

# The Impact of Political Protests in Hong Kong on Consumerism

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## **Abstract**

Hong Kong's free economy has major influence in Asia and around the world. Because of the rising political tension between Hong Kong and Mainland China, the city's economy is at risk. There has been a long history of political dissent in the city showing a growing disapproval of the Beijing government. The political and sociological impact of activism has been extensively discussed in the literature. However, few studies have statistically tested the economic implications of the protests. During the 2014 Umbrella Movement and the 2019-20 Extradition Bill Protests, the city's retail and tourism sectors have seen significant disruptions. This may be caused by a strategic attempt from pro-democracy protesters to create an economic resistance movement. In an effort to pressure the policy makers into addressing protest demands, local consumers are encouraged to participate in boycotts. This paper seeks to measure the causal effect of political activism on Hong Kong's business sector using time-series data from 2006-2019. The study finds that for years in which active protests take place in Hong Kong, the change in local retail sales declines by 10.58%.

## **Table of Contents**

Abstract	1
Table of Contents	2
Introduction	3
Literature Review	5
- History of Hong Kong Relations with Mainland China	
- Tourism and Retail Importance in Hong Kong	
Data	17
Methodology	19
Results and Discussion	21
Conclusion	24
References	27

## 1. Introduction

Hong Kong's economy poses a major influence in Asia as well as around the globe. Hong Kong is characterized by a free market economy and an established international financial market. Its four key industry pillars include financial services, trading and logistics, tourism, and professional services. The city usually attracts over 55 million tourists a year; however, fewer and fewer people are visiting during the increased social turmoil according to the Hong Kong Tourism Board. Hong Kong has a history of political dissent rooting back to before the return of sovereignty to China. In recent years, there has been a rise in protesting as the city continues to see its rights curtailed due to tightening security laws by the Mainland Chinese government.

Retail and tourism are two of the major sectors that have been negatively affected during the active social unrest. Figure 1 shows the percentage change in monthly retail sales from the years 2006-2020 taken data from the Government of Hong Kong SAR Census and Statistics Department.

### Figure 1: Change in Retail Sales



Source: Government of Hong Kong SAR Census and Statistics Department

In the 2019-20 protests, retail sales saw eleven consecutive months of decline from February 2019-December 2019. The year-on-year percent change was -11.1%. The months of October and November had the worst sales with 24.4%, and 23.7% falls in sales respectively. Hong Kong endured the most violent protests citywide and on college campuses during those particular months (Shek, 2020). Many businesses were forced to shut down their shops for safety and to prevent destruction to storefronts. Different sectors of sales were affected unequally. In particular, sales of jewelry, watches, clocks, etc., had fallen by 47.4 percent in August 2019, with medicine and cosmetics falling by 30 percent (CNA, 2019). During the Umbrella Protests, only the month of December 2014 and the following month saw declines. The year-on-year percent change was -0.2%. These protests were mostly nonviolent (Dapiran, 2017).

This paper will consider how political protests in Hong Kong have affected the city's local consumerism. It intends to connect the geopolitics of the region with the state of the economy. To investigate this effect, the study utilizes a time series analysis strategy, which includes a differenced model and lag to reduce the autocorrelation problem. The protest control includes two major protest movement years: The Umbrella Movement in 2014 and the 2019-20 Extradition Bill protests. The estimations suggest that regardless of if the protests incite change based on their intended demands, there seems to be a significant negative effect on Hong Kong's retail sector during active protest years. Specifically, in years with active protests occurring, the percentage change in retail sales declined by 10.58%.

The rest of the paper is organized as follows. An overview of previous literature is followed by an exploration of Hong Kong's economy and changes in consumer preferences. Next, the data and methodology of the study are presented, followed by a discussion of the results. Finally, the paper concludes and offers suggestions for future research.

## **2. Literature Review**

Positioned as a British colony for one and a half centuries, Hong Kong was returned to Mainland China in 1997 as a Special Administrative Region of the People's Republic of China (SAR). Hong Kong SAR is governed under the "One Country, Two Systems" integration policy. Important questions to answer within the literature are: does this policy function how it is designed to and how will it affect the future? Although Hong Kong may have reached legal unification, it remains economically, socially, and culturally separated from the mainland (So, 2011).

### **2.1. History of Hong Kong Relations with Mainland China**

Several studies have shown that the divide of separate identities can be seen starting in 1842 with Great Britain winning the Opium War and China ceding control over Hong Kong. Over the next century, borders were established between the mainland and Hong Kong, and the economy steered away from relying on trade with China. After the Chinese Communist Revolution in 1949, Hong Kong became politically separated. Many mainland natives came to Hong Kong seeking refuge. Because of the rising disapproval of communism, a new generation of "Hong Kongers" emerged, with people identifying themselves with Hong Kong instead of China (Ku and Pun, 2006).

