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Chaos in Hong Kong: Protests and Unrest Persist

A discussion between Paul Haenle, Damien Ryan and Gabriel Wildau.
Moderated by Kevin Kajiwara.

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Kevin Kajiwara (KK): Today we're going to discuss the outlook for the unrest that we continue to see in Hong Kong and look at the impact on markets, geopolitics and businesses operating in Hong Kong.

Starting in Hong Kong we have Damian Ryan. He is the CEO of Teneo's Asia Pacific business. He was the Founder and Managing Director of Ryan Communications, which Teneo acquired in 2017. Previously, Damien was a Senior Journalist with Bloomberg News. Dialing in from Beijing is Teneo Senior Advisor, Paul Haenle. In addition to running our Beijing operations, he serves as the Director of the Carnegie-Tsinghua Center in Beijing. And joining me from the U.S. is Gabriel Wildau. Gabe is the Senior China Analyst for Teneo's Political Risk Advisory business. He joined Teneo last year after 15 years of living in China. Most recently, he was the Shanghai Bureau chief of the *Financial Times*.

I think it would be best to start in Hong Kong because, despite the withdrawal of the extradition bill and what was seen as a concession by Carrie Lam and therefore the authorities in Beijing, we are still seeing protests. So, Damien, for our audience, can you please set the stage; what's the current status of the protests and what is

the response that we're seeing out of government and the security services?

Damien Ryan (DR): So, just to set the scene, today's actually the three-month anniversary of the start of the protest, which was back on June 9, and not much has changed in terms of the activity on the ground. We're continuing to see ongoing clashes as you are probably reading and viewing on TV.

Last Sunday night, just to recap, there was a march to the U.S. consulate during the afternoon. Tens of thousands attended. That was then followed by violent clashes between protesters and police. There was plenty of damage, particularly to the central area of Hong Kong, Xianggang and in some other parts of the city. There were clashes on Saturday night, as well, and this has pretty much been the pattern for the last three months.

So, we're seeing small protests through the week and larger protests on the weekend, which are then followed by violent clashes. However, this is actually the first weekend that clashes have taken place since the concession, last Wednesday, from the Hong Kong Chief Executive, Carrie Lam, when she formally announced the withdrawal of the controversial extradition bill.



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The question is then, why are we still seeing protests and why are we still seeing clashes? Because the demonstrators have for weeks actually not been concerned about the extradition bill. Their issues are now about police violence. For example, they want to see a true independent inquiry into the violence or allegations of the violence. And remember, they're coming to the table with five key demands from the protesters side. Another one of these demands is around universal suffrage, which is essentially democratic elections in Hong Kong, particularly for the Chief Executive.

Protesters have seen only one out of their five demands met. Expectations are that their other demands won't be given anytime soon from the government, if at all. As a result, I would expect protests to continue.

KK: So, given that, can you give us a bit of a sense of what you think the near-term outlook is for these protests? I know as you pointed out, we're at the three-month anniversary date of the protests. We've also got another major date on the calendar on October 1, Chinese National Day, looming out there. Please give us a sense of what you expect now going forward.

DR: China National Day is a big one, as it's the 70th Anniversary of the Founding of the People's Republic of China. On October 1st, the reality is, we expect protests up until the anniversary, on the anniversary and after the anniversary. The significance of the event is probably only likely to bring out more numbers.

Another key date to keep in mind is a scheduled address by the Chief Executive on policy. This is normally done around the second week of October. There has been some speculation that the government

could use this address to deliver big financial incentives to appease the mainstream in Hong Kong and to further divide the protesters, or rather, alienate them.

Another thing in October are the legislative council elections. This is for the local legislative council that will be resuming for the first time since the council was stormed and vandalized towards the start of the protests. That's going to be a flashpoint we expect.

And further out, if you look at November 24, we have district council elections scheduled again; yet another date that could bring out protestors. So again, it should be a continuation of what we've seen.

