

BETWEEN POLITICS AND FINANCE: HONG KONG'S “INFINITY WAR”?

edited by Alessia Amighini

ISPI

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Edited by Alessia Amighini
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Introduction

Several months back, as this Report was being conceived, protests in Hong Kong showed no sign of abating, with yellow umbrellas and balaclavas saturating global media. Today, as the coronavirus crisis takes its heavy toll, fear and restrictive measures have been keeping almost three million people away from the streets, both in Hong Kong and elsewhere in the world. And yet, just like at the start of what has now come to be known as the 2019 “global protest wave”, Hong Kong remains at the frontline of political contestation worldwide.

If questioned, most people today would assume that the Hong Kong protests ceased as swiftly as they had started. They would be wrong. In truth, the protests never entirely died out, not even when the first cases of coronavirus infection were registered in Wuhan last December, nor when the World Health Organization declared a pandemic in early March. Indeed, as Joshua Wong, leader of the 2014 “Umbrella Movement”, claimed, Hong Kong is fighting an “infinity war”, which the coronavirus fuelled instead of halting. It is therefore high time to go back to the reasons for the current unrest.

“One country, two systems”. This was the catchphrase chosen for the political solution proposed by President Deng Xiaoping in 1979 to secure the return of Hong Kong under China’s sovereignty, after having been a UK protectorate since 1841. The formula is a carefully crafted compromise. On the one hand, China and Hong Kong are recognised as a single state; on the other, Hong Kong has the right to manage

certain policy areas in accordance with a different institutional order and economic system. This means that the Hong Kong government is responsible for domestic affairs, including the judiciary, immigration and customs, public finance, currencies and extradition. Diplomatic relations and military defence, in contrast, remain under the responsibility of Beijing. Yet, “one country, two systems” also has a deadline after which Hong Kong will lose its “privileges” – that is, 1 July 2047.

In Hong Kong, the protests against the 2019 extradition law unearthed the main weaknesses of the “one country, two systems” formula, especially as Beijing has grown more assertive over time. Violent contestations arose out of fear that the extradition law would cross the dividing line between Hong Kong and mainland China – a line that has already been crossed in the past. Over and over, people have taken to the streets to voice their concerns for Beijing’s growing interference in the city’s internal affairs (among others, candidates for the general elections are still pre-approved by Beijing), as well as to confront the Hong Kong government about its compliance with mainland China’s requests. In sum, Hongkongers protest against a government that they feel does not protect their own interests, but is aligned with Beijing. Therefore, protests will not cease until the city’s post-2047 future will be made clear. Yet, protesters do not look necessarily for independence, but for a different compromise, which is made impossible by the key role that Hong Kong plays in financial markets worldwide, and also in Beijing’s plans for the creation of a major advanced development area (the “Greater Bay Area”) capable of rivalling with other metropolitan areas, such as Tokyo or San Francisco, and sensibly increase China’s status around the world. Furthermore, Hong Kong is strongly dependent on mainland China in terms of its economic prosperity. After the prolonged 2019 protests weakened the city’s economy, traditionally vulnerable to external shocks, the coronavirus is now sure to prolong Hong Kong’s recession. At the height of the protests (between July and December 2019), the city’s economy had

shrunk about 3% compared to the same period in 2018. Overall, GDP in 2019 contracted by 1.2%, the first drop since the global financial crisis. But the coronavirus pandemic is sure to take a much heavier toll, not only due to Hong Kong's dependency from China, but also because of its export-oriented character, traditionally sensitive to trade disruptions. Predictably, in the first quarter of 2020, Hong Kong's economy shrank by 8.9%, worse than during the 2009 global financial crisis or the 1998 Asian financial crisis.

As anywhere else in the world, the Hong Kong government has adopted a number of measures to reduce the impact of the virus. Regulations on human mobility to and from the mainland have proven the most controversial as much as they precipitated tensions between the Hong Kong government and civil society. Many asked for the closure of all connecting routes between the city and mainland China, so as to avoid the spread of the virus. Hong Kong's Chief executive Carrie Lam, though, chose to leave open four passageways, despite banning most non-residents, including tourists, from entering Hong Kong. Closing all routes, in fact, even at the time of a health emergency, would be a symbolic gesture referring back to "localism" – i.e., the ideology that underlies Hong Kong's more radical autonomy claims. Although the city's government has done a credible job in containing the infections, it is not getting credit because the level of trust from civil society is at an all-time low. The risk is that the policies adopted by the Hong Kong government will only be interpreted as "political choices", and will lead to a new wave of severe protests after the coronavirus crisis will end. After all, protests already started to mount, despite the anti-coronavirus measures, and in late March the police fired tear gas to disperse about 100 protesters. Contention is once again stirring in the city and Hong Kong might be on the verge of another "summer of protests" unless the health crisis kicks in once more.

This ISPI report delves deep into longstanding Hong Kong-China relations, asking: what makes Hong Kong special? To

what extent have the Hong Kong protests worsened over time? Will the city's role in Beijing's development plans in the area change, if the protests continue? After all, not even a global health crisis has managed to halt Hong Kongers to take their concerns to the streets. We then ask: how could the future of mainland China-Hong Kong relations change, as we slowly get closer to the expiry date of the city's autonomous status, in 2047? And finally, to what extent has the situation in Hong Kong the potential to reverberate on Macau and ultimately Taiwan?

In the first chapter, Guido Samarani looks at Hong Kong's instabilities as a product of history, and especially as a clash between the city's past as a British colony and its controversial relations with mainland China. This mixed heritage created a unique "Hong Kong identity", which is mainly responsible for Hong Kongers' inability to accept Beijing's full-sovereignty.

Next, Alvin Y.H. Cheung details the controversial relations between Hong Kong and Beijing. In particular, he investigates changes in the governmental approaches used to counter protests. After the 2014 protests, Cheung detects a sensible increase in the levels of violence used by Beijing, and argues that, as long as protests continue, violence will also risk escalating.

Éric Sautédé offers a comparison between the 2014 and 2019 Hong Kong protests. By looking at the "anatomy" of these two events, the author questions Beijing's policy choices, and asks whether this streak of violence will work in favour of the governments of Hong Kong and Beijing, or whether it will open up new spaces for contestation in the long run.

Victoria Hui, in contrast, looks at the Hong Kong protests as something more than a product of Beijing and Hong Kong relations. As the 2020 Taiwan presidential elections have shown in January, the situation in Hong Kong remains a key political issue in Macau and Taiwan, as well. In fact, the outcome of the crisis in Hong Kong is bound to impact future relations between Beijing and other contested territories.

Yet, uncertainties on Hong Kong's political future complement doubts on the city's ability to continue serving Beijing's economic and financial interests. Alicia García-Herrero and Gary Ng look at Hong Kong's position worldwide, especially under the confrontation between China and the US. Hong Kong's connecting status between China and the West is crucial for the city's role as a global financial hub, and its loss risks damaging the mainland's economic strategy.

In their chapter, Dingding Chen and Junmin Wang focus on the Greater Bay Area, one of Beijing's main development projects involving Hong Kong. The authors argue that structural differences in how mainland China and Hong Kong are administered risk to be fatal to the project, thus jeopardizing Beijing's efforts to tighten its grasp on the region.

Finally, Alessia Amighini makes a case for Beijing's attempt to complement Hong Kong's role as a financial hub with other locations, above all Shanghai. Amighini argues that Hong Kong will remain one of the strongholds of China's financial power, yet losing its unicity to a strategy of differentiation, implemented through the Belt and Road Initiative.

In conclusion, relations between Hong Kong and mainland China are set to remain highly complicated over the next years and decades, but they do not need to become confrontational. Dialogue will only set in if the two parties understand and acknowledge each other's grievances, while not embracing them altogether. Mediation can come from international partners, but ultimately only front-liners will be able to tackle the issue effectively. And while de-escalation efforts are welcome, some level of conflict may even prove beneficial to showing how deeply each side cares for a solution. Whether this may serve to bring both sides to the negotiating table, and from here to a sustainable solution, only time will tell.

Paolo Magri
ISPI Executive Vice President and Director

List of Acronyms

ATD	Alliance for True Democracy
BAAG	British Army Aid Group
BIS	Bureau of Industry and Security
BL	Basic Law
BRI	Belt and Road Initiative
CCP	Communist Party of China
CECC	US Congressional-Executive Commission on China
CEPA	Closer Economic Partnership Arrangement
CNH	Offshore Renminbi
CNY	Onshore Renminbi
CSRC	China Securities Regulatory Commission
CUHK	Chinese University of Hong Kong
DAB	Democratic Alliance for the Betterment of Hong Kong
FDI	Foreign Direct Investment
FEHD	Food and Environmental Hygiene Department
GBA	Greater Bay Area
GDP	Gross Domestic Product
HKD	Hong Kong dollar
HKMAO	Hong Kong and Macao Affairs Office

HKNP	Hong Kong National Party
ICCPR	International Covenant on Civil and Political Rights
IMF	International Monetary Fund
IPO	International Public Offerings
JD	Sino-British Joint Declaration
MOFCOM	Ministry of Commerce
NPC	National People's Congress
NPCSC	National People's Congress Standing Committee
OCLP	Occupy Central with Love and Peace
PBOC	People's Bank of China
PLA	People's Liberation Army
PLCN	Pacific Light Cable Network
PRC	People's Republic of China
RMB	Renminbi
SAR	Special Administrative Region
SARS	Severe Acute Respiratory Syndrome
SDR	Special Drawing Rights
SEHK	Stock Exchange of Hong Kong
SOE	State-Owned Enterprise
UK	United Kingdom
US	United States
USD	United States dollar
USTR	United States Trade Representative
WEF	World Economic Forum
WTO	World Trade Organization

1. Hong Kong and China: A Controversial Historical Relationship

Guido Samarani

Looking back at the mid-nineteenth century – as the “Opium Wars” opened a century of Western aggression against China and the island of Hong Kong was ceded to the United Kingdom through the 1842 “Treaty of Nanjing” – it is impressive how that “barren island” (as then-British Foreign Secretary, Lord Henry John Temple Palmerston, used to refer to Hong Kong) managed to become East Asia’s financial hub in the twentieth century.

In less than two centuries, the island – together with the Kowloon Peninsula and the New Territories – experienced a long and complex period of colonisation and, after returning to China in July 1997, a stimulating yet contradictory relationship with Beijing.¹

This chapter will provide a very essential overview of Hong Kong’s modern history, especially looking at relations with the People’s Republic of China (PRC) between 1949 and 1997 and focusing on major turning-points.

¹ The reference to Lord Palmerston is in F. Welsh, *A History of Kong*, London, HarperCollins, 1993, p. 1; see also among others: J.M. Carroll, *A Concise History of Hong Kong*, Hong Kong, HKU, 2007; S. Tsang, *A Modern History of Hong Kong*, London-New York, Tauris, 2004; T.Y. Fu-Lai, “From a ‘Barren Rock’ to the Financial Hub of East Asia: Hong Kong’s Economic Transformation in the Coordinating Perspective”, *Asia Pacific Business Review*, vol. 10, no. 3-4, 2003-2004, pp. 360-381; J.M. Brown and R. Foot (eds.), *Hong Kong’s Transitions, 1842-1997*, London, Palgrave Macmillan, 1997.

Introducing Colonial Hong Kong and the Japanese Occupation

According to John M. Carroll (2007), the impact of British colonial rule should not be underestimated when attempting to understand Hong Kong, despite China's influence. Indeed, colonialism changed Hong Kong's historical development, shaped the encounters between China and the UK, as well as power relations between the two. Nowadays, small Chinese shops sit comfortably on streets named after British royalty or colonial administrators, while British law, Christianity, and modern Western medicine coexist with traditional Chinese medicine, several hundred Chinese temples, and a plethora of religious festivals and ceremonies. Such a relationship produced a Chinese community in Hong Kong that often considers itself "special" and different from its counterpart in Mainland China.

Hong Kong's status as a British colony and a free port transformed it into a thriving commercial centre. Rule of law and political stability encouraged Chinese and foreign investments, while colonial status protected Hong Kong from the many issues that plagued China in nineteenth and twentieth centuries. As Carrol argues, any assessment of British colonial legacy must consider the entire colonial period rather than focus on the last decade of British rule, when last-minute political reforms were introduced, such as the so-called "1992 Constitutional Package" which Chris Patten revealed shortly after he took appointment as Governor of Hong Kong (lowering minimum voting age, abolition of all appointed seats in the Municipal Councils and Districts Boards, introduction of new functional constituency seats, etc.).

Although colonial Hong Kong was theoretically administered through rule of law, some observers argue that common law never took root on the island because of considerable differences with China's traditional legal system (for instance, independent judiciary, the influence of Confucianism's moral behaviour concepts on the legal culture. Furthermore, the

British government had enacted several anti-Chinese laws since the earliest years of colonial rule, and had passed various emergency and discriminatory ordinances as well as censored the Chinese press.²

Leo Goodstadt, who led the "Central Policy Unit" – a governmental institute established in 1989 with the aim of analyzing options and recommending solutions in particular for the chief executive – between 1989 and 1997, maintains that at the heart of the colonial system in Hong Kong was a strange paradox: British rulers were an alien racial and cultural group residing at the top of the social, economic, and political hierarchy. They were agents of a foreign power, whose presence was a constant reminder of China's past humiliations at the hand of Western imperialists. A crucial question of Hong Kong's colonial history was the fact that the colonial administration was nothing more than a UK agent, and colonial officials simply implemented instructions coming from London. Also, British rule was founded on an alliance between colonialism and capitalism throughout the colonial era. The British thus aimed to contain and control political participation. Instead of democratic elections, it was the colonial administration that selected the community's representatives that almost exclusively came from business and professional sectors. During the first 120 years of British rule, corruption prevailed, and only in the last two decades of the colonial era, the British managed to rule the people of Hong Kong with an honest government.³

Generally speaking, historiographical debates are linked to the role played by the three main "schools" of Hong Kong's

² J.M. Carroll (2007), pp. 1-7.

³ L.F. Goodstadt, *Uneasy Partners: The Conflict Between Public Interest and Private Profit in Hong Kong*, Hong Kong, Hong Kong UP, 2005; see also among others: J.C. Hsiung (ed.), *Hong Kong the Super Paradox: Life After Return to China*, Basingstoke, Macmillan, 2000; Tak-wing Ngo, "Hong Kong under Colonial Rule: An Introduction", special issue of *China Information*, vol. XII, no. 1-2, 1997, pp. 1-11; Ming K. Chan, "The Legacy of the British Administration of Hong Kong: A View from Hong Kong", *The China Quarterly*, vol. 151, September 1997, pp. 567-582.

historical experience. First, the “colonial school” stresses the leading role of “white people”, and considers the Chinese only as a homogenous mass, showing criminal tendencies. Second, the “post-1949 Marxist school”, which caught only after 1997, develops a narrative of colonial exploitation and oppression, where the Chinese are victims of European aggression. Post-1949 Marxists take the “Opium Wars” as a vital starting point, as a symbol of “National Humiliation”. Yet, the views, actions and feelings of Hong Kongers are barely mentioned. Finally, the “Hong Kong school” looks not only at growth and progress but also at conflict and change, raising issues of race, class, gender and the sensitive topic of a Hong Kong identity.⁴ The period spanning from December 1941 to August 1945 is usually described as “the darkest of Hong Kong’s history in the Second World War”, as it was marked by the Japanese imperial army’s occupation. In this period, Hong Kong suffered from the ravages of war, and fear and helplessness permeated everyday life. A large number of Mainlanders had come to Hong Kong during the “War of Resistance against Japan”, and Hong Kong’s population grew from 840,000 in 1936 to 1.6 million in 1941 right before the Japanese occupation. 270,000 refugees lived on the streets. Food, medical care, employment, and people’s daily lives were severely affected. The Hong Kong government accelerated the evacuation of foreign nationals and the formation of civilian defense forces such as the “Volunteer Defense Corps” and the “Police Reserve”. In December 1941, Japanese aircraft bombed Kai Tak Airport and other areas of the Kowloon Peninsula and the Hong Kong island. The Kowloon Peninsula and the New Territories fell into the hands of the Japanese on 12 December, and on the 18th Japanese troops

⁴ The above very essential overview is largely based on: *Hong Kong History Project: Rethinking a City’s History*, based at the University Bristol, Project Director: Robert Bickers, “[Hong Kong History Project](#)”; see also C. Yik-yi Chu, “Back to the Masses: The Historiography of Hong Kong’s Recent Political Developments and the Prospects of Future Scholarship”, *American Journal of Chinese Studies*, vol. 10, no. 1, April 2003, pp. 29-42.

landed in Hong Kong island. The Governor surrendered to the Japanese shortly afterwards on Christmas day.

During the occupation, Japan intended to make Hong Kong its permanent domain. Then, the district administrative organization of Honk Kong was re-named using the Japanese system, and the Japanese Administration promoted the "Greater East Asia Co-Prosperity Sphere", a kind of supranational framework whose aim was to create in Asian countries a new order which would ensure Japanese political and industrial hegemony. Several streets, places, and buildings were given Japanese names, and the Japanese Administration tried to instill the ethics and values of the Japanese Empire among the Chinese in Hong Kong. In order to promote the "Yamato culture", the Japanese language was used in organisations, institutes, and schools. Students attending primary and secondary school were forced to learn Japanese and Japan's national history.

Three years and eight months into the "dark period", Hong Kong's population drastically dwindled from 1.6 million to 600,000. Over one quarter of all the houses were destroyed in the war. The city was devastated: industrial and commercial activities were curtailed, and time passed slowly for the citizens. As a response, the occupation generated resistance, which took two main forms: a) some Communist-inspired resistance, mainly in the New Territories; and b) the "British Army Aid Group" (BAAG), organised as a unit of the British Army and operating in South China. The occupation ended in August 1945, and the British forces returned in Hong Kong at the end of the month.⁵

⁵ On the period of Japanese occupation see among others: P. Snow, *The Fall of Hong Kong: Britain, China and the Japanese Occupation*, New Haven and London, Yale UP, 2003; K. Miyahira, *The Japanese Occupation of Hong Kong: The Strategic Importance of Hong Kong and the Details of the Japanese Military Rule*, Thesis discussed in January 2017.

After the Second World War: The Establishment and Early Years of the PRC

Generally speaking, we can detect a remarkable continuity in Hong Kong's role in the international economy, since its origin as a commercial entrepot for China's regional and global trade. A role that for many aspects the island still plays today. From a relatively unpopulated territory at the start of the nineteenth century, Hong Kong has grown to become one of the most important international financial centers in the world, thanks to the island's rapid and successful process of industrialisation in the 1950s.

The large influx of refugees that arrived in Hong Kong in the late 1940s was transformed by the colonial administration into a demographic bonus, as they were all allowed to work freely and become a part of the Hong Kongese community. These refugees, especially coming from Shanghai, gave a big boost to some industries, such as textile and shipping, thanks to the management skills and the knowhow they demonstrated.

During the Chinese Civil War (1947-49), Hong Kong suffered from the effects of a trade slowdown around the world and, particularly, in China. However, to the benefit of Hong Kong, the Mainland's problems diverted business and entrepreneurs from Shanghai and other Chinese cities to the safety and stability of the British colonial port of Hong Kong.

After the PRC was established in 1949, the Mainland isolated from the international economy, and Hong Kong was vital to maintain the international economic relations that supported the industrialisation and grain imports of the PRC. Even under the period of "self-sufficiency" of the 1960s, Hong Kong's imports of food and water from the Mainland were a crucial source of foreign exchange earnings, which ensured that Hong Kong remained useful to the PRC. In turn, cheap food helped to mitigate rising living costs on the island, thus maintaining low wages during labor-intensive industrialisation. The island's industrialisation is traditionally set to begin in the 1950s: there

was first the textile sector, and industry only diversified in the 1960s in clothing, electronics, plastics and other labor-intensive productive sectors.

Politically, since the 1950s, the PRC seemed to be conscious that a *foreign-run Hong Kong* was best serving its interests. This policy was summarised as “long-term planning, full exploitation”, thus meaning that taking Hong Kong’s sovereignty back was not urgent, and that the island’s colonial status was maximising national interests.⁶

The Cultural Revolution and the 1967 Hong Kong Riots

During its first twenty-five years of existence, the PRC overcame enormous difficulties and suffered massive unrest. Above all, the “Great Leap Forward” (1958-62) crippled China’s economy and caused a devastating famine. Started in the mid-1960s, the “Cultural Revolution” – a radical movement launched by Mao Zedong in order to renew the spirit of the Chinese revolution and assure a new leadership of the Communist Party of China (CCP) more faithful to his current thinking – unleashed political factionalism, which affected every quarter of Chinese society and further damaged the economy. By contrast, in those years, Hong Kong enjoyed a strong economy and the city’s Gross Domestic Product (GDP) grew extensively: between 1961 and 1981, Hong Kong’s “economic growth was faster than in any other Asian country and much faster than that of Western industrialised countries”.⁷

⁶ See among others: C.R. Schenk, *Hong Kong as an International Financial Centre: Emergence and Development, 1945-1965*, London, Routledge, 2001; P. Roberts and J.M. Carroll (eds.), *Hong Kong in the Cold War*, Hong Kong, Hong Kong UP, 2016; Law Yuk-fun, “Hong Kong”, *China at War: An Encyclopedia*, ed. Xiaobing Li, Santa Barbara-Denver-Oxford, ABC-CLIO, 2012, pp. 163-164.

⁷ Hong Kong Census and Statistics Department, *Estimates of Gross Domestic Product 1966-1976*, Hong Kong Government Press, 1978; Lueng Chuen Chau, “Hong Kong: A Unique Case of Development”, in D.M. Leipziger (ed.), *Lessons*

In this context, what was later called a “watershed” or a “hot summer” occurred: riots started in May 1967 at a plastic flower factory in Kowloon, and leftist demonstrators ended up besieging the Government House for several days.

The peak was reached after the British and Hong Kong governments – understanding that Beijing had no intention to exploit the situation and take back the colony by force – declined to accept the leftist demands and handled the protests with a heavy hand. In early July, the “Sha Kau Tok Incident” occurred at a village close to Shenzhen, located in the province of Guangdong, during which demonstrators launched bomb attacks against the authorities. In August, the Chinese Red Guards attacked the British diplomatic compound in Beijing. This second event signed the final act of the 1967 riots. Four years later, Yao Tengshang (a diplomat who was also a member of the revolutionary group that controlled China’s Ministry of Foreign Affairs) faced a mass trial in Beijing, and was imprisoned for his part in the 1967 attacks on the British diplomatic compound and other foreign embassies.⁸

Beijing and London Towards the Handover

In May 1975, Mao Zedong and Deng Xiaoping met with then British Prime Minister Edward Heath, who had visited China the year before and would later become one of the country’s “old friends”. Remembering those days, Qi Pengfei stressed that regarding Hong Kong Mao said to Heath: “We will not discuss it at present. We shall consult together at the proper

from East Asia, Ann Arbor, The University of Michigan Press, 1997, pp. 35-81 (quotation at p. 36).

⁸ See among others: G. Ka-wai Cheung, *Hong Kong’s Watershed: The 1967 Riots*, Hong Kong, Hong Kong UP, 2009; R. Yep, “The 1967 Riots in Hong Kong: The Diplomatic and Domestic Fronts of the Colonial Governor”, *The China Quarterly*, vol. 193, March 2008, pp. 122-139; R. Bickers and R. Yep (eds.), *May Days in Hong Kong. Riot and Emergency in 1967*, Hong Kong, Hong Kong UP, 2009; “[Key Chinese Official Reported in Prison](#)”, *New York Times*, 21 June 1971.

time about what we are going to do. This will be the business of the younger generation".⁹ Qi had served as China's Minister of Foreign Affairs between 1972 and 1974, and played a leading role in the subsequent negotiations between London and Beijing for the return of Hong Kong to China.

