



The Global CEO Advisory Firm

## Teneo Insights

### Hong Kong: Continued Unrest with No Clear Path to a Resolution

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

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**Kevin Kajiwara (KK):** Welcome to today's Teneo Insights call on Hong Kong and the continued unrest there, and the potential path to a resolution. I'm Kevin Kajiwara, co-President of Teneo's Political Risk Advisory business. Guiding us through today's conversation, I'm joined by three of my colleagues: **Damien Ryan**, the CEO of Teneo's Asia-Pacific business; **Paul Haenle**, a Senior Advisor to Teneo and Director of the Carnegie Tsinghua Center in Beijing; and **Gabriel Wildau**, a China specialist for Teneo's Political Risk Advisory business, who was previously the Shanghai Bureau Chief for the *Financial Times*.

Today we're going to draw on these guys' regional experience and perspectives and look at how multinational corporations should be thinking about the long-term Hong Kong situation and their footprint there. I'd like to start with Damien. You know Damien, last Sunday we had one of the largest protests to date, with estimates of about 800,000 people in attendance. It was the first approved march since August. It also comes right on the heels of the very big landslide victory that the pan-democrats enjoyed at the November 24th District Council Election. To start, can you give us a view from what's happening on

the ground, what these most recent events signal for the movement, and what you think next steps look like?

**Damien Ryan (DR):** Thanks Kevin. You are right. There is a bit of a shift that has gone on in terms of tone that culminated in that Sunday rally, which was largely peaceful. It was the first time in months where we actually haven't seen tear gas fired and that's a good sign. It just really reflects the tonality shifts that we've seen, which is essentially a bit of a pause, a bit of a truce, that's gone on over the last few weeks. Just for context, it's now largely down to two key events. The first one of those were the District Council Elections held on November 24, which was a real landslide victory for the pan-democrats in terms of the seats - 17 out of the 18 districts were won, so there was something like 452 seats up for grabs. Pan-democrats won 347 of those, so it was a really big victory.

Interestingly, it's worth noting, in terms of the vote, that 40% of the overall vote went to pro-establishment candidates. So it wasn't a landslide in terms of the number of votes recorded, but it was in terms of the number of seats won, and still created a sense of victory and momentum for the pan-democrats, and also a sense that the movement can perhaps succeed through political channels.



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(The most significant election will be in September of next year, for the Legislative Council, which I will address later). But politics and policy, at least through those channels, could actually succeed at getting some of the protesters to leave.

The other key moment is the siege that happened just before the election at a university in Hong Kong on the Kowloon side, which is Polytechnic University, that saw thousands of protesters essentially trapped in this university. While they were there, the university was really badly damaged, with a lot of destruction, including a lot of fires. In the end, police made a high number of arrests, about 1,000 arrests, bringing the total to about 6,000 arrested overall. There was certainly a sense among the protesters that that was a loss. It was certainly a loss of faith. It was embarrassing and there were a lot of fatigue that just generally set in because it's now been six months of ongoing protests, six months of a lot of violence, and this came at a time when we're headed into those really important elections.

So we are seeing a victory in the election. And then we're seeing this protest (I should say rally) on the weekend, with 800,000 people reportedly turning out, largely peaceful; citizens out in force, really showing that the demands, the concerns that they have are top of mind and that they're not going away any time soon.

And another point to note is that all of this has come about when we've got a new police chief in Hong Kong. He's indicated a bit of a change in tactics, soft when needed, hard when needed. That's kind of what he's been indicating. And that softer side was seen on Sunday; there was no tear gas, and there wasn't too much of a confrontation then. So, the tactics are shifting there.

It's also worth noting that the government has called for an end of violence before meeting for dialogue or any talk about concessions could resume. So we have a pause. We don't have that violence like we've seen. Protesters have given the government what they've asked for so now it's really up to the government.

