

# ADMINISTRATIVE REFORM IN HONG KONG: AN INSTITUTIONAL ANALYSIS OF FOOD SAFETY<sup>1</sup>

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## ABSTRACT

*In this paper I trace the evolution of Hong Kong's political and administrative systems from one dominated by the bureaucracy to one dominated by the political executive. The change has had profound consequences for governance arrangements in Hong Kong and on reform capacity. I illustrate the impact of the change on the institutional arrangements in one policy domain, food safety.*

## INTRODUCTION

As they make policy on administrative reform, political executives operate within discrete political-administrative traditions that influence their calculations of how through reform to maximize political support. The traditions range on a continuum from those where politicians dominate administrators (e.g., the UK) to those where administrators are relatively autonomous from politicians (e.g., Germany or Japan) (Knill, 1999). These relationships help to determine reform capacities: strong political executives have better capacity to impose administrative reforms. The traditions are also largely path-dependent (Peters, 1999) and they influence the institutional choices of the political executive. Conversely, the institutional choices of the political executive also influence political-administrative tradition: The process is an iterative one. Cases of states changing from one tradition to another in a relatively short period of time are rare. Yet, this is exactly what has happened in Hong Kong. As a result of regime change, the political executive in Hong Kong has improved capacity to impose administrative reform.

I trace the evolution of Hong Kong from a system dominated by the bureaucracy to one dominated by the political executive. This change has had profound consequences for governance arrangements in Hong Kong and on reform capacity. I illustrate the impact of the change on the institutional arrangements in one policy domain, food safety. I draw on official documents, especially Legislative Council papers, other government documents, depositions and petitions submitted by trade representatives, official Hong Kong and mainland websites, and a series of interviews carried out with Hong Kong government officials in August 2006.<sup>2</sup>

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<sup>2</sup> The interviewees were: Permanent Secretary of the Health Welfare and Food Bureau (PS, HWFB); former Deputy Secretary of HWFB (DS, HWFB); former Director of Food and Environment Hygiene Department (DFEHD); and the Comptroller, Center for Food Safety (CCFS).

## THEORETICAL CONSIDERATIONS

This paper draws on two theoretical perspectives, historical and rational choice institutionalism. According to historical institutionalism public organizations are path-dependent – historical traditions and informal norms are important for understanding organization reforms. In order to understand contemporary institutions we need to study their political and policy histories. Once governments make their initial institutional choices, the patterns created will persist, unless there is some force sufficient to overcome the inertia created at the inception of the program (Peters, 1999).

Path dependency helps to explain patterns of relationships between politicians and administrators in various political systems. According to Knill (1999) we can explain reform capacities in terms of the relative power relationships between politicians and administrators. In some systems, such as the United Kingdom, strong political executives dominate administrators and are able to impose administrative reforms on government agencies relatively successfully. In other systems, such as Germany or Japan, strong bureaucracies have dominated weak politicians. In these systems bureaucrats are able to veto, significantly modify, or indefinitely delay administrative reforms. An historical institutionalist approach would lead us to expect that types of relationships between politicians and administrators are relatively stable. Yet I also understand that while institutions are enduring, they are also capable of adapting, for example, to the problems that they have created. Critical institutional events, during which a variety of internal or external forces come together, can alter institutional paths. One such event was the regime change that marked the transfer of sovereignty over Hong Kong to China in 1997. A result of this shock, was to move Hong Kong from a system dominated by administrators to one dominated by politicians. In this paper I illustrate the impact of this change on institutions and administrative behavior by examining the case of food safety.

Historical institutionalism has relatively little to say about institutional design (Peters, 1999). To remedy this problem I draw on the literature of institutional choice from the perspective of transactions costs analysis (Horn, 1995; Williamson 1999). According to this perspective politicians have a choice of institutions to deliver public services. Generally they choose the institutional arrangements that reduce four kinds of transactions costs including 1) decision making costs (which implies that they prefer vague solutions if beneficiaries can readily participate in administrative rulemaking ex-post); 2) commitment problems, such as the possibility that politicians in the future may undo the policy or institutional choice thus threatening support for politicians; 3) uncertainty costs, the risks associated with complying with government policies or attempting to influence them ex-post; and 4) agency problems, that is the problem that the agency will fail to implement the policy as politicians intended due to information asymmetry and/or conflicts of interest between the principal (politicians) and the agent (administrators). This perspective assumes bounded rationality, methodological individualism, and that politicians are concerned to please their constituents.