In the 20 years preceding the handover, the economy experienced high levels of volatility and economic irregularity, which created political contests and a growing inequality gap. In an effort to transform the city's workforce, the government increased spending on education during the time. As more universities were founded, the ratio of people in the workforce increased from one in ten members to nearly one in three (Cartledge, 2017). The demand for positions matching

qualifications and skill levels could not meet the quick influx of graduates. As well as finding the right kind of work opportunities that are hard to come by despite being better educated, this generation was marrying later, likely to have fewer children, and more likely to see itself as primarily influenced by Western rather than Chinese culture (Cartledge, 2017, p.28). The outlined problems concerning disaffected youth and their struggle for upward mobility reveal the root of political reform for years to follow. In fact, educated youth were present in both the 2014 and 2019 protests in order to advocate for reform. Young people continue to be involved in demonstrations in 2019, although this time with greater levels of education (Shek, 2020).

In 1982-1984, Beijing proposed the “One Country, Two Systems” policy to win back Hong Kong. Under the “One Country, Two Systems” policy, Hong Kong has several key rights, which are outlined below (Wong, 2004). Hong Kong is to maintain a high level of autonomy which includes having its own rights and laws. Additionally, Hong Kong people will be ruling Hong Kong people (gangren zhigang) and be responsible for establishing their own elections. Next, it will keep its capitalist system. Finally, this policy is to remain unchanged for 50 years or until 2047 (Wong, 2004). This proposal was generally well perceived by Hong Kong. However, public fear about the handover to China resurfaced stronger than ever after the 1989 Tiananmen Square Protests in China for democracy.

That incident created worry and distrust in the Hong Kong people. If the Communist Party was capable of mobilizing the People’s Liberation Army with tanks to suppress peaceful protests of students, then they could do the same in Hong Kong. Alvin So’s study found that all trust was quickly shattered in China’s “One Country, Two Systems” policy (2011). The event can be seen as leaving a permanent imprint on Hong Kong society that manifested in various ways: including sparking large-scale protests, emigration to democratic countries, and a greater

resistance movement (So, 2011). Other studies agree that over 30 years later, the collective memory has been transmitted to a new generation of Hong Kong people. Young rally participants display emotionally weaker “memories” of Tiananmen Square but cognitively clearer motives for remembrance and demonstrations years later (Lee and Chan, 2013). In their interview with Hong Kong students, Lee and Chan (2013) find June 4 to be taught as essentialized as a moral rather than political matter. This further builds on the complexity of the politicized identity that Hong Kong people wish to preserve.

During post-colonial years, there were three key protests that occurred in 2003, 2014, and 2019 in efforts to maintain the promised autonomy. On July 1, 2003, 500,000 citizens joined together to peacefully protest against the proposed national security basic law under Article 23 (Lee et al., 2019). This protest proved effective by forcing the government to postpone the legislation and prompting new political groups to form. However, it is important to note the economy and tourism industry in 2003 hit rock-bottom due to the Severe Acute Respiratory Syndrome (SARS) epidemic (So, 2011).

It wasn't until the Umbrella Movement in 2014 that Hong Kong saw a new wave of protests that involved clashes with the police for the first time. After careful planning, Occupy Central occurred from September 26 -December 15 to fight for genuine universal suffrage. This movement was modeled after Occupy Wall Street in the United States in 2011. Protesters encamped outside of New York City's financial district for weeks in order to protest against economic inequality. During Occupy Central, the city's financial district was blocked off for 79 days. Students, professors, and citizens slept on the concrete streets for weeks, enduring tear gas, pepper spray, and police batons (Dapiran, 2017). At the end of the three-month-long planned occupation, they did not achieve the universal suffrage they had demanded. Therefore, the