And the final point to note is you've got Carrie Lam on the weekend, heading up to Beijing for an annual visit. She'll be there for several days and she's there to give an update on Hong Kong. She does this annually, but this time it's all the more significant.

So we're really going to be watching for a response from that visit. We're going to be watching for things like photos of her with the President, or any other senior members of the Beijing team. That's going to be fairly significant, both in terms of optics, but also in terms of what's said after that visit.

**KK: Damien, you went into some detail on the election and I'm just wondering out of curiosity, much is made in the media about the responsibilities of these District Councils that they're, you know, where the stop lights and bus stops are placed, and trash collection and the like. So the victory of the pan-democrats is in that context. But I'm wondering, do those pan-democrats that are going to assume these positions on these District Councils, do they actually now have to perform in some way, or is this really just about the narrative of victory, or are they going to have to deliver for their constituents on some of these issues?**

**DR:** Yes, very much so. They do have to deliver because if they don't, momentum will be lost, and cynicism will creep in ahead of those important September elections for the Legislative Council. So

you will find there's a lot of young, first-time local politicians who have been elected who are going to find themselves, as is the case in my constituency here, haggling over bus routes, dealing with rubbish collection, and in my case, dealing with a wild boar problem, which, believe me, is an issue around the forests. So these guys are going to roll up their sleeves and do it. They're going to get paid about 5,000 U.S. dollars a month, so it's not for free. And they need to show that they're really committed to the cause, so I take your point that they do have to deliver results very much at the local level. And then if they do a good job there, and if they can continue the momentum that we're seeing, that'll lead to a good result come September.

The key here is the election of the Chief Executive. And if there's a big victory for the pan-democrats in September, that will have a big influence on the numbers when it comes to who votes in the Chief Executive.

**KK: I hope for your sake they get that wild boar problem under control. Obviously we all remember that the proximate cause or the catalyst was the ultimately withdrawn extradition bill. But very quickly it emerged that the protesters had five demands. Is the movement still about those same five demands, or has it broadened or evolved?**

**DR:** You know it's funny, if you go to any of the marches or protests and you'll constantly hear five demands, not one less. So, the five demands are out there. And just as a recap, one of those is the withdrawal of the extradition bill, which happened. Two, investigation into alleged police brutality and misconduct. Three, a complete retraction of the official

characterization of the protests as "riots," as rioting carries up to seven to ten years in jail, if convicted. Number four is amnesty for arrested protesters. And five is universal suffrage, mainly for election of the Legislative Council, as well as the Chief Executive.

The reality is the government is not going to give into many of those demands. There's talk about a commission of inquiry broadly, not just into the police, but of all violence, and we could see more pressure for that, and a potential concession come around from that. Certainly, plenty of people have been asking for that. What's at the heart of the movement is that Hong Kong people do want autonomy in the form of universal suffrage. They're sensitive about erosion of rights and freedom, such as that extradition bill, which they saw very much as an example of that. So, this is very much a struggle of not only defending freedoms, but also expanding freedoms. What it's less about is this narrative about economic disparity. Yes, that's a big factor. Yes, housing and affordability is key here. But it's not as key as having the right to elect leaders.

**KK: I think a number of people who are listening in today may have been on one of our earlier calls about this. And a couple months ago, there were a lot of multinational companies, particularly those with a presence on the ground, that were getting caught up in reputation-related issues in Hong Kong stemming from the protests. And it feels like there's less of that now happening. Do you think that these sort of reputational risks have dissipated now that we're in this almost normalized cadence that you've referred to in terms of the protests and then the police action, or is that a very real risk that companies ought to still be considering here?**

**DR:** The risks are very much still there to be clear. And the risks are significant in terms of license to operate, and also the roles of executives. Just to take a step back, there are fewer risks today, but that is partly because a lot of the obvious ones happened earlier back in June and July. And that was where companies were seen to be on one side or another, that is that they were giving up neutrality or they were showing that they were favoring, say for example, the pro-establishment or pan-democratic side. And that caused a lot of issues for international companies, and also for some big significant local conglomerates here. The other issues that we saw, were these “country of origin” ones that were catching a lot of retail brands - mislabeling of items for example. A bunch of unfortunate issues, where photos or advertisements were kind of taken out of context.