After Mao's death, Deng Xiaoping often indicated that China's modernisation could benefit from Hong Kong's assistance, especially in areas like finance, technology and management. Deng wanted to be prepared before touching upon the issue of "sovereignty". Indeed, while meeting Youe-Kong Pao (one of the richest man on the island at the time) in late 1978, Deng stressed the key role that Hong Kong businesspersons would play in creating a modern China.¹⁰

On 22 September 1982, British Prime Minister Margaret Thatcher arrived in Beijing. She first met with Prime Minister Zhao Ziyang, and then had a meeting with Deng. Some days later, while in Hong Kong, she said to Hong Kong Governor Sir Edward Youde and some high officials that "the Chinese have taken their familiar position on sovereignty" and that "the main difficulty with the Chinese was to persuade them that the maintenance of prosperity and stability... depended on the British administration". The "Iron Lady" continued by indicating that

the Chinese had no understanding of international finance and the concept of freedom under an ascertainable system of law. The problem in the talks would be to get across that these things were essential for maintaining confidence in Hong Kong and every possible form of help from Hong Kong would be needed in this.¹¹

⁹ Qi Pengfei, *Deng Xiaoping yu Xianggang huigui* (Deng Xiaoping and the return of Hong Kong), Beijing, Huaxia chubanshe, 2004; the quotation is from "Talk with Edward Heath", *China.org.cn*, 25 May 1974.

¹⁰ E.F. Vogel, *Deng Xiaoping and the Transformation of China*, Cambridge, Mass-London, Harvard UP, 2011, pp. 487-495.

¹¹ "Record of a Meeting Between the Prime Minister and Officials of the Executive Council of Hong Kong on 26 September 1982 at Government House in Hong Kong", Margaret Thatcher Foundation, Archive.

In Deng's opinion, the question of sovereignty was not open to discussion. The President did not want to become like Li Hongzhang, who was remembered only because he had signed unequal treaties.¹² According to Hong Kong-based journalist and writer Frank Ching, the decision to take back Hong Kong was made by China's Politburo back in December 1981.¹³

Whatever the story, after Thatcher's visit, negotiations were delayed. According to Governor Youde and Sir Percy Cradock – British Ambassador to the PRC and the “architect” of the negotiations that eventually led to the signing of the “Sino-British Joint Declaration” (JD)¹⁴ –, Beijing was determined to announce a plan for Hong Kong in 1983-84.¹⁵

Thus, in merely a few months, the situation radically changed: Sino-British negotiations took off in mid-1983 and, on 19 December 1984, the JD was signed in Beijing.¹⁶ Basically, the JD – which was referred to as “a fascinating case of international legal regime formation, rather than merely treaty making”¹⁷ – comprises several documents: the JD itself, three annexes, as well as an exchange of memoranda.

In the JD, the government of the PRC declared that it would resume sovereignty over Hong Kong on 1 July 1997, while the UK government declared that it would restore Hong Kong to the PRC on the same day. Among other things, the JD sets out

¹² E.F. Vogel (2011), p. 496.

¹³ F. Ching, “[Looking Back: How London and Beijing Decided the Fate of Hong Kong](#)”, *Hong Kong Journal Archive*, April 2010.

¹⁴ For the full text see: The Government of the Hong Kong Special Administrative Region, Constitutional and Mainland Affairs Bureau, *The Joint Declaration (Full Text)*.

¹⁵ R. Cottrell, *The End of Hong Kong: The Secret Diplomacy of Imperial Retreat*, London, J. Murray, 1993.

¹⁶ For an overview of the process of negotiation within the general context of those years see J.W. Garver, *China's Quest. The History of the Foreign Relations of the People's Republic of China*, New York, Oxford University Press, 2016, Chapter 22.

¹⁷ R. Mushkat, “The Dynamics of Legal Regime Formation: The Sino-British Declaration on the Question of Hong Kong Revisited: A Rejoinder to Kevin Tan”, *The European Journal of International Law*, vol. 22, no. 4, 2011, pp. 1149-1152.

the basic policies of the PRC regarding Hong Kong. Under the principle of "One Country, Two Systems", the socialist system and its policies would not be applied to Hong Kong, and the island's previous capitalist system and life-style would remain unchanged for 50 years. The deadline was set to 2047. The JD also provided that these policies would have been stipulated in the "Basic Law" (BL).

The BL was adopted on 4 April 1990 by the Seventh National People's Congress (NPC) of the PRC, and came into effect on 1 July 1997. It is a constitutional document for Hong Kong, and is articulated in the following sections:

- The body of the BL that comprises nine chapters and 160 articles;
- The first annex that lists the selection criteria for the election of Hong Kong's Chief Executive;
- The second annex that lists the criteria for the formation of Hong Kong's Legislative Council and its voting procedures;
- The third annex that lists the national laws that are to be applied in Hong Kong.

The BL was drafted by a mixed Committee composed of Hong Kongers and Mainlanders. A BL Consultative Committee exclusively including Hong Kongers was established in 1985 to present the island's views.

The first draft was published in April 1988, followed by a five-month exercise of public consultation. The second draft was published in February 1989, and the subsequent consultation period ended eight months later. The Basic Law was formally promulgated on 4 April 1990 by the NPC, together with the designs for Hong Kong's flag and emblem.¹⁸

¹⁸ See The Government of the Hong Kong Special Administrative Region, Constitutional and Mainland Affairs Bureau, *The Joint Declaration (Full Text)*, cit. and the [Basic Law](#) homepage.

In “Introduction to the Hong Kong Basic Law”,¹⁹ Danny Gittings (2016) indicates that as the BL is a product of an international agreement as well as a domestic law valid throughout China and regulating Hong Kong’s relations with the Mainland, it is difficult to define. In addition, as far as Hong Kong is concerned, the BL also acts as a Constitution: it sets out Hong Kong’s political structure and the rights and duties of its residents. Thus, the BL has an international, a domestic and a constitutional dimension.

- The *international dimension*. The BL’s internationality stems from the 1984 “Joint Declaration on the Question of Hong Kong”, a document that is generally recognised to act as an international treaty (although it does not present the word “treaty” in the title). Beijing never was comfortable with the BL maintaining an international dimension. From 2014, attempts were made to renegotiate the applicability of the JD to the period that goes from its signing to its coming into force. In this way, the purpose of the JD would only have been that of regulating the process of Hong Kong’s return under China’s sovereignty, and any international dimension would come to an end. What is paramount, for Beijing, is the domestic dimension of the BL, thus meaning that it operates only as a national law that applies to Hong Kong and the rest of China.
- The *domestic dimension*. Being a national law, the BL sets down rules that govern the relationship between Hong Kong and the rest of the country, which are also valid for the highest bodies of the Chinese state. Several provisions set out the powers that can be exercised by China’s central authorities such as the NPC, its Standing Committee and the national government. They include, for instance, control over Hong Kong’s

¹⁹ D. Gittings, *Introduction to the Hong Kong Basic Law*, Hong Kong, Hong Kong UP, 2016 (second edition).

defence and foreign affairs, the power to appoint the Chief Executive and the main officials of the island, as well as reject certain laws if incompatible with the BL. These provisions also set limits on the ability of the Chinese authorities, at the local and national level, to interfere in Hong Kong affairs. For instance, they determine the types of national laws that can be applied, as well as the circumstances under which Hong Kong laws can be invalidated as incompatible with the BL. Interference from the part of any branch of the Chinese government, either at a local or a national level, in the affairs that Hong Kong administers autonomously is also prohibited, in particular in almost all types of local affairs including, for instance, the extension of land leases, Hong Kong's economic and taxation policies, its handling of shipping and routine civil aviation issues, etc. The special status of the BL in the Chinese legal system is also reflected in the provisions that make it more difficult to amend than any other law in China.

- The *constitutional dimension*. The domestic dimension of the BL as a national law has occasionally raised doubts about whether it has a constitutional dimension at all – a conclusion that threatens to undermine the extent to which the BL protects Hong Kong's autonomy. Simply put, the BL fits the definition of a Constitution: its provisions make it clear that the BL constitutes a source of law that prevails over others. According to some different interpretations, though, if the BL cannot be defined as a Constitution in itself, it still plays a constitutional role in supplementing the national constitution when it is applied in Hong Kong.²⁰

In the past decades, both the JD and the BL have been commented upon and analysed. During the protests that

²⁰ The three points briefly discussed above are from *ibid*, chapter 3.

rocked Hong Kong (2019-20), questions were raised about their meaning and content.²¹ The main issues raised focused on the high degree of autonomy and executive, legislative and independent judicial power enjoyed by Hong Kong; whether the laws that were previously in force in Hong Kong (that is, the common law) should be maintained; the relationship between China's central authorities and Hong Kong; the protection of individual rights and personal freedoms; and Hong Kong's political structure.

One important point is that the power to interpret the BL resides with the Standing Committee of the NPC, which needs to authorise Hong Kong's courts to interpret the BL on their own, and adjudicate cases. Also, the power to amend the BL remains with the NPC, and no amendment should contravene the established basic policies of the PRC regarding Hong Kong.

Special attention should also be paid to the impact of the 1989 "Beijing Spring" on Hong Kong and its relations with the PRC (in terms of socio-political reactions, and historical memory). An impressive amount of works and comments have been produced, stressing how the 1989 events, their history and memory, still have an impact on young people in Hong Kong and shape their views on the Chinese government.²² However, it should be stressed that the relation between civil unrest and

²¹ For radical different approaches see for instance: "London violates commitment of Sino-British Joint Declaration", *Global Times*, 29 August 2019; and "Sino-British Declaration has no paragraph about 'dual universal suffrage'", *Xinhuanet*, 20 September 2019; J. Cushnahan "Hong Kong: UK must tell UN China renegeing on obligations", *The Irish Times*, 14 June 2019; and N. Smith, "Britain warns China to abide by one country-two systems rule ahead of anniversary protests", *The Telegraph*, 30 June 2019.

²² See among others: J. Cheng, "The Tiananmen Incident and the Pro-Democracy Movement in Hong Kong", *China Perspectives*, 2009/2, pp. 91-100; about the impact of Beijing Spring 1989 on Hong Kong's Umbrella Movement, see among others: J. Lagervist and T. Ruhlig, "The Mobilization of Memory and Tradition: Hong Kong's Umbrella Movement and Beijing's 1989 Tiananmen Movement", *Contemporary Chinese Political Economy and Strategic Relations: An International Journal*, vol. 2, no. 2, August/September 2016, pp. 735-774.

governance have a long history in Hong Kong that dates back to the colonial years. According to the volume co-edited by Michael H.K. Ng and John D. Wong (2017), while Hong Kong is traditionally considered one of the most stable cities in Asia, it has experienced several demonstrations and struggles against the colonial and post-colonial governments in the past century. Many of these movements emerged under the banner of justice and unfolded in the context of global unrest, showing the interplay between evolving notions of justice, governance, law and order and culture in the under-explored history of Hong Kong's instability.²³

Conclusion

In the introduction to the "Hong Kong History Project: Rethinking a City's History", Vaudine England writes that historiography has made it clear that Hong Kong is the product of far greater forces at work than merely the British victories in the "Opium Wars". Placing Hong Kong's development in a global context helps to understand the variety of actors who have made Hong Kong their home by considering Hong Kong not merely as a lonely, Chinese land but as a way-station on the routes of globalisation. From this comes the sense of studying Hong Kong as having not only a past of Chinese victimhood or British aggression, but as a cosmopolitan place. It also helps to explain why the post-colonial present is so very cosmopolitan, too. The majority of the population always was Chinese but never, since 1841, solely so. Even within the first generation of international settlers in Hong Kong, a new kind of indigenous was formed by the intimate mixing of Chinese and other ethnicities that eventually gave rise to multi-racial generations. Hong Kong's unique development also produced multi-cultural people, and each one of them identifies only with Hong Kong

²³ M.H.K. Ng and J.D. Wong (eds.), *Civil Unrest and Governance in Hong Kong. Law and Order from Historical and Cultural Perspectives*, New York, Routledge, 2017.

– not with China or the UK. These people are the product of Hong Kong’s cosmopolitan past, something without which, today’s Hong Kong could not be imagined.²⁴

²⁴ V. England, “Globalizations, Cosmopolitanism and the Emergence of Hong Kong. Or Learning Global History to Help Put Hong Kong in Context”, in Hong Kong History Project.

2. Political Contestation in Hong Kong: From Containment to Elimination

Alvin Y.H. Cheung

“The fact that you are allowed to stay alive, already shows the country’s inclusiveness”.¹

The approach of the Beijing and Hong Kong governments to political contestation in Hong Kong – especially after the “Umbrella Movement” protests of 2014 – can best be described as a one-way ratchet. Prior to the Umbrella Movement, Beijing appears to have viewed pro-democracy politicians and activists in the territory as an irritant to be tolerated. However, in the aftermath of the Umbrella Movement, then-Chief Executive Leung Chun-ying took the lead in condemning political opposition within the territory, prompting Beijing to follow suit. The result has been a cycle of mutually reinforcing statements from both governments, and the growing radicalisation of opposition politicians and activists. As a result, both governments are no longer merely content to contain political opposition: their current strategy is to eliminate them from Hong Kong’s political landscape altogether.

¹ Remarks attributed to Zhang Xiaoming, then Head of the Central Government’s Liaison Office in Hong Kong, in August 2014: see J. Pomfret, *China Asserts Paternal Rights over Hong Kong in Democracy Clash*, Reuters, 10 September 2014.

Pre-Umbrella Movement: Containment

Beijing's initial strategy, as reflected in the Basic Law's provisions on selecting legislators and the Chief Executive, was one of containment.² The drafting of the Basic Law was largely driven by hard-line pro-Beijing members, particularly after 1989 – a fact reflected in the selection mechanisms for the Chief Executive and Legislative Council.³ Chief Executives are chosen by an “Election Committee”, the composition of which has been carefully selected to tilt the playing field in favour of Beijing's ideal candidate.⁴ Similarly, half of the seats in the Legislative Council are chosen by “functional constituencies”, giving disproportionate weight to business and professional interests. Although the Basic Law provides that the “ultimate aim” is to elect the Chief Executive and *all* legislators by “universal suffrage”,⁵ it also declared that no changes to electoral arrangements could take place until 2007, ten years after the transfer of sovereignty.⁶

Beijing's strategy of containing political opposition in Hong Kong continued through the 2000s. In the wake of public demands for democratisation in late 2003, then-Chief Executive Tung Chee-hwa referred the issue of constitutional development to the “National People's Congress Standing Committee” (NPCSC). The NPCSC duly ruled out full elections for the Chief Executive in 2007 and for the Legislative Council in 2008.⁷ In 2007, following fresh calls for Hong

² For a history of these developments, see generally A.Y.H. Cheung, *Road to Nowhere: Hong Kong's Democratization and China's Obligations Under Public International Law*, 40 Brook, J. Int'l L. 465, 2015.

³ Yash Ghai, “Hong Kong's New Constitutional Order: The Resumption of Chinese Sovereignty and the Basic Law 60-61”, 1999 second edition.

⁴ See, e.g., B. Scott et al., *How China Holds Sway Over Who Leads Hong Kong*, Bloomberg, 28 February 2017.

⁵ Basic Law of the Hong Kong Special Administrative Region §§ 45, 68 (Hong Kong).

⁶ *Ibid.*, pt. Annexes I and II.

⁷ Quanguo Renmin Daibiao Dahui Changwu Weiyuanhui Guanyu Xianggang Tebie Xingzhengqu Xingzheng Zhangguan Puxuan Wenti He 2016 Nian Lifa

Kong's democratisation, the NPCSC delayed full elections *again* – this time from 2012 to 2017 (for Chief Executive) and 2018 (for the Legislative Council).⁸

By March 2013, it became clear that Beijing could delay no more. On 27 March, Benny Tai – a soft-spoken law professor at Hong Kong University – launched the “Occupy Central with Love and Peace” (OCLP) social movement out of frustration with the slow pace of democratic reforms. The OCLP's stated aim was to secure full elections for the Chief Executive and Legislative Council consistent with international standards, and – if necessary – to engage in the mass occupation of the central business district as an act of civil disobedience. Six days earlier, on 21 March, twelve pro-democracy political parties founded the “Alliance for True Democracy” (ATD), which also called for universal and equal suffrage.

Beijing's response was to offer Potemkin elections. Over the course of 2013 and 2014, officials from Mainland China and pro-Beijing politicians in Hong Kong repeatedly asserted that Beijing had an absolute right to prevent *any* politician it deemed undesirable from being *nominated* to run for Chief Executive.⁹ This culminated in an NPCSC decision on 31 August 2014 that gave no meaningful scope to competitive Chief Executive elections.

Under the 2014 Decision, the existing “Election Committee” would become a “Nominating Committee”, tasked with naming two or three candidates. However, each candidate would require the support of *at least 600 nominators* – a drastic increase from

Hui Chansheng Banfa De Jueding (全國人民代表大會常務委員會關於香港特別行政區行政長官普選問題和 2016 年立法會產生辦法的決定) [Decision of the Standing Committee of the National People's Congress on Issues Relating to the Selection of Chief Executive of the Hong Kong Special Administrative Region by Universal Suffrage and on the Method for Forming the Legislative Council of the Hong Kong Special Administrative Region in the Year 2016] (adopted by the Standing Comm. Nat'l People's Cong., 31 August 2014) [hereinafter 2014 Decision].

⁸ Ibid.

⁹ A.Y.H. Cheung (2015), pp. 490-94.

existing arrangements, under which only 150 nominations are required. In previous Chief Executive elections, the pro-democracy camp had generally mustered the 150 nominations required to field an also-ran candidate: under the 2014 Decision, even that possibility would vanish altogether. The implication was clear – Beijing would only allow the Hong Kong public to ratify a choice it had already made at the nominating stage. The gulf between the NPCSC’s proposal for stage-managed elections and the expectation of genuinely free and fair elections was irreconcilable. On 26 September, students protesting against the 2014 Decision scaled a fence to occupy the forecourt of Hong Kong Government Headquarters in Admiralty, located on the site of the former British Navy base HMS Tamar; police moved in with pepper spray and batons. This initial occupation forced the OCLP’s hand; on 28 September, Benny Tai declared that “Occupy Central” had begun – days earlier than originally scheduled. From that point onwards, it was clear that a younger generation of activists had taken up the pro-democracy mantle from their forebears.

Post-Umbrella Movement: Elimination

The Umbrella Movement was, first and foremost, a demand for democratic elections. Although some participants may have believed in more fundamental political changes, such as self-determination or even secession, these ideas remained at the fringes of the protest movement.

Nonetheless, Beijing and Tamar were quick to tar *all* pro-democracy activists and politicians with the same accusation – i.e., that they were advocating Hong Kong independence. In his January 2015 Policy Address, then-Chief Executive C.Y. Leung pointedly attacked the Hong Kong University Student Union for “putting forward fallacies” on self-determination¹⁰ –

¹⁰ T. Cheung et al., “Gloves off as CY Leung targets Hong Kong student ‘lies’”, *South China Morning Post*, 14 January 2015.

a notion that Executive Council convenor Lam Woon-kwong falsely equated with advocating independence.¹¹

Leung's accusation set the tone for subsequent conduct by the Hong Kong and Beijing governments – and galvanised the heretofore marginal “localist” political movement.¹² Later that year, nativist groups “Hong Kong Indigenous” (formed in January 2015) and “Civic Passion” organised protests against cross-border trading of baby formula¹³ by visitors from Mainland China.¹⁴ Despite concessions, the nativist movement continued to gather momentum throughout the year.

Worse was to follow. On February 2016, localist protesters, outraged at the Hong Kong government's clearance of street food vendors in Mong Kok district, gathered in protest. The protests turned violent in the early hours of 8 February when demonstrators clashed with police; the events, later dubbed the “Fishball Revolution”, were – at the time – the “worst outbreak of rioting since the 1960s”.¹⁵ Even though the protests initially began as an attempt to protect local culture, Zhang Xiaoming – then Chief of the Central Government's Liaison Office in Hong Kong – was quick to refer to participants as “radical separatists”.¹⁶

¹¹ Self-determination may be exercised through, *inter alia*, integration into an existing State and therefore does not necessarily involve secession: see D. Thürer and T. Burri, “Self-Determination”, in *Max Planck Encyclopedia of Public International Law*, December 2008.

¹² On localism in Hong Kong, see, e.g., S. Veg, “Hong Kong's Enduring Identity Crisis”, *The Atlantic*, 16 October 2013.

¹³ The cross-border trade has been driven by a combination of anxiety over the safety of products available within Mainland China and relaxed entry policies for Shenzhen residents: E. Cheung, “[Explainer: Sheung Shui shambles as parallel traders leave a trail of waste](#)”, *HKFP - Hong Kong Free Press*, 15 July 2015; E. Wong, “[Chinese Search for Infant Formula Goes Global](#)”, *The New York Times*, 25 July 2013. Parallel traders have been accused of obstructing roads, creating goods shortages, and causing businesses catering to local needs to be replaced by shops serving cross-border traders: E. Cheung, *supra*.

¹⁴ S. Sataline, “[Meet the Man Who Wants to Make Hong Kong a City-State](#)”, *Foreign Policy*, 18 May 2015.

¹⁵ “[Street Violence and Politics](#)”, *The Economist*, 13 February 2016.

¹⁶ A. Wong, “[China Labels Protesters 'Radical Separatists,' and They Agree](#)”, *The*

This cycle of escalating governmental invective and activist radicalisation continued throughout the year. On 28 March 2016, Andy Chan announced the formation of the Hong Kong National Party (HKNP), with the express aim of advocating Hong Kong independence. In response, Hong Kong and Beijing officials declared that the mere suggestion of independence violated the Basic Law, and that it “far exceeded the topic of freedom of speech”.¹⁷ Yet, when pressed, then-Secretary for Justice Rimsky Yuen was either unable or unwilling to identify *any* part of Hong Kong law that criminalised the peaceful advocacy of independence.¹⁸ Nor has any official explained, to date, why an act that is “inconsistent” with the Basic Law merits suppression for that reason alone, and in the absence of any violence or threat of violence – a contention that would, if taken to its logical conclusion, prohibit *any* advocacy for *any* changes to the Basic Law.

Tamar would continue to invoke “advocating independence” as a pretext to target political opposition. Prior to the 2016 Legislative Council elections, the Electoral Affairs Commission demanded that would-be candidates sign a form declaring that Hong Kong was an inalienable part of China, on pain of being barred from standing for election – move plainly intended to disqualify “localist” politicians from standing for election.¹⁹ Pro-democracy and localist parties nonetheless made significant gains in the legislative elections.

The Hong Kong government then tried a different tactic: it demanded that two elected politicians, both members of the Youngspiration political party,²⁰ be disqualified from office

New York Times, 20 February 2016.

¹⁷ C. Yuen, “China, Hong Kong officials condemn independence movement”, *HKFP - Hong Kong Free Press*, 1 April 2016.

¹⁸ Secretary for Justice on advocating “independence of Hong Kong”, <https://www.info.gov.hk/gia/general/201604/01/P201604010705.htm>

¹⁹ K. Cheng, “Gov’t rules LegCo candidates need to sign new declaration stating Hong Kong is part of China”, *HKFP - Hong Kong Free Press*, 15 July 2016.