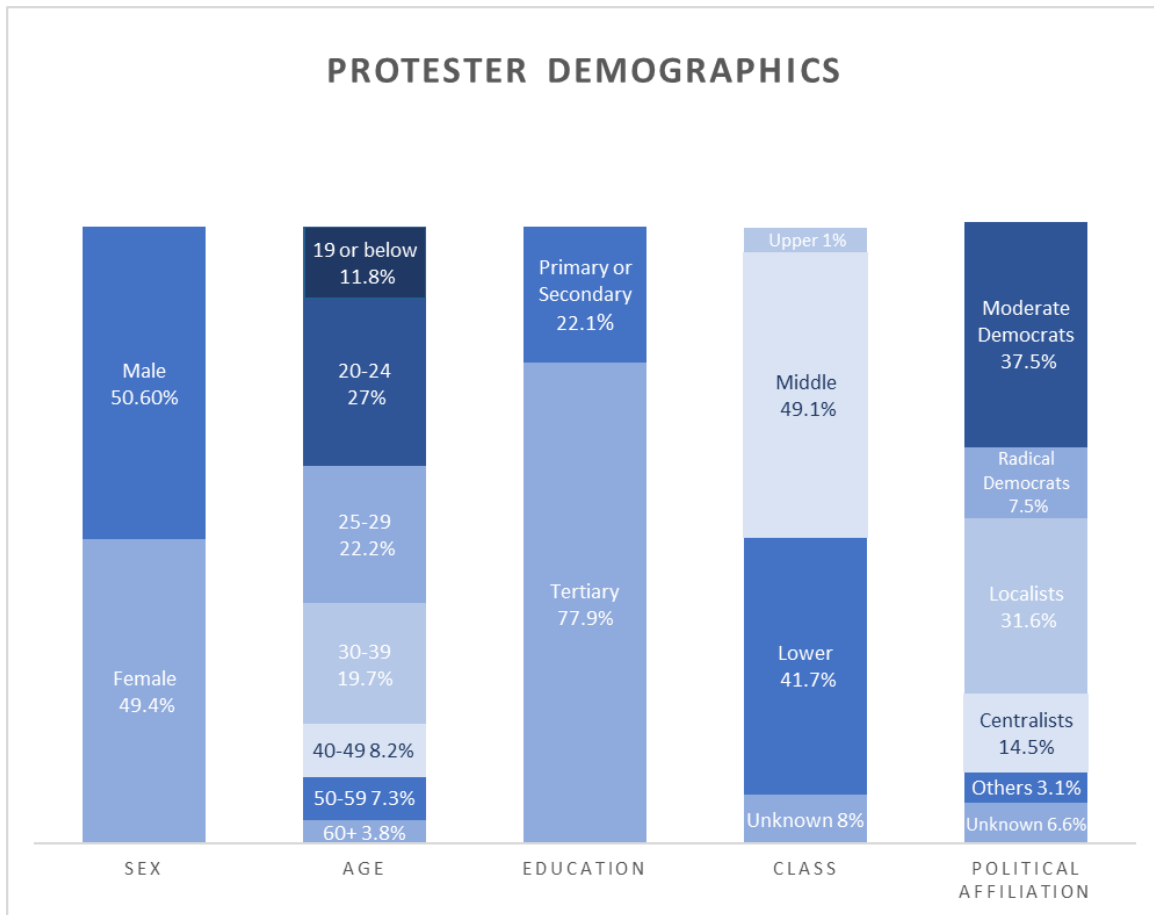


protests can be seen as a failure on the surface. Although they failed to obtain tangible results, a new awakening of civil disobedience in Hong Kong seemingly arrived, promoted by this newly emergent localist movement caring deeply about their home, their identity, and their communities (Dapiran, 2017).

The 2019-20 protests were triggered by the proposed Fugitive Offenders and Mutual Legal Assistance in Criminal Matters Legislation Bill that would allow criminal fugitives to be extradited to Mainland China (The Legislative Council, 2019). The extradition bill went against the existing laws enacted before the handover, which prohibited extradition to Mainland China. The government underestimated the complexity of the matter. This sparked citywide demonstrations, vandalism, mall sit-ins, and occupation of multiple universities in Hong Kong weekly from June 2019 carrying into 2020.

Daniel Shek (2020) notes that these protests in Hong Kong have several unique characteristics marking them different from most political protests seen around the globe. Unlike many countries with social unrest, Hong Kong had almost full employment indicating a healthy economy. Next, no organization headed the protests, and they remained leaderless. One study adds the “no central stage” and fluid movement of protesters are two important lessons learned from the Umbrella Movement (Lee, Yuen, Tang, Cheng, 2019). Present at demonstrations were people from all different professions and social classes. Figure 2 outlines below the demographics of protesters throughout the demonstrations, including: sex, age, education, social class, and political affiliation. The data was retrieved from Hong Kong University’s Public Opinion Program.

**Figure 2: Protester Demographics**



Source: Hong Kong University Public Opinion Program

Similar to previous movements in the city, the 2019 protester profile includes a youthful majority, with 49.2% of participants within the age range of 20-29. Another figure to mention is 77.9% of participants had a university degree or higher. While the overwhelming majority obtained university degrees, their associated class was only 50% likely to be middle or upper. This may suggest that the lack of upward social mobility could be a factor of participation. Although they started out as demonstrations against the now withdrawn extradition bill, the 2019 protests expanded to a greater pro-democracy movement in an effort to draw awareness of pre-

existing problems within the city. It captured an extraordinary level of solidarity rarely seen in Hong Kong's society (Lee, Yuen, Tang, Cheng, 2019).

Differing from the Umbrella Movement, the 2019 Protests show protesters using their consumer power as a political tool (Wan Chan & Pun 2020). A “yellow economic cycle” can be seen where businesses are labeled as yellow if they are pro-movement and blue if they are pro-government or pro-police. People are encouraged to support yellow businesses and boycott blue businesses. There seems to be no certain types of businesses that are considered yellow businesses. Wan Chan and Pun (2020) find this new tactic of using economic leverage to be limited in achieving government response.

Other studies have looked into the decline of mainland Chinese visitors affecting tourism. Usually a popular destination, Hong Kong has welcomed an 80 percent majority of its visitors from Mainland China over the most recent decade (Huang, 2019). The number of Mainland China tourists alone fell 42.3 percent, which is due to not only Hong Kong's political situation but also a weaker Chinese yuan (CNA, 2019). Furthermore, Mainland visitors spend on average three times the amount spent each day of vacation by non-mainland visitors (Huang, 2019). The annual number of mainland Chinese tourist arrivals rose from 8.5 million to 40 million (Chiu, Ho, and Osawa 2014) in a territory of just 7 million people. In his study, Ian Rowen (2016) examines how tourism is profoundly affecting spatial, social, political, and economic order throughout the region, reconfiguring leisure spaces and economies, transportation infrastructure, popular political discourse, and geopolitical imaginaries. He finds that in China, authorities have used tourism as a tool of foreign policy and a tactic of territorial projects. In Hong Kong and Taiwan, Chinese tourists have become issues in electoral and protest politics. While the street

demonstrations happening in Hong Kong may not be enough to persuade the government to reevaluate policies, seeing the tourism decline may affect China's global image.