Combining these two perspectives I explain the changing institutional choice of the political executive in Hong Kong as it moved from a position of weakness to strength vis-à-

vis the administration. Combining the two perspectives improves the robustness of the explanation.

## THE CASE OF HONG KONG

The case of Hong Kong demonstrates the utility of combining historical and rational choice institutionalism. Colonial Hong Kong preferred autonomous governance arrangements that could help to address the political executive's legitimacy problems. With the transfer of sovereignty in 1997, the political executive sought to gain political control over the up-to-then bureaucratic state as it addressed new legitimacy problems. Strengthening the political executive was accomplished over time from 1997 to 2002 when the Principal Official Accountability System was introduced (see below).

### The administrative (colonial) state

The high colonial state (the 1970s and early 1980s) was characterized by bureaucratic rule (Lau, 1982; Scott, 1989, 2005; Miners, 1998). First, all official positions in the colonial government, except the Governor who was appointed by the UK government, were held by civil servants. Civil servants made policy, sold it to the public, and then implemented it. The political executive in this set up was confined to the Governor and his advisors. Second, Governors generally were appointed from among British Foreign Office officials and arrived in Hong Kong with relatively little administrative experience, although some may have served briefly as advisors to previous Governors. No Governor came to the position with expertise in Hong Kong's education, social welfare, housing, transport or other sectors. Moreover, they brought with them virtually no staff of their own. Accordingly they were heavily dependent on the civil service for policy. This meant that in policy terms, administrators dominated the political executive in all areas, except managing relations with the UK and China. Third, all formal power was centralized in the office of the Governor who was advised by an appointed (until 1991) legislature (the Legislative Council). Although the Legislative Council approved the budget, because of its formally weak (advisory) position, the administration had a high degree of budgetary autonomy. Power over the budget was in practice exercised within the administration by the Financial Secretary, himself usually a career civil servant. This does not mean that bureaus always obtained what they wanted (they did not), but it does mean that the political executive exercised only weak control over the budget. This state of affairs was aided by Hong Kong's huge and relatively consistent budget surpluses. In Knill's (1999) terms, then, the administration dominated the political executive and was able to shape administrative reform to suit its interests. Fourth, the colonial state faced continuous legitimacy problems (Scott, 1989). These were addressed, but not overcome, by cooptation of the local elite into various advisory positions and elected local councils, on the one hand, and by adopting policies that lead to rapid economic growth, which provided some kind of performance-based legitimacy, on the other.

The autonomy enjoyed by Hong Kong's administration was reflected in its approach to public health and food safety. Hong Kong's public health function came into existence in

1843 principally to serve the needs of the government, the British military, the police, and prisoners. Only gradually did it extend its reach to the community. The Medical Department was set up in 1872 and by 1890 included a 'government analyst' whose duties included determining food and water quality (Ho 2004, 169). From at least this period food safety came under the purview of relatively autonomous bureau-type agencies,<sup>3</sup> especially the Department of Health which took up responsibility for the safety of all imported (that is virtually all) food in Hong Kong.

In 1883 administrators put sanitation (including the cleanliness of wet markets which sold raw, unprocessed food) under the control of a relatively independent Sanitation Board (Ho 2004). Conflict between influential members of the public and civil servants over whether a more tightly controlled Department of Sanitation, staffed by civil servants, or a more independent Sanitation Board should manage the cleanliness of food markets apparently dates from at least the 1890s (See Lau 2002). The government preferred the Sanitation Board, but was eventually persuaded to set up a Sanitation Department in 1908. The colonial government's view was that it should be as little involved in food safety and sanitation as possible.