²⁰ Youngspiration is a localist political party with a right-wing nationalist platform: see C. Chan and R. Chui, “The New Localists”, *Varsity*, 2 November 2016.

for having tampered with their oaths of office. The NPCSC duly delivered a politically expedient “interpretation” of the Basic Law while a Hong Kong court was seized of the matter, effectively dictating the result to the Hong Kong judiciary.²¹ The “interpretation” required that legislators-elect take their oaths of office “sincerely and solemnly” – a particularly elastic phrase that enabled Tamar to disqualify whomever it pleased from office. On the strength of this “interpretation”, the Hong Kong government successfully expelled four more popularly elected legislators from office in 2017.²²

Tamar’s strategy of excluding pro-democracy politicians from political life continued into 2018. Early that year the Registration and Electoral Office banned Agnes Chow, a student activist and member of the political party Demosisto, from running for a Legislative Council seat on the basis that she advocated “self-determination”, a term the returning officer falsely equated with “independence”.²³ More significantly, it also banned Eddie Chu, an elected legislator, from running for village representative.²⁴ The returning officer who issued the ban noted that Chu had argued that individuals had a right to advocate independence, and therefore concluded that Chu himself was an advocate of independence – a remarkable leap of logic that would force politicians into the business of suppressing political speech.

Nor was Tamar content with merely preventing politicians from standing for election. On 24 September 2018, the Government banned the Hong Kong National Party under section 8 of the Societies Ordinance – Colonial-era legislation

²¹ I briefly discuss this saga in “[The Express Rail Co-location Case: The Hong Kong Judiciary’s Retreat](#)”, *Lanfare*, 10 January 2019.

²² B. Haas, “[Hong Kong Pro-Democracy Legislators Disqualified from Parliament](#)”, *The Guardian*, 14 July 2017.

²³ T. Phillips, “[Hong Kong Authorities Block Pro-Democracy Candidate from Byelection](#)”, *The Guardian*, 27 January 2018.

²⁴ T. Grundy, “[Hong Kong bans pro-democracy lawmaker Eddie Chu from running in village election](#)”, *HKFP - Hong Kong Free Press*, 2 December 2018.

originally intended to target triad societies.²⁵ Under section 8, a Societies Officer may recommend that a society be banned if he reasonably believes that a ban is necessary in the interests of national security. The Government upheld the ban in February 2019,²⁶ following an appeal by HKNP founder Andy Chan – who was forced to present his case in the absence of a lawyer.²⁷

The reasoning behind the ban is particularly worrying. In her written recommendation to ban the HKNP, Assistant Commissioner of Police Rebecca Lam took the view that a society could be banned on “national security” grounds, even if that society did not use force or the threat of force.²⁸ This reasoning flies in the face of Tamar’s – and Beijing’s – obligations under the International Covenant on Civil and Political Rights and Joint Declaration.²⁹

All of the post-2014 developments described above are explicitly political. However, Tamar has also been using administrative discretion in other areas as a means to hobble political opposition.

The politicisation of prosecutorial discretion is a notable example. In August 2016, a magistrate imposed non-custodial sentences on Umbrella Movement leaders Joshua Wong, Nathan Law, and Alex Chow for their participation in the 2014 protest movement. Wong and Law were sentenced to community service

²⁵ K. Cheng, “[Explainer: How Hong Kong is seeking to ban a pro-independence party using existing national security laws](#)”, *HKFP - Hong Kong Free Press*, 19 July 2018.

²⁶ K. Cheng, “[Hong Kong’s ban on pro-independence National Party upheld, as gov’t rejects appeal](#)”, *HKFP - Hong Kong Free Press*, 21 February 2019.

²⁷ K. Cheng, “[Leader of banned pro-independence party presents appeal to Hong Kong gov’t](#)”, *HKFP - Hong Kong Free Press*, 14 January 2019.

²⁸ Letter from Rebecca H.T. Lam to the Secretary for Security dated 28 May 2018, para 31.

²⁹ National security exceptions to the International Covenant on Civil and Political Rights cannot be invoked in the absence of the use or threat of force: see *Siracusa Principles on the Limitation and Derogation Provisions in the International Covenant on Civil and Political Rights*, International Commission of Jurists, 1 July 1984, pp. 29-32.

orders, whereas Chow was given a three-week jail sentence with a one-year suspension. In 2017, after Wong and Law had fulfilled their community service orders and shortly before Chow's one-year suspension would expire, the Department of Justice applied to the Court of Appeal for harsher sentences against the trio. Then-Secretary for Justice Rimsky Yuen, a political appointee with limited criminal law experience prior to his appointment, decided to pursue the appeal in defiance of advice given by senior career prosecutors.³⁰ The Court of Appeal duly ordered the trio's immediate imprisonment.³¹ These new sentences were ultimately overturned by the Court of Final Appeal in 2018.³²

The politicisation of prosecutorial discretion has intensified under current Secretary for Justice Teresa Cheng. During 2019, several Department of Justice prosecutors complained that political considerations were increasingly being factored into deciding whether to prosecute.³³ These developments have fuelled public perception that the police enjoys effective impunity for acts of brutality perpetrated against demonstrators.³⁴

Nor has Tamar's crackdown been confined to prosecutions. Hong Kong has no specialist legislation governing political parties: as a result, most parties are set up as limited companies so that they can rent office space, hire staff, and open bank accounts. Applications to the Companies Registry to incorporate are typically approved within a matter of weeks. Yet,

³⁰ V. Wu and J. Pomfret, "Critics Cry Foul as Joshua Wong and Other Young Hong Kong Democracy Leaders Get Jail", *Reuters*, 17 August 2017.

³¹ K. Cheung, "Hong Kong jails Joshua Wong and democracy activists over 2014 Umbrella Movement protests", *HKFP - Hong Kong Free Press*, 17 August 2017.

³² B. Haas, "Hong Kong Activists Have Jail Sentences Overturned", *The Guardian*, 6 February 2018.

³³ 群檢控人員「律政司信箋發公開信 狠批鄭若驊只懂向特首叩頭，立場新聞, *Stand News*, 31 July 2019, <https://bit.ly/2WdyQud>; "怒不可遏" 律政司刑事檢控科律師公開信 促政府明確撤回條例 明示內部有政治壓力，立場新聞, *Stand News*, 30 July 2019, <https://bit.ly/2WdIopd>

³⁴ N. Liu and S.-L. Wong, "Hong Kong: 'You Either Have the Rule of Law or You Don't'", *Financial Times*, 19 November 2019.

when the Hong Kong National Party applied in March 2016, its application was rejected, apparently for political reasons.³⁵ Joshua Wong's political party Demosisto encountered similar difficulties. The party applied for incorporation in April 2016. However, the Companies Registry made no decision until 2018, shortly before legislative by-elections. Not surprisingly, it rejected the application. By refusing to allow opposition political parties to register as companies, the Hong Kong government has significantly hampered their ability to operate or organise.

Even where an opposition political party *is* able to incorporate, it faces major obstacles in raising money. Pro-Beijing parties are able to rely on their patrons' largesse. The Democratic Alliance for the Betterment of Hong Kong (DAB), the largest of these parties, raised "tens of millions" at a single fundraising dinner in 2016.³⁶ In contrast, pro-democracy parties raise significantly less from major donors than their pro-Beijing counterparts.³⁷ As a result, they are more reliant on small donors and the sale of merchandise at protests or Lunar New Year's fairs. Banning large-scale public protests, or banning political parties from operating Lunar New Year stalls, will therefore have a much greater effect on opposition parties.

Tamar began to engage in the latter tactic in 2017. Previously, parties from across the political spectrum were free to operate stalls at Lunar New Year's fairs. This was not to last. In January 2017, days before a major Lunar New Year's market was due to begin, the Food and Environmental Hygiene Department (FEHD) – one of the departments responsible for operating these markets – abruptly terminated stall contracts with HKNP

³⁵ H. Wong, "Newly formed pro-independence Hong Kong National Party 'denied registration' by Companies Registry", *HKFP - Hong Kong Free Press*, 29 March 2016.

³⁶ E. Ng, "Pro-Beijing DAB party raises tens of millions of dollars at dinner attended by top officials", *HKFP - Hong Kong Free Press*, 22 November 2016.

³⁷ *Ibid.*

and Youngspiration.³⁸ The FEHD defended the exclusion on the spurious basis that both parties planned to sell merchandise that advocated Hong Kong's independence, and that the number of visitors would endanger public order and public safety. Its decision also left both parties with no recourse, as the appeals process would continue until well after the market had closed. The FEHD went further in 2019, by imposing a blanket ban on political and satirical merchandise for 2020 – regardless of the political party it came from or the message it expressed – at Lunar New Year's fairs, ostensibly for crowd control purposes.³⁹ The practical – and likely intended – effect was to deprive pro-democracy politicians of a much-needed fundraising opportunity.

Conclusion

The vitriol and repression that Beijing and Tamar have directed at political opposition in Hong Kong look set to intensify. By late 2019, numerous Mainland officials and advisers were demanding that Hong Kong enacts its own national security legislation⁴⁰ – legislation that will likely provide a pretext for banning yet more political parties. They have also declared that “national security” demands “improvements” to how the Chief Executive is selected⁴¹ – “improvements” that are unlikely to increase the odds that an opposition candidate can run at all.

This cycle of repression has had a remarkable effect on activism and protest in Hong Kong. A hallmark of the 2019

³⁸ D. Mok, “Youngspiration and HKNP Barred from Operating Stalls at Hong Kong's Largest Lunar New Year Fair”, *South China Morning Post*, 19 January 2017.

³⁹ “Satire, politics stripped from Lunar New Year fairs”, *RTHK*, 7 November 2019.

⁴⁰ L. Zhen, “Hong Kong ‘Must Not Delay National Security Law’”, *South China Morning Post*, 21 December 2019; “Need for national security law in Hong Kong ‘becoming urgent’”, *South China Morning Post*, 10 November 2019.

⁴¹ “China Says Will ‘improve’ Way Hong Kong Leader is Selected to ‘Safeguard National Security’”, *AFP*, 1 November 2019.

protests was the degree of solidarity between “wo lei fei” (people engaged in peaceful, non-violent protest) and “yung mo” (radical front-line protesters)⁴² – something that had been largely absent from Hong Kong politics in previous years. Had the Hong Kong and Beijing governments *not* tarred both groups alike with the secessionist accusation, such unity would have been unthinkable.

Despite these failures, Beijing’s policy looks set to continue. Luo Huining, the new head of Beijing’s Liaison Office in Hong Kong, warned on 21 February 2020 that the opposition planned to “steal the power to govern” by winning more than half of the seats in the Legislative Council elections later in the year.⁴³ This is entirely consistent with Beijing’s practice since 2014. When asked on 19 August that year whether *any* democrat would be allowed to run for Chief Executive, Luo’s predecessor Zhang Xiaoming retorted with the statement reproduced as the epigraph to this chapter: “the fact that you are allowed to stay alive, already shows the country’s inclusiveness”.⁴⁴ Given Beijing’s continued refusal to acknowledge *any* political participation by democrats as legitimate, Beijing’s Hong Kong strategy under Luo – and new Hong Kong and Macau Affairs Office chief Xia Baolong – looks set to be one of “beatings will continue until morale improves”.

Stop press: On 18 April 2020 Hong Kong police arrested fifteen prominent pro-democracy figures, including Martin Lee (barrister and founder of the Democratic Party), Margaret Ng (barrister and former legislator), and Lee Cheuk-yan (union leader and labour rights activist), for joining three “unapproved” protests in 2019.

The arrests follow an announcement from the Central Government’s Hong Kong Liaison Office that it is not bound

⁴² S. Mahtani, “Large, Peaceful Protest Shows Hong Kong’s pro-Democracy Movement is Still Strong”, *Washington Post*, 8 December 2019.

⁴³ 收「篤灰」報告 駱惠寧晤建制令「全力支持」林鄭，蘋果日報，22 February 2020.

⁴⁴ J. Pomfret (2014).

by Article 22 of the Basic Law (prohibiting interference in matters within the scope of Hong Kong's autonomy), as well as renewed calls by Chinese officials for Hong Kong to enact national security legislation.

3. The Fatality of Dissent: Comparing the 2014 and 2019 Hong Kong Protests

Eric Sautédé

Dubbed a “barren rock” by Lord Palmerston in 1841 only to become the last and arguably most precious jewel in the British imperial crown by the end of the XX century, and seen as an emblem of global capitalism for its prestigious stock exchange, massive deep-water seaport and the world’s busiest airport for cargo traffic, the Hong Kong Special Administrative Region (SAR) has recently acquired a distinct reputation as a hotbed of political protest at the vanguard of democratic struggle in Asia.

Long gone are the days when Hong Kongers were described as politically “apathetic”¹ and dedicated only to accumulating wealth, even if that meant working two or three jobs at a time and, more importantly, never complaining about harsh living conditions. Such, at one time, was supposed to be “the spirit of the Lion Rock”: blending hard work and solidarity with perseverance in order to climb the social ladder and claim the reward of wealth. This characterisation was originally derived from a radio drama series entitled *Below the Lion Rock*, broadcast in the 1970s, a time of rapid growth in cultural awareness in

¹ The idea of political apathy had already been challenged by Prof. Lam Wai-man in the early 2000s when she published a detailed study of 13 thirteen local protests that had taken place between 1949 and 1979, see L. Wai-man, *Understanding the Political Culture of Hong Kong: The Paradox of Activism and Depoliticization*, New York, M.E. Sharpe Inc., 2004.

the then British colony. Today, the lion-shaped rocky outcrop that dominates the Kowloon Peninsula has become a symbol of resistance against authoritarianism and resilience despite a highly uneven balance of power.

In late October 2014, a small group of activists hung a giant 28-metre tall yellow banner adorned by an umbrella and bearing the words "I want real universal suffrage" (我要真普选 *wo yao zhen puxuan*). In mid-October 2019, another small group of activists erected a four-meter tall statue of a female protester, named the "Lady Liberty of Hong Kong", wearing protective gear and wielding an umbrella and flag carrying the slogan "Reclaim Hong Kong, revolution now" (光复香港, 时代革命 *guangfu Xianggang, shidai geming*).

The 2014 "Umbrella Movement", named after the mostly yellow umbrellas the protesters carried to protect themselves from the pepper spray and tear gas used by the riot police, took Hong Kong by storm over issues pertaining to universal suffrage. The protests translated into occupations of three key areas of the Special Administrative Region, including the financial district in the Central and Admiralty areas, for a period of 79 days, with the number of protesters reaching 100,000 on a few occasions. Beginning in early June 2019, the not yet christened "Be Water Movement", named after a famous motto of Hong Kong-born Bruce Lee promoting the virtues of fluidity and adaptability, was the result of widespread discontent over a new bill extending extradition procedures to Mainland China. This movement is still ongoing, although it reached its peak in August 18 when, according to its organisers, some 1.7 million people (i.e. one Hong Konger out of four) marched peacefully to once more reject the bill and voice their intense discontent towards the government.

What do these two movements, sometimes referred to as "revolutions" (though aborted for now) have in common? What are the root causes of the discontent and what do they

imply for this “city in protest”?² Is Hong Kong part of a wider phenomenon of popular rebellion? And what are the chances of these movements achieving positive outcomes for Hong Kong and China?

Triggering Factors

On the face of it, the triggering factors behind the two movements could not have been more different.

In 2014, what became the Umbrella Movement³ originally took the guise of a Hong Kong bred “Occupy” campaign, with an additional call for non-violence reflecting the Christian faith of two of its initiators. In March 2013, two university professors, Benny Tai Yiu-ting and Chan Kin-man, supported by the reverend Chu Yiu-ming, came up with a civil disobedience manifesto christened “Occupy Central with Love and Peace” (OCLP), the purpose of which was to advocate for true democratic process in Hong Kong according to international standards of universal suffrage. The “occupy” part was scheduled to start on 1 October 2014, China’s National Day, in protest against the Chinese government’s failure to take into account the wishes of Hong Kong’s people, as expressed in civic meetings. Popular support for democratic reforms peaked between 20 and 29 June, when close to 800,000 people, or slightly more than one fifth of registered voters, voted in a non-binding referendum. All three options on the ballot paper called for the public to have the right to nominate candidates for the 2017 Chief Executive election, and for the replacement of the system in which a happy few of only 1200, mostly unelected

² For a great short overview of Hong Kong as a city of civil disobedience, from the 1960s to the aftermath of the Umbrella Movement, see A. Dapiran, *City of Protest - A Recent History of Dissent in Hong Kong*, Penguin Books, Australia, 2017.

³ For a detailed and vivid account of the 2014 movements, see J.Y. Ng, *Umbrellas in Bloom: Hong Kong’s Occupy Movement Uncovered*, Hong Kong, Blacksmith Books, 2016; and R.C. Bush, *Hong Kong in the Shadow of China – Living with the Leviathan*, Washington DC; Brookings Institution Press, 2016.

and either pro-establishment and/or pro-Beijing, select rather than elect the highest authority of the Hong Kong SAR. The winning proposal was that tabled by the Alliance for True Democracy. It proposed that candidates should be nominated by gathering the support of 35,000 registered voters among the public, by obtaining the endorsement of a party which had secured at least five per cent of the vote in the previous legislative election, or by a nominating committee.

The release on 10 June of a *White Paper* by China's State Council on the practice of the "One country, two systems" formula, in which Beijing hammered home its "comprehensive jurisdiction" over Hong Kong and insisted that the "high degree of autonomy" conceded to the SAR translated neither into "full autonomy, nor decentralised power" gave Hong Kongers an added incentive to participate in the civic referendum. When, on 31 August, the Standing Committee of the National People's Congress released its *decision* stating that the 2017 Chief Executive would indeed be elected by universal suffrage but that a nominating committee, similar to the Election Committee, would be formed to pre-select two or three acceptable candidates, all the conditions needed for the Occupy Central movement to ignite came together. Then, on 22 September, before the occupation scheduled for 1 October could take place, students began a strike against the central authorities' decision. The Hong Kong Federation of Students together with Scholarism, a group of young people formed in 2011 that had successfully repelled a government attempt to enforce more "patriotic education", staged a protest outside the government headquarters on 26 September. This was the start of what is now known as the Umbrella Movement.

The streets protests that engulfed Hong Kong for most of the second half of 2019 kicked off very differently.⁴ In February, the government of the SAR announced its intention

⁴ For a preliminary "full" account of the 2019/2020 movements, see J. Wasserstrom, *Vigil - Hong Kong on the Brink*, New York, Columbia Global Reports, 2020.

to amend the laws on extradition and judicial cooperation in order to remove restrictive territorial clauses related not only to Greater China (PRC - the People's Republic of China), but also to Taiwan (Republic of China) and Macao. The government presented the move as an attempt to remedy a loophole inherited from the 1997 handover. The measure was needed urgently, it was claimed, because, if extradition were not secured rapidly, a murder committed by a Hong Kong man in Taiwan in early 2018 would be left unpunished. Under the proposed amendments, anyone in Hong Kong subject to legal proceedings in the PRC, residents and foreigners alike, would become justiciable in the PRC itself.

As early as March, legal professionals, led by the Hong Kong Bar Association and the more conservative Law Society, expressed substantive reservations, firstly regarding the government's baffling eagerness to amend the law (an *ad hoc* extradition agreement with Taiwan was entirely possible), secondly and more importantly concerning the lack of formal guarantees, judicial or legislative, that the Hong Kong authorities could oppose any extradition request considered to be ungrounded. The bill implied that a new level of cooperation would be established between two judicial systems still widely seen as incompatible, notably with regard to human rights, and that the ultimate bulwark against any dubious request made by the PRC judicial system would rest with the Chief Executive, herself appointed by Beijing. A first demonstration on 31 March gathered only a few thousand people but another on 28 April brought together 130,000 protesters and, ultimately, mobilised the business community, a powerful force in Asia's leading financial centre. This obliged the government to partially amend its original bill at the end of May, removing certain economic violations from the list of extraditable offenses and retaining only crimes punishable by more than seven years imprisonment. Yet, as noted by numerous democrats, that was "too little, too late".

In the wake of the 30th anniversary commemoration of the 1989 Tiananmen Square Massacre on June 4, attended by 180,000 participants in Victoria Park, the Civil Human Rights Front, a collective of organisations responsible for the biggest protests in Hong Kong since 2002, orchestrated a massive demonstration calling for the total withdrawal of the bill. On 9 June, almost one million Hong Kongers took to the streets. The following Sunday, angered by the intransigence of the government and the mere “suspension” of the bill, a human tide of two million demonstrators – a quarter of the territory’s total population – marched from Victoria Park to the seat of government. The “Five demands, not one less” (五大诉求 缺一不可 *Wu da suqiu que yi buke*) that would go on to inspire the movement were presented on this occasion: complete withdrawal of the extradition bill; retraction of the characterisation of “riot” to describe the 12 June protests (during which young protesters prevented the second reading of the bill in the Legislative Council); release and exoneration of arrested protesters; establishment of an independent commission of inquiry into police behaviour; and the resignation of the Chief Executive. After 1 July, this fifth request morphed into a demand for universal suffrage for Legislative Council and Chief Executive elections.

Deep-Rooted Causes: It's the Politics, Stupid!

It is quite clear that both movements converge towards a common two-fold aim, despite the differences in their origins: the full and effective enjoyment of a “high degree of autonomy” as promised both by the 1984 Sino-British Joint Declaration (JD) and the 1990 Basic Law (BL) governing Hong Kong affairs until 2049 and, in the meantime, a commitment to establishing truly meaningful democratic institutions in Hong Kong, as specified in the said BL’s articles 45 (“The ultimate aim is the selection of the Chief Executive by universal suffrage upon nomination by a broadly representative nominating

committee in accordance with democratic procedures”) and 68 (“The ultimate aim is the election of all the members of the Legislative Council by universal suffrage”).

Both movements grew out of a triple frustration: towards Hong Kong’s leaders for not understanding society’s demands; towards the same leaders for not conveying the proper messages to Beijing; and towards the central authorities and their representatives in the SAR for being intransigent and tone-deaf to the people’s pleas. This multifaceted grievance resulted in a breach of trust in the SAR’s top leadership on the one hand and in the system in general on the other.

In 2014, the then much-loathed Chief Executive, Leung Chun-ying, nicknamed “The Wolf” by democrats and often referred to simply as “689” (the number of votes out of 1200 he received for his election) suffered a dive in popularity ratings during the actions of the Umbrella Movement despite the fact that the movement itself never won the support of the majority. By late October 2014, Mr Leung was at his lowest popularity (below 40% approval rating) since becoming Chief Executive in March 2012 (his highest being 56.5% on 12 May 2012).

In 2019, nobody thought that Chief Executive Carrie Lam, nicknamed “777” for the number of votes she obtained in 2017 and sometimes “CY 2.0” in reference to her predecessor, could fare worse than Mr Leung. She had actually started work with a comfortable 63.6% support in July 2017. In just two weeks’ time, however, from early June to mid-June 2019, her rating fell from 43.3% to 32.84%, the biggest drop ever recorded. She never recovered and reached a rock-bottom figure of 18.2% in mid-February 2020.⁵ The result today is the lowest satisfaction ever in the government’s performance (82.5% dissatisfaction) as well as the lowest overall trust ever recorded (75.9% distrust). The situation is even worse than during the SARS/anti-National Security Bill movement conundrum of 2003.

⁵ For the main polls conducted in Hong Kong, see <https://www.hkupop.hku.hk/> and since July 2019, <https://www.pori.hk/opinion-charts>.

