



## **Instability Taking Toll on Hong Kong's Economy**

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### **Abstract**

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Anti-extradition bill protests are taking a toll on Hong Kong's economy amidst increasing violence, political instability, declining business confidence and travel warnings. Moreover, it is also uncovering other underlying socioeconomic problems of anti-Chinese sentiments, a housing crisis and an extreme wealth gap between the rich and the poor. With 20 percent of the population living below the poverty line in cages and "coffin cubicles", both the Chinese and Hong Kong governments would need to implement policies for better governance and address corruption of the tycoon class that is exacerbating the wealth gap, in addition to political issues surrounding the extradition bill.

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## Analysis

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### Instability taking toll on Hong Kong's economy

As violent anti-extradition bill protests in Hong Kong enter its third month in August, increasing security risks and instability are taking a toll on the former British colony's economy.

Already the American Chamber of Commerce is nervous about declining<sup>1</sup> business confidence as investors perceive that Hong Kong "has become less safe and a riskier place in which to conduct business," while retail industry and tourism have also taken a hit with Britain, Japan and Singapore issuing travel warnings.

According to Hong Kong's Federation of Trade Unions, hotel occupancy rates fell 20% in June and will likely see a 40% decline in July<sup>2</sup> year-on-year, while Angela Chang, an economist at CMB International Capital Corporation Limited, said 2019 retail sales forecast would probably experience a 10% drop.<sup>3</sup>

And as the protests continue to widen across the city, the movement is also shedding light on Hong Kong's other underlying grievances such as resentment towards Chinese traders, a housing crisis,<sup>4</sup> and an extreme wealth gap between the rich and the poor.

### Housing crisis and wealth gap

In early July, anti-extradition bill protesters began to also target traders<sup>5</sup> from mainland China in Sheung Shui district. The traders take advantage of Hong Kong's no-sales-tax regime to buy goods and then resell them in China, prompting residents to accuse them of dodging taxes, fueling inflation, driving up property prices and diluting Sheung Shui's identity.

In recent years there has been an increasing backlash against the influx of mainland tourists and immigrants, who are sometimes described as "locusts,"<sup>6</sup> and this has become a major source of tension in an overcrowded city that already boasts one of the world's most expensive expensive<sup>7</sup> property markets.

The resentment can be seen in protest signs bearing slogans like "Chinese not welcome" and "kick out all Chinese," reminiscent of similar protests in 2015 when Hong Kongers also told Chinese shoppers to "go home"<sup>8</sup> and that they're "not welcome here."

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<sup>1</sup> Iain Marlow, "AmCham Urges Hong Kong Action to Quell Growing Business Concerns", *Bloomberg*, 28 July 2019, <https://www.bloomberg.com/news/articles/2019-07-29/amcham-urges-hong-kong-action-to- quell-growing-business-concerns>

<sup>2</sup> "Hong Kong tourism, hotel occupancy falls as protests drag on", *Indian Express*, 17 July 2019, <https://indianexpress.com/article/world/hong-kong-tourism-hotel-occupancy-falls-as-protests-drag-on-5834181/>

<sup>3</sup> Kevin Liu, Vimvam Tong, 'We may lose Christmas': escalating Hong Kong protests taking bigger toll on shops, economy, *Reuters*, 30 July 2019, <https://www.reuters.com/article/us-hongkong-protests-retail-idUSKCN1UP0TK>

<sup>4</sup> "Hong Kong's Housing Crisis: Soaring Buildings and Rent", 23 December 2014, <https://allthatsinteresting.com/hong-kong-housing-crisis>;

<sup>5</sup> "Hong Kong protesters target traders from China", *Deutsche Welle*, 13 July 2019, <https://www.dw.com/en/hong-kong-protesters-target-traders-from-mainland-china/a-49580423>

<sup>6</sup> <https://www.dw.com/en/hong-kong-protesters-target-traders-from-mainland-china/a-49580423>

<sup>7</sup> Roger Vincent, "Rents on Rodeo Drive are cheap compared with Hong Kong and New York", *Los Angeles Times*, 20 August 2013, <https://www.latimes.com/business/la-xpm-2013-aug-20-la-fi-mo-retail-rents-20130819-story.html> ; Yonden Lhatoo, "Property porn in Hong Kong: when hom prices are so high, they become obscene", *South China Morning Post*, 14 July 2018,

<sup>8</sup> Naomi Ng, Wilfred Chan, "Hong Kong to Chinese shoppers: 'Go home'", *CNN*, 4 March 2015, <https://edition.cnn.com/2015/03/03/china/hong-kong-china-conflict/index.html>



Source: <https://twitter.com/CarlZha/status/1154798530508120065><sup>9</sup>

Given that one million Chinese have moved to Hong Kong since 1997, the housing crisis had become so desperate that the territory is considering building an US\$80 billion artificial island.<sup>10</sup> With the median cost of a home 18 times the median household income, many people end up living in cages<sup>11</sup> or cardboard homes, and predatory landlords subdivide apartments into tiny "coffin cubicles"<sup>12</sup> that pose health and safety risks.