Hong Kong's status as a city also contributed to the decision to put food safety in the public health domain. Being almost completely urbanized, Hong Kong had little local production of agricultural and fishery products (they accounted for only 0.1 percent of GDP in 2005) and has imported virtually all (95 percent) of its food since WWII. Accordingly, in Hong Kong the domestic lobby for agriculture and fisheries is small and relatively insignificant. Pressure to frame food safety as an adjunct of agriculture, requiring protection and development for an export market, was almost completely absent in Hong Kong. Indeed a department of agriculture was set up only in 1946 (prior to that time administrators established agencies such as the Government Gardens Department). This sets Hong Kong apart from many places where food safety policy is dominated by agricultural bureaucracies and their producer clients (Ansell and Vogel, 2006; Toke 2004; Nestle, 2003).

The colonial state's approach to governance (defined here as a preference for autonomous agencies) and its needs for legitimacy lead to highly fragmented institutional arrangements including those for food safety. The colonial political executive was not as constrained as post-1997-politicians by the need to please beneficiaries. Still, pleasing beneficiaries (to gain and maintain legitimacy) was not unimportant given the colonial state's legitimacy deficit. The colonial political executive chose autonomous arrangements to manage food safety because of its governance ideology, on the one hand, and to reduce transactions costs, on the other.

According to the transactions cost approach politicians seek to reduce their decision making costs by articulating vague policy if they can ensure beneficiaries rights to participate in

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<sup>3</sup> I identify two types of bureaus, the 'autonomous' bureau and the 'tightly politically controlled' bureau, both of which are 'bureaus' as defined by Horn (1995). That is, they are tax funded, their output is opaque and therefore difficult to measure, they generally lack transparency, their budgets are subject to annual scrutiny by politicians, and they are staffed by civil servants.

administrative rule making ex-post (Horn, 1995). In a typical regulatory situation such as food safety, beneficiaries (the public) are a large and diffuse group, and accordingly have high participation costs. Those bearing the burden of regulation (for example, in this case importers, wholesalers, retailers, and restaurateurs) are usually a small relatively cohesive group, whose participation costs are low. To ensure that beneficiaries are protected, the political executive will choose more autonomous arrangements, which is exactly what it did in Hong Kong. The political executive's concern that future politicians might undue these arrangements to the detriment of the public also encouraged a more autonomous solution. The political executive sought to reduce agency problems by relying on bureaus, which in principle were characterized by civil service type incentives, including performance-based promotion (Horn, 1995).

At its apogee, the colonial state's political executive chose to manage food safety and environmental hygiene through eleven different departments and agencies (Health and Welfare Bureau, 1998). These included two elected municipal councils, set up to address legitimacy problems, which each had authority to make different by-laws with different standards applicable in their respective (urban and rural) jurisdictions; three policy bureaus, three agencies (departments) and the Hospital Authority. At that time key aspects of food safety were the domain of the Department of Health (DH) under the Health and Welfare Bureau. The DH operated mainly through a food surveillance system, testing samples of imported food and spot checks on retailers and restaurants. The Agriculture and Fisheries Department (AFD), where veterinarians were located, managed wholesale markets and supervised the inspection of imported live animals. AFD was managed by the Economic Services Bureau, reflecting its trade facilitation and agriculture and fisheries development functions. The Urban Services and Rural Services departments, both reporting to different elected municipal councils, focused on restaurant licensing and environmental hygiene including the cleanliness of food markets.

These arrangements characterized above all by a high degree of autonomy from the political executive, accorded to colonial governance ideology, on the one hand, and addressed (weakly) the government's legitimacy problems through elected local councils. They had consequences for policy making and implementation, however.

### *Participation rights*

The beneficiaries of food safety policy (the general public) are a diffuse group with high participation costs. Those burdened by regulation (importers, wholesalers, retailers, and restaurateurs) are relatively well organized and have lower participation costs. To protect the interests of beneficiaries, the colonial political executive choose more autonomous institutional arrangements, which are more difficult for the regulated to influence. In other political systems, more autonomous regulatory commissions are typical choices (Horn 1995). In Hong Kong, the colonial political executive chose to spread responsibility for food safety among a large number of different agencies which made participation by 'the trade' more difficult. It also addressed the commitment problem by make reform of the arrangements more difficult. Indeed, it was only with the relatively drastic change of regime that reform become possible.