In 2014, as indeed in 2019, one of the main factors behind Hong Kongers' distrust of their government was their sense of impotence, often exacerbated by the disproportionate nature of the government's reactions. 87 tear gas canisters were fired against demonstrators (something not seen in Hong Kong since the Cultural Revolution riots of the 1960s) at dusk on 28 September 2014, the very day Benny Tai announced the launch of the Occupy Central campaign. This in itself brought many people to rally in support of the few thousands student protesters. The almost three month long protest movement resulted in total misunderstanding between the parties. Their inability to reach out to one another came to a head during a 21 October live TV debate between representatives of the movement, led by student leader Alex Chow, and senior officials, led by Chief Secretary Carrie Lam, then number 2 in the government. Given the failure of this debate both in form and substance, it is ironic that Carrie Lam chose "We Connect" as her main campaign slogan for the 2017 Chief Executive election.

Ultimately, less than 1,000 people were detained during the 2014 protests and it was not until April 2019 that four out of nine Occupy leaders were sentenced to 16 months in prison, with Chan Kin-man being the only one to effectively serve his sentence. In 2019-20, the government's response was almost entirely repressive and far more violent, resulting in demands for an independent commission of enquiry into police violence, even though the withdrawal of the law was formally announced on 4 September and became effective on 23 October. As of March 2020, police forces have admitted to firing more than 16,000 rounds of tear gas, 10,000 rubber bullets, 2,000 beanbag rounds, and 19 live bullets, two of which hit and wounded protesters, including one on 1 October, China's National Day. As of 1 March, 7,165 people have been arrested in relation to the events, including around 1,200 under 18 years of age.⁶

⁶ For a a protest prosecution database, see "[Protest Prosecution Database](#)", *Hong*

In 2014, if we set aside the early days and a few clashes in Mong Kok, the only site on the Kowloon peninsula where violence occurred, the Umbrella Movement remained mostly peaceful. In 2019, the Legislative Council was stormed and trashed on 1 July. From mid-August to December, hardly a weekend went by without clashes between young, black-clad protesters and the police. Parades, occupations of public and semi-public spaces as well as flash mob rallies, often organised via the LIHKG online platform, Hong Kong's own Reddit, and Telegram messaging services, spread throughout the entire SAR, from the Central business district to the distant New Territories. For a few months, the sight of young girls and boys, often university students, dressed in black, wearing gas masks bought online and generally armed with umbrellas, erecting makeshift barricades with street furniture and occasionally throwing Molotov cocktails to slow police advances, became common. On several occasions, clashes also involved mobsters: on 21 July, white-shirted triad-looking brutes attacked unarmed protesters with wooden sticks and steel rods at Yuen Long station, with the police evidently turning a blind eye. Ultimately, even the vandalising of the MTR, Hong Kong's subway, by more radical protesters was political in essence as the company's management had been frequently denounced for collaborating too dutifully with the government in imposing *de facto* curfews by suspending services at times of large gatherings.

Socio-economic factors have provided at best a fertile ground for disgruntlement, though Hong Kong is infamous for its high Gini index (0.539) (worse even than the United States), the most expensive real estate in the world (the average price of a flat stands at a record 21 times the median salary) and almost 500,000 working poor despite one of the highest per capita GDPs (Gross Domestic Products) on the planet. Politics have always been the decisive factor. Past governments bear most of the responsibility for the land shortage that led to a lack of

building plots and a dramatic drop in housing completion after 2003-04, in the wake of the SARS crisis. For a decade starting in 2006, housing construction, whether public or private, was more than halved compared to the previous ten years, driving prices artificially high.⁷ Major developers hold a lot of power in many sectors in Hong Kong, and make up or influence a significant portion of the 1200 people who elect the Chief Executive. While Carrie Lam first attributed the 2019 anti-extradition crisis to "communication" blunders, she later admitted on many occasions that socio-economic issues, especially pertaining to housing, income distribution, social justice and opportunities for youth were to blame for radicalising the young and for society's growing defiance of the government. Interestingly enough, in mid-October, polls continued to indicate that more than 50% of the population attributed the spiral of violence to the incompetence of the government and almost 60% believed that more radical action was needed if the government failed to respond. The vast majority (over 80%) also confided that they were more dissatisfied with the political environment than they were disgruntled by the economic situation (under 40%).⁸

The intransigence displayed by the central authorities played a crucial role in creating the deadlock that led to the radicalisation of both movements. In 2014, Beijing's *white book* and later the *decision* of the Standing Committee of the National People's Congress restricting electoral system reforms symbolised the inflexibility of the central authorities. In 2019, threatening rhetoric from Beijing and from its liaison office in Hong Kong came to a climax in August when the defence ministry announced that the People's Liberation Army could legally intervene to help Hong Kong "maintain social order"

⁷ See "Insufficient Land Supply leading to Imbalance in Supply-Demand", Task Force Land Supply, for more details.

⁸ See *Anti-Extradition Bill Movement People's Public Sentiment Report*, PORI Hong Kong Public Opinion Research Institute; and *People's Level of Concern about Political, Economic and Livelihood Problems*, PORI, Hong Kong Public Opinion Research Institute.

if requested to do so by the territory's government. A few days later, a spokesman for China's Hong Kong and Macao Affairs Office warned that the central government would not allow anything to threaten "One country, two systems". August proved such a critical month that some analysts began to speculate that another Tiananmen Massacre might occur.

Between 2014 and 2019, several key developments fuelled the suspicion that Beijing was encroaching more and more on Hong Kong's "high degree of autonomy". In 2015, five members of staff from Causeway Bay Books, a bookstore well-known for selling and publishing books in Chinese critical of the PRC, disappeared under dubious circumstances only to reappear on the mainland, with some making confessions on Chinese TV. In 2016, Beijing played a crucial role in the disqualification of two newly-elected young democrats for taking their oath improperly, i.e. by wearing a blue banner reading "Hong Kong is not China" (an additional four were later disqualified for similar reasons). In 2017, Chinese billionaire Xiao Jianhua was abducted from the Four Seasons Hotel in Hong Kong by Chinese public security agents and taken to Mainland China.

In early September 2019, a private conversation between Carrie Lam and business leaders was leaked to the public. In that recording, Mrs Lam at one point confessed that she had "to serve two masters by constitution, that is the central people's government and the people of Hong Kong" and that her "political room for manoeuvring [was] very, very, very limited". For Hong Kongers, obviously, one master seems to be better served than the other.

Conclusion: Failure or Success, and for Whom?

Between 2014 and 2019, protests and the reactions provoked by them grew in strength and intensity, affecting all three unities of time, place, and action, as in a classical drama.

The unrest of 2014 already seemed protracted (at almost three months). The protests that began in 2019 have continued

for over ten months, though the current coronavirus pandemic is inevitably having a calming effect. Withdrawal of the bill – the original demand – has been secured and yet trust in government continues to plummet and young demonstrators still mobilise over contentious issues like abusive arrests, police misbehaviour, mishandling of the sanitary crisis, etc.

The actions that, in 2014, remained circumscribed within three partially occupied Hong Kong districts today impact the entire territory, giving even more impetus to popular *sovereignty*. All kinds of gathering spaces have been engulfed: the occupation of a semi-public mall like New Town Plaza in Sha Tin on 14 July was an unprecedented act for this part of the New Territories, where no political movement had been seen since the 1960s. The famous Lennon Wall of 2014, an outdoor staircase plastered with multi-coloured post-its bearing the hopes and desires of demonstrators, became several hundred such Lennon Walls in June, with corridors and flyovers leading to MTR stations transformed into open-air galleries adorned not only with post-its but all sorts of posters rivalling each other in creativity.⁹

Finally, while the plot has remained the same – political in essence and mixing identity issues with democratic demands – it has thickened. Demonstrators have become younger and more restless, and peaceful demands have turned into violent outbursts as the government's response has turned to mutism. Occupations of university grounds, like those at Chinese University (CUHK) or Polytechnic University, destruction of public and even private property whose owners were considered too supportive of the government would have been unimaginable in 2014. Also inconceivable in 2014 was the idea that a movement led by radicalised young people could benefit from the continuous support of a majority of the population. In mid-October, a survey by CUHK showed that 73% of those

⁹ J. Creery, "Wilting bauhinias and widemouthed tigers: The evolution of Hong Kong's protest posters", *HKFP - Hong Kong Free Press*, 25 July 2019.

asked supported the resignation of the Chief Executive and that 81% considered the push for universal suffrage necessary. Surprisingly, some 45% also declared that they would condone *any* form of escalation if the government failed to heed the movement's demands. Only 24% condemned the vandalism of MTR stations and, amazingly, only 1.6% reproved attacking the police!

Whereas the government's strategy of attrition eventually wore down the protest movement of 2014, the same cannot be said of 2019-20. The "Be Water Movement" is still going strong and is constantly changing its modes of expression. With its all-out repressive riposte, the SAR has only managed to tarnish the reputation of the Hong Kong police, once considered "Asia's finest". While only 6.5% of those surveyed in late May 2019 reported a total distrust of the police (0 on a scale of 10), this figure had rocketed to 51.5% by mid-October!

Contrary to common belief, the 2014 movement was not a total failure, though a truly democratic reform package for the electoral system is still a long way off: the protests encouraged a new generation of politicians to emerge. Quite a large number of these proved successful in the 2016 legislative elections, though the oath-taking controversy stopped some from sitting in the Legislative Council. The then Chief Executive, C.Y. Leung, was also prevented from running for a second term in 2017.

In late November 2019, the wide support enjoyed by the Be Water Movement translated into a landslide victory for the democrats, with many young candidates and new-comers entering politics in the district council elections, capturing close to 400 seats out of 452 and taking control of 17 local councils out of 18.

In early January 2020, the central authorities replaced the head of their liaison office in Hong Kong and in early February the Director of the Hong Kong and Macao Affairs Office in Beijing. Both new appointees are considered very close to China's paramount leader Xi Jinping. It remains to be seen whether these changes will herald a new strategy that will take stock of

democratic demands or, on the contrary, further antagonise a deeply divided and yet distinct community of Hong Kongers. For now, though, the global emergency of the Covid-19 pandemic that originated in Wuhan has somewhat subdued the attention of the citizens, whose resilience, discipline and memory of the SARS crisis of 2002 have helped overcome the first two waves of the outbreak (as of April 22, there have been only 1,030 cases and 4 fatalities because of the virus in Hong Kong). Even though the government in Beijing has for now managed to shed a positive light over its handling of the crisis, one must remember that it is precisely the combination of a direct threat to public liberties – the attempt at forcing through the passing of a new state security law – with the initial and shameful cover up of the first coronavirus outbreak that led to the massive anti-governmental demonstrations of 1 July 2003, and eventually the resignation of the Chief Executive two years later.

4. “Today’s Macau, Tomorrow’s Hong Kong”? What Future for “One Country, Two Systems”?

Victoria Tin-bor Hui

“One Country, Two Systems”

China’s “one country, two systems” constitutional principle has been moving ever closer to “one country, one system”. The design, originally intended to entice Taiwan’s unification, has been practiced first in the Hong Kong and Macau Special Administrative Regions (SARs) since 1997 and 1999, respectively. The arrangement promises rule by locals under “a high degree of autonomy”, but Beijing has increasingly eroded local autonomy and asserted direct rule. Chinese leaders have hailed Macau as the paragon of “one country, two systems”, which, in practice, has meant rule by pro-Beijing loyalists. Hongkongers, fearful of the prospect of “today’s Macau, tomorrow’s Hong Kong”, have staged escalating waves of protest. Taiwanese, with the benefit of watching at a safe distance, overwhelmingly voted against “one country, two systems” under the campaign slogan “today’s Hong Kong, tomorrow’s Taiwan” in the January 2020 elections.

The "One Country, Two Systems" Model: Promises and Contradictions

Hong Kong, more than Macau and Taiwan, is at the heart of the "one country, two systems" constitutional design. The original principle intended for Taiwan was an abstract idea until it was articulated in the 1984 Sino-British Joint Declaration (JD) and the 1990 Basic Law of the Hong Kong Special Administrative Region. Macau's handover arrangement was modelled after Hong Kong's.

The JD promises Hong Kong "a high degree of autonomy" with separate customs, freedom of speech, the rule of law, final jurisdiction and other rights and freedoms. The Basic Law, Hong Kong's mini-constitution, was supposed to codify the guarantees. Yet, by the time it was promulgated, the Tiananmen movement of 1989 had fully exposed the structural contradiction of "one country, two systems". While Beijing viewed "two systems" primarily in terms of the socialist system in Mainland China versus the capitalist system in Hong Kong, Hongkongers focused on one-party dictatorship in Mainland China versus freedoms in Hong Kong. In Hong Kong, the fear of "today's Tiananmen, tomorrow's Hong Kong" had driven many Hongkongers to provide moral and material support for demonstrations across China. In Beijing, Chinese leaders developed an obsession to make Hong Kong safe for the Communist Party.

Recently declassified documents show that London complained about the discrepancies between the two documents.¹ Most importantly, the JD promises "a high degree of autonomy, except in foreign and defence affairs".² This qualifier

¹ "UK knew early about holes with political reforms and interpretation in the Basic Law, Raised amendments with Beijing but rejected", *Apple Daily*, 5 January 2020.

² Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China on the Question of Hong Kong <https://www.cmab.gov.hk/en/issues/jd2.htm>.

is omitted in Article 2 of the Basic Law, which stipulates that "the National People's Congress [NPC] authorizes the Hong Kong Special Administrative Region to exercise a high degree of autonomy and enjoy executive, legislative and independent judicial power, including that of final adjudication, in accordance with the provisions of this Law".³ Moreover, while this clause mentions final jurisdiction, Article 158 gives the NPC Standing Committee final interpretation power over the Basic Law – a power that it has used five times since the handover. In recent years, Chinese officials have even reiterated that the JD, though it was filed with the United Nations and counts as a treaty, "is now void and only covered the period from the signing in 1984 until the handover in 1997".⁴

The Basic Law exceeds the JD in providing for the "ultimate aim" of "universal suffrage" in the selection of the Chief Executive and the Legislative Council. Yet, rather than direct elections, Hong Kong's Chief Executive would be selected by a 900-member Election Committee (later expanded to 1200 members) dominated by pro-regime representatives. The Legislative Council is structured to keep pro-democracy votes in the perpetual minority by balancing members elected from geographical constituencies with pro-regime members from functional constituencies. The Chief Executive is ensured enough votes to push through any bills.

The fundamental contradiction inherent to "one country, two systems" reflects what Charles Tilly and Sidney Tarrow call a "territorially-divided hybrid regime".⁵ This "structural disjunction" between "the largely authoritarian Communist Chinese state and its quasi-democratic enclave" has built in

³ The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China <https://www.basiclaw.gov.hk/text/en/basiclawtext/>.

⁴ D. Lee and G. Cheung, "Beijing tells Britain it has no 'moral responsibility' for Hong Kong Remarks come after ambassador told UK lawmakers JD is 'void'", *South China Morning Post*, 3 December 2014.

⁵ C. Tilly and S. Tarrow, *Contentious Politics*, Second Edition, Oxford University Press, 2015, p. 89.

“an unstable mix of conventional, confrontational, and violent behaviour” with “unpredictable outcomes”.⁶

Macau: The “Shining Chapter” of “One Country, Two Systems”

On 20 December 2019, President Xi Jinping presided over celebrations marking the twentieth anniversary of Macau's return. He championed Macau as the “shining chapter” in the practice of “one country, two systems” for accepting “one country” as the prerequisite and basis of “two systems”, integrating the central government's “comprehensive jurisdiction” over the city, passing national security and national anthem laws, forming a National Security Committee chaired by the Chief Executive, respecting the Chief Executive's paramount authority over executive, legislative and judicial branches of government, promoting patriotic education and adopting Mainland textbooks in schools, and rejecting all forms of foreign interference.⁷

In the eyes of critics, however, Macau exemplifies how the constitutional principle of “one country, two systems” has been made subservient to one-party dictatorship. As Ka-Hou Sou, a pro-democracy legislator, remarked: “After 20 years in Macau, it is difficult to find the clear lines between the two systems”.⁸ According to Sut-leng Kam, who has led the pro-democracy New Macau Association since 2017, “Macau is an example of the white terror that comes under ‘one country, two systems’”.⁹ Sou has been arrested and found guilty for illegal assemblies.

⁶ Ibid., pp. 75, 89, 91. 93.

⁷ “Xinhua Headlines: Xi lauds Macao's ‘shining chapter’ of ‘one country, two systems’ practice”, *Xinhua*, 21 December 2019.

⁸ S. Lee, “Myers In Macau, China Sees a Model for a Rebellious Hong Kong”, *New York Times*, 18 December 2019.

⁹ H. Chan, “China leader Xi Jinping praises Macau for promoting patriotism and ‘choosing unity over infighting’”, *HKFP - Hong Kong Free Press*, 20 December 2019.

The police have banned protests and the Court of Final Appeal has upheld the ban in the interest of social stability. Kam was followed and harassed during Xi's visit. Accredited journalists¹⁰ along with the chairman and president of the American Chamber of Commerce from Hong Kong were denied entry.¹¹ Over the years, professionals who expressed dissenting voices were fired and banished from all job prospects.¹²

Chinese leaders do not understand why what has worked in Macau would be met with fierce resistance in Hong Kong. As Jerome Cohen explains, the two cities have very different colonial legacies. While Macau has followed Portugal's civil law tradition closer to China's Leninist legal system, Hong Kong has inherited the UK's common law tradition with "its belief in and practices for subjecting government to the rule of law".¹³ Moreover, Macau had become a "half-liberated zone" since 1966, when pro-Beijing forces inspired by the Cultural Revolution began to dominate the society.¹⁴ Before the handover, Portugal granted citizenship to anyone born in Macau before 1982 and their families. This exit option allowed those critical of Beijing to leave for any European Union country. In Hong Kong, the absence of exit means that doubters of Beijing have had to stay to fight. Furthermore, Portugal was amenable to China sending at least a dozen Mainland legal experts to study Portuguese law and then embedding them in the police and judicial branches. These mainlanders-turned-local officials – who include the

¹⁰ Accredited reporters came from the Apple Daily, NowTV, Commercial Radio, Radio Television Hong Kong, South China Morning Post and Television Broadcast Co.

¹¹ A.M. Roantree, "Hong Kong AmCham chairman and president denied entry to Macau", *Reuters*, 7 December 2019.

¹² J. Menezes, "Why Macau matters to Hong Kong: how 'one country two systems' turns into one-party rule", *HKFP - Hong Kong Free Press*, 23 January 2020.

¹³ J.A. Cohen, "Macau and Hong Kong are too different for Beijing to treat them like peas in a pod", *South China Morning Post*, 21 December 2019.

¹⁴ "Macau Basic Law does not contain the promise of universal suffrage; CCP's praise of Macau and denigration of HK ignore the two places' differences", *Radio Free Asia*, 18 December 2019.

current security minister Sio-chak Wong, prosecutor general Son-sang Ip, five prosecutors and three judges – have created a compliant government in post-handover Macau.¹⁵

“Today's Macau, Tomorrow's Hong Kong”?

Beijing has explicitly pointed to Macau as the role model for Hong Kong, which has rebelled against the passage of national security and national anthem laws, the introduction of national education, and the executive's exertion of control over legislative and judicial branches.¹⁶

The Anti-National Security Protest of 2003

Beijing wanted Hong Kong to pass a national security law in 2002. While Article 23 of the Basic Law requires its enactment, the legal profession took the lead in contesting that the proposed bill did not provide for sufficient safeguards as required by the International Covenant on Civil and Political Rights (ICCPR).¹⁷ The bill would probably have been passed but for the fact that the Severe Acute Respiratory Syndrome (SARS) alerted Hongkongers that Beijing had an expansive understanding of state secrets that included the emergence and spread of a deadly virus. Once SARS subsided in the summer of 2003, half a million protested at the anniversary of the handover on 1 July.¹⁸ The bill was shelved and has not been re-tabled.

¹⁵ P. Siu, “Beijing sent team of mainlanders to study law in Portugal, placed them in top Macau jobs after return to China 17 Dec, 2019, *South China Morning Post*”, *South China Morning Post*, 17 December 2019.

¹⁶ “HK must grasp ‘the spirit of Beijing’: Li Zhanshu”, *Radio Television Hong Kong*, 3 December 2019; S.L. Myers, “In Macau, China Sees a Model for a Rebellious Hong Kong”, *New York Times*, 18 December 2019.

¹⁷ SCMP Reporter, “The Article 23 argument”, *South China Morning Post*, 1 July 2003.

¹⁸ K. Bradsher, “Security Laws Target of Huge Hong Kong Protest”, *New York Times*, 2 July 2003.

While Hongkongers championed the victory, Beijing did not take this setback lightly. According to William Overholt, when Chinese leaders "saw demonstrations in Hong Kong, they feared another Tiananmen Square"; when they "heard demands for democracy, they feared a Taiwan-style independence movement".¹⁹ Chinese leaders could have avoided the unfounded fears if they could become "knowledgeable and comfortable with Hong Kong".²⁰ Instead, Beijing opted to tighten control, kick-starting a "qualitative erosion" of "one country, two systems".²¹

In addition to the long-standing Hong Kong and Macao Affairs Office (HKMAO), Beijing formed a Central Coordination Group for Hong Kong and Macau Affairs to oversee the SARs from the capital. It also created a structure of "two administrations" in Hong Kong.²² The "first administration" is headed by the Chief Executive, who is technically selected by the 1200-member election committee but is in fact handpicked by Beijing. S/he exercises the power of appointments and promotions to fill the Department of Justice, the police, and the civil service with loyalists. The Chief Executive can control even non-governmental sectors through funding and licensing. The "second administration" is Beijing's Liaison Office in Hong Kong established in 2000. The former Director Wang Zhimin famously commented that, "it is good that Central (the Hong Kong government) and

¹⁹ W.H. Overholt, *Hong Kong: The Rise and Fall of 'One Country, Two Systems'*, The Ash Center for Democratic Governance and Innovation at Harvard Kennedy School, December 2019, p. 11.

²⁰ Ibid, p. 12.

²¹ Chi-kin Lo, "Reshuffling HKMAO: Strengthening Centralization and Heightening Danger", *Hong Kong Citizen News*, 16 February 2020, <https://www.hkcnews.com/article/26956/港澳辦-夏寶龍-駱惠寧-26956/整頓港澳辦：加強集權、更加危險>.

²² Russell Hsiao's interview, Hong Kong, 11 July 2019, R. Hsiao, "A Preliminary Survey of CCP Influence Efforts in Hong Kong", *China Brief*, Jamestown Foundation, vol. 19, no. 14, 31 July, 2019.

Western Districts (the Liaison Office) work together".²³ The "Western District" has since intervened not only at the top levels of the Hong Kong government but also reaches deep into all 18 administrative districts. District representatives mobilize human and material support for pro-Beijing candidates in various elections. These arrangements have effectively turned the promise of "Hong Kong people ruling Hong Kong" into "Beijing appointees ruling Hong Kong" and "Western District ruling Hong Kong".

The Umbrella Movement of 2014

In 2012, Beijing had Hong Kong introduce national education to make young people "love the motherland".²⁴ The then-15-year-old Joshua Wong and other secondary school students mobilised 100,000 demonstrators to successfully stop the policy.²⁵ By 2014, these youthful faces would become seasoned activists in the Umbrella Movement.

