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Hong Kong and China Government: The Clash and The Protests

Hong Kong, for decades, has been widely popular in the financial world and is considered a major financial hub for several western companies looking to do business in China. It is a wealth gateway for mainland China. In other words, it acts as a bridge for the trade gap between the West and the East. Since its handover to China by the British in 1997, Hong Kong has been associated with China and has been its greatest asset financially. In the article published by China Briefing (magazine company based in China for business publications) in 2020, *"A Reinvented Hong Kong Is Emerging to Become a US$3 Trillion Financial Services Wealth Management Hub"*, Chris Devonshire-Ellis talks about the evolution of Hong Kong from a historical perspective. He says that, "China's growth is now creating opportunities for Hong Kong rather than vice versa as in 1997." (Chris Devonshire-Ellis, China Briefing). This indicates the positive effect and relationship that China has played since the handover in 1997. He also mentions the current political situation of the city due to the frequent and violent protests which have been impacting the city's financial stability. Hence, I wish to mainly analyze the reasons and the extent of the impact of these protests on Hong Kong's economy and financial sector. With regards to the protests, I will also explore the financial relationship between Hong Kong and China and what specific role China plays. Moreover, I am also curious to know what impact would China's withdrawal in the extreme case from Hong Kong have on it as a financial hub.

During Hong Kong's handover, China had agreed to provide complete autonomy and political freedom to Hong Kong. This was the "one country, two systems" concept that was established which would last until 2047, with Hong Kong existing as a special administrative region headed by the Chief Executive. Although Hong Kong is an integral part of China, it has a completely different status as a city compared to other Chinese cities. That is, it has a different currency, passport and lifestyle. The separate currency, in a way, means when Hong Kong adopts its own economic policies, it doesn't affect the rest of China. According to an article by Yu-wai Vic Li (an assistant professor specializing in international political economy at Education University of Hong Kong), *"The Irreplaceable Outpost? Whither Hong Kong in China's Financial Future"*, "When Hong Kong was reunited with China in 1997, it accounted for nearly 13 percent of China's national GDP. By 2019, Hong Kong contributed only 2.6 percent of China's overall GDP." (Yu-wai Vic Li, The China Review). This leads me to consider that Hong Kong is not as valuable and important to China as it was before because Hong Kong's contribution to China's GDP seems to be continually decreasing gradually with time. However, this is not the only factor to look at for its importance, as there are several other factors that still make it play an important role for China. This will be explored in detail in subsequent paragraphs. In recent times, there have been riots and violent protests in the city that have undoubtedly threatened its position as a financial power. Yu-wai Vic Li, in his article states that, "Hong Kong's overall standing has slipped from third to sixth place in the span of one year and been overtaken by Asian peers like Singapore and Shanghai." (Yu-wai Vic Li). This explains the impact of the rising political tension in the city that has led to its decline in the financial sector. Chinese cities like Shanghai, Shenzhen and Guangzhou have recently risen up the ladder and are rivalling Hong Kong. However, Hong Kong has its own unique advantages that make it suitable for trade and investment. It is due to these advantages that Chris Devonshire-Ellis believes that although changes will be coming, in the coming years it'll be increasingly positive as stated, "Hong Kong Government running a medium-sized Chinese city without any clear indication about its future. Beyond this current period though, which will pass, there are also positive opportunities – and options." (Chris Devonshire-Ellis, China Briefing). He adds that with the current situation, the Hong Kong government and the city as a result is in a situation of dilemma.