But the biggest risk still is around companies giving up that neutrality and taking sides. So, it's executives out of region, making comments at conferences or in media. Its colleagues saying one thing or another that may indicate that a company (be it an international company, or a Hong Kong corporate, or an Asian corporate) are favoring one side or the other.

Now, what we are likely to see is, as the rhetoric has increased and as the political pressure ramps up, you probably will see more pressure on companies to come out and actually take a stance. We've seen that from Beijing where they're pressuring a lot of Hong Kong tycoons and property companies; they almost reluctantly came out in the form of advertisements.

But this may happen more so with international companies, and as that happens, you are going to see a backlash from one side feeling that they're being betrayed by that.

So those are some of the risks that we're really watching out for. There has been a pause, but the risks very much remain.

**KK: Damien one last question for you before we move on. What are the scenarios we should be considering for the next few months, and what kind of things should we be looking for regarding Carrie Lam and her position? Also, what might be some catalysts that we ought to be concerned with that could either reignite major protests, or get them to turn in another direction; are significant dates, like Chinese New Year for example, worth keeping an eye on? What dates are you watching?**

**DR:** There's a few just in terms of dates; you've got Taiwan Elections coming up early/mid-January so there's going to be a lot of focus on that. And a win to the government will be credited partly towards the Hong Kong movement.

I think in terms of scenarios that we're looking for (seeing Carrie Lam step down; a commission of inquiry announced to conduct investigations into the broad violence by her successor; and high financial stimulus) we're not seeing those same scenarios. What we do see is the potential for Carrie Lam to remain in her position is higher than it was previously. We think that's because there's a lack of options around who could replace her, and it's better sticking with her. We think also, timing-wise, it doesn't make sense necessarily to have her leave in March, particularly ahead of the key elections in September. So that scenario isn't as likely at the moment. I think what is likely is her staying in power. But maybe there could be a reshuffle of key cabinet figures including the Security Chief, the Justice Minister, the head of Administration, and other positions. And that could be seen as some type of victory for the protesters and

some form of concession. If they were to do that, and then a commission of inquiry, you could see some real progress there in terms of protesters focusing on political means rather than the sort of street violence that we've seen.

The other scenario to keep in mind (and it's very real and everyone is aware of this) is a real increase in violence but with fewer numbers. So again, we've got 6,000 arrests. You've got about 1,000 being charged. The key dates to look at are going to be in March when the courts will start processing trials at the District Court level - the first rioting charges. So, if you start to see people handed seven-year sentences, that's going to be a trigger point.

And I think a scenario that Gabe's written about a fair bit, is higher intensity violence, where civilians are getting caught up in things. You're not seeing the running battles that we've seen previously. And by the way, those battles that we've seen in the past, that we just don't see anymore, is partly because a lot of the frontline individuals may simply have been arrested.

So, the key dates to look for are, are flash points around elections in Taiwan. That'll be closely watched, together with judiciary judgements, to make sure that they're handing down fair sentencing, as we move towards the elections in September. What we don't see is the Chief Executive being replaced any time soon. If anything, it looks like Carrie Lam will be with us for some time longer.