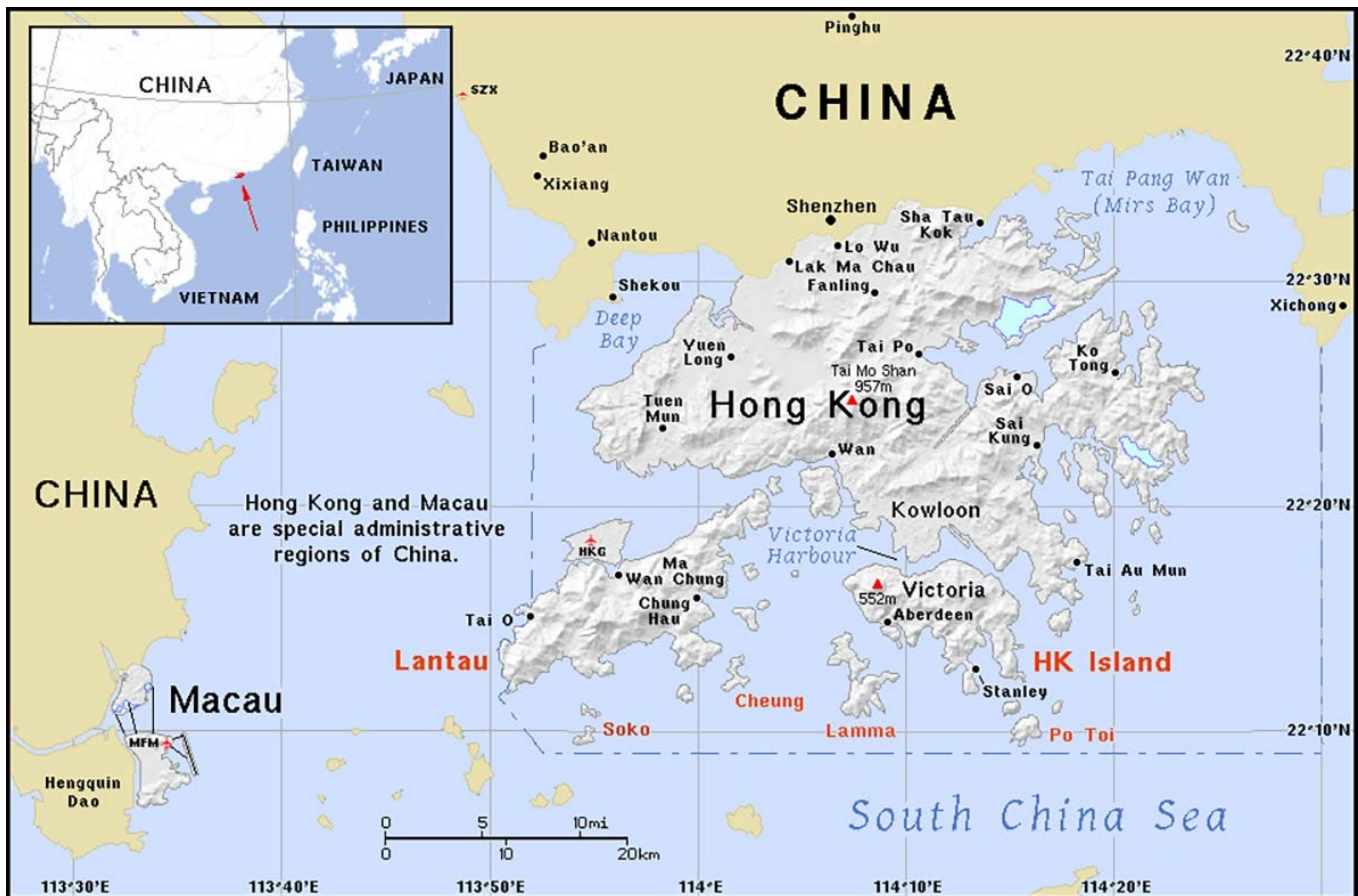
Throughout the literature around Hong Kong's history of dissent, it is evident that the issue of an imbalanced unification between Hong Kong and Mainland China lies within Hong Kong's identity and not authority. Under the "One Country, Two Systems" policy, the postcolonial era suggests that Hong Kong is seeing its freedom slowly dissolved by Mainland officials in Beijing. Increasing political movements like the Umbrella Protests and 2019-20 Protests engage the community to act on current discontents. As Hong Kong's guaranteed fifty years of autonomy continue to pass, the city's views of its identity as a system apart continue to be shaped. While most literature focuses on the history and politics of unrest in Hong Kong, there have been a few studies done on the economic effect of the protests and consumer decisions of protesters. The Hong Kong identity ultimately begins to affect the economy through the rising political tension.