So, what makes Hong Kong irreplaceable in the financial world and especially for China? It is mainly due to Hong Kong's special status and unique system of governance which guarantees some liberties like freedom of expression and independent judiciary. This in turn promotes an open economy unlike China where every sector is controlled by the government. This attracts many international companies and gives them an opportunity to expand into mainland China indirectly. This is the main reason why cities like Shanghai, Shenzhen and Guangzhou cannot replace Hong Kong, even after having an exceptional economic growth. As for China, "Hong Kong has transcended its market scale constraints, helped to raise billions of US dollars of capital for hundreds of Chinese state-owned and private enterprises, and provided a strong capital base that has allowed these firms to expand their businesses abroad (. . .) Hong Kong's connectivity and centrality to global finance has been pivotal to Beijing's endeavors to promote renminbi's international uses. " (Yu-wai Vic Li). Yu-wai is trying to explain that even the Chinese domestic companies with the intention to expand to other countries have benefitted billions of US dollars from Hong Kong's presence. With regards to the protests, he says that, "the city's appeal to companies and Chinese regulators has been little affected by the social and political crises of recent years because of its regulatory simplicity and its accessibility to both mainland and onshore investors." (Yu-wai Vic Li). This statement doesn't intend to say that the crisis has had no effect on the economy. In fact, Mark Preen mentions in his article, *"The Changing Status of Hong Kong as a Global Financial Center"* about a statistical survey which states that, "5.46 percent of companies would consider moving capital, assets, or operations in the short-run whilst another 30.05 percent would consider moving them in the medium to long-run." (Mark Preen). The numbers explain that some companies would be looking to move their money out of Hong Kong due to the fear of political situations. However, when looking at the overall picture, the gain is much more than the loss. Majority of the companies would still be reluctant to withdraw from Hong Kong due to the transparency and monetary freedom that it offers, which no other city does. Moreover, several domestic companies of China with the intention to 'go global' are listing themselves under the Hong Kong Stock Exchange and the numbers are growing fast. It is how financially important Hong Kong is for the world as well as China due to its unique status with regards to control and circulation of huge capital flow. It seems that the recent social and political crises due to China's attempts to exert more power and control over Hong Kong by announcing the National Security Law, that gives China the power to punish protesters and reduces the city's autonomy. Even though the citizens fear loss of freedoms with this law, it has had a negligible impact on the city's economy financially, when looking broadly.

China with the intention to influence Hong Kong and bring it under control has been implementing several decisions and plans. One of them is its ambitious plan to build the Greater Bay Area, for which Hong Kong would be a main fundraiser. The Greater Bay Area is a massive infrastructure project by China to combine the cities - Shenzhen, Guangzhou, Hong Kong and Macau. Hong Kong's linking with the other major cities in China explains China's main intention to exert influence on Hong Kong, take advantage of its resources and rival other well known bay areas of New York, San Francisco and Tokyo. Due to Hong Kong's unique dual system, its open economy and transparent business environment, Hong Kong will play a pivotal role in this development.

However, this has turned out to be an addition to the growing resentment among Hong Kong citizens and protesters. It seems that they don't wish to be controlled by the Chinese government, be it directly or indirectly. A famous protest slogan by its citizens is, "We are not Chinese, we are not British, we are Hongkongers" (HKFP People of Protest). This indicates that its citizens don't want to be associated or ruled by another country. They wish to maintain their own identity as Hongkongers and feel proud about it. Chinese government's attempts at gaining control and exerting influence on Hong Kong has resulted in a backfire instead.