**KK: I'd now like to broaden the discussion beyond the territory itself, and turn to Paul Haenle in Beijing. Paul, back in October, the leadership of China gathered in Beijing for the fourth plenum, and as ever, those meetings were obviously held**

**behind closed doors. But we do know that the discussion did address the Hong Kong issue, and we know that because the communique issued after the conclusion of the plenum acknowledged that the parties plan to assert control over Hong Kong. What should we make of that communique as it pertains to the territory?**

**Paul Haenle (PH):** Thanks Kevin, as you mentioned, the Hong Kong issue was addressed during the fourth plenum. The references were somewhat vague, but I think pretty significant in my view. Generally, these plenums under Xi Jinping's leadership have been focused on issues like governance and the role of the party, and of course, when you look at the Hong Kong issue, that gets at the heart of both of those issues. And so in the third plenum last year (which traditionally third plenums are focused on economic issues, economic reform in particular) party leadership focused on party and state governance. So this seems to be an increasing focus for Xi Jinping in these party meetings. In the fourth plenum in October, specifically on Hong Kong, the focus was on establishing a national security law that would provide a legal basis for dealing with the ongoing protests. Communique said that Beijing would establish and perfect a legal system and enforcement mechanism to uphold national security in the Special Administrative Regions. Thus far, Beijing has really just relied on the emergency powers. And, the fourth plenum statement is a sign that Beijing can take further measures to go beyond those emergency powers if they deem it's necessary to do so. Now of course, it's not the first time we've seen steps like this. Hong Kong authorities tried to pass the national security law in 2003, and that led to very large protests, eventually forcing the Hong Kong authorities to shelve the law. If you look at the situation today, the Hong Kong public seems

more unified in their opposition to Beijing, which would likely indicate any effort to build a more cohesive enforcement mechanism would be met with significant resistance again and further protests.

The importance of instituting a legal framework in my sense here in Beijing, in terms of the Communist Party Leaders, has probably been reinforced after the strike down of the Hong Kong government's ban on using masks last month, when in October, the Hong Kong government instituted a ban on masks at public gatherings under the Emergency Regulation Ordinances. But that ban was ruled unconstitutional by the courts in November. That obviously didn't go over well here in Beijing.

But the vagueness of the plenum statement does leave open for interpretation how Beijing will try to institute such a legal framework. I would encourage our listeners to read *The People's Daily* piece written by the Director of the Hong Kong and Macau Affairs Office of the State Counsel. A gentleman by the name of Zhang Xiaoming wrote this piece, which pointed out the need to urgently implement Article 23, arguing Hong Kong's failure to pass a national security law is the reason for the intensifying protest in Hong Kong, and contrasting the situation in Hong Kong with the stability in Macau. And I think that it's likely a signal that China is reviewing these policies and principles governing Hong Kong, thinking through now how to best follow-up on the fourth plenum.

Damien pointed out Carrie Lam will come to Beijing for her annual visit. She'll meet with Xi Jinping and I think any messages coming out of that meeting might indicate what is to come next in terms of following up on that fourth plenum.

**KK: I want to dig into this here a little bit, by going back to the District Council Elections in Hong Kong that Damien detailed a few minutes ago in**

**which the pro-establishment candidates were soundly beaten. In a lot of ways, that election served as a message to Beijing. You had a record high turnout of over 70%. You could argue that it was a pretty good measure of the sentiment that a lot of Hong Kongers feel towards Beijing. So how was the result of the election viewed in Beijing, and are they recalibrating as a result of that at all?**

**PH:** Like you said, these local elections for small constituencies typically don't get too much attention. As was pointed out, they're sort of about where to put lampposts and traffic lights and getting rid of wild boars for Damien. But in this particular case, they did seem to turn into kind of a referendum on the Hong Kong government, and they are a good indication of what the Hong Kong people are thinking now that we're about six months into the protests. And by all accounts, here in Beijing, it seems that the leadership here was surprised and I think unprepared for the results of the election. The Chinese news outlets seemed to have little preparation to discredit the results or to establish a narrative in the event of failure. In fact, it seems they were ready to celebrate a victory. They were forced to quickly rewrite stories and the official narrative now that is being tested in the Chinese state media is that the election result was due to foreign interference in particular from the U.S., and dirty tricks from the protesters.