KK: Damien, at the outset of your remarks, you referenced what we're all seeing on television. Obviously, a lot of the people on our call today are not in Hong Kong, but many of them represent companies with employees on the ground and so on and may need to travel to the region themselves. Could give us just a bit more anecdotal color, as somebody who lives and works in Hong Kong, of what it's like on the ground in the midst of all of these the protests? Clearly, you're still going to the office every day and everybody goes about their business, but can you give a sense of what this has done to the everyday cadence of life in Hong Kong?

DR: Without playing it down, despite what you read and see, Hong Kong is functioning perfectly fine, and business is getting done. I'll give you some examples: This morning I was down with a client – a big bank that's located right at the flashpoint of where there were fires and big clashes – and it was simply business as usual. Everyone was getting their lattes, going up the lifts and, you know, business as usual.

CLSA, another a big bank out here in the region, had the start of their really high-profile investor forum today in Hong Kong. So, hundreds travelled into Hong Kong for this event; corporates, investors, etc. and that's gone ahead fine. Regarding Teneo's team members, they're commuting from all over Hong Kong coming and going to work without too much concern. In the markets you've got the stock exchange operating; deals are getting done. Keep in mind, the airports have been a big focal point, but if you look into it, they have really only been impacted a couple days last month.

There's also a court injunction. Police have been fairly effective at stopping protestors from getting onto the site. And when it comes to threats around actual safety, unless you're out late and seeking out the protests, then you're pretty much safe. There's no real issue.

Has sentiment been impacted? Absolutely. The number of visitors for the month of August were down about 40%. Tourism had been impacted. Has the safety of citizens and visitors been compromised? Not at all.

KK: Can you give us a sense of what you are advising local clients or the local subsidiaries of multinationals companies on, in terms of how to adjust policy and protocol in Hong Kong and how to address the issues of employees who are joining the protests? And how they are communicating what the business impact is to them in media and earnings calls and the like?

DR: There are plenty of companies that have been caught up in this and there are a few buckets of concern, risk and challenges. One of these are public-facing companies who have high staff numbers or

a high physical presence in the protests, such as airlines, retailers, shopping malls, etc. And involvement for these companies could be everything from staff taking sides, staff participating in protests, or staff participating in posting their views on social media. In some cases, we also have companies who have been taking sides or at least seem to be taking sides. Some companies have had to close their stores from protests.

However, the problem we see often is that companies aren't necessarily tripping up because of those issues, but they're actually tripping up when they have to respond in public to incidents or the issue.

Another challenge is linked to the reality that there is hypersensitivity in the mainland among citizens who are picking up discrepancies with how companies are presenting their country of origin designation and/or how a company is describing the location of Hong Kong. Is your company's website or other materials referring to Hong Kong as a country?

Another bucket that we're just starting to see now is the impact of Hong Kong on company financial performance. Companies are now going out and communicating this as part of their earnings or as part of corporate interviews. Executives are getting asked the question and occasionally grilled about either their position on Hong Kong, the implications for business in Hong Kong, or if they're still committed to Hong Kong. So, the reality is that executives and their teams really need to be well-coached and well-prepared for what's going to continue to come their way.

KK: Thank you, Damien. I want to move to Paul Haenle in Beijing. There has been a lot of speculation particularly around the withdraw of

the expedition bill, and about how much authority executives in Hong Kong actually have vis-à-vis the leadership in Beijing. Paul, how is top leadership and Beijing viewing the Hong Kong situation? Damien referred to the other demands, beyond the withdrawal of the extradition bill, that the leaderless China/Hong Kong protesters are continuing to demand. Is the leadership united in their view on how to handle the situation in Hong Kong?

Paul Haenle (PH): My sense is that the leadership in Beijing really has been surprised by the depth of animosity that they're continuing to see come out of Hong Kong - towards the mainland, towards the Chinese Communist Party, and in particular towards the leadership. This Hong Kong issue was a major topic of discussion for China's top leadership at the annual retreat that they do every year in August at Beidaihe. And they've got a heavy hand on this, no doubt about it from Beijing.