The Chinese government, from time to time, has been announcing several policies and measures with the intention to bring Hong Kong under its control gradually and indirectly. In a video by Vox, *"China Is Erasing Its Border with Hong Kong",* a speaker says that, "if you want to kill a city, you kill its language first." (Vox). Hence, the language spoken in Hong Kong is Cantonese, which is spoken in China as well. According to some professors in Hong Kong, Cantonese is not their mother tongue. Moreover, the children in schools in Hong Kong are mandatorily taught Cantonese and Chinese history. Vox states this type of way as, "an advertisement for China's style of government, rather than an introduction to it." (Vox). This means that the Chinese government wants to instill in the minds of the young that they are a part of the Chinese culture and way of living. Apart from that, in the year 2014, they also announced the decision "Electoral Reform" that gave them the power to pick candidates for Hong Kong elections directly which was earlier in the hands of its people. This was a way to exert control over Hong Kong elections and the city on the whole. Unsurprisingly, this forced many people to move out of their homes and start protesting against it. A statistical graph by the University of Hong Kong shows whether the people of Hong Kong associate themselves as Chinese or Hongkonger after this incident took place. In the initial years when China respected the rules of "one country, two systems", the graph showed a steady rise indicating that the people of Hong Kong were slowly adapting and getting comfortable with the Chinese culture. However, after the protests, its citizens came together and fought for their rights. This brought in participation of even the people who had no interest in politics earlier. Thus, explaining the graph's steady decline since then and indicating Hong Kong citizens' growing anger and resistance towards the Chinese. Some might be curious about how China can openly violate the rules of "one country, two systems", when it was supposed to have guaranteed Hong Kong's freedoms, but according to BBC News's article, *"Hong Kong Security Law: What Is It and Is It Worrying?",* "it is technically possible to do this." (BBC News). It adds that, " The Basic Law says Chinese laws can't be applied in Hong Kong unless they are listed in a section called Annex III (. . .) These laws can be introduced by decree - which means they bypass the city's parliament." (BBC News). This explains that China is not 'illegally' forcing its laws in the city. It has identified a way to bypass the rules of the city by using Annex III and is taking advantage of the same.

Based on how the current situation might turn out to be in the future, I've come across three scenarios. Firstly, withdrawal of Chinese leadership from Hong Kong, which seems highly unlikely, but is not improbable and the idea cannot be completely ruled out. This might happen in case China discovers an equal replacement of Hong Kong for its International Financial Center (IFC) and when the political situation in Hong Kong doesn't seem to be getting better. This would result in a total collapse of Hong Kong's financial status as the companies would be forced to withdraw as their main motivation (gain access to Chinese capital via Hong Kong) to put money in Hong Kong Stock Exchange would no longer be present. Secondly, if situations do seem to get better with China abiding by the rules of "one country, two systems", China would still not be satisfied and it will only be a matter of time until 2047 when China will gain complete control over Hong Kong after the "one country, two systems" ends. According to Yu-wai Vic Li, "to calm the city's restive political situation, Beijing might take bold action that tightens its control over the territory's affairs, especially ones concerning political and social spaces, driving the city toward a "repression" in which both democracy and freedom are tightly restrained by Beijing (. . .) China would have little choice but to enforce "discipline" over the offshore financial center to bring the political order it desires back in place." (Yu-wai Vic Li, 272). This leads me to consider that as long as Hong Kong is their sole channel "through which China could reach out to the world of global finance" (Yu-wai Vic Li, 272) i.e.  linking on- and offshore financial markets and acting as a proxy to move Chinese money out, they would try to do everything they can to have Hong Kong under control by firstly suppressing the protests forcibly. Third scenario that might be feasible and at the same time frustrating for its citizens is a smooth integration of Hong Kong into China. This would result in a situation similar to the first scenario, where Hong Kong would be rendered incompatible for the financial markets with tighter controls over it by Chinese laws, thus compelling the companies to move out and finding an alternative.

This concludes that for as long as China finds Hong Kong economically as well as financially important and until it finds an alternative that offers same or better market advantages, at the same time offering to follow Chinese political regulations, it would try to keep on implementing decisions and policies to exert its influence on Hong Kong for the time being. Perhaps, strict measures will not be viable as it would interfere with Hong Kong's financial sector and according to Yu-wai Vic Li, "Hong Kong will thrive as an IFC with a sullied image. While the Western financial community might observe the Pearl of the East losing its luster, it will remain a precious jewel to the mandarins of Beijing—both now and in the future." (Yu-wai Vic Li, 273-274). This indicates that if the Chinese government proceeded to implement certain measures that could influence the Hong Kong markets, it would create a distorted image of Hong Kong as a "financial fortress" even if China will accomplish its goals.

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