Kevin you asked has there been any indication that there's been a recalibration of Beijing's approach because of the results, and I think many had hoped it would serve as sort of a wakeup call for Beijing, but I don't get the sense that that's the case. There's no indication Beijing sees the results as a sign that they need to change their approach to Hong Kong, or that there's any need for some sort of major compromise. In fact, I think their position is hardening. It was a resounding defeat for pro-Beijing candidates. And I think in fact, it could actually exacerbate

leaders and Beijing's fears about giving Hong Kong residents even greater say in political issues and in choosing their own government. So, I think Beijing will do everything in its power to avoid a repeat of the District Council Election in the Legislative Council Elections in September. The challenge will be to avoid provocations or escalations that drive the general public further against Beijing, while also asserting greater control to manage the situation.

President Xi gave a speech in September where he spelled out what he sees as the proper way to proceed, and he focused quite a bit on economic development as the key to resolving the Hong Kong situation. And it's my sense Beijing wants to focus its efforts more on issues related to economic inequality, sort of economic bread and butter issues, and avoid the issues around Beijing's increasingly heavy political hand in Hong Kong.

**KK: Picking up on what you were saying about the lack of preparation in mainland media for that election outcome, in our last call we did talk about how Hong Kong was being presented to the general public in the mainland. Has the narrative that's being presented on the mainland changed much over the last several months? Or how would you characterize sentiment among the general public toward the protests?**

**PH:** We haven't really seen much of a change in that regard. Some parts of the narrative remain unchanged. In particular, the notion that Hong Kong protests are supported and instigated by outside pro-democracy forces like the U.S. trying to start a color revolution. And I don't expect that narrative to go away, especially given the current level of tension and friction in the U.S.-China relationship. The coverage has evolved though since the protests started in June. Initially, when the demonstrations started, the state media in

Beijing was relatively silent, and really only reported on pro-Beijing protests of foreign forces interfering in Hong Kong. In July, following the protesters breaking into the The Legislative Council, state media began to pick up, strongly criticizing the protests and we saw videos of Chinese police on the Hong Kong border.

Today, frankly, we see a wholesale condemnation of the protests; a good indication of that is to read the *Global Times* last month, where they compared what's going on in Hong Kong and the protesters to the Islamic State. There's a mid-November *Global Times* piece where it said the demonstrators both on account of their black outfits and their armed occupation of parts of the city increasingly resemble the fanatical fighters of the Islamic State.

So, the turn in Hong Kong to violence that we saw over a period has really hardened many Chinese views, and if you go to social media and you look on Chinese social media here in the mainland, you'll see pretty uniform condemnation of the violence and of the protesters.

And the image of violence that's carried out by some protesters, like the vandalism of buildings and public structures, and violent acts against police in many ways serves to enhance the state media narrative that the Hong Kong protesters are what they call violent rioters. But, you know, violence will only help the leadership to a certain point. There's always the risk that if the situation spirals out of control even further, the general public here in China might start to question why top Chinese leaders haven't taken more direct or forceful measures to quell the protesters, but we haven't seen that just yet.

**KK: So, we talked about how the District Council Elections were to a degree a message to Beijing. There's been another big message to Beijing, and**



**that is of course the Hong Kong Human Rights and Democracy Act, that passed the U.S. Congress by overwhelming margins, so overwhelming that President Trump had no real choice but to sign it into law. And in a minute I'm going to turn to Gabe to talk a little bit more about the U.S. perspective here. But China, you know, China threatened to retaliate if the legislation was enacted, and they did announce measures shortly after the bill was signed. It seems to me that all things considered, those measures were relatively muted, as many Chinese reactions have been to U.S. actions on a whole host of fronts over the last year. What do you make of Beijing's response to that legislation, and does that then have any impact on China's perspective on the ongoing trade negotiations? (Not to get too far off topic here but just your thought on that front).**