## 2.2. Tourism and Retail Importance in Hong Kong

Figure 3: Map of China's Provinces



Figure 4: Map of Hong Kong

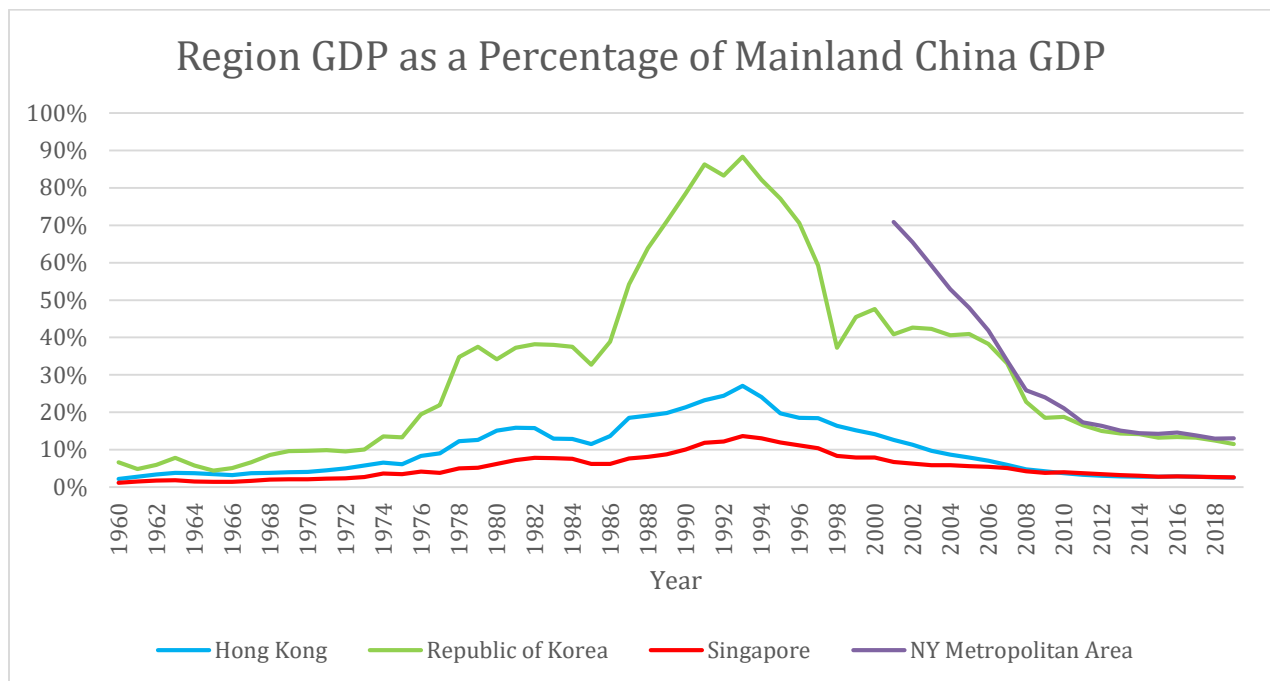


From being regarded as one of the world's busiest trading and financial hubs to attracting millions of tourists every year, Hong Kong's open economy has local and international influence. Figure 3 shows the geographical locations of China's provinces and major cities. Hong Kong borders the Guangdong province and is surrounded by the South China Sea. Figure 4 illustrates a closer look at the region of Hong Kong. The territory consists of three main islands: Hong Kong Island, Kowloon, and the New Territories, as well as over 200 smaller islands. Given the special relationship Hong Kong has with Mainland China, the decisions of policy makers are complicated. The motives of the Beijing government are oftentimes not in the interest of the

Hong Kong people. As seen in previous literature, the idea of a localized identity is particularly important to citizens of Hong Kong. They are a resilient population willing to do what it takes to preserve their individual freedom. This means enduring disruption to the economy and business activity during the times of protests to later benefit their future.

The economic importance of Hong Kong has shifted throughout the past decades. Figure 5 below illustrates the Gross Domestic Product (GDP) of Hong Kong and various comparison regions as a percentage of Mainland China.

**Figure 5: Region GDP as a Percentage of Mainland China GDP**



Source: World Bank Open Data, U.S. Bureau of Economic Analysis

The Republic of Korea and Singapore were chosen as comparison regions due to their highly industrialized economies and status as Asian Tigers. The New York Metropolitan Area is included to draw comparisons between Western and Eastern markets, noting that data is only available from 2001 and on. Hong Kong recorded the highest GDPs as a percentage of Mainland

China GDP during the 1990s. At its peak in 1993, the territory recorded 27.06% of Mainland China GDP or more than 27% the size of Mainland China's economy. This proved the importance of regaining Hong Kong's economy to Mainland China. Since Beijing has gained control, there has been a clear decline in GDP significance of Hong Kong. Today, the GDP percentage hovers around 3% of Mainland China GDP, which means Mainland China produces 33 times as many goods and services as does Hong Kong. In comparison, Singapore's levels of production seem to follow Hong Kong's lower GDP percentage trend throughout the years and also remain around 3% currently. Moreover, the Republic of Korea and New York Metropolitan Area tend to show higher percentages of GDP and remain around 12% of GDP.

