

16. Juni 2019, 13:00 MESZ

The Long Game Is China's Despite a Win for Hong Kong's Protesters

A proposed extradition law is suspended but the city continues to be at risk from the mainland—and Singapore

By Matthew Campbell, Brendan Scott, and Benjamin Robertson

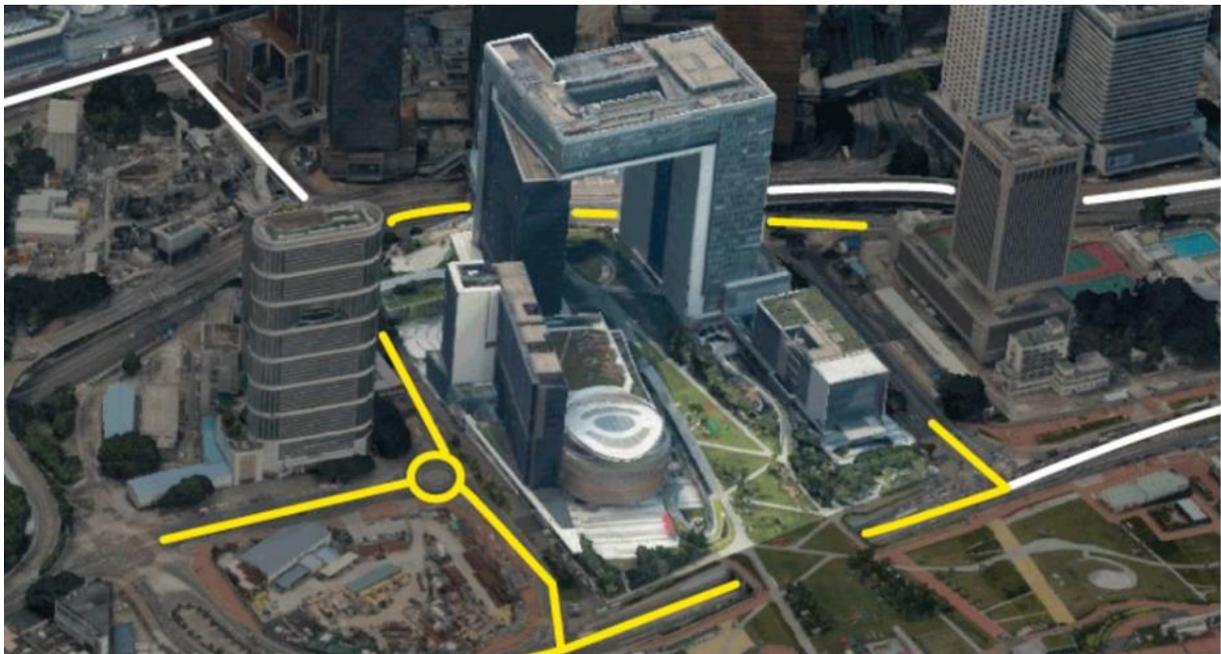


Protesters march during a rally in Hong Kong on Sunday, June 16. PHOTOGRAPHER: PAULA BRONSTEIN/BLOOMBERG

Hong Kong's protesters have won—this round. They knew not to exult in the victory. On Sunday, June 16, they again gathered in the hundreds of thousands—almost all dressed in mournful black—to march and to press their current advantage in what will be an extended struggle.

The day before, the pro-democracy activists had forced Chief Executive Carrie Lam into a humiliating retreat over a law that

could allow extradition to China. While many businesspeople in Asia's financial capital are breathing a sigh of relief, there's little question that over the longer term, Hong Kong's Beijing-backed government intends to keep chipping away at freedoms many of its people regard as sacred—or that the city's future looks less secure than at any point since the U.K. returned it to Chinese control in 1997. It faces something of a perfect storm: instability and fear of Chinese domination within its borders, the development of more sophisticated companies and financial markets in Beijing, Shanghai, Shenzhen, and other mainland cities, and perhaps above all the rise of Singapore, which is now a serious challenger in almost every industry.



Hong Kong turns out for protests yet again

Hong Kong remains one of Asia's most vibrant hubs, a cosmopolitan metropolis of 7.5 million with a secure place on any list of great global cities. But after managing to mostly defy predictions of a business exodus after the handover—and continuing to thrive under the 50-year promise of “one country, two systems” made by the Chinese to allay such concerns—its moment of reckoning may have finally begun. The hundreds of thousands of demonstrators who took to the streets to stop the extradition law, which Lam put on hold on June 15, were fighting

something else, too: the end of the special status that underpins their city's prosperity. "Once you have a law like this on the books, all bets are off," says David Webb, an investor and analyst based in the city who advocates for stronger corporate governance. If implemented, it would be "bound to deter some talented professionals from moving to Hong Kong in the first place. If they cannot assess the risks, they will err on the side of caution and build their careers in other places."