The Basic Law stipulates "gradual and orderly progress" in the selection of the Hong Kong Chief Executive up to 2007 and the election of the Legislative Council up to 2008, with the "ultimate aim" of "universal suffrage". This language gave Hongkongers the expectation that universal franchise would begin a decade after 1997. That did not happen – in 2007, Beijing issued a decision to postpone any changes for 10 years. By 2013, Benny Tai, a Hong Kong University Law School professor, began to agitate for universal suffrage beginning in 2017. However, in August 2014, Beijing issued yet another decision to proclaim the central government's "comprehensive jurisdiction" over the city.²⁶ The decision also restricted "one person, one vote" in the

²³ "Wang Zhimin's 'Central and Western Districts Coming Together' once stirred up controversy", *Sing Tao Daily* (USA), 4 January 2020.

²⁴ T. Cheung, "A history of how national education was introduced in Hong Kong", *South China Morning Post*, 9 September 2012.

²⁵ A. Lai, "'National education' raises furor in Hong Kong", *CNN*, 30 July 2012.

²⁶ T. Cheung, G. Cheung, S. Chan and K.-C. Ng, "Beijing emphasises its total control over Hong Kong in white paper", *South China Morning Post*, 10 June 2014.

election of the Chief Executive by allowing only two or three vetted candidates. Massive protests broke out in late August 2014 and lasted to early December. Protesters occupied busy roads to decry "fake universal franchise" and demand "genuine universal suffrage".²⁷ A Chinese University study estimates that 1.2 million people out of a population of 7.2 million participated at various times and in various forms.²⁸ Despite its unprecedented scale, the movement did not achieve its goal and only temporarily blocked Beijing's plan for vetted elections.

To prevent Umbrella Movement 2.0, Chen Zuoer, former deputy Director of HKMAO, vowed in December 2014 to tighten "Hong Kong's governance". He declared "a long-term struggle with the forces that bring calamity to Hong Kong", taking the fight "from the street to the law courts, to the Legislative Council, to inside the government, and to universities and secondary schools".²⁹

Controlling the Hong Kong government and the legislature had long been Beijing's policy, as mentioned above. This time, Beijing would take a step further. Ahead of the Legislative Council elections in 2016, the authorities barred an independence advocate, Edward Leung, from running. Two independence-leaning candidates, Wai-ching Yau and Chung-hang Leung, were elected and displayed a "Hong Kong is not China" flag during their swearing-in ceremony in October 2016. The then-Chief Executive Chun-ying Leung asked the court to disqualify them. But before the court issued a verdict, Beijing issued a binding interpretation of the Basic Law in November that was then used to retroactively disqualify any legislator-elect who

²⁷ M.C. Davis, "Hong Kong's Umbrella Movement: Beijing's Broken Promises", *Journal of Democracy*, April 2015, pp. 101-10; V. Tin-bor Hui, "Hong Kong's Umbrella Movement: The Protest and Beyond", *Journal of Democracy*, April 2015, pp. 111-21.

²⁸ Center for Communication and Public Opinion Survey, "Public Opinion & Political Development in Hong Kong Survey Results", Press Release, Chinese University of Hong Kong, 18 December 2014.

²⁹ T. Cheung and F.W.Y. Fung, "Now Hong Kong must face the big questions in wake of Occupy", *South China Morning Post*, 13 December 2014.

made revisions or additions to the formal oath.³⁰ Faced with a strident and binding Beijing interpretation, the court fully complied and expelled the duo from the Legislative Council. The Department of Justice sought to disqualify four more legislators who never supported independence but played with the language in their oath of office: Democracy Groundwork's Siu-lai Lau, Demosisto's Nathan Law, the League of Social Democrats' Kwok-hung Leung and architectural sector lawmaker Edward Yiu. Beijing's interpretation was a direct interference with the judiciary's independence.³¹ As a UK-based think tank Hong Kong Watch³² put it,

In this instance, [Beijing] has effectively issued an amendment to Hong Kong's constitution to ensure that candidates are successfully politically screened. Although the CCP do technically have the right to 'interpret' the constitution, they do not, under Hong Kong's Basic Law, have the right to amend local laws. In order to disqualify candidates, they have effectively amended local laws: and therefore, committed a violation of ... the "high degree of autonomy" guaranteed for Hong Kong in the constitution.³³

In the aftermath of the Umbrella Movement, pro-Beijing voices repeatedly complained that judges released the majority of protest-related defendants or gave very lenient community service to the convicted few, while jailing police officers convicted of abuse. Chen Zuoer remarked in a closed meeting in November 2016 that Occupy leaders were not being dealt with harshly enough in local courts.³⁴ The Department of

³⁰ K. Cheung, "China's power to interpret Hong Kong's Basic Law 'greatest threat to rule of law,' Bar Assoc. Head", *HKFP - Hong Kong Free Press*, 6 March 2018.

³¹ E. Tong, "Interview – Beijing's restraint with Hong Kong's rule of law has expired, says law prof. Johannes Chan", *HKFP - Hong Kong Free Press*, 25 June 2017.

³² See Hong Kong Watch web site <https://www.hongkongwatch.org/about-hkw>.

³³ Hong Kong Watch, "Why Hong Kong matters Understanding the importance of the city to China and the world", 26 February, 2020, p. 29

³⁴ C. Leung, "'No mercy' for Hong Kong's pro-independence 'rats' says head of

Justice appealed against the light community service given to young activists. By August 2017, the Court of Appeal handed down jail terms of six to eight months for student leaders Joshua Wong, Nathan Law (also one of the disqualified legislators) and Alex Chow, who were instrumental in sparking the Umbrella Movement.³⁵ By April 2019, Benny Tai and eight more Occupy leaders were also handed down prison sentences of up to 16 months for conspiracy to cause public nuisance, inciting others to cause public nuisance, and inciting people to incite others to cause public nuisance.³⁶

Universities had become hotbeds of dissent. The Chief Executive stacked university councils with pro-regime appointees, who would then duly appoint the "right" candidates to top positions.³⁷ In secondary schools, patriotic education was re-introduced in piecemeal fashion.³⁸

Other developments were no less blatant in eroding Hong Kong's system.

In January 2016, Lee Bo, a bookseller at Causeway Bay Books, was kidnapped from Hong Kong and taken across the border. Joshua Wong lamented that "we used to believe that we should be able to keep our physical safety even when we lose all other freedoms. However, the Lee Bo case shows that even our physical safety is at risk".³⁹ Even more scandalous was the abduction of Xiao Jianhua, a businessman with close ties

top Beijing think tank", *South China Morning Post*, 30 November 2016.

³⁵ J. Siu, "Joshua Wong and other jailed Hong Kong student leaders see political careers halted", *South China Morning Post*, 17 August 2017.

³⁶ G. Shih, "Hong Kong court imprisons 'Umbrella Movement' leaders for up to 16 months", *Washington Post*, 24 April 2019.

³⁷ J. Ng and G. Chan, "University of Hong Kong's council votes 12-8 to reject Johannes Chan's appointment as pro-vice-chancellor", *South China Morning Post*, 29 September 2015.

³⁸ K. Cheng, "National education scheme was never suspended in Hong Kong schools, says incoming education chief", *HKFP - Hong Kong Free Press*, 22 June 2017.

³⁹ Author's note of Joshua Wong speaking at "A Dialogue on the Future of Hong Kong's Democracy", Hong Kong University, 12 January 2015.

to China's political elite, from the Four Seasons Hotel on 27 January 2017.

In September 2018, the Hong Kong government ceded to Mainland jurisdiction parts of the West Kowloon high-speed railway terminal.⁴⁰ Hong Kong residents have since been arrested in the Mainland area of the station and taken across the border.

Also in September 2018, the Hong Kong government banned the pro-independence Hong Kong National Party.⁴¹ Months later, Chief Executive Carrie Lam submitted a report to Beijing when Chinese officials requested details.⁴² Many in Hong Kong criticised this move as contradicting the Basic Law promise that Hong Kong would run its own internal affairs. The Hong Kong government also refused to renew the visa of *Financial Times* reporter Victor Millet, who had hosted a talk by the party's founder Andy Chan at the Foreign Correspondents' Club.⁴³

Xi Jinping has defended the disqualification of legislators, the banning of the Hong Kong National Party and the expulsion of Victor Millet because such individuals and groups "damaged national security, challenged the central government's and the Basic Law's authority, took actions to infiltrate the Mainland", – in short, "crossed the bottom line of 'one country, two systems'".⁴⁴

⁴⁰ J. Pomfret, "[Unscheduled departure: China's legal reach extends to Hong Kong rail station](#)", *Reuters*, 4 September 2018.

⁴¹ K. Cheng, "[Pro-independence party officially banned by Hong Kong gov't in historic move restricting freedom of assembly](#)", *HKFP - Hong Kong Free Press*, 24 September 2018.

⁴² H. Chan, "[In full: Hong Kong leader Carrie Lam submits report to Beijing on banning pro-independence party, makes doc public](#)", *HKFP - Hong Kong Free Press*, 18 April 2019.

⁴³ J. Lam, T. Cheung and S. Lok-kei, "[Backlash as Hong Kong denies visa renewal for Financial Times journalist Victor Mallet](#)", *South China Morning Post*, 5 October 2018.

⁴⁴ "[Insisting and perfecting 'One country, two systems'](#)", *Takung Pao*, 9 November 2019.

To many Hongkongers, however, Beijing was turning “one country, two systems” into “one country, 1.5 systems”, even closer and closer to Macau’s “one system”.⁴⁵ As Tsang Yok-sing, a long-standing pro-Beijing politician, put it in 2015:

If the central government’s interference goes deeper and deeper into Hong Kong’s internal affairs, at some point quantitative changes will become qualitative changes. Even if Beijing does not abrogate ‘one country, two systems’ by name, the central government will exert de facto direct rule over Hong Kong.⁴⁶

The Anti-Extradition Protests since 2019

By early 2019, it looked as if the “two administrations” had firmly put Hong Kong on a tight leash. In February, the Hong Kong government proposed to amend the Fugitive Offenders Ordinance and the Mutual Legal Assistance in Criminal Matters Ordinance to allow extradition from Hong Kong to Mainland China. Carrie Lam claimed that the bill came from her own volition and not from Beijing. But Reuters reports that the order came from the Central Commission for Discipline Inspection, which was seeking a less politically damaging mechanism than extrajudicial kidnappings.⁴⁷ The extradition bill would have torn down the last firewall that separated a still relatively professional judiciary in Hong Kong from politicised courts subservient to the ruling party across the border.

When Occupy leaders called for a mass demonstration against the extradition law, 130,000 turned out on 28 April.⁴⁸

⁴⁵ K. Moriyasu, “Hong Kong trimmed to ‘one country, 1.5 systems’”, *Nikkei*, 14 June 2017.

⁴⁶ G. Cheung and T. Cheung, “Outgoing Hong Kong Legco chief warns ‘one country, two systems’ will fall apart if Beijing keeps on interfering”, *South China Morning Post*, 30 August 2015.

⁴⁷ D. Lague, J. Pomfret and G. Torode, “How murder, kidnappings and miscalculation set off Hong Kong’s revolt”, *Reuters*, 20 December 2019.

⁴⁸ J. Creery, “In Pictures: 130,000 protest looming China extradition law, say organisers, after Hong Kong jails Umbrella Movement leaders”, *HKFP - Hong*

On 9 June, a million marched. On 12 June, tens of thousands surrounded the legislature building to block legislators from going in for a scheduled reading of the bill. The police used excessive force against protesters in full view of local and international media.⁴⁹ At nightfall, the government labelled the day's events as "riots" and charged the arrested for "rioting". Carrie Lam vowed to push on but then "suspended" the bill on 15 June. Hongkongers were both emboldened by the small "victory" and enraged by police brutality on 12 June. Up to 2 million demonstrated on 16 June to demand that Hong Kong authorities formally withdraw the extradition bill, open an independent investigation into police abuses, drop the "riot" characterisation of the protests, release those arrested on rioting charges, and reopen a dialogue on genuine universal suffrage truncated in 2014. Mrs. Lam stubbornly refused to formally withdraw the bill until 4 September.⁵⁰

Protests lasted through the summer, fall, winter, and into 2020. Confrontations spread from the streets to train stations, shopping malls and residential buildings across all major neighbourhoods. Police resorted to massive arrests and brutal beatings of protesters. In turn, black-clad people (some were protesters and some could be agents provocateurs) threw firebombs, stabbed officers, meted out vigilante justice to regime supporters, desecrated Beijing's authority symbols, and vandalised pro-Beijing businesses.⁵¹

Chinese leaders, who had been alarmed by the non-violent Umbrella Movement, were shocked by the much more volatile anti-extradition protests. Beijing resorted to the same response, doubling down on the erosion of "two systems" which had

Kong Free Press, 28 April 2019.

⁴⁹ B. Marcolini et al., "Did Hong Kong Police Use Violence Against Protesters?", *New York Times*, 14 July 2019.

⁵⁰ V. Tin-bor Hui, "Beijing's All-Out Crackdown on the Anti-Extradition Protests in Hong Kong", *China Leadership Monitor*, no. 62, 1 December 2019.

⁵¹ V. Tin-bor Hui, "Hong Kong citizens just voted for more democracy. What happens now?", *Washington Post*, 26 November 2019.

fuelled protests in the first place. Most notably, Beijing came out of the shadows to exercise thinly-veiled direct rule since the million-strong march on 9 June. The Central Coordination Group for the Hong Kong and Macau Affair chaired by Vice Premier Han Zheng began to mete out directives from Bauhinia Villa, Beijing's command centre in Shenzhen across the border.⁵² Before Carrie Lam "suspended" the extradition bill, she had met with Han. When a *Reuters* correspondent asked in August if Mrs. Lam had the autonomy to withdraw the bill, she had no answer.⁵³ She admitted in a leaked audio that, "Once an issue has been elevated ... to a sort of sovereignty and security level ..., the political room ... for manoeuvring is very, very, very limited".⁵⁴

At the same time, HKMAO in Beijing called rare pressers to comment on the unfolding unrests. On 29 July, spokespersons highlighted the central government's support for the Mrs. Lam government and the Hong Kong police to stop unlawful acts.⁵⁵ On 6 August, they reiterated their backing of Carrie Lam and called for the police to end the protests, which had "changed in nature".⁵⁶ On 8 August, then HKMAO Director Zhang Xiaoming said the protests were taking on "colour revolution characteristics" and warned that "the central government will not sit back and do nothing".⁵⁷ The then Liaison Office Director Wang Zhimin added that the "patriotic camp" should join in this

⁵² D. Lague, J. Pomfret and G. Torode, "How murder, kidnappings and miscalculation set off Hong Kong's revolt", *Reuters*, 20 December 2019.

⁵³ "HK leader challenged: 'Have your hands been tied by Beijing?'" , *Reuters*, 13 August 2019.

⁵⁴ "Exclusive: The Chief Executive 'Has to Serve Two Masters' - HK leader Carrie Lam – Full Transcript", *Reuters*, 12 September 2019.

⁵⁵ SCMP Reporters, "As it happened: how Beijing expressed 'resolute support' for Hong Kong's government", *South China Morning Post*, 29 July 2019.

⁵⁶ SCMP Reporters, "Hong Kong's government and police 'completely capable' of protecting law and order, key Beijing official says, ruling out need for PLA to be mobilized", *South China Morning Post*, 6 August 2019.

⁵⁷ K. Cheng, "Beijing deems Hong Kong protests 'colour revolution,' will not rule out intervention", *HKFP - Hong Kong Free Press*, 8 August 2019.

“war of life and death”.⁵⁸ On 12 August, HKMAO spokespersons remarked that the protests were showing “signs of terrorism”.⁵⁹ On 3 September, they continued to condemn the “political terror” and entreated all branches of government and public agencies to join forces to end the violence and restore order.⁶⁰

During the summer of 2019, there was much talk of whether the People’s Liberation Army would crush the protests.⁶¹ On 31 July, the Chinese military garrison in Hong Kong released a video showing Chinese troops practicing anti-riot drills in a Hong Kong-like urban setting.⁶² In early August, 12,000 troops participated in more drills in Shenzhen.⁶³ The Basic Law states that PLA troops stationed in Hong Kong are for defence only and “shall not interfere in local affairs”. Article 14 also states that the Hong Kong government may ask for “assistance from the garrison in the maintenance of public order and in disaster relief”. With a Chief Executive who defers to Beijing, the central government can easily direct the local government to request PLA assistance. Article 18 of the Basic Law provides a bypass option. During war or “by reason of turmoil ... which endangers national unity or security and is beyond the control of the Region”, the NPC Standing Committee can declare an emergency and apply “the relevant national laws”. Labelling the protest a “colour revolution” with “signs of terrorism” could certainly give Beijing a route to stage a military intervention. Nonetheless, Beijing has other means before resorting to this

⁵⁸ Ibid.

⁵⁹ S. Zheng, “Beijing warns of ‘signs of terrorism’ in violent unrest in Hong Kong”, *South China Morning Post*, 12 August 2019.

⁶⁰ SCMP Reporters, “As it happened: All branches of government, including judiciary, must help stop violence and restore order, says Beijing’s top Hong Kong office”, *South China Morning Post*, 3 September 2019.

⁶¹ M.C. Davis and V. Tin-bor Hui, “Will China Crush the Protests in Hong Kong?”, *Foreign Affairs*, 5 August 2019.

⁶² “Chinese army’s Hong Kong garrison releases video showing anti-riot drills, featuring tanks”, *South China Morning Post*, 1 August 2019.

⁶³ P. Zhang, “Chinese police mass 12,000 anti-riot officers in Shenzhen for drill”, *South China Morning Post*, 6 August 2019.

"nuclear" option. Even in Mainland China, Beijing has refrained from deploying the military in Tiananmen-like fashion since 1989. The authorities have perfected "stability maintenance" to put down "mass incidents" by the police and thugs.

Beijing's public security ministry joined the coordination group in fall 2019. When Carrie Lam met with Xi on 4 November, Minister of Public Security Zhao Kezhi was in attendance. When Mrs. Lam delivered her annual work report to Xi on 16 December, Guo Shengkun, China's "security czar" (Zhao's boss) and head of the Central Political and Legal Affairs Commission, was present.⁶⁴ When Hong Kong's new police chief Chris Tang made his first official visit to Beijing on 6-7 December 2019, he met with the same Guo and Zhao in addition to the then HKMAO Director. Their involvement indicates that law enforcement, an area that should be highly autonomous, has come under Beijing's direct purview.

Beijing officials from Xi on down have urged the Hong Kong police to "punish violent and unlawful acts" and praised their "forceful actions" against "rioters".⁶⁵ The rhetoric has been accompanied by action. Once "Asia's finest", the Hong Kong police overnight became "just another Mainland force" acting with impunity.⁶⁶ The police seem to have followed a decapacitation campaign to inflict maximum injuries on protesters and supporters.⁶⁷ They have regularly fired tear gas, rubber bullets, beanbag rounds, and water cannons at high velocity, at head level, and at close range, so that even technically non-lethal crowd-control weapons could cause severe injuries.⁶⁸ Since 11

⁶⁴ J. Mai, E. Xie and Wi. Zheng, "Why was China's domestic security chief Guo Shengkun at Carrie Lam's meeting with Xi Jinping?", *South China Morning Post*, 17 December 2019.

⁶⁵ L. Zhou, "Xi Jinping again backs Hong Kong police use of force in stopping unrest", *South China Morning Post*, 14 November 2019.

⁶⁶ C. Yeung, "HK Police Now Just Another Mainland Force", *Voice of Hong Kong*, 13 August 2019.

⁶⁷ V. Tin-bor Hui, "Beijing's Hard and Soft Repression in Hong Kong," *Orbis*, forthcoming in 2020.

⁶⁸ K.K. Rebecca Lai and A. Ramzy, "1,800 Rounds of Tear Gas: Was the Hong

August 2019, police officers have routinely beaten the arrested with batons, pinned them down and rubbed their faces against the ground, pepper-sprayed their wounds, and broken their bones.⁶⁹ Officers even fired live ammunition with near-fatalities on 1 October and 11 November. Chris Tang, immediately after his promotion to police chief in November 2019, assumed command of an assault on protesters at Hong Kong Polytechnic University. Hong Kong analysts suspect that he had a deliberate strategy to lure hardcore protesters to “defend” Polytechnic and then arrest them.⁷⁰ In this single operation, the police detained 1377 and registered 318 people below the age of 18.⁷¹ When supporters poured into nearby areas to divert the police, police vehicles rammed them at high speed, causing a stampede with traumatic injuries.⁷² In detention centres, the arrested have been routinely denied access to families and lawyers for hours.⁷³ A significant number of detainees have been subject to further bone fractures, brain bleeding, and sexual assault.⁷⁴

The police have targeted not just protesters, but also medical volunteers, social workers, elected councillors, reporters and passersby. Moreover, they have colluded with gangsters who indiscriminately beat up locals with wooden sticks and metal

Kong Police Response Appropriate?” *New York Times*, 18 August 2019.

⁶⁹ B. Marcolini, “I Was Begging for Mercy: How Undercover Officers in Hong Kong Launched a Bloody Crackdown”, *New York Times*, 22 September 2019.

⁷⁰ Chi-kin Lo, “What was the purpose for manufacturing the Polytechnic tragedy?” *Hong Kong Citizen News*, 19 November 2019.

⁷¹ “A total of over 10,000 petrol bombs seized from various universities, 4000 from Poly U, 5,890 protesters arrested since June”, *Dimsum Daily Hong Kong*, 29 November 2019.

⁷² K. Cheng, “Hong Kong police accused of driving vehicles into protesters during clearance operation”, *HKFP - Hong Kong Free Press*, 19 November 2019.

⁷³ K. Leung, “Arrest and detention of children over Hong Kong’s anti-government protests raise questions on police treatment and legal process”, *South China Morning Post*, 20 October 2019.

⁷⁴ Amnesty International, “Hong Kong: Arbitrary arrests, brutal beatings and torture in police detention revealed”, 19 September 2019; C. Lau, “Hong Kong student who accused police of sexual violence against protesters has taken legal advice and plans further action”, *South China Morning Post*, 11 October 2019.

rods at the suburban Yuen Long train station on 21 July.⁷⁵ Critics point out that Chris Tang was once the district commander of Yuen Long and may be linked to the mobs.⁷⁶ When Lam's deputy, Chief Secretary Matthew Cheung, apologised that "the police's handling fell short of the citizens' expectations", he was rebuked publicly by the Police Inspectors' Association.⁷⁷ A week later, the police themselves indiscriminately charged with batons and tear gas at crowds in the same station,⁷⁸ leading to headlines likening the officers to thugs.⁷⁹ On 31 August, a larger scale of indiscriminate attacks by uniformed police on passengers took place in the downtown Prince Edward station.⁸⁰

Equally worrisome is the biased enforcement of the law. By February 2020, the police have arrested more than 7200 and charged over 2000 for unlawful assemblies, rioting, possession of weapons, and arson, which could carry a maximum sentence of 10 years to life imprisonment. Few (if any) abusive officers and gangsters have faced justice.

Beyond hiding behind Hong Kong's own police, Beijing has progressively asserted "one country" over "two systems". On 4 October, Carrie Lam invoked emergency powers to prohibit protesters from wearing masks, paint or any other face covering. A local court ruled on 18 November that the mask ban was unconstitutional.⁸¹ The NPC Standing Committee quickly

⁷⁵ Hong Kong Connection, "721 Yuen Long Nightmare", Radio Television Hong Kong, 4 October 2019; B. Marcolini et al., "Please Stop Beating Us: Where Were Hong Kong's Police?", *New York Times*, 29 July 2019.