By the end of 2019, private consumption accounted for 69% of Hong Kong's GDP, according to GDP data from the Government of Hong Kong SAR Census and Statistics Department. As the majority component of GDP, it is vital to analyze trends in consumer spending and macroeconomic influences. This includes looking at protests as a determinant of economic output. Only when Hong Kong people see their guaranteed rights disappearing do they take to the streets to call for change. During these times, retail sales of businesses and tourism have seen declines. We see a change in the consumer behavior where demand for overall retail products has declined. The change in behavior could potentially have long-lasting effects on the economy. Generally speaking, governments are concerned about sharp declines in economic behavior as it indicates a weak economy.

Closely related to the retail industry, tourism has been affected. The hotel industry has faced a grave decrease in the demand for accommodation in Hong Kong starting before the global pandemic of 2020. Hotels in multiple locations were only being half filled with rates plunging at a range of 40-70 percent. According to the Hong Kong Tourism Board, this is the



biggest decline in tourism that Hong Kong has seen since the May 2003 outbreak of SARS (CNA, 2019). Because Hong Kong relies on tourists from around the world to fill its many hotels, the hospitality industry was struggling to attract occupants during the social unrest. Properties were being sold for under market value, and investors were looking at other opportunities in other close regions, such as Singapore (CAN, 2019). If the rapid tourism decline trend seen before the global pandemic continues, it could seriously hurt the economy in addition to the damage caused by the pandemic since tourists generate a wealth of income for retail businesses.

The transportation sector, which allows the public and travelers to get around, was also disrupted. Public transport systems were directly impacted by the protests on several occasions. The Mass Transit Railway (MTR) saw shutdowns due to road blockages, destruction, and vandalism, which caused a major loss of revenue. Also, Hong Kong's international airport canceled hundreds of flights over the months of protesting in 2019 as protesters created road blockages. Protesters targeted the airport mainly for two reasons, one being that using an international hub would help them to gain international attention and that the airport could be seen as a safe haven from the recent violence that had been seen on the streets during the protests (Griffiths, Westcott, and Regan, 2019). News of the airport closure was seen throughout the world, as many people were unable to enter or leave Hong Kong on this date. With the disruption in transportation and the overall predictableness of the political state, tourism has become unattractive.

As shown, the retail and tourism industry are especially disrupted during the unrest. The nature of the protests switched to employing economic tactics in tandem with traditional protesting. Disruption in economic activity could be caused by the protesters trying to gain

economic freedom as individuals. Protesters exercise their power as consumers to stage mall sit-ins and boycotts to encourage people to cut their spending. Local consumers would change to consciously supporting locally-owned shops and avoid spending income at Mainland-backed businesses in an effort to make a political statement. By cutting consumption, protesters are maximizing utility where individuals derive greater satisfaction by protesting rather than spending money.

Seeing a contraction in the economy, investors and large retailers might find doing business in Hong Kong detrimental for future sales. Business confidence may decline and jeopardize major pillars of the economy. On the one hand, boycotting may be part of the protesters' intricate plan for government change. In the short term, they would endure hits to businesses. This would force the Beijing government to address meaningful change to Hong Kong's political state in order to protect the relationship with foreign investors. On the other hand, the Beijing government may not care about the health of Hong Kong's economy since China already performs well without Hong Kong. As Hong Kong people preserve their politicized identity through protesting, they are dictating economic behavior. Therefore, there is political pressure to address the state of the economy. It is important to look at the true effect of protests on the retail sector to assess the severity of the damage to the economy.

### **3. Data**

Table 1 provides the definitions, means, standard deviations, and labels of the data. In order to investigate the effect of social unrest on Hong Kong's economy, the paper will use a times series dataset covering 2006-2019 for Hong Kong SAR, China. All data are in annual time periods.

**Table 1: Summary Statistics**

Variable	Mean	Std. Dev.	Min	Max
gdp	1.372e+11	1.082e+11	4.476e+09	3.657e+11
gdpgrwth	5.362	4.342	-5.883	16.164
hightechex	30.672	20.467	11.391	65.566
sales	49021.864	13942.847	26568.359	64278.629
saleschange	5.929	9.967	-11.1	24.9

For macroeconomic analysis, data on GDP growth is collected from World Bank national accounts data. GDP growth rate is the annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2010 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data on high-technology exports came from the United Nations Comtrade database through the WITS platform and retrieved from World Bank Open data. High-technology exports are products with high R&D intensity, such as in aerospace, computers, pharmaceuticals, scientific instruments, and electrical machinery.

For retail and tourism sector analysis, data on retail sales are collected. The data is taken from the Government of Hong Kong SAR Census and Statistics Department. Sales represent the total retail sales for the year in USD converted from HKD using a 0.13 exchange rate. The change in sales is the year-on-year percentage change of the value index. The value index measures the changes in value terms in a particular period as compared with a reference period.