**PH:** I think you're right that the response from Beijing was fairly muted. The rhetoric was very strong though. I will say stronger than I've seen. If you read the Chinese Foreign Ministry Spokesman, Hua Chunying's statement, her harsh rebuke of the U.S. and the signing of the bill, the tone there was just striking. And in some ways we crossed the threshold in terms of Chinese officials basically punching back. Hua went back to talking about the Native Americans and what the U.S. did in terms of wiping them out, and it's worth reading if people haven't read it. Wang Yi, the foreign minister of China, said it was a smearing attack and a slandering of China to a level close to madness. So there were very strong statements. But I agree with you that the substance of China's response was fairly muted.

For now, I think retaliation has been mostly restricted to them rejecting a U.S. port call in Hong Kong and then sanctioning of these U.S. NGOs that they view as supporting the protests. And the action of sanctioning

the U.S. NGOs also serves to further Beijing's efforts to blame the U.S. for having a hand in the unrest through those respective organizations that were sanctioned. So, it ties into their official messaging about organizations like the National Endowment for Democracy and the International Republic Institute and a couple others.

But as a whole, the response indicates Beijing does not want these tensions over this Hong Kong legislation to derail the trade negotiations. You know those trade negotiations are already facing obstacles prior to that bill being passed. There's disagreements over the scale of the rollback of tariffs, and the amount of agricultural purchases. They still have work to do on Phase One.

And today I spoke to a Chinese scholar and asked him about the impact of the bill on the trade negotiations and he said, look, in Beijing, there's an acceptance that Trump's hands were tied, and he made a calculated political decision in the face of domestic political pressure. Lastly, I would say I think that both sides are incentivized to reach a deal. Trump for his political reasons moving into a presidential campaign. President Xi, I think, wants to bring some stability to the U.S.-China relationship, given the other significant challenges currently on his agenda; I mean Hong Kong is on the agenda, Taiwan with an upcoming election (which doesn't look like it's going to go the way they want it to go) and increasing pressure over Xinjiang.

And of course, there's concern that the damage that a continuation of the trade war would have on China's efforts to slow down its economy and rebalance the economy. I think there's some concern about that. So, I think they will find a way to separate the trade negotiations from their response to the Hong Kong legislation.

**Kevin Kajiwara: Gabe, turning to you, obviously there is a lot of stuff going on in Washington on the trade front, both with regards to China right now and the USMCA and final budgetary stuff to get through by the end of the year. Not least of course we have an impeachment inquiry going on and the 2020 Election as well underway. In the middle of all of that, how would you describe the prevailing attitude in Washington right now regarding Hong Kong, particularly following the enactment of the Hong Kong Human Rights and Democracy Act? Are there any other actions pertaining to Hong Kong that are being contemplated or are possible out of Congress or the Executive Branch?**

**Gabriel Wildau (GW):** So as I think everyone on the call will recognize, the mood in Washington has turned quite hostile to China over the last couple of years, even before the protestors were arrested in Hong Kong. And then since the protest began, it's added more fuel to that fire, and it's provided another kind of locust of criticism by U.S. politicians against the Communist Party and another kind of target where they can focus their criticism. And as Paul discussed, the Hong Kong Human Rights and Democracy Act had (versions of that legislation had) been proposed dating back years, but this time it really gained momentum to the point that they passed with basically unanimous margins.

And I think it's significant that Senate Majority Leader, Mitch McConnell, as recently as a few months ago, was prepared to keep that legislation off the floor and prevent a vote on it at the President's request, because as Paul discussed, there were concerns that it could disrupt trade negotiations. Trump didn't favor the legislation.

But I think that McConnell felt that his own hands were forced as there was so much support for that legislation in Congress that he had to let it go through to a vote, and then it passed unanimously or virtually unanimously. And in one sense, it's a symbolic measure. It doesn't require the President to impose sanctions or to take other actions. It does ban the sale of ammunitions and other kind of anti-riot gear to Hong Kong police. But in terms of what would be the more provocative actions under the law, it grants that discretion to the President.