I think to a large extent, they've been slow to adapt to events in Hong Kong. They've adopted a strategy of attrition. This includes things like heavy use of propaganda, mobilizing the pro-Beijing business establishment, escalating police tactics, and pursuing greater economic and cultural interaction with the mainland. And then, of course, threatening force. They've got troop movements north of the border that they clearly want folks in Hong Kong to know about.

I think the strategy to this point has really only worked to sort of widen the chasm between the central government and the protesters in Hong Kong.

There are indications in the debates that the top leadership in China are sharply divided on how to react and how to solve the crisis. Some party leaders

are calling for more concessions, other party leaders are calling to bring Hong Kong more directly under the mainland's control. So, this is an issue where there's quite a bit of debate on how the top leadership should handle this.

KK: I want to deviate from the Hong Kong issue for just a second, although this is related. You've made this point that mainland China leadership were surprised by the intensity of this and now the duration of this divide. Obviously, you've got the ongoing pressures of the trade dispute with the United States and the attendant impact on the Chinese economy. I'm wondering how all of this, and in particular, the Hong Kong issue, is actually impacting the standing of Xi Jinping amongst top leadership? It's worth noting that this was a front-page article in *The New York Times*, so it's starting to be discussed. What are your thoughts on that front?

PH: I think you're exactly right. President Xi obviously has an increasingly difficult situation dealing with the Hong Kong issue, but this is not the only issues that he's dealing with. He's got an agenda that includes a trade war with the United States, increasing aggression from President Trump, and international pressure on what China is doing in Xinjiang. He also has major domestic issues within China. He's got a slowing economy that is increasing income inequality. And now, the unrest in Hong Kong has really put President Xi on his back foot.

And you can see that by the speech that he gave at the Party School in Beijing, which I'd encourage everyone to read, where he stresses the need for China to maintain a fighting spirit to overcome challenges that outside forces are presenting to Beijing. His speech, in my view, was striking for its

defensive tone. He recognizes that the Hong Kong issue is an area of great struggle which, he says, has a lot of undesirable outcomes, and I think he's attempting to unify China by painting Hong Kong, and other issues, including the trade war with the U.S., as outside Western forces putting pressure on China.

Ultimately the unrest in Hong Kong could pose serious risks to President Xi, especially if it exacerbates the discontent and discord within the Chinese leadership over these other issues that I mentioned. There are a lot of folks speculating now, given all this, that President Xi's control within China has become fragile. There's grumbling within China that President Xi's consolidation of power has contributed to the government's misreading of the scope of discontent in Hong Kong.

KK: To that point, how is Hong Kong being presented to the general public in the mainland? And what is their perception and view of it?

PH: If you look at Chinese state media, they're shaping the image of what's going on in Hong Kong and what's going on between the U.S. and China as growing hostility towards the U.S. Official state media pins the blame for the protest on this sort of "back hand of foreign interference," in particular, the United States and also what they'd call "criminal Hong Kong thugs."

A popular conspiracy theory in China that exists is that the CIA has incited and funded the Hong Kong protesters. So, controlling the message is critical if Beijing wants to escalate its intervention. If necessary, I think Beijing will use nationalism to mobilize tens of thousands of disaffected young men as patriotic volunteers to move into Hong Kong and storm the

protests. Last week, China's top office on Hong Kong affairs unleashed its strongest rhetoric against the protesters and called on pro-Beijing supporters to firmly protect the homeland from Hong Kong.

KK: You referenced earlier some of the military movements that have been seen on the mainland side of the border. And that got great play in the media here in the U.S., President Trump even saw fit to comment on it at the time. But just to baseline this, what is the Beijing view on the possibility of intervening militarily as opposed to the sort of option that you just presented?