In Hong Kong stakeholders, such as local producers, importers, wholesalers, retailers, and restaurateurs, collectively known as 'the trade', have formed scores of groups to lobby the government on food safety regulatory issues.

Given their lack of access and the decentralization of the food safety regime, 'the trade' has focused mostly on influencing government policy through its over-representation in the local legislature. Hong Kong's Legislative Council, resembling a bicameral system, is divided equally into two types of constituencies: 30 general constituencies (elected by universal suffrage and representing the public) and 30 functional constituencies (elected by interest groups that represent business and 'the trade'). Among the functional constituencies are Legislative Councillors who speak for food safety in one way or another, such as agriculture and fisheries, catering, wholesale and retail, commerce, and import and export. The trade is represented on the Legislative Council's Panel on Food Safety and Environmental Hygiene, which monitors the government's food safety policy and its implementation. Seven of the 10 members of the panel come from functional constituencies, including agriculture and fisheries, catering, and wholesale and retail, which ensures that the trade has significant representation in any attempts by the government to change food safety law or regulation.

According to Hong Kong's constitution no bill may be passed by the Legislative Council unless a majority of delegates representing both types of constituencies assent to it. This provision gives 'the trade' some influence in the legislature to modify or resist food safety regulation.

### *Uncertainty risks*

Uncertainty over policy preferences and the impact they will have on beneficiaries is a cost to the political executive which it seeks to reduce (Horn 1995). The colonial state reduced uncertainty costs by operating in a relatively closed environment. Policy was made and implemented by the civil service, with relatively little participation from even attentive publics, such as the trade. The nature of the colonial civil service also served to reduce uncertainty costs. Policy was made by a small group of elite administrative officers, who shared a common background (social class and education), and a common vision of their place in the Hong Kong political system and the role of the state in society. Elite administrative officers met regularly in the Policy Committee, chaired by the Chief Secretary, to make policy. They all knew each other, participated in key decisions, and were bound by common understandings. The administrative officer grade structure itself acted as a coordinating mechanism that reduced uncertainty (Lam, 2005).

### *Agency problems*

Agency problems arise when the agent (the administration in this case) fails to implement the policies of the principal (the political executive [the Chief Executive in this case]). Agency problems result from two general types of structural features of hierarchy, namely,

information asymmetry and conflicts of interest (Horn, 1995; Moe, 1984; Williamson, 1999). Both featured prominently in the colonial set up.

The extreme decentralization of Hong Kong's food safety regime meant that no focal point existed to steer and coordinate policy in food safety. No policy bureau had responsibility for the municipal councils and their executive agencies (the Urban Services Department and the Regional Service Department) and the Director of Health's powers to make binding decisions on food safety was considerably limited. The fragmented arrangements also undermined the ability of the administration to address large scale food safety emergencies quickly. In 1997, 2001 and 2002, for example, Hong Kong was the site of a deadly outbreak of avian flu in humans. In these cases authorities established links between public health and the way food was handled. The crises also revealed breakdowns in communications that went way beyond the usual information asymmetries that characterize typical government bureaucracies. A lack of communication within agencies in Hong Kong (e.g., the DH, AFD, and the Hospital Authority) and between the Hong Kong and mainland governments was especially damaging.

Conflicts of interest also characterized the decentralized arrangements. As the Permanent Secretary for the Health Welfare and Food pointed out, reflecting on the differences between the current and colonial [in practice, pre-2000] situation: 'If two bureaus [are involved] I have to get another Permanent Secretary to work with me. She may have a different agenda in terms of priority. When it comes to resource allocation we have to spend some time to fight as to who is going to pay for what... So, from my perspective, now [under the reformed arrangements] I'm the Permanent Secretary for food safety and I can call the shots.' Policy coordination in particular suffered under the pre-2000 arrangements. The different missions of the various policy secretaries, focused on health, economic development, and planning, the environment and lands, undoubtedly undermined effective coordination of food safety policy. Indeed, these arrangements pushed policy coordination up to the Chief Secretary, who was preoccupied with other responsibilities resulting in delay and neglect.