In order to quantify the variable of interest social unrest, I created a dummy variable. The variable *protests* is defined as “1” for years in which several consecutive weeks of protests occurred during the year and “0” for years in which protests did not occur. In this study, the years 2014 and 2019 are marked as active protest years.

One caveat in this sample selection is the lack of representativeness of my sample. Although data on GDP growth can be found from the year 1971, data on retail sales and changes in retail sales only go back to 2006. Because it is annual data, retail sales limit the number of observations. Monthly or quarterly data for all the variables was not available for collection.

#### 4. Methodology

The first empirical approach is to use a baseline regression for the time series model measuring the effect of protests on sales over time. The following is the initial model:

$$sales_t = \alpha + \beta_1 protests_t + \beta_2 gdp_t + e_t$$

Where *sales* is the total value of retail sales converted into USD million in year *t*. The variable *protests* is the key variable of interest, indicating “1” for active protest years and “0” for all other years. *GDP* is GDP at the current USD and is a macroeconomic control variable. Finally, *e* is an error term.

In time series models, it is important to measure how the variable changes over time using evenly spaced time intervals. Assumptions are made that the recorded observations are random and independent of each other, meaning that an observation in period 1 does not correlate with an observation in period 2. These assumptions allow the analysis to show the best estimate of the effect of the variable over many time periods. When recorded values separated by

time intervals indicate either a positive or negative correlation, autocorrelation or serial correlation is detected. Autocorrelation occurs when a previous observation is seen influencing a current observation. For this study, autocorrelation would occur if retail sales in the month of January are positively or negatively related to the following month of February. In regression analysis, autocorrelation is a problem. It violates the key assumptions that the observations are random and independent of each other. Therefore, it is imperative to check for time trend issues in order to keep the model unbiased.

To test for autocorrelation, I ran a Durbin Watson test after the first model. The value of .3050876 compared to the mean of 3 shows there is evidence of a positive Autoregressive process. In order to solve the time trend problem, I differenced my variables to reflect how each variable changes for every unit of time. Both the *sales* and *GDP* differenced variables were already computed in the data sample collected.

The updated equation reflects the changes in effort to detrend the data. Also, another control variable is added. It is as follows:

$$saleschange_t = \alpha + \beta_1 protests_t + \beta_2 gdpgrwth_t + \beta_3 hightechex_t + e_t$$

In this model, *sales* is replaced with *saleschange*. This represents the percentage change in the value of retail sales in a given year *t*. *Gdpgrwth* is added to represent the annual growth rate of GDP instead of *GDP*. The control variable *hightechex* is also included to account for high technology exports and used as another economic indicator.

After the first fix for autocorrelation, the Durbin Watson test still indicated an autoregressive process with a value of 0.84214. To further deal with this time trend issue, I

added a lag on the dependent variable *saleschange*. The final ordinary least squares (OLS) model is as follows:

$$\begin{aligned} saleschange_t = & \alpha + \beta_1 protests_t + \beta_2 gdpgrwth_t \\ & + \beta_3 hightechex_t + \beta_4 saleschange_{t-1} + e_t \end{aligned}$$

where a lag to *saleschange* is added to the right hand side. After these corrections, the autocorrelation was fixed. The Durbin Watson test came back with a value of 1.894, which is in the target range of detecting no autocorrelation.

In addition to differencing the variables and adding one lag, I ran further tests on the model to check for serial correlation. Both the Newey-West SE correlation with one lag and Prais-Winsten regression confirmed the autocorrelation was corrected. I also ran a White test to check for heteroscedasticity.

## 5. Results and Discussion

Table 2 reports the empirical results. Column 1 provides an initial estimation of the effect of protests on retail sales. The coefficient of -656.1 for protests is not statistically significant. This initial model indicates a weak correlation between protests and retail sales and shows an autocorrelation problem. In column 2, the sales variable is changed into the percentage change in sales and increases the significance of protests. The coefficient of -8.368 indicates when active protests occur, the change in sales decreases by 8.368%. Also, GDP growth and high technology exports are included to better estimate the relationship. Columns 3 and 4 show the model included with a sales change lag on the right hand side. The results display more interesting outcomes since all variables used are statistically significant and the autocorrelation problem is

fixed. The Newey-West model results indicate that in years which active weekly protests take place in Hong Kong, the change in retail sales declined by 10.58%. The economic indicators GDP growth rate and high technology exports are positively altered for positive increases in sales changes, rising 2.878% and 0.137%, respectively. Both indicators are statistically significant and also increase the coefficient of the protests variable. Therefore, they are included in the final models.

