 1997 handover, this has changed with the onset of cooperation and exchanges in the economic sphere. The initial success of integration prompted further integration and an ever-expanding need to have institutions with adequate capacity (e.g. for implementation of major infrastructure projects).

As neo-functionalism posits, the process spills over into the political sector. In recent years, the opposition groups have criticised Beijing for infringing on the “one country, two systems” principle and for reneging on the promise of a “high degree of autonomy”. The centralisation of power under the Xi Jinping administration appeared to have accelerated the integration process by emphasising how “one country” trumps the nominal segregation of the “two systems”, thus intensifying the asymmetry of the two entities. While the “one country, two systems” and the Basic Law provide nominal political segregation between China and Hong Kong, the analysis in this article shows that the tendency towards regional integration is perhaps stronger than constitutional frameworks.

Such a phenomenon also carries practical implications for local political development. However, given the range of differences between the two entities (e.g. size and system as discussed earlier), it appears that the impacts of integration have been largely negative. The sheer size of China amplifies the impact of even the slightest policy changes as felt by Hong Kong society, such as the cases of Chinese tourists and cross-border traders. The mismatch in institutional quality and political freedom also creates formidable obstacles to the synchronisation of the two systems. These factors lead some Hong Kong people to be increasingly critical of the integration, nullifying the propaganda efforts that promote the economic benefits Hong Kong would supposedly enjoy. In recent years, as Xi Jinping has been widely regarded as a more assertive leader than his predecessors in both internal and external affairs, this may also have intensified the impression of a forced political integration.⁵⁰

⁵⁰ Peter Ferdinand, “Westward Ho—the China Dream and ‘One Belt, One Road’: Chinese Foreign Policy under Xi Jinping”, *International Affairs* 92, no. 4 (June 2016): 941–57.

The counter-development can perhaps be best illustrated by examining Hong Kong people's political identity. Paradoxically, despite an ever-increasing volume of cross-border exchanges and the expansion of hardware for integration, resistance against this process has also reinforced. The development of "anti-China" sentiments, and the emergence of the Hong Kong independence movement are arguably consequences of the mismatch between process mechanisms and factors of integrative potential.⁵¹ Based on representative surveys, Hong Kong local identity (i.e. residents of Hong Kong who identify themselves as "Hong Kongers") has been found to be on a constant rise after 2008 at the expense of the Chinese national identity. Some scholars have directly associated this as a consequence of "Mainlandization", referring to economic integration, political interventions and the influx of immigrants from the Mainland.⁵² It is evident that while this article focuses on the same underlying process, a neo-functionalist approach has allowed the classification of spillover from economics into politics, and in turn into one's identity.

These developments have also impeded the actual governance of Hong Kong. Given the constant clashes of political ideology and identity, and the concerns about the side effects of integration as well as about the ability of local elites to protect domestic interests, the backlash against Hong Kong–China integration has transpired into a lack of trust towards the Hong Kong government and Beijing, as reflected by indicators of Hong Kong people's trust in the central government and their confidence in the "one country, two systems".⁵³

Therefore, assuming that the decision-makers are interested in pursuing continued integration and minimising resistance, their efforts in adopting a top-down approach, which rules out pluralistic views, are simply inadequate. China must recognise the issue of unit symmetry and the huge impact its actions have on Hong Kong, and should hence permit the Hong Kong government to exercise flexibility in tackling the side effects. The experiences in Hong Kong also highlight the fact that the rhetoric of economic gains alone is not sufficient to secure societal support, especially outside of the elite class. The side effects of integration must be seriously addressed in order for the regional institutions to succeed and flourish, therefore ensuring stable and efficient governance.

CONCLUDING REMARKS

A major limitation of this analysis may be the applicability of neo-functionalism to Hong Kong and China. As emphasised at the beginning of this article, the theory is usually used to explain integration between states (although other applications can be found). Also, China is a very different political entity from the European Union, to

⁵¹ Ma, "The Rise of 'Anti-China' Sentiments in Hong Kong".

⁵² Yew Chiew Ping and Kwong Kin-ming, "Hong Kong Identity on the Rise", *Asian Survey* 54, no. 6 (2014): 1088–112.

⁵³ Ibid.

which neo-functionalism theory has been most fruitfully applied to interpret integration. Moreover, the main areas of interest under this framework include the behaviours of supranational actors, the collective decision-making process, the spillover process and the transfer of sovereignty from a national to a supranational level. However, through the analysis in this article, it is argued that the concepts of neo-functionalism or regionalism may be useful in reconciling politics between an autonomous region and its sovereign state with suitable adaptations. For example, by adapting the neo-functional theory in the context of Hong Kong's integration with China, this article prioritises discussion in key areas of the theory (spillover) while disregarding the less relevant aspects (such as sovereignty). This shifts the focus of the theory which argues that China–Hong Kong integration is a dictated process with Beijing firmly in charge, instead of a dynamic development involving two relative coequal entities. As a novel attempt to utilise the theory to study Hong Kong–China integration, much of this article is explorative in nature and dedicated to justifying why neo-functionalism is relevant. It is also an attempt to offer an alternative argument that the mechanics of spillover are most central to the theory, over other peripheral concepts, reinforcing scholars' research in this area.⁵⁴ The author's case study shows that there is no inherent reason why the theory cannot be applied to the case of China, or even Asia in the future if regionalism further develops. This article also demonstrates that the theory is capable of explaining integration within a sovereign country. It will be interesting to see if similar attempts can be made in other autonomous regions around the world.

Based on the neo-functional model, it can be seen that the integration process of Hong Kong and China is affected by two countervailing forces. Overall, process mechanisms provided favourable conditions which enabled a smooth start to the initial integration and also lent impetus for continued deepening of the process. Of the six applicable process mechanisms suggested, the majority (i.e. four) are regarded as having positive impacts.⁵⁵ However, the dimension of integrative potential has mixed, if not unfavourable, influences on the subsequent development of the system. Only one factor can be unambiguously classified as having positive (elite value complementarity) impacts whereas the other six have either negative or mixed impacts.

This article explains the current situation in Hong Kong–China integration and the plight faced by the course of its furtherance. The systematic conditions are highly conducive to integration. Given the geographical proximity of the two entities, the flow of transactions between them is expected to grow if constraints are not imposed, as reflected by the case of parallel trading and the surging trade/investment volumes. Politically, while the “one country, two systems” framework guarantees a high degree of autonomy on the Hong Kong side, Beijing still remains in firm control of local politics (through the local government and its allies), and has the leeway to expand its reach if necessary (by the interpretation of the Basic Law, among other channels).

⁵⁴ Dolan, “The Study of Regional Integration: A Quantitative Analysis of the Neo-Functionalist and Systemic Approaches”; Haas and Schmitter, “Economics and Differential Patterns of Political Integration”.

⁵⁵ Nye, “Comparing Common Markets”.

These arrangements translate into positive process mechanisms and provide a strong momentum for the establishment and deepening of regional connections. This tendency, however, is impeded by a range of negative effects on Hong Kong society, in terms of political development (spillover) and the livelihoods of ordinary people (asymmetry), as highlighted in this article.