

The intensity and duration of the unrest in Hong Kong has surprised many people. To understand the complex situation, which is still rapidly evolving, one needs to delve a bit deeper and take a longer and broader perspective. The fiery conflagration that Hong Kong has experienced for about half a year required not just a spark, but also a considerable amount of dry tinder.

What everyone agrees on is that the now-withdrawn extradition bill sparked off the unrest. But the underlying socio-economic conditions and tensions between native Hong Kongers and mainland Chinese had been worsening in the 22 years post-resumption of Chinese sovereignty over Hong Kong, thus constituting the bone-dry tinder that rapidly erupted into flames.

### Poor 'country cousins' have become overlords

Within a generation, Hong Kongers have witnessed a reversal of fortunes or inversion of roles between themselves and mainland Chinese. In the past, Hong Kongers were the better educated, richer, and well-traveled. They looked down on mainland Chinese as poor, uneducated, and uncouth. Well into the 1990s and early 2000s, most Chinese immigrants to Hong Kong took on lowly jobs whereas Hong Kong professionals were highly sought after by foreign and mainland Chinese companies to fill senior executive positions.

However, in a stunningly short period of time, those inferior country cousins have become Hong Kongers' overlords. Hong Kongers now have to become fluent enough in Mandarin to serve their Chinese customers, a staggering number of whom can indulge in ostentatious lavish shopping sprees in Hong Kong's many luxury boutiques. At the other end of the income spectrum, mainland Chinese who buy up truckloads of milk powder and medicines have aroused resentment for causing local shortages. On the job front, Hong Kongers are no longer finding it as easy to obtain plum jobs. Increasingly often they lose out to mainland Chinese candidates who have better academic qualifications, prior working experience in the USA or Europe, and superior command of Mandarin and even English. A few years ago, this trend sufficiently concerned Beijing that it instructed all state-owned enterprises with a Hong Kong presence to deliberately set aside a certain number of posts for fresh Hong Kong graduates.

In housing, mainland Chinese buying has certainly been a big factor in pushing up property prices, in the higher priced segments of the market. But it's not so much millionaires and billionaires buying up luxury homes that's causing unhappiness. The bigger driver of overall housing demand is the wave of Chinese immigration allowed under Hong Kong's Basic Law. Starting from 1st July 1997, when China resumed her sovereign rule, every single day, 150 mainland Chinese are allowed into Hong Kong to become permanent residents. Cumulatively, this means more than 1 million new Chinese immigrants, out of a total population of 7.4 million.

All this has tended to reinforce a certain siege mentality amongst many Hong Kongers, especially among the lower income groups. Other people's elsewhere encountering similarly dramatic reversals of fortunes might also develop a siege mentality - parallels abound, though perhaps to a lesser degree, in America and Europe.

### Deteriorating socio-economic conditions and lack of leadership

Away from the glossy shiny shops and offices in Hong Kong's prime commercial zones, life is far from glamorous. 1.37 million or almost 20% of the population are living below the poverty line. The average living space per person is about 160 square feet, barely bigger than a parking lot - this compares to 388 and 414 square feet in Paris and New York City respectively.

# Dragoman

Affordability is another big issue - the average apartment costs about 20 times Hong Kong's median household income, versus 12.6, 8.5 and 5.5 times in Vancouver, London and NYC respectively.

But Hong Kong's lack of real leadership has made the situation worse. By and large, the Chief Executives have shown no political acumen and have not launched bold new initiatives. This lack of leadership is perhaps most clearly evident in the deterioration of the housing problem. A few data points will illustrate the ineptitude. The bold housing initiative of 85,000 new housing units a year announced by the first Chief Executive Tung Chee Hwa was swiftly scuttled by the Asian financial crisis. In 2002, following a steep fall in the property market, the government suspended the construction of all subsidised public housing; this was resumed only in 2011. From 2006 to 2016, average housing supply plunged 57% to an average of 25,700 units yearly, from 59,800 yearly in the preceding 10 years. In 2014, the government announced a new long-term housing strategy that set a 10-year target of 290,000 new public housing flats. According to the schedule, 116,000 new public flats should have been built by 2019, the actual number was only 70,400, a considerable shortfall of about 40%.

Another glaring weakness that has come to light is the government's poor public communications. There was insufficient time and effort put into explaining the need for the extradition bill, and all the safeguards it had in place to minimise the risks of abuse and miscarriage of justice. A coalition of parties with vested interests - i.e. who might face a risk of extradition to China if the bill was enacted (e.g. triads, mainland Chinese fugitives, entrepreneurs who had defrauded business partners, banks, various government agencies, etc) - helped to amplify and propagate a distorted view of the extradition bill, giving the impression that it would enable China to do "legalised kidnappings". This commentary does not endeavour to add to the controversy surrounding the extradition bill, nor to debate its pros and cons. The reference to it is in the context of it being the spark for the current wave of unrest, and how the government's poor communications and public relations skills have made the situation worse.

## China also bears some blame

China has to bear its fair share of blame for the current Hong Kong crisis. Certainly, it should have taken a hands-off approach to developments in Hong Kong's political arena. It was seen as having instigated disqualification of some candidates in the 2016 Legislative Council elections and the November 2019 District Council elections. The protesters claim that China has reneged on provisions in the Sino-British Joint Declaration (signed in 1984, this document stipulates the sovereign and administrative arrangement of Hong Kong after it reverts to Chinese sovereign rule on 1 July 1997) relating to elections of the Chief Executive. Incidents such as China's kidnappings of five Hong Kong publishers/booksellers and a Chinese billionaire, along with an increasingly intolerant attitude towards dissent have made Hong Kongers apprehensive that their freedoms would be eroded as they get closer to 2047, when the 50-year period of autonomy ends.