**Table 2: Effect of Protests on the Change in Hong Kong's Retail Sales (Dep. Var. sales)**

	(1) OLS	(2) OLS w/Differenced	(3) Newey-West	(4) Prais-Winsten
protests	-656.1 (6769.2)	-8.368 (6.814)	-10.58** (3.136)	-10.47* (3.560)
gdp	0.000000193*** (3.90e-08)			
gdpgrwth		2.232 (0.992)	2.878** (0.628)	3.136*** (0.580)
hightechex		-0.00526 (0.120)	0.137* (0.0478)	0.133 (0.0720)
L.saleschange			0.775** (0.173)	0.779** (0.163)
_cons	-2755.3 (10354.6)	1.232 (5.566)	-10.14* (3.740)	-10.32* (3.837)
N	15	13	13	12

Standard errors in parentheses

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

A main concern for this paper is how the protesters' political identity affect the consumption behavior of retail goods. After putting the OLS model through statistical scrutiny

using a time-series estimation, the results indicate that active protests negatively affect the city's retail sales. From the analysis, protests significantly disrupt economic activity.

It is unsurprising to see the decline in retail sales seemingly caused by protests. A decline in sales occurred in both protest years 2014, and 2019, with 2019 taking the greatest year-on-year hit to sales. Before the protests began, the economy showed strong economic performance and nearly full employment in 2019 (Shek, 2020). This provides more reason to believe the high levels of disruption to sales are caused by the protests. Hong Kong people are willing to experience discomfort to businesses and the economy in order to protect their freedom and see the government address their demands.

The strategy to target the business sector came after failed attempts to peacefully protest during street demonstrations in 2014. This economic resistance had never been seen before in protest movements in Hong Kong. One discussion reveals protesters directly attempting to disrupt consumerism through boycotts and mall sit-ins in the 2019-20 Protests (Wan Chan & Pun, 2020). The combination of political strikes and political consumerism is a compelling strategy. If the Beijing government did not want to offer concessions after the public's peaceful protests, then perhaps they would care to address business elites' concerns. These concerns over the threatened economic state can be used as political leverage for government action. The decline in sales during protest years displays evidence that the protesters succeeded in disrupting the economy.

The disruption of retail sales sharply declining could severely hurt the economy. When personal consumption for goods or the demand of goods goes down, and the supply of goods remains the same, the price of goods will decrease. Supply and demand of goods have an inverse relationship. In this case, there is a demand shock, which lowers the willingness of consumers to



purchase goods and services. As consumption goes down, production or output of goods goes down. When output decreases, employment decreases. Workers tend to get laid off and unemployment rises. The demand shock restricts the economy since less money is in circulation. Because of the economic disruption, Hong Kong's central banking system, the Hong Kong Monetary Authority (HKMA) needs to act accordingly to stabilize prices and employment. This is done through monetary policy by controlling interest rates or the cost of borrowing money. Shocks in one sector of the economy, even if they are transitory, are necessary to recognize and analyze as they have a greater overall impact on the economy.

With respect to the empirical results found in Table 2, some caution should be expressed. There is a lack of representativeness with the retail sales data, where only annual data was available from 2006-2020. Ideally, monthly or quarterly data would have been used for all variables in order to have more observations recorded. Nevertheless, retail sales were performing normally in an overall healthy economy before the occurrence of protests. Then, during protest years, there is a noted decline in the retail sector.

## **6. Conclusion**

While many studies have looked at the political and sociological effects of protests in Hong Kong, few studies have undertaken the task of attempting to statistically define the economic effects. This paper investigates the impact of political activism on Hong Kong's retail and tourism industry. Because Hong Kong has experienced a history of political dissent, protests protecting the localized identity occurred before the Handover back to China in 1997 and rose under the One Country, Two Systems policy. During the two protests of interest, the 2014 Umbrella Movement and 2019-20 Extradition Bill Protests, retail sales are noted as decreasing.

In the findings of this study, the protests seem to have a significant negative effect on the change in annual retail sales marked by 10.58%.

Previous literature shows political protests and democracy movements as mostly ineffective in achieving tangible results. However, after seeing their failed attempt during the Umbrella Movement, the protesters employed a new political tactic by taking advantage of their economic power as a consumer. Protesters can be seen not only taking to the streets during demonstrations but also participating in an economic resistance movement. The political consumerism encourages locals to shop locally and avoid businesses marked as “pro-police” or “pro-government.” This could be a cause for the decline in retail sales during 2014 and especially 2019.

Where the efforts of the ongoing pro-democracy movement will lead to is still unclear. It is difficult to decipher how Mainland China will react to protesting in the long run or if they will choose to address the demands of protesters. Peaceful demonstration attempts in 2014 to call upon the government for universal suffrage were seen as a failure. The protest movement of 2019 was really the first time economic activism was used as a political tool to pressure business leaders to lobby for government action over economic instability concerns. This is an important economic trend to recognize. The effectiveness of this economic resistance movement on inciting government change has not yet been decided.

Further studies may investigate if the strategy of political consumerism is effective in pressuring government officials to offer political concessions. It would be insightful to understand the future of Hong Kong. It might be implied that it is not in the interest of China to concede to Hong Kong’s pressure since China’s economy is strong on its own. Furthermore, studies may expand this research to include other semi-autonomous regions of China, such as

Macau or Taiwan. Hong Kong could also be compared to the other high-growth economies known as the Four Asian Tigers: South Korea, Taiwan, and Singapore. Including other Asian cities or countries would provide more evidence to suggest a causal relationship between active protests and a decline in retail sales.

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