PH: There have to be leaders in the central leadership that know that a bloody military crackdown, the kind that would inflict damage on China and the party, would create international backlash that would be even greater than the backlash that was caused by the Tiananmen crackdown in 1989.

But President Xi's options are becoming more and more limited as protesters are continuing to protest and resort to violence. And we are approaching the 70th Anniversary of the Founding of the People's Republic of China.

If things continue to get worse, I think it's possible that the leadership could resort to military intervention. But in my view, a bloody crackdown is highly unlikely and while we can't rule it out, I think it would be the last resort of the leadership. There are other ways that President Xi could resort to the military. Beijing's military garrison could join the Hong Kong police, for example. Beijing could also deploy the military but have the military be quite passive, unlike the shooting that took place in the Tiananmen Square incident. Then there's the People's Armed Police Force, which

is a Chinese paramilitary force, that's running daily crowd control exercises and drills. They could be deployed. So, there are ways that they could use the military but not in a Tiananmen Square-like capacity.

KK: One of the issues that has gotten lost in all of this, is how the Hong Kong issue might be impacting the situation in Taiwan. Which I know for observers and analysts such as yourself, Taiwan is always the big question in terms of a flashpoint between China, particularly in the United States in the future, but how do you see this impacting Taiwan?

PH: I think there's a big impact on Taiwan. And of course, this is an issue smack dab in the middle of the U.S./China relationship as well. It's within the U.S./China context and it's potentially the most explosive point of tension.

But just a few months ago, it looked like the incumbent president had little chance of winning a second term. They've got a presidential election here in 2020. The Democratic Progressive Party (DPP) was crushed in local elections by the Kuomintang of China (KMT) in November 2018. Beijing had been rejecting dialogue with President Xi and the DPP.

But Taiwan voters are viewing Hong Kong now as an example of what can go wrong with this one country proposal. The one country, two systems proposal that China has put forward is actually helping President Xi as we approach the elections in Taiwan in 2020. President Xi made a speech last January that he was putting forward the one country, two systems proposal formally for Taiwan. And I think now what you're seeing is candidates in Taiwan, that are running for office, who were pro-Beijing in the past, are now moving away from that position and are rejecting the one country, two systems proposal.

Sympathy for the protests is strong in Taiwan. In particular, sympathy for the Hong Kong protests is strong among young adults; 75% of 20-something Taiwanese support the Hong Kong protests.

The events in Hong Kong have forced the KMT mayor candidate in Taiwan's second biggest city to reverse his positions on engagement with the mainland. So, you can see the impact it's having. He has gone from condemning President Xi's resistance to Beijing demands to now trumpeting his own. So, the recent twists and turns have exacerbated divisions within the opposition party of the KMT, increasing the likelihood of at least one independent candidacy with significant KMT backing. So, Honk Kong will have a big impact on the upcoming presidential elections and how candidates are positioning themselves.

KK: Now we'll be going to Gabe here in the U.S. Gabe, Paul referenced the policy of attrition that seems to be the guiding hand of Chinese policy right now. But, given everything that Paul said and the prospects for things continuing in Hong Kong, how do you see this actually working right now? And what adjustments could be made?

Gabriel Wildau (GW): I would say the strategy of attrition is basically the least bad option that Beijing sees for dealing with the protests. I think there's been a sense that a lot of observers think Beijing is going to intervene. And then the consensus seems to be that Beijing is not going to intervene militarily unless things get a lot worse. And so, then there's a sense that maybe they're sort of paralyzed. What can they, short of intervention, do to try to influence the situation? And the strategy of attrition is an attempt to do that.

I'll describe it very briefly. Paul talks about propaganda. I think that's relatively self-explanatory. It's aimed at the domestic audience to try to make sure that sympathy doesn't build for the protesters there.

In regard to mobilizing the pro-Beijing establishment, listeners may remember a couple of weeks ago, Hong Kong tycoons took out a series of ads on the front pages of all major newspapers calling for both sides to dial back tensions and think of the good of the city. So that's another element.