⁷⁶ Lok-kei Sum, "Hong Kong police chief tangles with opposition councilors for second time in week over force's handling of protests", *South China Morning Post*, 22 January 2020.

⁷⁷ C. Leung and V. Ting, "Police anger after Hong Kong No 2 Matthew Cheung says sorry for Yuen Long attack response", *South China Morning Post*, 26 July 2019.

⁷⁸ S. George et al., "Riot police clash with protesters as Hong Kong march descends into violence", *CNN*, 28 July, 2019.

⁷⁹ L. Kuo, "'No difference': Hong Kong police likened to thugs after Yuen Long violence", *The Guardian*, 28 Jul. 2019.

⁸⁰ L. Kuo and E. Hale, "Hong Kong protests: riot police storm metro station with batons", *The Guardian*, 1 September 2019.

⁸¹ M.C. Davis, "In Hong Kong, Beijing's tough talk could spark a constitutional

declared that “no other authority [except itself] has the right to make judgments and decisions” regarding the consistency of Hong Kong’s laws with the Basic Law.⁸² This is the latest assault on the independence of Hong Kong courts.

On 1 November, 2019, the Fourth Plenum of the 19th Central Committee of the Communist Party formally announced that it would “exercise governance” in Hong Kong.⁸³ It also called for national security legislation, patriotic education and other measures to end the turmoil. The decision may not introduce a new policy, but it formalizes the ultimate absorption of the “two systems” by the “one country”.

In early 2020, Beijing appointed senior-ranked leaders, Xia Baolong and Luo Huining, to head HKMAO in Beijing and Liaison Office in Hong Kong, respectively. Xia, who served as the vice-chairman of China’s top political advisory body, the Chinese People’s Political Consultative Conference, is a close ally of Xi Jinping and has a track record of demolishing crosses and churches in Zhejiang. Luo Huining has reiterated the Plenum’s decision to introduce national security law.⁸⁴ These reshuffles signals even more airtight control over Hong Kong.

The Struggle Against Further Descent into “One Country, One System”

Hong Kong’s “one country, 1.5 systems” has gone far down the road toward Macau’s “one country, one system”. Beijing’s harsh crackdown on mass protests has sped up the process. Yet, the extradition bill, if passed, would have achieved the same result.

crisis”, *Washington Post*, 21 November, 2019.

⁸² T. Cheung, W. Zheng, and G. Cheung, “‘No other authority has right to make judgments’: China slams Hong Kong court’s ruling on anti-mask law as unconstitutional”, *South China Morning Post*, 19 November 2019.

⁸³ “Press conference of the Fourth Plenum of the 19th Central Committee of the Chinese Communist Party”, *Xinhua*, 1 November 2019.

⁸⁴ I. Marlow and C. Che, “China’s Top Official in Hong Kong Urges Enacting National Security Law”, *Bloomberg*, 20 January 2020.

The main difference is that Hong Kong would have fallen quietly in the alternative scenario. The fiery protests have made it impossible for the international community to pretend that "one country, two systems" is still alive and well.

Hong Kong's Chief Executive Carrie Lam asked in early December 2019: "which aspect of Hong Kong residents' freedom was eroded?". She added that "We have press freedom ... freedom to participate in rallies and marches ... religious freedom ... a high degree of freedom in many aspects".⁸⁵ Hong Kong commentator Michael Chugani counts the ways "how Hong Kong has lost its freedoms": police refusal to grant no-objection permits to protests, thus rendering them "unlawful assemblies" subject to arrests; police order to end an approved protest mid-way and arrest of the organizer; police targeting of journalists who cover protests; police banning of political items at the lunar new year fair at Victoria Park; government denial of entry to foreign democracy advocates.⁸⁶ In addition, the police have harassed and arrested young students who formed peaceful human chains, taken down "Lennon Walls" of artwork and post-it messages, and destroyed makeshift memorials for those who died in suspicious circumstances.⁸⁷ Beijing has coerced private companies such as Cathay Pacific to fire employees who participated in general strikes and posted pro-democracy messages on social media. Most of all, police and thugs have undermined the most foundational of all freedoms – the freedom from fear of physical attacks.

The omni-present protest slogan, "Reclaim Hong Kong, Revolution of Our Times", may seem like a declaration of independence to Beijing, but means a yearning for the Hong

⁸⁵ K. Cheng, "Hong Kong's freedom has not been eroded, says leader Carrie Lam says after US passes law in support of protesters", *HKFP - Hong Kong Free Press*, 3 December 2019.

⁸⁶ M. Chugani, "How has Hong Kong lost its freedoms? Let me count the ways", *South China Morning Post*, 23 January 2020.

⁸⁷ R. Wong, "In Pictures: Officers 'moved some objects,' say police after force accused of destroying tributes to dead student", *HKFP - Hong Kong Free Press*, 3 March 2020.

Kong system of rule of law, impartial police force, independent judiciary, and unfettered free press.

The protests have quieted down in early 2020. Core protesters have suffered high attrition with over 7000 arrests and thousands of injuries. Supporters have turned to other, hopefully more sustainable actions than confronting riot police. A pro-democracy “yellow economic circle” is created to connect like-minded businesses and customers, and employers and employees, and, at the same time, to boycott pro-regime “blue businesses”.⁸⁸ Various professions have formed new unions, so as to launch more effective strikes. The local elections held on 24 November allowed pro-democracy candidates who campaigned on the five protest demands to capture 391 out of 452 seats and dominate 17 of 18 District Councils.⁸⁹ Newly elected councillors have tried to hold the government and the police more accountable despite obstructions from loyalist police officers and civil servants. At the same time, they are strategising how to win in both functional constituencies as well as geographical constituencies in the upcoming Legislative Council in September 2020. It will continue to be an uphill struggle. Luo Huining already declared that the opposition would never be allowed to take over half of the seats to “seize governance power”.⁹⁰ Luo has also ridiculed medical workers’ strike to demand border closure as a “political form of coronavirus”.⁹¹ Although the Basic Law guarantees the right to strike, Beijing officials have condemned strikes as “radical violations of public order and laws, challenging the bottom lines of ‘one country, two systems’ and national dignity”.⁹² If

⁸⁸ H. Beech, “Yellow or Blue? In Hong Kong, Businesses Choose Political Sides”, *New York Times*, 19 January 2020.

⁸⁹ B. Tai Yiu-ting, “This Was Hong Kong’s Most Important Election Ever”, *New York Times*, 25 November 2019.

⁹⁰ “Luo Huining met social groups, claimed that the opposition could not seize governance power”, *Now TV*, 21 February 2020.

⁹¹ “HK troublemakers are a political virus: Luo Huining”, *Radio Television Hong Kong*, 20 February 2020.

⁹² SCMP Reporters, “Hong Kong’s government and police ‘completely capable’

the authorities block peaceful, legal channels with harsher repression, Hong Kong will only become more ungovernable.

Conclusion

Beijing wants Hong Kong to become a "good boy" like Macau, but Hong Kong has chosen the Taiwan model. Taiwan has helped to magnify Beijing's broken promises by campaigning on "today's Hong Kong, tomorrow's Taiwan". As Hongkongers celebrated Taiwan's President Tsai Ing-Wen's victory in January 2020, they expressed hope for a better future by flipping the slogan to "today's Taiwan, tomorrow's Hong Kong". In rejecting "one country, two systems", Taiwan is also forcing Beijing to recalculate if it really wants to "kill" Hong Kong and then resort to war to unify Taiwan to Mainland China.

Hong Kong's battle with Beijing is less hopeless than it may seem because of its international status. Through the summer and fall of 2019, the US Congress tabled, debated, and passed the "Hong Kong Human Rights and Democracy Act" in the face of rising police brutality. The Act mandates annual certification of Hong Kong's autonomy if the city is to keep its separate customs status, which has allowed Chinese elites to access dual use technologies, raise funds, park clean and corrupt money.⁹³ Beijing should be mindful that, if it treats Hong Kong like Macau or even Zhejiang, the rest of the world would follow suit and rescind Hong Kong's unique customs status. Macau already suffers from a gradual convergence of its sovereign ratings with China's because of its "large and rising economic, financial, and socio-political linkages with Mainland China".⁹⁴

of protecting law and order, key Beijing official says, ruling out need for PLA to be mobilised", *South China Morning Post*, 6 August 2019.

⁹³ A. Binder, "Why China's wealthy elites have so much at stake in Hong Kong", *Washington Post*, 21 August, 2019.

⁹⁴ N. Moura, "Fitch Ratings adjusts Macau outlook from Stable to Negative", *Macau Business*, 16 December 2019.

5. Hong Kong: One Country, Two Systems, Three Challenges

Alicia García-Herrero, Gary Ng

As the confrontation between the United States and China escalates, it is almost impossible – and naïve – to think Hong Kong can hide from the crossfire. Although Hong Kong’s role as an intermediary between Chinese and Western capital has served different stakeholders well so far, the growing risk of a new cold war might change the balance of power. Since the Trump administration took office in early 2017, small flames have started to grow bigger and creep towards trade, technology and potentially finance in the near future. The calls to redefine the American political view of Hong Kong’s position are only growing louder. Although many of the latest developments are little more than gestures that will depend on subsequent implementation in practice, the signing into law of the “Hong Kong Human Rights and Democracy Act” in 2019 shows greater pursuit of geopolitical influence and regional competition between the two largest powers in the world.

The Covid-19 outbreak has only exacerbated an existing problem of strategic competition between the US and China, which may further escalate from a soft decoupling in the trade war to a hard decoupling in government driven and subsidised swift of factories. A change of trade pattern could weaken the intermediate role of Hong Kong. The faster developing deglobalisation means more localised production and stronger

emphasis on manufacturing in the future. Higher concern on regional security and tides of geopolitical risks mean the role of Hong Kong could be further undermined with fading mutual interest between world powers. The US government decision to exclude Hong Kong from the Pacific Light Cable Network (PLCN) in April 2020 is only one of the few surface signs of deeper cracks and shows Hong Kong may no longer be the first choice in many new aspects and mean opportunities to Asian peers, such as Singapore and Taiwan. For Hong Kong, the question is really where to stand in the world.

A Changing Geopolitical Environment

Based on the Sino-British Joint Declaration (JD) signed in 1984, the Basic Law and the US-Hong Kong Policy Act of 1992 are two key components for maintaining the current status. The Act states the US is obliged to maintain its bilateral ties with Hong Kong in fulfilment of the JD. Such international recognition is guaranteed by the perception of the West, especially by the US. The heated-up discussion and the new Act on Hong Kong's special status are now on Congress's radar, with cross party support from Democrats and Republicans.

Economically, Hong Kong clearly shares more direct mutual benefits with Mainland China than the US, but the ultimate cornerstone is the internationally recognised special status, which is also why Mainland Chinese firms are more active. Indeed, the special status granted by the US to Hong Kong after the handover of sovereignty is vital in past and future economic development.

Recent turmoil has prompted analysts to review Hong Kong's economic importance to China, with many concluding what was the once "Pearl of the Orient" is no longer important. The contribution of Hong Kong's Gross Domestic Product (GDP) to the rest of China has declined from 16% in 1997 to 3% in 2019. Statistics seem to provide a clear view of Hong Kong's waning relevance, but they fail to tell the full story. A narrow

comparison solely focusing on GDP masks Hong Kong's economic and financial relevance, not only to Mainland China, but also to the rest of the world. To gauge Hong Kong's real relevance, we need to move beyond GDP and consider other areas, especially the soft spots for China.

Closer Trade Relationship with China

From the construction of the Hong Kong-Zhuhai-Macau Bridge to the extension of high-speed rail, the one and only goal for recent infrastructure projects seems to be better connections with Mainland China. The two iconic links costs \$27 billion or 20% of the most recent fiscal reserves. Public expenditure on infrastructure on average accounted for 16% of total spending between 2009 and 2019, approximately 10% higher than the previous decade. This heavy spending echoes the government's drive to facilitate closer trade relationships and greater movement of people between Hong Kong and Mainland China. However, such spending was also to the detriment of much needed spending on healthcare and social welfare. As a result, Hong Kong's economy is now more dependent on Mainland China than ever.

For trade, the interdependence between Hong Kong and Mainland China is now higher than with the US. After China joined the World Trade Organization (WTO) in 2001, its share of trade in Hong Kong has increased from 40% to 51% in 2019. The surge is closely tied to the rapid growth of the Chinese economy and its increasing share of the global market, especially in manufactured goods. By contrast, the share of total trade between Hong Kong and the US has fallen from 14% to 8% in the same period.

Re-exportation of goods by Hong Kong clearly reflects the trade pattern between the US and China: the value of Chinese goods re-exported to the US through Hong Kong is four times greater than that of American goods re-exported to China. However, growth of re-exports of Chinese goods to the US

through Hong Kong has continued since the trade war began, but not the other way around. In other words, Hong Kong continues to serve as a springboard for Mainland China to export to the US.

Such dependency is also seen in the retail sector, which provides 15% of total employment. Since 2003, Hong Kong's retail sales have expanded by 2.5 times. The key reason is the launch of the Individual Visit Scheme¹ with Mainland China after the SARS crisis; this scheme boosted retail sales, although it divided opinion on the future social costs. As a result, Hong Kong's retail sales are now increasingly linked to visitor arrivals, especially Chinese tourists.

The number of Chinese tourists has grown from 8.5 million in 2003 to 43 million in 2019, meaning a percentage rise from 54% to 78%. This already heavy reliance has only grown over time, but it does vary among different tourism-related sectors. Retail sales have the highest dependency with 91% of external spending coming from Mainland China, while for restaurants and hotels, the figures are 67% and 52% respectively.

A Magnet for Investment

While it is easy to build more ports or bridges, it is difficult to replicate intangible advantages.

Building the globally relevant offshore centre that is Hong Kong has been based on the free movement of capital, while Mainland China still maintains a relatively closed capital account. This means Hong Kong can facilitate China's access to foreign capital.

Hong Kong has been an important hub for China to attract foreign direct investment (FDI) and invest abroad. In 2018, 50% of inward FDI and 54% of outward FDI for China was

¹ The Individual Visit Scheme was first introduced in four Guangdong cities on 28 July 2003 and allows residents from Mainland China to visit Hong Kong in their individual capacity. The Scheme is now expanded in 49 cities.

channelled through Hong Kong. This is partly a result of the introduction of the Closer Economic Partnership Arrangement (CEPA), which has given Hong Kong preferential tax treatment in trade and investment in Mainland China since 2003. This has attracted both foreign capital and Chinese firms to set up offshore branches and invest back in Mainland China. The share of Mainland China in the number of offices (including small local offices) has also increased from 9% in 2000 to 18% in 2017.

This high share is representative of Hong Kong's intermediary role between China and the West, which is due to the trust Chinese and foreign firms have in Hong Kong's institutional framework and funding pool for their investments. Specifically in terms of mergers and acquisitions, Hong Kong has played a key role as its unique status has facilitated overseas purchases for Chinese firms.

Irreplaceable Financial Firewall

Hong Kong's offshore financial sector has been extremely successful so far, at least when measured by the increase in size. The bank assets-to-GDP ratio expanded from 462% in 2002 to 846% in 2018. Since the introduction of the currency board in 1983, Hong Kong has managed to keep the currency pegged and stable amid the political risks that have arisen from time to time. As the Hong Kong dollar (HKD) is closely pegged to the United States dollar (USD), access to Hong Kong's banking system and currency essentially means access to hard currency.

Driven by a desire for access to USD, Hong Kong's financial system is now increasingly dominated by Mainland Chinese banks. At the same time, overseas bank assets held by Mainland Chinese banks are heavily concentrated in Hong Kong. This significant exposure means the destiny of Hong Kong as an offshore financial centre affects China even more than it affects the rest of the world. Mainland Chinese financial institutions have expanded 3.2 times since 2010, reaching \$1.2 trillion with

a much higher growth rate than the rest of the banking sector.

While Hong Kong's bank assets have grown very fast in aggregate terms, China's have outpaced all other countries, with their share of assets in Hong Kong's banking sector having increased from 22% in 2010 to 37% in 2018. This surge is in stark contrast to European banks, which have barely increased their exposure in Hong Kong, and to the much slower pace of Japanese and American players.

The role of Hong Kong in financing Mainland Chinese firms is also indispensable. Between 1997 and 2018, 33% of equity financing took place in Hong Kong. Hong Kong has been a key funding venue as the onshore Chinese market sometimes faces restrictions as regulators try to curb stock price volatility. In fact, equity financing in China's onshore market continued to decline from its peak in 2015 and fell behind Hong Kong in 2018.

Hong Kong is also by far the largest offshore centre for bond placement by Chinese companies. While offshore issuance is limited in size due to the rapid growth of the onshore bond market, contributing 9% of total issuance between 1997 and 2018, offshore bond financing is very hard to replace. The share of offshore bond issuance increased in 2014 and has remained high ever since.

Looking at the different industries, Chinese financial institutions and property developers are the most dependent on Hong Kong. While banks fundamentally need access to USD liquidity due to the higher share of overseas loans, real estate developers are more likely to be pushed by tight domestic financial conditions.

On policies, Hong Kong plays an important role for Mainland China in renminbi (RMB) internationalisation and further opening up through the Bond and Stock Connect schemes. For the former, Hong Kong is the home of 54% of offshore RMB bond issuances and more than half of RMB deposits offshore. In addition, Bond Connect has become increasingly important for foreigners to enter the onshore bond market.

Therefore, Hong Kong's role as China's financial arm for the rest of the world has helped Mainland China to keep its financial sector insulated without suffering the negative consequences of such isolation, i.e. limited access to finance or difficult access to assets in the rest of the world. In essence, Hong Kong has long been China's financial firewall.

Radar On

While the mutual economic benefits between Hong Kong and Mainland China seems to be crystal clear, costs may slowly outweigh gains for the US. When the Trump administration announced the first batch of tariffs in March 2018, Hong Kong was rarely included in steel and aluminium tariffs, of which there was hardly any local production. In addition, Hong Kong is now included in the strategy of "Congressional Action To Raise Our Competitive Game" in the recent annual report published by the US Congressional-Executive Commission on China (CECC). Although the CECC has no direct influence on government policies, the stronger language reflects the increasingly tough stance on China.

The US-China trade war and the increasing gains made by Mainland China raise several questions about Hong Kong's special status. While the risk of an immediate revocation of the Act remains low, the US could use Hong Kong as a bargaining chip in ongoing negotiations and competitions with China. Aside from the most drastic measure (revoking the Act, which could harm US interests too), the US could exert stricter export controls on sensitive technology, as in the arrangement with Macau, and tighter checks on the rules of origin for goods imported from Hong Kong. Macau has a similar Policy Act arrangement with WTO membership and it is treated as an independent customs territory, but export control policy is applied by the US.

Focusing on product structure, electrical machinery and telecoms constitutes 65% and 14% of re-exports from Hong

Kong to Mainland China as of November 2018. Although the imbalance is partly a result of China's role in the global supply chain, it also shows the reliance of technology related imports from Hong Kong. As a separate customs territory, Hong Kong is subject to less export controls from the US than Mainland China is.

Depending on the region and the end-user, the US currently has a strict export control system for sales of advanced technologies with different tiers depending on how sensitive the product is. The licencing system is divided into military use and dual use (or civilian) technologies, of which the latter is governed by the Bureau of Industry and Security (BIS) and is the focus of our report. In 2017, \$42.1 billion (2.7% of total exports) was exported under government licences and 0.4% was exported under export licences. Although the share may look small, the advanced equipment could be vital in the production chain and technological advancement.

With an export control system in line with international standards, Hong Kong has been generally trusted by western countries in terms of compliance. Hong Kong imported \$174 million worth of products with export licences in 2017, despite its small economic size. The scale is 58% of what Mainland China imported from the US with export licences and contributes a greater share to imports from the US. When compared to its Asian peers, this is slightly less than South Korea and Taiwan but more than India. As its economic structure is heavily biased towards finance and trade, it is more likely that Hong Kong re-exports instead of using domestically. This means Hong Kong can buy advanced technological items, such as spacecraft and semiconductor related-equipment based on US regulations.

However, the approval rate of export licences in Hong Kong has so far been low at 75%, which is far less than 83% for Mainland China and the global average of 85%. While there is no official data to explain the low approval rate for Hong Kong, the US has the right to deny transactions involving prohibited parties, end-uses and circumstances, as well as for national

security reasons. The closer ties to Mainland China have led to increased concern in the US as to whether Hong Kong can maintain its export control due diligence, as mentioned in Congress reports. Such worries will only grow stronger given the broad tech containment of China by the US.

The report on intellectual property rights by the United States Trade Representative (USTR) has clearly shown the US is going to adopt a tougher stance on technological transfer. For Hong Kong, this latest development included discussions in early December 2018 between the US and the Hong Kong government on the proper implementation of sanctions and concerns about shell companies. That said, there is a greater likelihood of export controls for sensitive technology as well as policy changes on Hong Kong if the above concern is not fully addressed.

Although advanced technologies only account for a small share of Hong Kong's imports from the US, a sudden change in US policy or a "natural" sudden reduction in such imports could be a major negative signal for Hong Kong. Trade tensions will lead to increased scrutiny on Mainland China's sensitive imports from the US, which will increase Mainland China's dependency on Hong Kong for such imports. But the US can increase its scrutiny, as shown by the already low approval rate of export licences granted to Hong Kong. A similar story is happening for FDI where Hong Kong firms are treated as Mainland Chinese capitals (Australia as an example). This could also include a potential change in visa policies, preferential treatment in travel and study, and passing new acts on the relationship between the US and Hong Kong.

Conclusion: Three Challenges

Given current geopolitical tension, Hong Kong's role has become more important and increasingly challenging. The good news is there are not many places like Hong Kong. Free trade movement and international capital flows have provided

a key comparative advantage. A low and simple tax system has been a magnet for attracting businesses. However, in a world dominated by two contending powers, it seems clear Hong Kong will have a hard time having its cake (Mainland Chinese business) and eating it (keeping its special status with the US). Unfortunately, Hong Kong has limited choices and it will encounter greater global, regional and local challenges because of geopolitical risks.

From a global perspective, the dark clouds over of tension that loom over the US and China seem unlikely to disappear anytime soon. Hong Kong might be small economically, but it is definitely at the core of interests between the two powers, especially in trade, technology and finance. Its closer relationship with Mainland China means Hong Kong is likely to face restrictions if the US decides to take a stricter approach to containing China. Cases similar to the 2019 case of an Iranian oil tanker that might have tried to stop in Hong Kong will challenge this Asian financial hub's ability to make decisions in compliance with US sanctions, which can be even more damaging if extended to the banking sector since the HKD is closely pegged to the USD. Further integration of the Greater Bay Area (GBA) will only intensify such concern as the boundaries between Hong Kong and Mainland China continued to blur.

The relationship with Mainland China is all about the balance of economic benefits that Hong Kong can take in exchange for other goals beyond local demand. The proposed integrated GBA will pose a challenge for how Hong Kong can maintain its own system, especially since the conditions for the free movement of production factors in the GBA are different to those of the San Francisco Bay or Tokyo Bay areas. Integration without change is problematic, but any changes that influence how investors view the rule of law will lessen the key advantages of Hong Kong, the GBA and Mainland China.

