



## The Hong Kong Protests and its Economic Impact



For the majority of the past 50 years, Hong Kong has been a city defined by economic success. One of the four East-Asian tigers, it has been a capitalist beacon which has embraced and flourished through free-market policies. Unless you work in the corporate world, banking in particular, or study economic growth miracles, it is a major city which generally flies under the radar. However, in the past year or so, that has all changed. The city has dominated international headlines as mass protesting over a proposed extradition bill has descended into violent clashes between the police, and the youth of Hong Kong demanding large-scale societal change. Financial news has been replaced by political protests which now dominates the forefront of every discussion between residents. It is undoubtedly the most serious problem that the Hong Kong government, and by proxy,

the Chinese government, have faced since the 1997 handover. This article is going to ignore the political debate and discussion which has been taking place and revert to a purely economic way of looking at things, exploring how the protests have impacted Hong Kong's economy, and the extent to which economic issues can be blamed for what's taking place.

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To put the situation into some context, Hong Kong's economy has not exactly been

performing as well as economists have come to expect. The trade war between the United States and China has had ripple effects on the city which holds more RMB than any other financial centres in the world. Comparing September 2019 with September 2018, exports have shrunk over 7% and imports have fallen by 10%, leaving a HK\$32 billion trade deficit (Tsang, 2019). This has contributed to a contraction of economic growth in the last two quarters and resulted in a technical recession. This has meant the economic implications of the protest movement could not have come at a worse time. Investor confidence has been bludgeoned, with several big business deals collapsing due to a perceived unstable and unpredictable future. Goldin Financial Holdings backed out of a HK\$11.2 billion deal to buy a plot of land at the old Kai Tak airport (Yiu, Li and Ng, 2019), and planned IPOs and M&As have come to a standstill according to the Hong Kong Exchanges and Clearing. Yet, relative to other sectors, the financial services industry has remained relatively unscathed. The tourism and retail sectors have seen demand collapse, with one of the city's most popular attractions, Ocean Park, requesting a HK\$10 billion government bailout (Tsang, 2020). Retail sales have fallen by 25% (Yau, 2020), luxury good sales by 45% (Yau, 2020), and tourist numbers also down by 45% (Tan, 2019). The statistics reflect the public perception of the city being like a ghost town, with restaurants and shopping malls far less busy than usual. Many hope this is just a temporary setback and that as the protest movement calms down, as it has since the end of last year, tourists and shoppers will likely return by the

end of 2020, but investor confidence may take longer. The protests have brought much uncertainty surrounding 2047, and Chinese interference in the city-state, back into the limelight. They have highlighted that until it is clear what exactly will take place after the handover, Hong Kong will be an unstable, volatile place.

The second issue worth discussing, is the extent to which the economy caused these protests to take place. The protests began over an extradition bill and have developed into a cry for universal suffrage. But digging deeper, one of the reasons for demanding universal suffrage is discontent at government policy over a lengthy period of time. Thus, the lack of accountability and consequence for poor governmental performance, adds to the idea that people feel democracy should be a basic human right. When a government is running a fiscal surplus of HK\$58.7 billion in 2018/19 (Legislative Council Secretariat, 2019) and HK\$16.8 billion in 2019/20 (Legislative Council Secretariat, 2019), yet maintains a minimum hourly wage at HK\$34.50 (Ewing, 2018) with one in five people beneath the poverty line (Ewing, 2018), and one of the highest Gini coefficients in the world at 0.539 (Ewing, 2018), then discontent is unsurprising. Young people in Hong Kong are graduating from universities and finding graduate jobs, and yet are resigned to the fact that ever owning a home is a pipe dream. The lack of affordable housing, with the average house price close to 21 times the average annual household income (Clennett and Jakubec, 2019), means most young workers live at home with their parents.

Public housing has not kept up with the ever-increasing demand, with consecutive governments far more content to put land up for tender and reap the billions it pays, rather than provide a solution. Comparing the city-state to Singapore, a natural comparison given their similar history, only half of Hong Kong's population own a property versus over 90% in Singapore (Clennett and Jakubec, 2019). Therefore, it is no wonder that many of the arrested youths over the past 6 months have stated that they had nothing to lose by protesting, because their future is far bleaker than that of their parents' generation.

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Bluntly then, the situation appears forlorn. The short-term economic outlook is poor, and in the long-term, uncertainty over the city's political situation makes investment difficult. The underlying economic issues, of inequality and social mobility obstacles which have caused this chaos cannot be solved quickly, and will require consecutive governments to tackle these challenges with good policies. Given the track record of poor decision-making, this seems unlikely. Then, looming in 2047, there is the possibility that all this could become irrelevant. When the 50-year period of supposed autonomy concludes, Hong Kong could become another city in China. A Shenzhen 2.0.

However, writing the city off would be a mistake. It still serves as an essential trading, economic and legal gateway to China, and retains a unique entrepreneurial spirit which has spurred its economic performance. Its importance in the region means that a stable, and ideally prosperous, Hong Kong is beneficial, if not essential, to everyone tourists and shoppers will likely return by the end of 2020, but investor confidence may take longer. The protests have brought much uncertainty surrounding 2047, and Chinese interference in the city-state, back into the limelight. They have highlighted that until it is clear what exactly will take place after the handover, Hong Kong will be an unstable, volatile place.

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