<sup>9</sup> <https://twitter.com/CarlZha/status/1154798530508120065>

<sup>10</sup> Alice Su, "Hong Kong aims to solve its housing crisis with an \$80-billion artificial island", *Los Angeles Times*, 3 April 2019, <https://www.latimes.com/world/la-fg-hong-kong-housing-island-20190403-story.html>

<sup>11</sup> Erin Kelly, "In Wealthy Hong Kong, The Poor Are Living In Wire Cages", *All That's Interesting*, 22 January 2018, <https://allthatsinteresting.com/cage-homes-hong-kong>; "Hong Kong's poor and elderly living in caged housing", *SBS Dateline*, 18 May 2019, <https://www.youtube.com/watch?v=c7IA8DWt0ZY>

<sup>12</sup> Benny Lam, "Boxed in: Life inside the 'coffin cubicles' of Hong Kong-in pictures", *The Guardian*, 7 June 2017, <https://www.theguardian.com/cities/gallery/2017/jun/07/boxed-life-inside-hong-kong-coffin-cubicles-cage-homes-in-pictures>



Moreover, the wealth gap<sup>13</sup> is punctuated by mansions worth millions of dollars perched on hilltops with sweeping views of the city, while more than 1.37 million people – or 20% of the total population<sup>14</sup> – live below the poverty line, crammed into illegal rooftop shacks and compartmentalized basements of industrial buildings.

As retired Singaporean diplomat Bilahari Kausikan observed,<sup>15</sup> only about 49% of the population in Hong Kong own homes while in Singapore the figure is 91%. “Political stability requires a broad-based property-owning class with a strong stake in the system,” Kausikan said, and to this end he encouraged addressing the corruption of tycoons that is exacerbating the wealth gap and reforming domestic policy to restore confidence among Hong Kong youth regarding their future.

### Reforms and good governance

China also has a stake in the stability and good governance of Hong Kong, given the territory's important role in contributing to the growth of its financial market,<sup>16</sup> with one in every two companies on the Hong Kong exchange being mainland-linked. In the face of prolonged political chaos and loss of confidence in the rule of law, there is a risk Hong Kong may experience capital flight similar to 1967, when investors transferred their wealth to Singapore.

As Jason Lim<sup>17</sup> noted in *The Interpreter*, the 1967 political chaos in Hong Kong was an unexpected gain for Singapore. Riots instigated by pro-communist trade unions lasted from May to December 1967 and resulted in 51 deaths, as students and workers ran through the streets, assaulting police and planting bombs, while rumors swirled that China would invade Hong Kong.

The instability caused real estate values and stock market shares to plummet, as nervous investors shifted some HK\$800 million out of Hong Kong. Now, history seems to repeat itself with similar media reports<sup>18</sup> that wealth managers are abandoning plans to open offices in Hong Kong in favor of Singapore.

However, Lim observed that the extradition treaty is not the only reason for this outcome. A survey by Asian Private Banker in 2018 found Singapore was more attractive than Hong Kong because it was “less connected to mainland China from a regulatory, political, and financial perspective.” Likewise, a recent World Bank report<sup>19</sup> assessing the opportunities and risks of China's Belt and Road Initiative (BRI) also listed the importance of complementary policy reforms in the regulatory and legal framework of participating economies, in order to maximize the positive effects of BRI projects and ensure gains are equally shared.

<sup>13</sup> <https://www.youtube.com/watch?v=EUHDAfD0Z-Q>

<sup>14</sup> <https://www.latimes.com/world/la-fg-hong-kong-housing-island-20190403-story.html>

<sup>15</sup> Bilahari Kausikan, “Harsh truths for Hong Kong: extradition bill protests will not achieve anything”, *South China Morning Post*, 10 July 2019, <https://www.scmp.com/week-asia/opinion/article/3018003/harsh-truths-hong-kong-protests-will-not-achieve-anything>

<sup>16</sup> Enoch Yiu, Laura He, “Hong Kong has played an outside role in contributing to the growth of China's financial market”, *MSN*, 12 March 2018, <https://www.msn.com/en-sg/news/other/hong-kong-has-played-an-outsize-role-in-contributing-to-the-growth-of-chinas-financial-market/ar-BBQphn3>

<sup>17</sup> Jason Lim, “Hong Kong's political trouble is Singapore's gain”, *The Interpreter*, 24 July 2019,

<https://www.lowyinstitute.org/the-interpreter/hong-kong-s-political-trouble-singapore-s-gain>

<sup>18</sup> “Wealth managers head to Singapore as China concerns dim Hong Kong's lure”, *Channel News Asia*, 1 July 2019,

<https://www.channelnewsasia.com/news/business/wealth-managers-choose-singapore-over-hong-kong-china-11676124>;

“Nervous millionaires move cash to Singapore”, *Bangkok Post*, 15 July 2019,

<https://www.bangkokpost.com/business/1712824/nervous-hong-kong-millionaires-move-cash-to-singapore>

<sup>19</sup> “Belt and Road Economics: Opportunities and Risks of Transport Corridors”, *World Bank*, 18 June 2019,

<https://www.worldbank.org/en/topic/regional-integration/publication/belt-and-road-economics-opportunities-and-risks-of-transport-corridors>



As such if Beijing wants additional international participation in its BRI, the current protests may be an opportunity for China and Hong Kong to jointly address legitimate economic grievances, and work towards reforms and good governance that demonstrate that partnership with China is truly a “win-win” for all involved. However, to quell the protests, China would also need to address the underlying cause of Hong Kong’s undemocratic governance system<sup>20</sup> under which the government is perceived to be beholden to Beijing and accountable to Hong Kong’s tycoon class, rather than governing in the interests of the people.

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**Remarks:** Opinions expressed in this contribution are those of the author. This article was first published in *Asia Times* on July 31, 2019.

### About the Author of this Issue

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<sup>20</sup> Antony Dapiran, China is looking for a quick economic fix in Hong Kong. It's missing the point", *The Guardian*, 30 July 2019, "<https://www.theguardian.com/commentisfree/2019/jul/30/china-economic-hong-kong-carrie-lam>