## What next?

So we have a complex brew comprising nativist Hong Kongers with a siege mentality and somewhat of an identity crisis (Chinese by ethnicity and nationality, but not mainland Chinese in terms of cultural and socio-economic identity), an incompetent Hong Kong government which had been used to taking orders from a distant power, but has failed to exercise leadership in the current "one country two systems" regime, and an assertive China, encroaching on the fringes.

# Dragoman

To grossly simplify each camp's perspective, in the eyes of China, it's "ONE COUNTRY, two systems". For those at the helm of the HK government, it's "One Country, Two systems", whereas nativist Hong Kongers insist on "TWO SYSTEMS".

## Another Tiananmen massacre, continuing violent street protests, or a long simmering discontent and unease?

There are no easy solutions. It is hard to see a return to normalcy within the next three to six months, as we have yet to see the start of any real dialogue of reconciliation. The landslide victory of pro-democracy candidates in the recent District Council elections appears to have reinvigorated the protest movement. One can only hope that calmer rational voices will emerge to speak out against and dissuade the radicals in their midst to cease their violence and vandalism. It has been a worrying sign that not enough of the "silent majority" have done so; does silence signal tacit approval of the extreme radicals' actions?

While the protests and violence might gradually dissipate, the tensions between Hong Kongers and mainland Chinese won't go away so easily. The genies of xenophobia and hostile antagonism can't be easily put back into the bottle whence they came. There is a strong risk that these strong tensions would persist for at least one whole generation in neighbourhoods, schools, workplaces, shops, and other venues in the densely populated cramped urban jungle that is Hong Kong. Such heightened tensions can easily boil over into periodic violent clashes.

Mainland Chinese won't quickly forget images of the Chinese flag being burnt and desecrated, Mandarin-speakers being violently attacked, and mainland Chinese banks and Chinese-affiliated shops being burnt. As they account for more than 80% of tourists visiting Hong Kong, it's hardly a bold prediction to say that Hong Kong will take a long while to recover from the steep 40% fall in tourist arrivals. Beyond tourists, business visitors have also postponed or canceled their trips to Hong Kong. Many events have been canceled, from concerts to cultural exhibitions to trade shows, conventions and sports tournaments.

Optimists point to Hong Kong's resilience and its swift recovery from past crises, citing as examples the 2008 global financial crisis, the SARS epidemic in 2003, the Asian financial crisis, etc. The difference is that when those crises occurred, Hong Kong society hadn't been so polarised. Back then, Hong Kong was also of much greater importance to China as a gateway for business and finance, hence China readily introduced measures to help the Hong Kong economy.

Today, Hong Kong's GDP is only 2.7% of China's GDP, versus 18% in 1997, the year of the handover, and as much as 27% in 1993. It still accounts for the lion's share of all Chinese companies' offshore IPOs, but only 25% of Chinese offshore bond issuance; this share of the Chinese offshore bond market had been in decline since its peak of 55% in 2011.

Hong Kong undoubtedly will still be a major hub for China-related business and finance in the next few years. The trouble is that it seems to have rested on its laurels for far too long, without realising that while its rule of law, pro-business environment, free movement of capital, goods, and services, and general efficiency have served it well, its prosperity also derived from the closed nature of China's economy in the past. Now that China has closed the gap and integrated more into the world economy, Hong Kong's importance as a gateway will inevitably decline.

There's enough anecdotal evidence to suggest that many people and companies are making contingency plans. Hong Kong's preeminence will slowly be eroded by a brain drain involving native Hong Kongers, mainland Chinese and other residents. The reality is that while a weakening of Hong Kong's economy won't be positive for China, it is much better able to absorb the impact than it would have been 10 or 20 years ago.

# Dragoman

China is highly unlikely to intervene directly by sending in armed forces or policemen. It has more to lose than to gain in making such a move. More and more observers are coming to the view that China's more probable stance is 讓香港成為鄉港 / let the Fragrant Harbour become a Village Harbour / let Xiang Gang become Xiang Gang. This is a pun referencing the meaning of Hong Kong's name - Fragrant Harbour, and making use of the Chinese homonyms 香 and 鄉 - both characters are pronounced exactly the same way "xiang", but the first means "fragrant:" while the second denotes a village; the second Chinese character in its name, 港 is harbour ("gang" in Mandarin). So, the emerging consensus seems to be that China would choose the lesser evil of letting Hong Kong decline into insignificance rather than intervene clumsily to great opprobrium.

China cannot impose a solution on Hong Kong. Any solution has to come from within, and it would have to address socio-economic problems, notably housing, as well as social tensions, and the overall relationship with China.

One likely intervention from China however would be a behind the scenes push for the current Chief Executive Carrie Lam to step down, ostensibly for health reasons, as face-saving pretext. Former Legislative Council President Jasper Tsang seems to be emerging as a strong contender to be her successor, and he appears acceptable to both pro-establishment and pro-democracy camps. The appointment of a new Chief Executive with broader public support would certainly be a good opportunity for a new serious attempt at a reconciliation dialogue.

But it is difficult for the HK government to start a dialogue with a leader-less bottom-up protest movement. There is no Mandela-like figure in the protest movement nor in the opposition. Nor does there appear to be any well-known widely respected figures of moral authority from nonpolitical circles. Hence, the summer of unrest is likely to continue into a long winter of discontent.



## **Yew Boon Chia**

Yew Boon Chia's career spans government, private sector corporate management, equity research, private equity and venture capital investment management. He was Senior Vice President at GIC Special Investments, the private equity and venture capital subsidiary of one of the world's largest sovereign wealth funds.