

## Political Risk Alert

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### **China: Serious risk that the situation in Hong Kong will escalate**

**Event:** A general strike on August 5 brought public transport to a halt and disrupted flights, while violent clashes with police continue.

**Significance:** The government's suspension of a controversial bill allowing extradition to mainland China has failed to satisfy not only political activists but also a significant section of the public. The general strike, which involved thousands of private and public sector workers, is a major escalation of the months-long anti-government protest movement, causing serious economic disruption for the first time. Police have continued to clash with protesters in several locations around the city, resulting in arrests, serious injuries and destruction of public property, and the use of mainland Chinese military riot police is now a realistic next step.

**Analysis:** Protest organisers have continually shifted tactics and locations to keep the protests fresh, with the list of locations targeted now including the legislature, government offices, police stations, Beijing's liaison office, shopping centres, the airport, subway stations and the high-speed rail station linking Hong Kong with mainland China.

Although the protest movement is decentralised and includes mainstream civil society groups and unregistered radical activist groups, it remains united around a core set of goals. These centre on the permanent withdrawal of the extradition bill but also include the release of arrested protesters and an independent investigation into police conduct, as well as, more broadly, universal suffrage and greater political autonomy for Hong Kong.

The Hong Kong government's sharp rhetoric and the tactics of the police have created new grievances and given organisers new ammunition for their attempts to build support. This has sustained the movement. The police have been accused of excessive force against protesters, unjust arrests, of allowing protesters to damage property in order to discredit the whole protest movement and failing to protect protesters from 'triad' gangsters. Public opinion has become strongly negative towards the police, who are widely perceived as 'out of control'. There are also some signs of discontent within the force.

Although gauging the current state of public opinion relies largely on anecdote, it seems clear that the public is clearly split among several positions. The general support for the protesters' aims and tactics appears to be growing, but there are others who support their aims but not violent and seriously disruptive tactics, or who sympathise in principle but consider the protest movement futile. There are also those who oppose the protest movement, whether or not they support Chief Executive Carrie Lam.

Authorities have been taken by surprise by the extent to which the protests appear to have tapped a deep vein of pent-up frustration, particularly among those disadvantaged by the economic and political status quo. Yet Hong Kong is one of the most unequal developed economies and is less equal today than at any point in 45 years. Its Gini coefficient of 0.539 (2017 figure) far exceeds the US level of 0.411 and is well above the 0.4 'danger line'.

Against this background, there is scope for more serious violence. Police say they have discovered explosives and weapons in a location used by a radical group. If true, this points to

the possibility of terrorist tactics, which could include bombings and targeted assaults on establishment figures. Only a tiny minority would endorse such tactics, but only a handful of people are needed to perpetrate them, particularly while the police are overstretched.

The Hong Kong government has dug its heels in and refused to engage with the protesters. On August 5, Lam gave her first media appearance in two weeks, saying that she would not resign and condemned the violence as an attack on China's sovereignty. This position may become untenable, but her administration's options are limited.

The government could continue its current approach of strategic patience, hoping that protesters will lose public support, lose hope or tire themselves out. However, as the disruption continues, it may be tempted to open negotiations with a coalition of pan-democrat and possibly more moderate localist politicians and activists that can credibly claim to represent a large swathe of the protest movement. This offers the best hope of de-escalation and stability, but such a coalition might struggle to win over the more radical sections of what is already a deeply divided movement.

If it wanted to move more quickly, the government could unilaterally grant some of the protesters' demands, hoping to satisfy enough of them to make the movement subside without conceding so much that activists are emboldened to push for more. However, at this point, probably only a new administration would have the clean slate needed to launch a credible investigation into police conduct.

Alternatively, the government could crack down on the protest movement in an attempt to stamp it out, with mass arrests and overwhelming police deployment to prevent protesters gathering. This would probably require political and material support from Beijing, which raises the question of Beijing's position. The central government in Beijing initially kept its distance, avoiding provocation and leaving the Hong Kong government to handle the protests. It has now adopted more intimidating language and released footage of troops preparing for riot control.

Beijing faces the same calculation as the Hong Kong government, but is by nature more inclined towards cracking down. It is expert at repression but entirely inexperienced in negotiating peaceful compromises in a diverse, open society.

Beijing's options for more active intervention include intimidation through more threatening and more frequent statements and propaganda, and a greater, though covert, support for Lam's administration. Mainland agents could assault, abduct or blackmail organisers. They could also engage in 'false flag' violence to discredit anti-government activists and build public support for an open crackdown, while China's Strategic Support Force could use large-scale cyberattacks to disrupt protest organisation. Mainland riot police in Hong Kong uniforms could be used to reinforce the exhausted, demoralised and divided local police force.

Beijing could also choose to intervene openly using the People's Armed Police (PAP), the branch of the military specialising in riot control and martial law. This is most likely to begin with a single, experimental use of Chinese troops, with due warning and after a public request from the Hong Kong government. This could be followed in the medium term by moderate but more routine use of the PAP, possibly backed up by emergency measures allowing practices such as curfews or tighter limits on free expression and public assembly.

The alternative is an unannounced and overwhelming show of force to induce shock and awe. This will be less appealing to Beijing because the impact would be unpredictable and so is the least likely scenario. The reputational cost of either approach would be severe and the fiscal cost considerable. However, China has the personnel and the money to continue it indefinitely.

In the medium-to-long term Beijing could opt to alter the governance structure of Hong Kong fundamentally to impose more direct rule. This could be done openly through legal means or more covertly by gradually flooding Hong Kong with 'loyal' mainlanders and strengthening the Communist Party's penetration of Hong Kong institutions.

In either case, a permanently elevated level of discontent would coexist with permanently elevated repression. Many middle class Hong Kong residents with the resources to do so would emigrate. This city's attractiveness to international business would be reduced, but it would still offer some advantages relative to mainland China. Opposition to unification with China will strengthen in Taiwan.

**Looking ahead:** Formal withdrawal of the bill and Lam's resignation would do much to assuage public anger, but Beijing may be blocking this. Moreover, the manner in which Lam's successor would be selected will raise its own controversies. Whatever happens, the consequences of current developments will play out for years, with arrests, trials, policy changes, greater mainland

Chinese involvement and deepened animosities, all of which will create new grievances that could trigger future protests.