In the medium term, the key stumbling block is the free flow of production factors in the GBA, in particular between Hong Kong and Guangdong. If the free movement of labour

and capital were achieved, the convergence of income per capita should benefit the poorer cities in Guangdong more. Hong Kong might also benefit, but less so in relative terms. Free movement of labour is a lesser problem than capital, which seems impossible as it either requires Guangdong to fully open its capital account or Hong Kong to close it, at least partially. The former seems unlikely in Mainland China today and the latter seems risky for Hong Kong and the GBA as it would make it less attractive to overseas investors and reduce Hong Kong's role as an intermediary for capital.

Last but not least, the deadlock in political reform and social unrest would continue to pressure Hong Kong, especially as these are basically structural issues the governments have long neglected. Aging demographics, healthcare and housing have been untouched problems. In the past 20 years, the share of spending on social welfare and healthcare has remained practically unchanged despite a rapidly ageing population. The working population has already started decreasing, with a greater share of elderly. Land supply has also been a persisting issue fuelling rocketing home prices that are less and less affordable. Solving long neglected problems and catching up on "missing" social investment from the past is key to restoring business and consumer confidence. However, it is also clear why some of these key problems were ignored in the past.

All in all, Hong Kong's special status with the West could weaken or disappear over time if the current trend continues. The Covid-19 outbreak has further raised the stakes for the US or China to change the current global regime, which mean almost certain crossfire on Hong Kong. The questions are only on the timing and the magnitude. In the most extreme scenario, a change in recognition by the US could trigger a butterfly effect in Hong Kong's international status, should the US come to believe the current ties with Hong Kong are no longer beneficial. Such a butterfly effect in Hong Kong's global status may be behind the negative investment sentiment that has accompanied Hong Kong of late and is likely to continue.

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6. Is the Greater Bay Area China's Future?

Dingding Chen, Junmin Wang

In recent decades, in addition to launching the famous Belt and Road Initiative (BRI), China has attempted to reshape the Pearl River Delta, which includes Hong Kong, Macao, and nine cities in Guangdong province. The goal is to create a single economic entity called the Greater Bay Area (GBA). According to the “Development Outline”¹ published by China’s State Council on 18 February 2019, the GBA will represent China in industrial competitions worldwide and provide opportunities for internal economic transformation. In terms of socio-economic factors such as population size, economic power, the number of “Fortune 500” companies present and technological innovation, the GBA has everything necessary to compete with the world’s top metropolitan industrial areas, including San Francisco, Tokyo and New York, though it still lags behind in terms of per capita economic indicators.

Challenges such as intra-regional competition and the differences in Hong Kong’s and Macao’s administrative and value systems *via-à-vis* Mainland China may nevertheless prove fatal to the success of the GBA if forward-looking policies are not implemented in the short run.

¹ Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area

Introducing the GBA

The Greater Bay Area includes Hong Kong and Macao, China's only Special Administrative Regions (SARs), along with nine cities in Guangdong province: Shenzhen, Huizhou, Dongguan, Guangzhou, Zhaoqing, Foshan, Zhongshan, Jiangmen, and Zhuhai (see Fig. 6.1). The GBA occupies 56,000 square kilometres, is home to a population of over 70 million people, and generates a Gross Domestic Product (GDP) of over 10 trillion yuan.² Though covering only 0.6% of Chinese territory, this one area produces 13% of the country's GDP.³ In terms of talent concentration, innovation, and capital, the GBA is leading the process of technological innovation and industrial modernisation.⁴ Before the concept of the GBA was officially adopted on 1 July 2017, an economic zone had already existed in the area for at least 40 years under another name: the "Pearl River Delta". Together with the "Beijing-Tianjin Metropolitan Area" and the Shanghai-centred "Yangtze River Delta", the GBA acts as an "economic engine"; the GBA for the south of China while the other two areas serve the north and the east respectively. The economic vitality of the Pearl River Delta made Guangdong province an economic powerhouse for 29 consecutive years. In 2019, the area's GDP reached a staggering \$1.56 trillion,⁵ establishing it in 13th place among the world's economies. In comparison, Guangdong's 2019 GDP (\$1.52 trillion)⁶ is higher than Spain's (\$1.43 trillion) and Australia's (\$1.42 trillion) in 2018 and similar to South Korea's (\$1.61 trillion) and Russia's (\$1.66 trillion) in 2018.⁷

² *Overview*, Greater Bay Area.

³ Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the GBA.

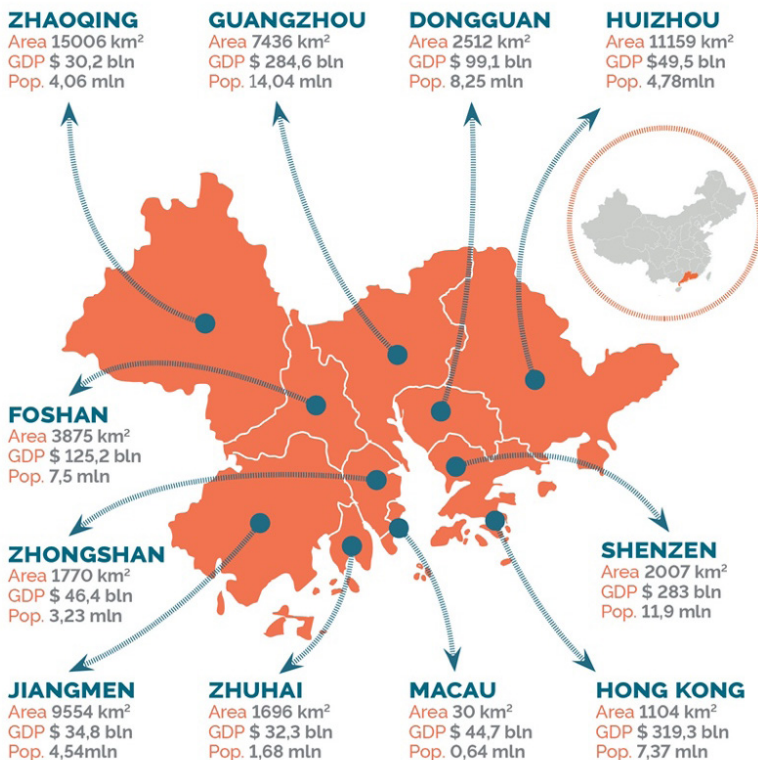
⁴ *Ibid.*

⁵ Stats from the Census and Statistics department of Hong Kong SAR, Governo da Região Administrativa Especial de Macau and Stats Department of Guangdong Province.

⁶ http://stats.gd.gov.cn/gmjjzyzb/content/post_2884502.html

⁷ Gross Domestic Product, <https://databank.worldbank.org/data/download/GDP.pdf>

FIG. 6.1 - MAP OF THE GREATER BAY AREA



Source: www.bayarea.gov.hk

The “Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Greater Bay Area” modernised the Pearl River Delta and marked the formal accession of Hong Kong and Macao to the project. Hong Kong’s financial and shipping sectors and Macao’s entertainment industry (which rivals that of Las Vegas) have given the area an international aura. The GBA therefore has enough strength to compete with the other world-class metropolitan areas (see Tab. 6.1).

TAB. 6.1 - COMPARING THE WORLD'S BIGGEST METROPOLITAN AREAS

	SAN FRANCISCO	NEW YORK	TOKYO	GREATER BAY AREA
Population (10 000)	777	2032	4396	6958
Area (10 000 km ²)	1.80	2.15	1.36	5.59
GDP (US trillion \$)	0.83	1.72	1.86	1.51
GDP per capita (US 10 000 \$)	10.78	8.46	4.23	2.17
N° of Fortune 500 companies	11	22	39	20
N° of top universities	3	2	2	4
Airport traffic (100 million passengers)	0.76	1.03	1.24	2.01

Source: www.statista.com, the Greater Bay Area Council, China Council for the Promotion of International Trade, Fortune China

Note: Data for the Tokyo Bay Area refer to 2016, while data for San Francisco, New York and the GBA refer to 2017

Table 6.1 shows the extent to which the GBA is already a leading player in terms of population and economy, indicators that give it an asymmetric advantage compared to the other metropolitan areas. While low GDP per capita appears to be the GBA's weakness (the area still lacks economic efficiency), it also suggests that the area has enormous potential for growth.

Why is the GBA an Opportunity for Mainland China?

The real advantage of the GBA is not its size or scale. While New York's strong suit is finance (fourteen of the twenty-two Fortune 500 companies in New York are financial and insurance companies⁸), San Francisco is known as a technology hub thanks to its famous "Silicon Valley"⁹ and the profits of its tech companies. Tokyo is rather different as it mainly consists of manufacturing industries (e.g., steel, chemicals, semiconductors, automotive, and electronics). Unlike its competitors, the GBA has achieved a rare balance in industrial development. Twenty Fortune 500 companies are located there¹⁰ but these cover almost all major industrial sectors, including the automotive, home appliance, real estate, internet, and finance sectors. This industrial diversification allows the GBA to compete globally and at the highest level in multiple sectors.

On the east bank of the Pearl River Delta we find Hong Kong. The island's financial status is on a par with that of New York or London, while its ports and shipping industry rival Singapore. At the same time, in Guangdong province, Shenzhen's tech and internet companies, including the likes of Tencent, DJI, Huawei, and ZTE, represent increasingly fierce competition for Silicon Valley. In particular, Huawei's leadership in commercialising 5G communication technologies has caused alarm in the United States and allied nations,¹¹ since 5G is widely predicted to be the trigger for the next wave of technological innovation and for a new economic boom. Just a

⁸ *Fortune 500*, <https://fortune.com/fortune500/2019/search/?hqcity=New%20York>

⁹ The Silicon Valley, located in the south side of the San Francisco Bay, is the world-renowned technology and innovation center of the United States.

¹⁰ 7 in Hong Kong, 7 in Shenzhen, 3 in Guangzhou, 2 in Foshan and 1 in Zhuhai, data from *Fortune 500* official website.

¹¹ "U.S. Urges Allies to Avoid Using Huawei Equipment, WSJ Says", *Bloomberg News*, 23 November 2019.

few years ago, Chinese and American supremacy in 4G directly contributed to the rise of the two countries' mobile Internet economies and spawned many new industrial developments, like mobile payment, the sharing economy and the knowledge economy. Lastly, Dongguan, an industrial city of eight million people in the north of Shenzhen,¹² is known as the "world's factory". Though not home to any major national brands, it is a manufacturing hub for leading brands from all over the world.

On the west bank of the Pearl River Delta lies Guangzhou, a 2200-year-old city now transformed into a metropolis with a population of 16 million.¹³ Guangzhou has long been known for its "Canton Fair", which every year attracts buyers from all over the world. Today, it is highly competitive in biomedicine, internet technology and the automotive industry, with Honda, Toyota, Nissan, Fiat and other car makers all owning huge factories there. The autonomous driving start-up, Pony.ai, has just received an investment of \$462 million from Toyota, boosting its value to \$3 billion and making it one of the top artificial intelligence companies in the world.¹⁴ Foshan and Zhuhai, also on the west bank, are home to two of the world's top 500 manufacturers of home appliances, Midea and Gree. As these two companies have become more competitive, their peers in Tokyo have been forced to move further up the industry. Lastly, the area is also home to the world's largest wholesale cloth market, furniture factory, and production site for architectural ceramics. In parallel, Macao offers the best tourism and gambling services in the eastern hemisphere, capable not only of satisfying local demand but of attracting capital from all over East Asia.

In brief, the GBA is the only economic zone in the world with a diversified supply chain. Manufacturers of products as different as automobiles and mobile phones can find numerous suppliers within the region. This is the biggest competitive

¹² <http://stats.gd.gov.cn/>

¹³ Ibid.

¹⁴ <https://www.pony.ai/zh/>

advantage of the GBA compared to the other three world-class metropolitan areas.

Such an industrial structure fosters deep and frequent integration within the GBA and this leads to the development of new technologies and products. Such exchanges in turn allow the GBA to lead emerging industries like artificial intelligence, intelligent manufacturing, and the Internet of things. For example, Pony.ai and WeRide independently mastered the fourth level of vehicle autonomy,¹⁵ competing with their American counterparts Google and Tesla. In addition, BYD, a Shenzhen-based carmaker, has become one of the world's largest manufacturers of electric cars and batteries, just behind Tesla.¹⁶ Lastly, WeChat, a network application enterprise based in Guangzhou, has one of the world's largest user bases (around 1.16 billion per month),¹⁷ second only to Facebook and WhatsApp. Thanks to this vast user base, WeChat is assisting the GBA in the process of digitalising various government services, public transport interfaces, medical care and education systems.

Thanks to the area's dynamic approach to technological innovation, similar to that of Silicon Valley, China's central government sees the GBA as a leading force in the country's industrial modernisation.

Which Challenges Does the GBA Face?

Despite its many positive qualities, the GBA also faces a number of challenges.

Firstly, while the GBA is extremely competitive in many sectors, it still lacks certain core technologies in the field of

¹⁵ <https://pony.ai/zh/tech.html>

¹⁶ I. Wagner, "Electric Mobility - Statistics & Facts", *Statista*, 3 March 2020.

¹⁷ TENCENT, Tencent Holdings Limited, <https://cdc.tencent.com-1258344706.image.myqcloud.com/uploads/2020/03/18/260f6aa7d4b04c146e6001549fd23dbc.pdf>

semiconductors and chips. US sanctions on ZTE in 2018 almost drove the company to the brink of collapse and exposed China's weakness in these areas. If Chinese companies fail to break through in this field, the domestic tech-manufacturing industry risks complete dependence on foreign imports. Recently, 5G chips designed by HiSilicon (a fabless semiconductor company owned by Huawei) have been installed in many electronic products.¹⁸ HiSilicon is growing at an annual rate of +40% and is rapidly becoming the world's fifth-largest IC design supplier.¹⁹ In the field of chip manufacturing, Guangzhou has also broken ground on two semiconductor fabrication plants.²⁰ Although such efforts in chip design and manufacturing may not turn the GBA into a world-class producer, they are at least a good plan B and an effective bargaining chip in talks on sanctions.

Secondly, the GBA is struggling with regional administrative barriers. Within the area, cities compete with each other for resources and economic advantages. This trend is worrisome, as it risks leading to an inefficient allocation of resources. In the early 2000s, in an effort to connect the Pearl River Delta, Hong Kong, Shenzhen, and the west bank of Macao, the region spent \$20 billion²¹. The Hong Kong-Zhuhai-Macao Bridge, connecting Hong Kong and Macao to the city of Zhuhai in Guangdong took ten years to build but left out Shenzhen, a densely populated city in Guangdong that is economically more competitive than Zhuhai. In the absence of Shenzhen's traffic, the Hong Kong-Zhuhai-Macao Bridge has only been used as a sightseeing route, and has not yet served its intended purpose as an "economic bridge". As a result, the authorities are now forced to build a separate bridge linking Shenzhen to the west bank. Due to Guangzhou's busy ports and shipping routes, though, this project risks endless delays. There is good

¹⁸ Hisilicon, <http://www.hisilicon.com/en/Technology-Research/Semiconductor#Process>

¹⁹ ICI Insight, <https://www.icinsights.com/services/mcclean-report/>

²⁰ CanSemi, http://www.cansemitech.com/?page_id=394&lang=en

²¹ https://www.hzmb.org/Home/Enter/Enter/cate_id/19

reason to fear that internal competition within the GBA may never cease.

Thirdly, the GBA faces challenges in the form of Hong Kong's and Macao's different administrative and value systems *vis-à-vis* Mainland China. The two SARs have completely different administrative systems, and Western-oriented values. However, the agreement on Hong Kong negotiated between Mainland China and the United Kingdom in 1997,²² and that which China concluded with Portugal on Macao stipulate that these differences will be resolved in fifty years. Finding a creative solution that integrates the two cities into the regional development plan therefore needs to be a top priority for decision-makers. Although the GBA aims to attenuate the differences between the parties, recent protests in Hong Kong clearly show that the most "international" and "Western-oriented" segments of the island's population are having a hard time accepting full integration with Mainland China. While no quick fix is likely, a solution might be found in the long run if Hong Kong's economic dependence upon the mainland encourages ideological acceptance.

Just as China hopes to gain advantages and influence in international trade through the BRI, which channels attempts to export excess capacity to Eurasia and the Indian Ocean rim, internationalise the RMB and expand its international reach, the GBA improves China's chances to play a greater role in global value chains. China's ability to overcome the many challenges that surround the GBA will be key to turning such "hopes" into reality.

Conclusion

China's Greater Bay Area is a development strategy at national level. The development plan concerns some 70 million people in nine cities of Guangdong province, Hong Kong and Macao

²² <https://wenku.baidu.com/view/afe8998503020740be1e650e52ea551811a6c91e.html>

and affects an area that accounts for one tenth of the Chinese economy. The GBA is key to the country's new round of reforms and opening up and involves tens of thousands of enterprises in various industries and fields. The Greater Bay Area development plan outlines five strategic spheres of action: the construction of a dynamic, world-class city cluster; an international science and technology innovation centre with global influence; strategic support for the construction of the Belt and Road; the demonstration of in-depth cooperation between the mainland, Hong Kong and Macao; and the creation of an area with a good quality of life, work, and travel. The government evidently attaches great importance to the area's construction and development as it brings real opportunities for economic growth and regional integration.

The development of the Greater Bay Area will play on local advantages. Its industrial diversity will allow it to compete in multiple sectors on a world-class level. The GBA is the only economic zone in the world that can form a complete industrial chain within its own region. With better connections in manufacturing, transport and travel, the area's potential can be realised in full. Nevertheless, there are challenges ahead. Regardless of advanced and comprehensive industrial sectors, the GBA lacks core technologies, specifically in the field of semiconductors. Regional administrative barriers and huge differences in values between the mainland and Hong Kong and Macao also threaten future development.

Considering the impact of the coronavirus pandemic on the global economy and the recent unrest in Hong Kong, it is becoming increasingly urgent to identify the right approach to promoting the construction of the Greater Bay Area.

7. Hong Kong in China's Current "Opening-Up" Strategy

Alessia Amighini

While the decisive role of Hong Kong in China's growth experience so far is unanimously acknowledged,¹ there is much less agreement on the position and function of Hong Kong in China's current growth strategy as well as its future place in China's opening up-trajectory. A lively scholarly debate has been going on for a few years about whether or not China still needs Hong Kong, and why, with widely diverging positions. That debate has been partly inspired by the series of political contestation movements in Hong Kong since 2014, whose origin and interpretation are closely related to the evolving relationship between mainland China and the Special Administrative Region (SAR) of Hong Kong, a status which it has now had for more than two decades. A further motivation for the debate, perhaps not coincidentally around the same years, is the renewed vigour of China's opening-up policies through international trade and foreign direct investments, much as in the past, but now wisely arranged under the Belt and Road Initiative (BRI).

¹ See among others S. Yun-Wing and E. Song, *The China-Hong Kong Connection: The Key to China's Open-Door Policy*, Cambridge University Press 1991; and J.Y.S. Cheng, *The Hong Kong Special Administrative Region in Its First Decade*, City University of Hong Kong Press, 2007.

After briefly summarising² the channels – finance, trade, rule of law – through which China's economic growth strategy has continued to pivot around Hong Kong, this chapter will try to disentangle the bewildering divergence of views on the relative importance of Hong Kong for mainland China today; in a sense they focus on different aspects of the changing role of Hong Kong, which is still essential to the very peculiar opening-up strategy that China has been following so far, but not to the extent that it used to. The chapter will then argue that Hong Kong is and will still be very relevant in China's future "opening-up", but it will lose its unique position, as Beijing has been diluting the functions of Hong Kong as a financial hub to a number of other locations outside of China through the so-called financial pillar of the BRI, while at the same time embedding the benefits of its trade and legal status into mainland China through the Greater Bay Area.

Hong Kong as a "Financial Firewall"³ for Mainland China

In the extensive economic literature on how China has integrated into the world economy by extending its participation into global networks of trade, finance and investment over the last four decades, Hong Kong is acknowledged as not just an important part, but the most essential part. This does not imply that Hong Kong was solely responsible for all the unprecedented economic achievements by the People's Republic of China, but it did shape the way these achievements were accomplished.

² Only as much as it is needed to support the flow of the discussion that follows, while referring to Chapter 6 by Alicia Garcia-Herrero and Gary Ng in this volume for a more in-depth assessment, although their focus is on the current challenges to Hong Kong from the policy development in mainland China, whereas this chapter focuses on the challenges for mainland China due to the unique special economic status of Hong Kong.

³ Chapter 6 in this volume.

First and foremost, Hong Kong has been essential for foreign direct investment inflows and outflows, which has proven a very powerful engine behind China's growth, due to the massive learning and technological spillovers onto domestic firms. Hong Kong continues to be a pivot for China's foreign direct investments (FDI), both inward and outward. Although the share of inward FDI going to mainland China through Hong Kong has been declining over time, due to the lower barriers for firms investing directly in China, outward FDI from China still benefit from the efficient regulatory environment and professional services in Hong Kong. According to the Ministry of Commerce of China (MOFCOM),⁴ over 58% (around \$70 billion) of China's outward FDI flows went to Hong Kong in 2018. As a result, by the end of 2018, the stock of China's FDI in Hong Kong reached \$622 billion.

As for international trade, after four decades of selected opening-up policies, China became the world's largest trading economy (for merchandise) in 2013 – just 12 years after acceding to the World Trade Organization (WTO). Due to the special customs administration in Hong Kong, entrepôt or warehouse trade through the SAR has progressively diminished since China joined WTO in 2001, but not so for the role of Hong Kong as a facilitator of trade links between China and the rest of the world. This has been achieved through a model of development that has promoted low-price exports so as to earn enough foreign currency – United States dollar (USD) – to pay for imported technology and industrial machinery and input, which China once lacked the productive skills and capabilities to produce by itself. The key to a massive increase in exports was the possibility to manage the exchange rate so as to prevent it from appreciating. With increasing worldwide demand for Chinese goods, appreciation would have been the expected fate for the renminbi, and this would have gradually eroded

⁴ Ministry of Commerce of the People's Republic of China, 28 February 2019, <http://www.mofcom.gov.cn/article/tongjiziliao/sjtj/ndyuxgm/201903/20190302844193.shtml>

Chinese price competitiveness. The importance of managing the exchange rate was thus essential for China to become a great trading nation.

In economic history all great trading nations had international currencies: within the British Empire, the pound sterling was used in all international transactions and to settle international trade. The pound remained the world's main trading and reserve currency as long as the British economy remained at the centre of the world economy, both for production and finance. When Britain was overtaken by the United States in economic size, industrial capacity and trading power, the pound downgraded from international to national status, while the USD became the leading international currency, both for trade and for reserves. As Paola Subacchi states (2017),

the intertwined development of Britain and its pound, and then of the United States and its dollar, emphasises the anomaly of China's development ... China is now the world's largest trading nation and a powerful country in geopolitical terms ... but ... it does not have a currency that reflects and complements its rise to the status of international power.⁵

The renminbi is still not convertible, still not traded internationally, nor it is used as a reserve currency, although in December 2015 it was included in the basket of currencies that compose the Special Drawing Rights (SDR)⁶ at the IMF. All international transactions with China as a partner have for a very long time been and still mostly are being held in USDs.

China's opportunity become a great trading nation without an international currency has largely relied on the role of Hong Kong as an offshore centre, both for trade settlement and for international renminbi circulation. To understand this, one

⁵ P. Subacchi, *The People's Money*, Columbia University Press, 2017, p. 71.

⁶ The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. The value of the SDR is based on a basket of five currencies – the USD, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.

has to consider that a huge trade surplus in USDs would have implied massive costs for China. Rapid accumulation of USDs from export earnings, while keeping the exchange rate under managed floating, required vast sterilisation from the People's Bank of China (PBOC), China's central bank – i.e. the PBOC had to buy enormous amounts of dollars in exchange for renminbi and then had to issue renminbi-denominated bonds to avoid an excessive increase in the money supply at home.