In terms of law enforcement, we're seeing progressively tougher tactics from the Hong Kong police and also from prosecutors, where the protest leaders are being arrested. I think there's more space to escalate that even further. But that's something that could have an impact, even short of Beijing intervention, if the goal becomes to just kind of decapitate the movement.

And then there's cultural integration. Cultural and economic integration with the mainland is something that's been ongoing for several years. It's a long-term plan, but I think it remains very important. This involves stuff like infrastructure links, such as the new high-speed rail line going from Hong Kong all the way to Guangzhou. The Greater Bay Area development plan is a sort of multifaceted economic development plan that is meant to promote cross border activity between Hong Kong and the mainland.

There's an effort to encourage mainland companies to establish units in Hong Kong, including moving senior executives. So a lot of the senior executives from the mainland actually live in Hong Kong. There's essentially an effort to import mainland population and this is similar to what China has done with other regions. In Shenzhen, for example, China tried to import a more loyal population.

And then, of course, a threatening force is the last major component. And that too is if we assume that Beijing doesn't want to intervene militarily. They're, nevertheless, releasing videos showing the People's

Armed Police doing these types of exercises. They're at least partially doing this for a domestic audience, where you have the domestic media in the mainland doing reports on some of the actions by protesters that are the least flattering, such as their abusive treatment of mainland journalists at the airport.

So, when you have those kinds of images, then you also need to show force because otherwise there's a risk that the Chinese mainland public would then say, 'Our people are being abused at the airport, our people are being abused on the streets of Hong Kong, and what is our government doing to protect our own citizens?'

So then, you can use these shows of force videos to demonstrate complete preparedness to mobilize and to do what needs to be done if necessary, even if the leadership doesn't actually intend to do it. It's a way of insulating yourself from criticism from your right flank that you may not be doing enough, and you may not be tough enough. So, briefly, that is the attrition strategy.

KK: Paul gave us a number of insights into what the thinking was in Beijing and the impact all of this has on complicating China/U.S. trade negotiations. You spend a lot of time in D.C., give us a sense of the state of play in the US.. government and in Congress about how all this relates to, and impacts, the trade negotiations between the U.S. and China.

GW: I think from President Trump's perspective, he clearly prefers to keep the human rights issue, including the Hong Kong issue, sort of separate from trade negotiations. He has a record, going back decades, of being praised for his authoritarian style leadership from China, dating back to his comments about Tiananmen.

But in Congress, the situation is different, and momentum is building in Congress for the U.S. to take forceful action in support of the protest movement. And the most visible manifestation of that is the Hong Kong Human Rights and Democracy Act, which is a proposed legislation of a bill that's been actually floating around Congress for many years, but it's only now really picking up support from both sides of the aisle.

Nancy Pelosi and Chuck Schumer, the two top Democrats in Congress, have both supported it, and the Republican leader of the Senate Foreign Relations Committee has also come out in favor of it. The House and some of the House Democrats have supported it. So, if things worsen in Hong Kong, if violent images, in particular police crackdown images, continue to come out of Hong Kong, I think we could see momentum for that bill. And what that bill does is it would amend the 1992 law that sets the framework for U.S./Hong Kong relations and defines Hong Kong as a distinct entity from mainland China for commercial purposes, tax, customs trade and so forth. This would also require an annual review process that certifies that Hong Kong is sufficiently autonomous to justify the continuation of its special status designation.

So, I don't think Trump wants this to pass, but he would have a hard time, if it did pass, to veto it, as it would be passing with bipartisan support. And I think he'd also find that, to an extent, that if the protest situation continues to worsen, it'd be difficult to do a trade deal. He's also acknowledged this publicly. Certainly, if there's a bloody crackdown on the protesters, it can't help but influence the trade negotiations.

KK: At the outset of the call, Damian was talking about the issues of traveling into Hong Kong and it sounds like the biggest issue really is mostly one of inconvenience. You speak to a lot of corporates,

U.S.-based in particular, with operations in Hong Kong and people traveling to and from the region. What are the key issues that you're discussing with them and your recommendations? Also, what other key policy issues are relevant right now?