Still, under these fragmented arrangements ties evolved linking food safety agencies at an operational level. Coordination was facilitated through personnel placements (seconding specialized staff from department to department such as, health inspectors from the Urban Services Department to the Department of Health) and by developing standard operating procedures (SOP) that required the involvement of staff of another department, such as the SOP that required doctors in the Department of Health investigating food poisoning cases in restaurants to turn their findings over to the restaurant licensing authorities in the Urban Services Department for action.

Inter-departmental working committees and task forces were used to handle crises, such as the 1997 avian flu outbreak (Poon, 2003). Initially led by the Department of Health because officials viewed avian flu as primarily a health risk, the Urban Services Department was brought in to clean up Hong Kong's wet markets and the Agriculture and Fisheries Department to inspect local chicken farms, and then on December 29, 1997 to slaughter all (1.5 million) chickens in Hong Kong, initially planned as a 24-hour operation. Only after

strong criticism from the legislature, the public, and the trade that the government had acted too slowly did the Chief Executive appoint the Chief Secretary to coordinate follow-up action (Poon, 2003).

Multiple levels of agency problems also characterized the relationship between Hong Kong and central and local mainland bureaucracies, on the one hand, and between the central government bureaucracies and local government agencies on the mainland, on the other. To stop the import of live chickens, for example, the government had to seek the cooperation of the Ministry of Foreign Relations and Trade (later Commerce) in Beijing which controlled livestock quotas. The Ministry, however, did not have information on the incidence of avian flu on mainland farms (this was held by the Ministry of Agriculture). The Ministry of Agriculture in turn was dependent on local agriculture bureaus to report this information.

The colonial political executive chose relatively autonomous arrangements for the management of food safety. If uncertainties were low, so too were participation rights for the private sector (the trade). A result of this institutional choice was relatively high agency costs.

### The political state

Regime change fundamentally altered the relationship between politicians and administrators in Hong Kong with the balance of power shifting toward politicians. Strengthening the political executive culminated in the introduction of the Principal Official Accountability System (POAS) in 2002 under which fixed-tenure politicians replaced career civil servants as policy secretaries. This move, which dramatically increased the number of politicians, established an entirely new relationship between politicians and administrators. As part of the POAS, the political executive centralized policy making in the hands of the appointed politicians. For the political executive regime change substituted one kind of legitimacy problem with another. Hong Kong's new status as a special administrative region of China addressed the problem of rule imposed through the coercive force of an alien state, but it did not address the problem of the people being disenfranchised. According to the constitution, the central government appoints the Hong Kong government in a process that excludes virtually all citizens in Hong Kong.<sup>4</sup> The shift of power from administrators to politicians was facilitated by the series of crises that engulfed the public health and food safety domains (discussed above).

Historical institutionalism is able to explain change in terms of adaptation and learning (Peters, 1999). Incremental adjustment to crises characterized the Hong Kong response as

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<sup>4</sup> The Chief Executive (CE) is elected by an 800-member Election Committee, composed mostly of local notables chosen by the Chinese Communist Party. Upon being elected, he is appointed by the Chinese central government. The Chief Executive nominates principal officials (ministers) who mostly head various policy bureaus and they together with the CE form the government. The central government also appoints these principal officials. For the constitutional set up in Hong Kong see *The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China* (1980) which came into force in 1997 when the United Kingdom ceded sovereignty over Hong Kong to China.



well. By 1998 politicians saw the need for structural changes to strengthen leadership in the coordination of food safety policy and to ensure efficient coordination and prompt response to food safety crises (Constitutional Affairs Bureau, 1998).