In order to reduce the great macroeconomic costs of being a large trading nation without an international currency, China adopted ways to reduce its reliance on the USD as a trading currency on the one hand, while ensuring the cross-border circulation of the renminbi on the other. However, the monetary authorities in the Mainland still wanted to avoid the risk of financial instability associated with a traditional currency liberalisation. Nor did they want to let the renminbi exchange rate float on the currency markets. To achieve this, two schemes were designed, the renminbi cross-border trade settlement scheme to increase the use of the renminbi as a trading currency and the renminbi offshore market with the aim to increase the cross-border use of the renminbi. The former is a mechanism to use the renminbi to pay for imports through an authorised bank in Hong Kong. The scheme was launched in 2009 to improve trading conditions by providing liquidity in renminbi, at a time when the financial crisis had reduced liquidity for trade transactions; it was primarily and initially intended to settle trade contracts with neighbouring countries. The second scheme is a market for the renminbi and renminbi-denominated assets outside of mainland China, started in 2007, so as to provide Chinese firms investing abroad with the possibility to raise funds on the capital markets, while making it possible for non-Chinese firms to hold assets in renminbi. The renminbi circulating offshore (CNH) was convertible to foreign currencies, unlike the onshore renminbi (CNY).

Hong Kong was crucial to both schemes. Hong Kong's unique status has served as a buffer between the Chinese and international markets in the so-called two-tier or two-track strategy for increasing the international circulation of the renminbi, without liberalising the capital account by making the renminbi convertible. So, while it is true that the PRC became the world's largest trading nation and the second largest economy by Gross Domestic Product (GDP), while Hong Kong today accounts for 2,7% of China's economic size compared to 18,4% back in 1997,⁷ it is equally true that mainland China managed to handle such a huge amount of trade transactions without a convertible currency thanks to the above-mentioned schemes, both of which centred on Hong Kong. The offshore renminbi market allowed China's state-owned enterprises to list shares and raise funds in Hong Kong, the most developed offshore market for renminbi-denominated bonds, the so-called Dim Sum market (to distinguish it from the onshore bond market, the so-called Panda market). The offshore market allowed mainland China to interact with international markets while protecting the domestic market from the potential instability of a liberalised capital account. Hong Kong still serves as the main offshore renminbi business, with still the largest offshore liquidity pool outside the Mainland.

This approach allowed China to interact with international currency and financial markets through a kind of "financial firewall". As a result, China's share of global debt and equity markets increased sharply. At the end of 2018, China's bond market accounted for 12.6% of the world total, compared to 1.2% in 2004. Comparatively, in 2018 the United States, the European Union and Japan accounted respectively for 40.2%, 20.9%, and 12.2%, all below their totals in 2004, when they accounted respectively for 42.2%, 26.5% and 18.7%.

⁷ N. Sin, "Explainer: How important is Hong Kong to the rest of China?", *Reuters*, 5 September 2019.

As true as it is that Hong Kong acted as a buffer between China and international markets, its unique position has been facing increasing competition from other offshore renminbi markets, and therefore is being diluted compared to the past, which explains why the current views about whether China still needs Hong Kong range very widely.

Re-Addressing the Debate: How Much Does China Still Need Hong Kong?

Understanding the essential role of Hong Kong in China's past growth and the specific channels and mechanisms through which the Mainland benefited from such a special offshore financial centre makes it possible to re-frame the recent debate on Hong Kong's continued importance. The opposite ends of the spectrum are nicely summarised and epitomised by two op-eds. According to Eswar Prasad,⁸ one of the firmest advocates of the decline of Hong Kong's special economic and financial status, China's economy and financial markets have expanded so rapidly that the relative size of Hong Kong is much smaller compared to the past in relative terms (the value of new public listings in Hong Kong was higher than any other exchange worldwide in 2018). But Prasad goes further than those who believe Hong Kong's importance has diminished with its relative size. He emphasises two developments. One is the changing willingness of foreign firms and investors to deal with the Mainland, regardless of "deficiencies in its corporate and public governance",⁹ with the aim to benefit from its increasing market potential. The second development is an attempt by Beijing to promote Shanghai as an international financial centre, so as to create a rivalry between the two centres. With Shanghai allowed to trade in renminbi and renminbi-denominated

⁸ E. Prasad, "Why China no longer needs Hong Kong", *New York Times*, 3 July 2019.

⁹ *Ibid.*

assets with offshore centres, the once unique status of Hong Kong will be lost. Hence the conclusion that China no longer needs Hong Kong the way it once did. Moreover, anticipating the end of the special status in 2047, the central government would "envision an entirely different purpose for Hong Kong ... to showcase the efficacy of China's version of the rule of law, in which the legal system serves the economy by enforcing property and contractual rights but is ultimately subservient to the Communist Party".¹⁰

While many other advocates of the Hong Kong-no-longer-special-to-China view fall in the absolute size fallacy, Prasad emphasises the function of Hong Kong to China, which has little to do with its economic size in terms of GDP, but much more with the amount of international trade and financial flows between China and the rest of the world travelling through Hong Kong. In terms of those flows, China still very much relies on Hong Kong as a financial centre, but is trying to reduce its financial dependence on it by creating more offshore financial centres to handle renminbi liquidity overseas. Those other centres are *de facto* competing with Hong Kong, thereby threatening the unique status it has had so far. However, no other centre in mainland China has the status to compete with Hong Kong, not even Shanghai nor Shenzhen. Although they might leverage their economic size and financial linkages to attract economic activities and listed firms, they do not have the essential elements that make Hong Kong unique, i.e. a wide-ranging set of characteristics – encompassing financial power and financial infrastructure, rule of law, efficient bureaucracy and regulatory framework, trade and logistics capacity. Shanghai or Shenzhen simply do not have this.

So, the Hong Kong-no-longer-special-to-China advocates tend to overemphasise the capacity of other offshore centre to replace Hong Kong and eventually push it out of its monopolistic position, which is still very far from reality.

¹⁰ Ibid.

On the other side of the debate, the advocates of the Hong Kong-still-special-to-China view realise the uniqueness of such a comprehensive offshore centre, which has no single counterpart in mainland China. In their view, Beijing will want to insulate itself from the potential vagaries of international financial markets, and will be reluctant to allow outflows of capital from the country in search for a better return on investment (both of them very distant on the horizon). This view is effectively presented by Tianlei Huang,¹¹ who elaborates on the function of Hong Kong as a market capitalist centre that allows the Mainland to leverage its rule of law, while keeping it silent at home: "The Chinese leadership realizes that for the sake of its own prosperity, China still needs a capitalist Hong Kong ... with a strong and unwavering commitment to its rule of law, the key to Hong Kong's economic success".¹²

One of the most important reasons why Hong Kong still maintains a crucial role for China is its system for registered International Public Offerings (IPO), compared to the more cumbersome and arbitrary approval system in mainland China. According to the China Securities Regulatory Commission (CSRC),¹³ "Shanghai has begun to test IPO registration, but it still remains unknown when all listings on the Shanghai and Shenzhen stock exchanges will become registration-based". A great many of China's state-owned enterprises (SOEs) rely on the Stock Exchange of Hong Kong (SEHK), where they are either directly headquartered or have one of their subsidiaries, which are listed on the SEHK. This system has been very important for Chinese SOEs to circumvent the approval system on the Mainland and even more to access a leading global stock exchange in the world's freest economy for 25 consecutive years since 1995, according to the World Economic Forum.

¹¹ T. Huang, *Why China still needs Hong Kong*, Petersen Institute for International Economics, 15 July 2019.

¹² *Ibid.*

¹³ As reported by T. Huang (2019) based on http://www.csrc.gov.cn/pub/zjhpublic/zjh/201903/t20190301_351633.htm, China Security Regulatory Commission, 1 March 2019.

The SEHK makes it possible for a vast number of Chinese companies (both incorporated in the Mainland and incorporated abroad but controlled by Chinese entities) to raise capital, including SOEs, which thereby bypass the widespread condition of financial repression in the Mainland. According to the HKEX Group data, more than 30% of SEHK's total market capitalisation was accounted for by Chinese companies at the end of February 2020, compared to 16% in 1997. However, it is also true that the share of Chinese companies out of total SEHK market capitalisation had steadily risen for the first decade after the handover up to 51% in 2008, from which it has since declined. This is arguably the result of the declining importance of the SEHK for Chinese companies, while it shows the emergence of an array of competing centres for raising capital, as we will argue in the next section.

Conclusion: A New Role for Hong Kong, Still Essential but Not Unique

Within China's "opening-up" policies, the role of Hong Kong is still very important. However, such a crucial role raises a number of challenges for China in the mid- to longer term. To the extent that the special position is linked to the SAR status, which is due to expire by 2047 according to the Joint Declaration (JD) signed by Great Britain and the PRC back in 1997, Beijing has already started to prepare for the time when the "one country, two systems" model will no longer be grounded in the JD. This has become all the more urgent due to the recent waves of social unrest in Hong Kong, which are to a great extent related to the widespread perception and sentiment among Hongkongers about the intent by Beijing to progressively phase out the unique characteristics to the SAR.

We argue that the progressive downgrading of Hong Kong's role as the chief offshore centre for the Mainland is achieved in two ways. The first is to start embedding Hong Kong into the Mainland so as to link and transfer its comparative

advantage onto the PRC, or part of it. This is done through the mechanism of the special free areas, namely the Greater Bay Area (GBA), a new development framework that has been designed since 2017 in a large area centered on the Pearl River Delta. The GBA comprises eleven metropolises over 56,000 square kilometres, 70 million inhabitants, and a gross domestic product of over \$1,500 billion. The goal is to transform the area of Hong Kong, Macao and nine cities in the southern province of Guangdong (Guangzhou, Shenzhen, Zhuhai, Zhongshan, Jiangmen, Zhaoqing, Foshan, Dongguan and Huizhou), which already contributes to 12% of the Chinese GDP, in the world leader for technological patents, seeding of startups, investments in innovative companies, and digitalisation. Beijing wants to transform this cluster of cities, businesses, startups, finance and infrastructures into the Silicon Valley of the future. GBA is a three-pronged development strategy: in addition to economic development and political control, technological innovation is a chief objective. Beijing wants to open the Guangzhou-Shenzhen-Hong Kong-Macao corridor for innovation and technology, with policies that promote the exchange of talent, capital, information and technology, and develop a great regional data center. Beijing hopes that the huge GBA project will help it gradually align its legal and regulatory regime with global standards for trade, finance, taxation, and other transactions, while maintaining the financial stability secured by a closed capital account.

The second way to prepare for 2047 is to weaken the comparative advantages of Hong Kong by expanding and upgrading the functions of other centres to make them compete with Hong Kong. This is done within the so-called financial pillar of the BRI, which includes the creation of a number of offshore clearing centres, none of them fully comparable to Hong Kong, but each of them getting a slice of the offshore renminbi business. These centres have expanded the range of markets that serve as a buffer between the domestic market and international markets. The chief instrument so far has been

the signing of central bank currency swap agreements. Since 2009, China has signed bilateral currency swap agreements with thirty-two counterparties. These swaps aim to support trade and investment and to promote the international use of renminbi. As China limits the amount of renminbi available to settle trade, the swaps have been used to obtain renminbi after these limits have been reached.

These two approaches aim to internalise as much as possible the comparative advantages of the efficient, free-market Hong Kong system into the mainland system of financial repression and closed capital accounts, while at the same diluting the financial and regulatory power of Hong Kong by creating many other offshore centres. Such an ambitious strategy also has a number of challenges. First, in order to continue being a great trading nation without an international currency, China must find ways to increase the international use of the renminbi (which is very different from advancing internationalisation of the renminbi). According to the Bank for International Settlements,¹⁴ the renminbi accounted for just 2.1% of total daily foreign-exchange trading in 2019 – far behind the USD (44%), the euro (16%), and the Japanese yen (8.5%). Secondly, and related to the first, China will also need have a more balanced current account, after decades of running huge trade surpluses.¹⁵ Too large a surplus will require gigantic efforts to manage with a managed floating exchange rate system, and is too strongly linked to the dollar system, in the eyes of Beijing. Much of China's ability to navigate international markets while maintaining a strong hold on the economy through what will likely become a 'one country, a multi-layered system' will depend on the success of Beijing's masterplan.

¹⁴ V. Sushko, "Triennial Central Bank Survey of Foreign Exchange and Over-the-counter (OTC) Derivatives Markets in 2019", Triennial Survey, Bank International Settlements (BIS), 8 December 2019.

¹⁵ "2019 External Sector Report: The Dynamics of External Adjustment", External Sector Report, International Monetary Fund (IMF), July 2019.

Conclusions and Policy Recommendations for the EU

Alessia Amighini, Giulia Sciorati

At the time of writing (May 2020), the coronavirus pandemic is spreading around the world and taking uncontested centre stage in national and international policy debates. Unlike in 2019, when protests in Hong Kong and elsewhere erupted worldwide, fear and restrictive measures have been keeping almost three million people away from the streets for the last several months.¹ Nonetheless, as it had been at the start of what has now come to be known as the 2019 “global protest wave”,² Hong Kong remains on the frontline of political contestation worldwide.

Last summer, yellow umbrellas and balaclavas saturated global media. Today, an indirect effect of the pandemic is that it seems to be keeping political contestation at bay. If questioned, most people would assume that the Hong Kong protests ceased as swiftly as they had started, but they would be wrong. In fact, the protests never entirely died out, neither when the first cases of coronavirus infection were registered in Wuhan last December, nor when the World Health Organization declared a pandemic in early March. Indeed, as Joshua Wong, leader of the 2014 “Umbrella Movement”, claimed, Hong Kong is

¹ L. Lacina, “Nearly 3 billion people around the globe under COVID-19 lockdowns - Today’s coronavirus updates”, World Economic Forum, 26 March 2020.

² R. Wright, “The Story of 2019: Protests in Every Corner of the Globe”, *The New Yorker*, 30 December 2019.

fighting an “infinity war”,³ which the coronavirus fuelled instead of halted.

By any standard, the Hong Kong government put in place cutting-edge health measures to prevent the virus from spreading. Yet criticism arose from civil society, as the city’s government maintained open four passageways to mainland China. The move, highly appreciated by Beijing, was made in an effort to avoid any concession to “localism,” the Hong Kongese political movement that aims to preserve the city’s autonomy and local culture. The price the Hong Kong government had to pay was small waves of localised protests. Although international media might have forgotten political contestation in the city, protests are still alive and well.

In an unprecedented global context of forced immobility and emergency policies, the main takeaway that transpires from the chapters of this volume is the following: Hong Kong protests are not an isolated political movement, but the result of much wider political instability. The several successive waves of street demonstrations over the years are just the most evident symptom of a chronic instability. In the eyes of Beijing’s leadership, Hong Kong protests are not simply a “political problem” to be solved, but the distillate of a much wider political situation to be managed: the future of the “one country, two systems” model. That model is not confined to Hong Kong, but encompasses the relations between Beijing and all the Special Administrative Regions of China (SARs), and also applies to those between Mainland China and Taiwan. Moreover, that model has important economic rationales that are *still* vital for the future of China as an economic power, in addition to the political motivation of pursuing unity under the Beijing umbrella.

As contestation is unlikely to be settled unless and until the relation between Mainland China and Hong Kong is

³ R. Cohen, “The ‘Infinity War’ in the Streets of Hong Kong”, *The New York Times*, 27 December 2019.

thoroughly re-discussed, violence is bound to emerge cyclically. Drawing upon the authors' contributions to this report, we have compiled a few takeaway messages for the EU's engagement of China.

Do not underestimate the 2047 deadline

2047 is rapidly approaching. When in 1997 Hong Kong ceased being a British protectorate, 2047 was set as the final date for the city to complete the transition to the People's Republic of China, which, in practical terms, means eventual integration into the PRC. While this outcome is unassailable on purely legal grounds, being de facto included in the 1997 Joint Declaration, only in recent years have most Hongkongers begun to see this future as largely unacceptable. The youngest generations – most of whom are now in their twenties – have only now realised that their future is determined by that 1997 agreement, against which their parents and grand-parents had not objected for two reasons: they would not in any case be themselves affected by the 2047 unification, and they enjoyed too many economic benefits to find it useful to raise political contestations with Beijing. But now the younger generations of Hongkongers realise there is not so much uncertainty in Beijing regarding the political future of Hong Kong, and therefore they fear losing those political and economic benefits that make the city unique. As their concerns soon started resonating widely within civil society, they nullified all Beijing's pre-emptive anti-protest efforts. Politics, economics and society have now converged in protesting against Mainland China, and many democratic countries around the world are supporting their claims. Until a compromise is discussed between Hong Kong and Mainland China, it is unlikely that the city will enjoy any form of stability: street demonstrations may indeed well become the battles in a very long-lasting war, which is bound to resonate well-beyond China's borders.

Prepare for spill-overs in Macau and Taiwan

Relations between Mainland China and Hong Kong also suffer from identity clashes. Surveys conducted in Hong Kong over the years, for instance, indicate that the city developed a unique identity, which does not match Beijing's.⁴ As Guido Samarani comprehensively explains in his chapter, the Hong Kong identity originates from centuries of exchanges between indigenous populations and Chinese migrants, eventually formalised under British colonialism. In light of this identity, when the time comes, Beijing should then reframe Hong Kong not as one of China's two SARs, but more as a sixth "autonomous region," granting Hongkongers better political representation in Mainland China as well as more local administrative autonomy, the benefits of which would also serve Beijing's own interests. Indeed, Hong Kong's hybrid status offers economic advantages that are still crucial to Mainland China. For instance, given its special status, the city has not been subject to the tariff increases that characterised the "trade war" between China and the US.

From Beijing's perspective, reframing Hong Kong in Mainland China's political system also would mark a step forward toward resolving the Macau and Taiwan issues. While Macau maintains better relations with Beijing, Taiwan has proven to be looking carefully at Hong Kong as a frame of reference for relations with Mainland China. After all, Beijing proposes to Taiwan the same model of governance currently in place in Hong Kong. Yet, after the 2019 protests, the "one country, two systems" model no longer seems to be a feasible option. Not only are Hongkongers accusing Beijing of slowly transforming the model into what Alessia Amighini in her chapter dubs "one country, one system", but, during Taiwan's 2020 presidential elections, the model was also highly politicised, so much so that it cost the Beijing candidate's victory. The 2019

⁴ K. Cheng, "Hongkongers identifying as 'Chinese' at record low; under 10% of youth 'proud' to be citizens – poll", *Hong Kong Free Press*, 29 June 2019.

protests in Hong Kong, in fact, uncovered the shortcomings of the “one country, two systems” model, pushing the electorate away from Mainland China. Today, Beijing also needs to face the lingering effects of the coronavirus crisis, which aggravated China-Taiwan relations. As the island is not a member of the United Nations (UN),⁵ at the height of the pandemic Taiwan could not work closely with the World Health Organization nor the International Civil Aviation Organization, but had to rely on third-party information. Mainland China is commonly identified as the reason why the island does not enjoy UN membership, thus anti-Chinese sentiment is now at an all-time high. Finally, if Beijing plans to amend relations with Taiwan and stabilise Hong Kong, it can no longer afford merely to consider opening a dialogue with Hong Kong's civil society, but needs to be ready to compromise the city's full return under Mainland China's sovereignty and end Hong Kong's “infinity war” once and for all.

Think long term

As the Hong Kong protests are not an isolated political movement, but the result of much wider political concerns over an otherwise (legally) legitimate path towards the integration of Hong Kong with Mainland China in 2047, any declaration of support from third countries to Hong Kong's claims – as happened in 2019 with the US bill in favour of pro-democracy activists, which was followed by a declaration of political support from the European Parliament – must take into account that Beijing may formally raise issues on the grounds of its well-established principle of non-interference. Therefore, handling the Hong Kong pro-democracy protests in isolation with respect to broader relations with China can only be a short-term strategy, which may become unsustainable in the long-term, even more so if the EU adopts an array of short-term

⁵ S. Winkler, *Taiwan's UN Dilemma: To Be or Not To Be*, Brookings, 20 June 2012.

strategies towards China that conflict with one another. The chief competing motivation is the high interdependence between many European economies and the Chinese economy, *including* Hong Kong. This was vividly expressed by an unnamed diplomat during an interview with the *South China Morning Post* in November 2019. Indeed, when asked about what motivated the European Parliament to sign a simple political support statement in favour of Hong Kong activists, he stated that “at the end of the day, I fear that the economic relationship is just too important”.⁶

If Europe continues pursuing conflicting short-term strategies, the outcome will be equally driven by short-term economic interests instead of long-term economic and political interests. As long as European institutions, as well as other international institutions in charge of setting the rules of global governance will be accommodating to an economic interdependence determined by Beijing’s rules, at the end of the day, short-termism will translate into “letting others decide”.

Abandon an idiosyncratic approach towards China

On more economic grounds, European countries should better consider the evolving role of Hong Kong in the “one country, two systems” model, and its future. In the path towards 2047, the role of chief offshore centre for Beijing held by Hong Kong is being diluted by an array of foreign centres that act as offshore financial clearing houses for Mainland China. Promoting the international use of the *renminbi* through currency swap agreements and foreign pools of liquidity in offshore centres is thus a way for Beijing to circumvent the need to have offshore liquidity to support trade and investments, but without easing capital accounts. The increasing number of offshore centres, in Europe as well, are a way to indirectly support Beijing’s

⁶ K. Helmer, “Europe reluctant to do more about Hong Kong for fear of Beijing’s reaction, say diplomats”, *South China Morning Post*, 20 November 2019.

very peculiar strategy of increasing the international use of the *renminbi*, while avoiding a “riskier” internationalisation of the *renminbi*. As the “one country, two systems” model is progressively fading away, the rest of the world is being involved in a new model of China’s integration in the global economy— an integration “with Chinese characteristics”.

Continue pushing for stronger regulations on the export of sophisticated cyber surveillance technologies

The Hong Kong protests have shown the full extent of the relation between sophisticated cyber surveillance technologies and human rights. Indeed, from facial-recognition to social media monitoring, surveillance technologies played a major role in containing protests around the city. Yet, they have also offered tools that allowed for the intrusion in the privacy, data protection and freedom of assembly of citizens.

In 2018, the European Parliament implemented stronger rules on the export of the so-called “dual-use technologies” – that is, technologies that have civil and military purposes.⁷ Yet, calls from member states to loosen restrictions have followed this decision.⁸ The Hong Kong protests should then be examined as a practical example of the effects that the export of such technologies produce, which, at base, works against the EU’s own mandate towards human rights protection. Instead of being loosened, export restrictions and regulations on cyber surveillance technologies should be perfected, especially at a time when the Covid-19 pandemic brought discussions on

⁷ European Parliament, [Results of roll-call votes - 23/11/2017](#)

⁸ Council of the European Union, General Secretariat, [WK55/2018 INIT, Limite](#), Working Paper, 15 May 2018. Paper for Discussion, For Adoption of an Improved EU Export Control Regulation 428/2009 and for Cyber-Surveillance Controls Promoting Human Rights and International Humanitarian Law Globally.

technology and privacy within the EU borders through health tracking phone apps.

In sum, as China always pursues comprehensive and consistent long-term strategies, Europe also should fine-tune its somewhat idiosyncratic relations with Beijing into a more consistent strategy and start acting with a long-term outlook.

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