But I think if events continue to deteriorate, if protests continue and especially if there are violent protests, and especially if the police are viewed as using disproportionate force, let alone if there were deaths of protesters, serious injuries, I think we would see political pressure in Washington for the President to use his authority under that new law to declare that Hong Kong's autonomy had eroded sufficiently that it was no longer distinct from China and to impose sanctions on specific individuals in Hong Kong and in the Communist Party who were viewed as complicit in the police violence or in the erosion of liberal, democratic freedoms in Hong Kong.

I don't think we're at that point yet. But if things deteriorate, then we could have a replay of the dynamic that produced the legislation itself, where the President doesn't support; the President's allies and Congress try to slow walk it, but eventually they are overwhelmed.

The other thing I'll mention is this Uyghur Human Rights Policy Act, which is sort of a Xinjiang version of the Hong Kong Human Rights and Democracy Act. That passed the House of Representative last week. And there's no vote scheduled on it. But I think we could very easily see the same dynamic playing out, with momentum building.

And I do observe a kind of symbiotic back and forth between the views on the Xinjiang issue and Hong Kong, where the Hong Kong issue is drawing attention to Xinjiang and vice-a-versa. The leak of this trove of documents from inside the Communist Party and inside the government about Xinjiang policies is drawing more attention to that issue.

And you also have the protesters in Hong Kong referencing Xinjiang repeatedly. Many of them are convinced that the mainland authorities are preparing to set up intermit camps for Hong Kong protesters. That seems a bit farfetched, but that is a pretty widely held view among at least certain more radical factions of the protesters.

And in Washington, I think there's some degree of conflation of those issues, as well, where they're all taken to be signs of this authoritarian turn in China and the brutality of the regime there.

So in short, all of this is just feeding the anti-China mood, and I think U.S. politicians see a lot of political upside to drawing attention to China, to what they see as Chinese human rights abuses and to catering to anti-China public opinion; well I wouldn't even say public opinion necessarily, because the polling of the broad U.S. public that I've seen doesn't show the same degree of new hostility towards China as is evident inside the Beltway, within Washington there's been this really striking turn, but with the general public I think less so. But nevertheless, U.S. politicians see a lot of political upside to criticizing China and I expect that to continue, especially if the situation deteriorates in Hong Kong.

**KK: Let's cut to the chase here. Here's the tough question Gabe, because we're all aware that Hong Kong occupies a unique position in global business. So at this point, what is your real medium and long-term outlook for Hong Kong as**

**a global business and financial center? Those of you on the call who are familiar with Gabe's work and his writings for Teneo, one of the things you talked about is that, and I think this has just been confirmed by the comments of our colleagues, there aren't really obvious off ramps for either side here. The Chinese position is to double-down its policy of attrition. We know that the protest movement isn't monolithic. Can this story really break one way or the other, and what do you see?**

**GW:** I see a medium and long-term continuation of at least sporadic protests, and probably violent protests included in the sporadic outbursts, because there is a significant radical faction that has fundamentally lost faith in the ability of existing political institutions and the existing authorities to meet their demands. They see violence as both morally justified and also as expedient in terms of the best way to get their demands met.

And the leaderless nature of the protest movement means that even if those factions are just a minority, there's no mechanism to rein them in, and they can act out in ways that even perhaps the majority of protesters oppose. But no one is able to control them. And Damien mentioned the Belfast scenario, and I do want to be cautious about taking that comparison too far, because I don't expect violence to reach the levels of Northern Ireland in the 70s and 80s. But the political dynamic is similar in the sense that you have a hard core group of radical protesters willing to use violence, and then you have an outer ring surrounding that radical core that is a bit uncomfortable with the tactics, but is nevertheless sympathetic to the cause and unwilling to decisively turn against the radical core to report them to the police. So the violence is able to continue with the support of the broader population, and that is a recipe for sustainable unrest, and that's why I expect sporadic violence to continue.