To address agency problems the political executive replaced the fragmented and autonomous arrangements with a single more tightly controlled agency. The move sought to address agency problems by centralizing authority over food safety in a single department, (the Food Safety Center within) the Food and Environmental Hygiene Department (FEHD) which was formed from pieces of the Department of Health, the (re-named) Agricultural, Fisheries and Conservation Department, and the Urban Services and Rural Services departments. A single policy secretary working with one permanent secretary was put in charge of most of the relevant food safety departments FEHD, AFCD, and Health, and the confused structure of elected municipal councils and urban and rural services departments was abolished. This arrangement provided for a lead department (FEHD) and a single source of policy.

A consequence of these changes, however, was to replace one set of agency problems with new ones.

### *Participation rights*

Under the new more centralized arrangements, the trade has a single entry point to the policy system, namely the Food and Environmental Hygiene Department. An FEHD deputy director has regular meetings with various trade groups to consult them on impending changes to laws or regulations. The relationship between FEHD and the trade, however, was less one of bargaining and negotiation and more one of FEHD passing on information. As the former Director of FEHD pointed out: 'Whatever you told them at this stage in a regular meeting they wouldn't say much. But then things changed when you got to Legco. Then all of a sudden at Legco they said you never talked to me and then we pointed out that on such and such a date we told them about it [the policy]. They seemed to have forgotten everything we had told them before.' Given their representation in Legco functional constituencies, the incentive to participate privately may have been low.

Government's relations to the trade are to a large extent hierarchical. Government uses consultation with the trade to inform and to listen to objections. As the former Director of FEHD pointed out: 'We may change the details after talking to them, but yes, we still want to implement [the policy or regulation]. We are fully aware of the political facts. In the last few years all the important things ... we managed to get them all done.... In spite of all the kicking and screaming, they [the policies] were done because they were important.' On lower priority items for the government, such as a scheme for rating restaurants according to their cleanliness and on nutrition labeling, opposition from the trade has resulted in delay. Because the government consults many different groups it may play one off against another to achieve a 'balanced' policy. 'Just because we I can't please both it is unfair to say that we haven't consulted... we *have* consulted but we haven't listened, that may be true' (Interview, DFEHD, August 21, 2006).

### *Uncertainty risks*

One of the most significant consequences of the introduction of the POAS system was to increase uncertainty risks. Many of the politicians recruited to fill the elite policy positions came from outside the civil service. Accordingly they brought to their positions a wide variety of policy preferences that, because Hong Kong's system eschews political parties, were not molded into a coherent program. Individual preferences assumed an exaggerated importance in such a system. The government also replaced the Policy Committee, which had brought elite civil servants together to make policy, with an Executive Council, on which all political appointees sat. This arrangement fostered a silo effect, which undermined coordination at the top and increased uncertainty. Government policy became less predictable for both the administrators and the public, and increased risks of uncertainty.

### *Agency problems*

The new arrangements addressed some sorts of agency problems, but resulted in new problems as well. The new arrangements facilitated the establishment of a new, high level Steering Group on Food. The Group brings together senior officials from the bureau and the FEHD (and AFCD and Health as needed) to study longer term policy issues. The Steering Group is the first such regular policy coordination mechanism for food safety created in the Hong Kong government.

The bureau has also established regular mechanisms to improve coordination including twice monthly meetings that the directors and deputy directors of FEHD, AFCD and Health had with the policy secretary and the weekly meetings convened by the secretary with his permanent secretary, deputy secretaries and principal assistant secretaries. Although these are held on a regular basis, their agendas are usually crises driven. The permanent secretary also maintains daily contact with the heads of departments supervised by the bureau. Heads of departments interact with other departments generally to iron out the details of policies set at the bureau (such as which department should pay for a particular exercise).

Policy bureaus turn to more ad-hoc coordination mechanisms to handle operational problems that require an explicit policy steer. The inter-departmental working committee chaired by the policy secretary of HWFB to deal with malachite green in eels in 2005 brought together many officials from the policy bureau, FEHD, AFCD, and Health to work intensively over only about a week and according to one source was called an 'interdepartmental working committee' for the sake of a press release 'for ease of comprehension' (Interview, PSHWFB, August 25, 2006). The government gave these informal arrangements more structure to demonstrate to the public that action was being taken (as indeed it was).