GW: On travel, as Damien said, we don't see major risks for foreign executives traveling to Hong Kong. There could certainly be major travel delays, but in terms of safety, we don't see much. But one issue that I have highlighted to clients regarding travel to mainland China or employees that are executives that are based on a permanent basis in mainland China, is this issue of the dual nationals. China doesn't allow dual citizenship for mainland citizens, but there is a common phenomenon of what I've called 'covert dual citizens' where a Chinese citizen has obtained a foreign passport, perhaps a U.S. passport, but has not relinquished his Chinese identity documents.

So essentially, it's covert because China doesn't allow dual citizenship, but people will try to maintain it anyway. This creates risks because if one of these individuals is arrested in mainland China, the company employer may be under the impression that he's a U.S. citizen or Canadian citizen, or an EU citizen, and therefore expects him to be treated as such. And instead, they may be surprised to find that this person is treated as a Chinese citizen because from China's perspective, he still holds these valid documents. And where the misunderstanding comes in, is they automatically assume they relinquish their Chinese citizenship when they obtained a foreign citizenship. But in fact, if you do not notify the Chinese government that you have obtained foreign citizenship, or if they haven't figured it out for themselves, they will continue to treat you under the mainland legal system as a mainland citizen. And so, for companies, we are advising them to make sure that they are fully certain of the citizenship status of their employees, so that they're not surprised by a situation like that.

And then there were reports in the last few months of foreign executives being harassed by both foreign and Chinese citizens at the border, detained temporarily, and prevented from leaving the country. And so, when dealing with a situation like that, you need to know the legal status of your employee.

KK: We talk a lot about the tactics and the near-term strategies that we've got here. But what does China really want and what does it really need Hong Kong to be and how is that impacting them? It seems to me that as long as the capital account is closed in the mainland, they need Hong Kong as this conduit to markets outside of the region. What do they want and how do corporates calibrate to that?

GW: I would say Hong Kong is definitely less important than it was 30 years ago to China. It still remains extremely important, but, the way in which it's important has changed. In the early part of the reform period, it was about inbound, foreign direct investments. Hong Kong was a gateway for foreign investment to enter mainland China. It still serves that purpose today, but direct investment into mainland China, not by Hong Kong, is now much easier than it once was. So, I would argue that the crucial role of Hong Kong today is more as a facilitator of outbound investment from China.

If you look at Chinese companies that want to build an international business, most of them build their ex-China headquarters in Hong Kong and that's their platform for expanding to the rest of the world.

We also see in the outbound foreign direct investment statistics a very large share overall at FDI. The destination is listed as Hong Kong, but that's not

the true destination. Hong Kong is being used as a waystation as there has been a huge emphasis on Chinese companies going abroad.

And in the financial role, Hong Kong is especially important to Chinese companies. They will raise U.S. dollar financing from banks in Hong Kong, and then they'll use that money to acquire real estate in New York or to acquire a tech company in Silicon Valley or what have you. So, in terms of GDP, or in terms of the share overall, Hong Kong is small, but its role as facilitating outbound international investment is still quite important.

KK: Paul, anything you want to add?

PH: I agree with Gabe on the economic and finance side. Of course, there's a political question and the political issue with regard to Hong Kong is one of control. Beijing wants to, from a political standpoint, control Hong Kong more than ever in history. And we see this with all the issues that I mentioned before. You've got Hong Kong, you've got Shenzhen, you've got Taiwan, and the South China Sea. These are all issues related to sovereignty.

And I think the one thing, in terms of the party leadership, is that in order to maintain credibility among the people, they've got to keep the country together. And Hong Kong is now obviously, from a political standpoint, a part of China. And so, there's how do they balance the value that it represents from an economic standpoint with the fact that they want more political control over that entity?



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