However, in terms of what does that mean for Hong Kong as a financial center, as a business center? I still think that it's the best option in the region and it's very difficult to replace. The capital markets are unrivaled. Singapore is so far behind in terms of all kind of gauges of the equity market, the lending market. And so, and as Damien mentioned at the beginning of the call, life in Hong Kong for many people who are not involved in the protests, for white collar professionals, continues to go on, not as normal, but some version of that. I mean they can go to work. The capital markets can function. You know the night life, the retail is affected. People aren't going to the restaurants and bars the way they were. This is what I get from my contacts on the ground; it's not at a point where day-to-day life is paralyzed for the most part. There's inconveniences, but nothing that is going to, in a short-term, cause a mass exodus from Hong Kong.

But what I think we could see is a slow attrition from the really central role that it plays today, where you can have when office leases expire. You could have some foreign company, some big multinational company had 10 or 15 floors now but go down to, you know, five or eight floors, so nonessential personnel could get rotated to a different part of the region. You could have expats coming themselves to Hong Kong when they're dispatched there but declining to bring their families.

We've seen Beijing introduce some preferential measures for some special policies for Xinjiang and Shanghai that seemed designed to not wholesale replace Hong Kong, but to transfer some of the functions that can be transferred there, and capital markets in particular, to those other cities to reduce the reliance on Hong Kong, but not to fundamentally undermine its role. So that'll take place over the long-term, but in the short and medium-term, Hong Kong remains the preeminent financial and business center in Asia.

**KK: I just want to finish with one question for Damien if I may. And Gabe you kind of teed it up. Damien, as somebody who's a leader of an organization, a firm in Hong Kong, you have employees who are Hong Kongers and you've got employees who are ex-pats, and you've got employees from the mainland. You're a father, you've got kids who are going to school every day in the territory. Can you just give a little bit of a sense of how this is impacting everybody personally? You know this kind of new normal, this cadence of protesting and at the same time everyday life going on as it is. Can you give us a little color on that?**

**DR:** Further to Gabe's good points around the fact that it isn't necessarily business as usual; it's everything from big events being cancelled (sporting and business events for example) and those that are continuing and being affected. Tourists and business travelers are just staying away. So you've got 40% to 50% down in visitation, which means that retail sales have plummeted. Hotels are struggling. Restaurants are badly hit. There are empty or partially empty bars. People just aren't going out as much. And that means we're all really bracing for pretty big job losses come the first quarter off the back of that slump that I referred to.

Deals are not getting done as much, except for IPOs, which are still going strong (for example the big Alibaba IPO in Hong Kong). But M&A and other forms of deals are just not getting done as much as they were.

To your question about how individuals are operating, at a guess, everyone is probably 10% to 20% off their best, they're just distracted. There's a lot of fatigue, and mental health issues are real issue for the territory. At the same time, everyone is living with protest day in

and day out. In central tonight, we've got another fairly big protest going on as we actually speak now. So this is in central Hong Kong. It's a six-month anniversary from the day of when the extradition bill was set to pass. So as we know, that was withdrawn, but you've still got thousands of people out there tonight marking that occasion.

At the same time, I live in the University District around Hong Kong University that had a lot of damage to it through the protest. The local train station was really badly trashed. It's still bordered up. There's graffiti everywhere. Pavement is now back in place after being ripped up by protesters who used the bricks for weapons. And so my kids are sort of seeing this day in and day out. You've still got, at 10:00 pm at night, a lot of students screaming demands from their windows simultaneously. So it's not so much business as usual. But I take Gabe's point - it's also not falling off a precipice. And back to the earlier point about the only things that aren't affected are the family of boars across the road that we now need to get these District Counselors onto fast and quick to address that. But no, seriously everything is definitely off its game.



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