In another case, the permanent secretary pulled together an inter-departmental task force to deal with organized crime and food smuggling in a wholesale food market. In this case the permanent secretary of HWFB chaired a task force that included representatives of the Security Bureau, police, customs, FEHD, and AFCD. Initiative for the exercise came from

the bureau. The permanent secretary pointed out: 'We have to have a task force because they [the departments] will have to work together...The bureau gives its blessing. If I need to sort things out I will have to come in. But by and large, I think after one or two interventions all departments worked smoothly together. My intervention is really to fund them to employ additional guards and strengthen the [market] management system.' Fights over resources tended to undermine cooperation among agencies and required this kind of high-level intervention which was facilitated by the new institutional arrangements.

The new arrangements have not reduced problems of conflicts of interest among departments even those housed under one bureau, however. As a result of the reforms the single permanent secretary's position has been split into two, which means turf battles between the two permanent secretaries that would be pushed up the policy secretary.

Conflicts between policy secretaries as they stake out their programs and compete for resources are more marked after the introduction of the POAS. In the food safety arena, for example, an October 2005 HWFB proposal to create a new Food Safety Inspection and Quarantine Department from parts of FEHD and AFCD prompted the Secretary for Environment, Transport, and Works to demand that AFCD's remaining conservancy functions be transferred to her portfolio. The result would have been to abolish the AFCD, a move vigorously protested by AFCD staff who were supported by the legislature. This opposition scuppered the plan (See Health Welfare and Food Bureau, 2005).

Not surprisingly, the new arrangements have not resolved conflicts of interest among departments, some of which have long standing causes. AFCD's mission to develop agriculture and fisheries in Hong Kong makes it in some sense unsuitable to regulate food safety. As the former Director of FEHD pointed out, 'The two departments [FEHD and AFCD] have very different missions. Because of this, they also have different approaches [to cooperation]. ... If you ask the AFCD people, if they are honest with you, they will tell you they are not quite sure what they are doing. They are caught between two bosses now [Health Welfare and Food; Environment, Transport, and Works]. [They say] for my first 20 years in the department my job was to help the industry develop. When it comes to the control side [and FEHD asks] "Hey, can you control the farmers for us?" they will be very reluctant... But from day one FEHD is the control agent, we don't care whether the pig farm is prospering or not, we want to make sure the food is safe. Therefore we are very control oriented...'

Although AFCD has provided support and cooperates at an operational level with FEHD on food safety issues every day, its commitment to food safety was tested to the limit in 2005 when the government blue print for food safety reform essentially called for the AFCD to be abolished. This episode demonstrates the limits to which the department is committed to policy coordination. Survival comes first, and in this case all key players recognized that the department should continue to exist even if food safety policy would be less effectively coordinated. As a deputy secretary pointed out: 'Obviously you cannot dismiss concerns of staff summarily.... We were talking about the breaking up of a very old and traditional department, sparking staff resentment which was something we have to think about... if you want to force it through to the extent that staff are extremely unhappy, this will not do

any good to the new department, nor to the community with its heightened expectations of what we could do and deliver' (Interview DSHWFB, August 21, 2006).

The new arrangements have facilitated improved coordination between the Hong Kong government and mainland authorities. The permanent secretary has regular meetings (three times per year) with officials of Administration of Quality, Supervision, Inspection, and Quarantine (AQSIQ)<sup>5</sup> in Beijing to review food safety policies. Given their policy rather than operational portfolios, informal contact between the permanent secretary and AQSIQ is rare. 'If things come to me [the Permanent Secretary] there is bound to be something serious... (Interview, PSHWFB, August 25, 2006). Generally these contacts between the bureau and the AQSIQ are maintained by a deputy secretary in the bureau or the director of FEHD. Regular meetings were also held between food safety officials in Hong Kong, Guangdong, Shenzhen and Zhuhai to review operational matters. Contacts between Hong Kong and the mainland have also been strengthened. These include a new notification system contained in protocols signed between the Hong Kong government and AQSIQ and Ministry of Agriculture that requires these agencies to notify the Hong Kong government of any adulteration of food or incidences of animal disease coming from AQSIQ-export registered farms. The two governments have also established a regular annual meeting of the policy secretary for HWF and the Minister of AQSIQ to review food safety issues and procedures.