A protester holds up an umbrella on Harcourt Road during a rally in Hong Kong on Sunday. PHOTOGRAPHER: JUSTIN CHIN/BLOOMBERG

Lam admitted that her government mishandled the roll-out of the extradition legislation, which would create a process for sending criminal suspects from Hong Kong to countries with which it has no extradition treaty, including China. To opponents, it would have ended Hong Kong's status as a refuge for mainland dissidents, while exposing businesses, investors, and ordinary people to a mainland justice system they regard as capricious and corrupt. Lam, who's led Hong Kong's quasi-democratic government since 2017, said the law presents no threat to law-

abiding citizens and was drafted without China's involvement. Opposition activists found that claim laughable, noting that President Xi Jinping's administration had repeatedly spoken out in support of it. There's no timetable for re-introducing the legislation, although Lam says she believes it's still necessary.

Extradition could do more than make life in Hong Kong dangerous for Xi's political opponents. Some investors fear that mainland commercial disputes might escalate into trumped-up criminal charges that could be used to target businesspeople living in, or visiting, Hong Kong. Washington D.C.-based Freedom House wrote of China's courts in its 2019 *Freedom in the World* report that, in addition to overall Communist Party control of the legal system, "many judges complain about local officials interfering in cases to protect powerful litigants, support important industries, or avoid their own potential liability." If an extradition bill were enacted, one of the smartest investments might be Singapore real estate, says Richard Harris, the chief executive officer of Hong Kong-based Port Shelter Investment Management. "If you look at what makes Hong Kong really special," he says, it's that "we are in China but not in China."

Hong Kong's unique position—a haven of the rule of law and free debate on the doorstep of a phenomenally lucrative market that enjoys neither—was being eroded well before this month's drama. Since the 2014 Occupy protests to demand universal suffrage, which took over a swath of the city center for more than two months, the government has jailed pro-democracy activists, prevented candidates with similar views from running for office, and banned political parties from advocating independence. Last year officials took the unheard-of step of refusing to renew a visa for a Western journalist, Victor Mallet of the *Financial Times*, who'd presided over an appearance by a pro-independence activist at the famed Foreign Correspondents' Club. And in the absence of an extradition arrangement, at least two people have been apparently abducted by Chinese agents from Hong Kong soil—both of them dual citizens of China and Western countries.



Carrie Lam, Hong Kong's chief executive, pauses during a news conference in Hong Kong on Saturday, June 15. PHOTOGRAPHER: JUSTIN CHIN/BLOOMBERG

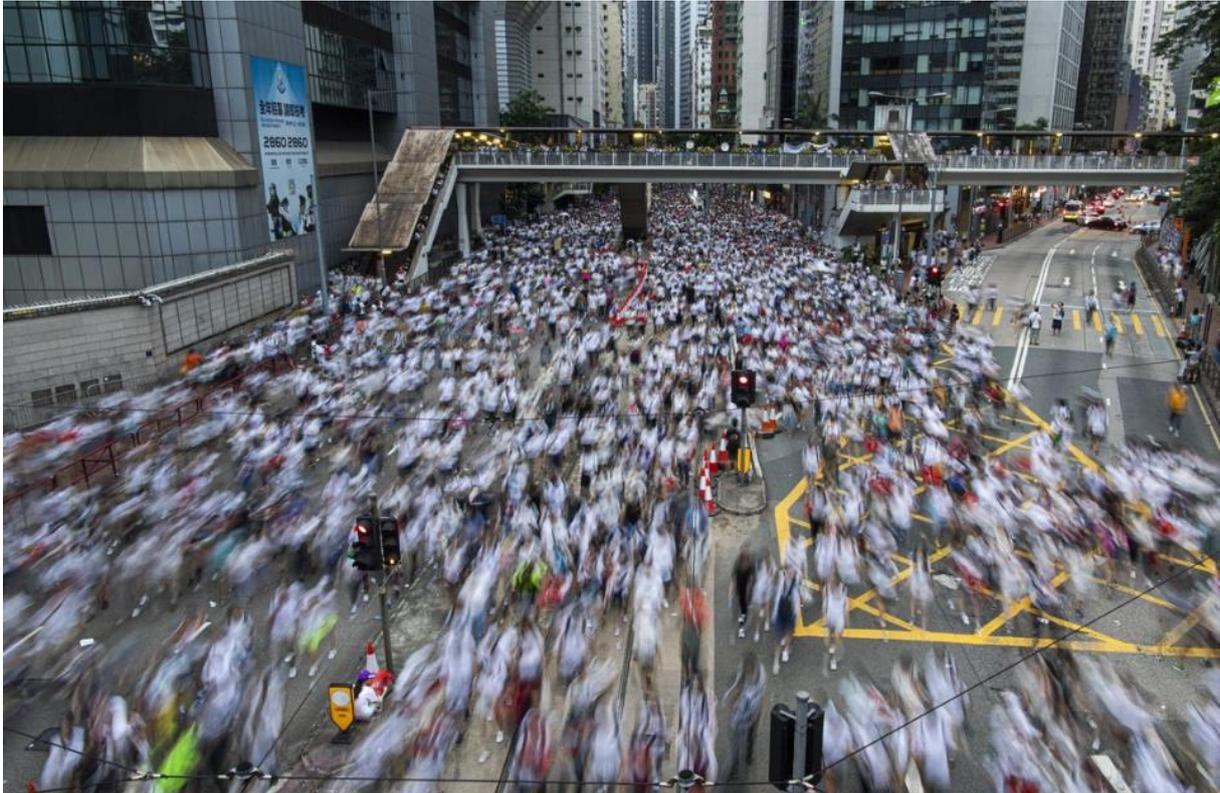
“I believe that Hong Kong is being changed for the worse by the constant encroachment of mainland governance,” said Carson Block, the founder of short-seller Muddy Waters Capital LLC and a frequent critic of Chinese companies. “The West once held out hope that the mainland would become more like Hong Kong. Clearly the opposite has happened.”

With legal transparency, a mostly free press, and unfettered financial flows, Hong Kong is significantly more open than even the most prosperous cities in the mainland. But foreign governments have begun to question whether there’s still a meaningful distinction between Hong Kong and China proper, at least in certain areas of policy. In November, [Australia barred CK Group](#), a Hong Kong infrastructure giant, from buying a domestic pipeline operator, finding that the A\$13 billion (\$8.93 billion) deal would be against the national interest. The U.S.-China Economic and Security Review Commission has

recommended reassessing Hong Kong's privileged access to U.S. technology imports, on the grounds that Beijing's actions "run counter to China's promise to uphold Hong Kong's 'high degree of autonomy.'"

American alarm is now rising further. Amid the confrontation between protesters and the Hong Kong government, a bipartisan group of U.S. lawmakers introduced the Hong Kong Human Rights and Democracy Act, which would impose sanctions on officials involved in abductions and require the State Department to annually re-assess whether the city remains autonomous. The implications of a negative verdict would be significant. Under U.S. legislation dating to before the handover, Hong Kong is treated distinctly from China in trade matters: For example, it's not subject to the Trump administration's tariffs on Chinese goods. Removing that status could be economically devastating, both in its direct effects on issues such as technology transfer and as a signal to international firms.

In her press conference on June 15, Lam conceded that her government had underestimated the depth of anxiety about the extradition plan. A [peaceful march](#) on June 9 drew a crowd that organizers estimated at 1 million—comparable, as a percentage of the population, to nearly 9 million people taking to the streets in the U.K. (Police put the figure at 240,000.) A [follow-on demonstration](#) on June 12 in Hong Kong's government district was the most tumultuous since Occupy. Determined to avoid another long-term takeover of city streets, the police launched almost twice as many canisters of tear gas as in 2014, and also fired beanbag rounds and rubber bullets. "This time is actually quite different," said Yan Chen, a 24-year-old who works in e-commerce and took part in both sets of demonstrations. She was catching her breath in a park in the financial district after inhaling tear gas. "Police are trained, more equipped, and willing to use weapons."



Demonstrators march in Hong Kong, China, on Sunday, June 9. PHOTOGRAPHER: JUSTIN CHIN/BLOOMBERG

Yet while protest often proved fruitless in Hong Kong, these demonstrations made a difference. As marchers gathered on June 12, the Legislative Council, or LegCo, cancelled planned debate on the bill. And Lam’s retreat came as activists were in the process of planning their June 16 march. That demonstration would swell the streets at least as much as the first protest a week ago, with marchers now calling for a full retraction of the extradition bill and for Lam’s resignation. The Chief Executive said that the Beijing government—for which the Hong Kong crisis added to headaches over a slowing economy and a bruising trade war with the U.S.—supported her decision to suspend the process, but didn’t order it.