In spite of these developments, information asymmetry and conflicts of interest still characterize Hong Kong mainland food safety issues, however. Problems with mainland-sourced food are complex. First, moral hazard problems and information asymmetries characterize the AQSIQ bureaucratic set up. Given the high levels of corruption found in China generally, why should we believe that they are not also found in the licensing and inspection of farms and food processing plants? Indeed, Hong Kong food regulators admit that this may be a problem. As the permanent secretary said: 'Of course there is no fool proof system, we have to be content with it. We still know that when it comes to matters with a trading interest we still have to grapple with the problem of possible corruption... their own sort of norm, way of looking at the system...' Yet, the Hong Kong government believes that because China is a food exporter (all controlled imports [high risk food] to Hong Kong comes through this channel) the incentive for mainland authorities to provide safe food is very high. Given the openness of Hong Kong, any problems here will be quickly picked up by China's trading partners.

Information asymmetries are a particularly difficult problem. Given that Hong Kong cannot send thousands of inspectors to investigate every farm or food processing factory, the government relies heavily on the AQSIQ bureaucracy. The ministry in Beijing, however, may not know what is going on at local level. During the malachite green scandal, the

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<sup>5</sup> On the mainland the Hong Kong government's key partner is the General Administration for Quality Supervision, Inspection and Quarantine (AQSIQ), part of the central government in Beijing. The AQSIQ supervises a network of local Entry and Exit Inspection and Quarantine bureaus (the Guangdong province bureau and Shenzhen and Zhuhai bureaus are key regulators for Hong Kong food imports) that implement central government quality controls for all exports, including food. The AQSIQ maintains registers of approved farms and processing plants that may export food to Hong Kong (and the rest of the world).

government pushed the AQSIQ to set up a system of registered fish farms in China from which exports to Hong Kong would come. The authorities issued a list of such farms in short order, but Hong Kong journalists who tried to visit the farms found out that many did not exist.

Hong Kong is thus dependent on the mainland for information and the quality of its regulation. Although AQSIQ in some sense acts as an agent of the Hong Kong government on the mainland, AQSIQ has its own control problems. AQSIQ is also an organization of the central government and thus probably outranks its Hong Kong 'partners' in the bureaucratic pecking order in China. Still, the evidence presented here is that both sides have an increasingly close and institutionalized working relationship driven by China's needs to develop its food export business. This incentive has probably reduced agency problems somewhat.

The post-1997 political executive choose to exercise much tighter control over the food safety bureaucracy, in keeping with new governance ideas and pressure from the public for better service (better protection for beneficiaries). The new centralized arrangements increased uncertainty, however, and provided more focused access to the trade. The introduction of the POAS in 2002 resulted in new agency problems.

## CONCLUSION

Regime change altered the balance of power between politicians and administrators in Hong Kong and improved the capacity of politicians to impose administrative reforms. Dramatic changes to the institutional arrangements for food safety date only from 1997. Politicians replaced the autonomous arrangements preferred by the colonial state with more tightly controlled institutions. Politicians took these steps based on their new understanding of governance and legitimacy, on the one hand, and to reduce transactions costs, on the other. As a result of the reforms, private sector participation became more focused, but uncertainty costs increased. Politicians replaced one set of agency problems with another. In particular the introduction of the POAS system, which was critical to cementing the position of politicians vis-à-vis administrators has led to new problems, which have undermined the coherence of government and policy coordination.

In some sense the reforms of food safety are representative of reforms in other policy domains. They all have occurred within a general framework of shifting politician-administrator relations.

In 2005 the Chief Executive resigned and was replaced by a political appointee with long experience as a career civil servant. He has moved the system partially back to the colonial era, by re-instating the Policy Committee in a move to bring more coherence to the government's program. Given the problems associated with the POAS, however, which continues to be implemented, more coherent policy is unlikely to result.

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