Business reaction played a significant role in her climb-down. On June 13, the General Chamber of Commerce, which supports the extradition bill in principle, urged “restraint from all parties” to ensure “this issue will not undermine business confidence in Hong Kong and our international reputation.” The American Chamber of Commerce in Hong Kong warned earlier this year

that the proposed law would “reduce the appeal of Hong Kong to international companies,” calling its reputation for legal impartiality “a priceless treasure.”

Chinese political pressure is not the only threat to Hong Kong’s status. Thanks in part to wealthy mainlanders using its real estate as a de facto safe deposit box, it has the world’s highest housing costs, with the average property costing \$1.24 million, according to CBRE—almost double the figure for New York. Those prices are the largest factor in Hong Kong being one of the most unequal societies on Earth, with some 20% of the population below the poverty line—many forced to live in tiny “cage homes,” compartments fashioned from wire mesh that hold a single bed. Some of the more fortunate get “[coffin homes](#),” which have solid walls but little more space.



An occupant watches television inside a subdivided residential unit, known as a "coffin home." PHOTOGRAPHER: PAUL YEUNG/BLOOMBERG

With the manufacturing that catalyzed its post-war boom largely decamped to cheaper locations on the mainland or in Southeast

Asia, Hong Kong has struggled to spark new industries. It's largely failed to become a technology hub: It isn't easy operating a bootstrapped startup in a city where a smallish apartment can rent for over \$5,000 a month. Nor have U.S. giants such as Netflix Inc., Facebook, or Google set up a major local presence. None of them can operate freely in China's sealed-off digital market, making Hong Kong's status as a gateway—already diminished, since many companies that do have significant Chinese business prefer to put local headquarters in Shanghai or Beijing—irrelevant.

Where they do have large offices is Singapore, which serves as a key base for all three, as well as Amazon.com, Microsoft Corp., and many others. The city-state is making an aggressive play for Hong Kong's title as Asia's leading business destination, pitching its stability, clear skies, and gleaming infrastructure to tech and biotech companies, consumer-goods manufacturers, and global banks, Hong Kong's bread and butter.

In most international rankings, the contest is pretty much a wash. Hong Kong is the larger financial hub by a whisker, according to the 2019 edition of the Global Financial Centres Index; Singapore wins on ease of doing business, with a second-place ranking in the World Bank's most recent tabulation, two spots ahead of its rival. Singapore has also shed at least some of its reputation as a sterile expanse of spotless, gum-free sidewalks and spacious shopping malls. It's still orderly, certainly, but it's also increasingly dynamic, with hopping downtown nightlife and a busy calendar of festivals and sporting events.

There's nonetheless a pungent irony to businesspeople fearful of narrowed freedoms in Hong Kong considering a re-location to Singapore, which is arguably no more free. Overt protest is extremely rare, and the mostly government-controlled press gives a wide berth to controversial subjects. The ruling People's Action Party has never lost an election, and while the internet is uncensored and the courts transparent, public debate is constrained. Defamation laws have been used repeatedly against

local and foreign critics of the government, and human-rights groups have condemned a new law on “online falsehoods” that would allow ministers to compel corrections to web content.



Residential and commercial buildings stand illuminated in Hong Kong. PHOTOGRAPHER: DAVID PAUL MORRIS/BLOOMBERG

Indeed, Singapore’s system is one that Communist Party figures have occasionally suggested China could emulate. A more Singaporean future for Hong Kong would almost certainly appeal to Xi, who’s sought to exercise a tighter grip on Chinese society than any recent leader. “It’s in Beijing officials’ DNA that they want to control things, and an unruly Hong Kong is just not acceptable to them,” says Michael C. Davis, a global fellow at the Washington’s Wilson Center and one of a group of activists who successfully fought a 2003 effort to introduce pro-China legislation. “They think in the long term they can run Hong Kong without so much dissent, so they want to slowly bring it into the fold.”

Despite the retreat on the extradition issue, further confrontations in Hong Kong are inevitable. There’s no evidence

that Xi believes central control should stop at the city's borders. But Lam's reversal will embolden protesters, who've just learned that with the right combination of popular discontent and business concern, they can still make pro-Beijing forces back down, at least temporarily.

"Young people are coming back to the front line," says Kim-wah Chung, a professor at Hong Kong Polytechnic University who studies social policy. "Most of them are not organized, but they are determined, and they are angry." Unlike earlier generations of activists, Chung says, they have no hope of pushing the mainland toward democracy at the same time. Instead, "they want Beijing to keep the promises they made to Hong Kong." —
With Blake Schmidt