



The Origins of Current Political Instability within Hong Kong and its Effect on Chinese Economic Interest in Trade

and Investment

University of Groningen Liberal Arts and Sciences Bachelor Thesis 12th June 2020



Supervisor: Dr. Annika van Baar, Professor in Business and Human Rights
Co-Supervisor: Dr. Martijn Boot, Professor in Political Philosophy, Ethics, and Philosophy
Name: Frances Isobel Rane Payne
Student Number: 3430154
Word Count: 10,911

Abbreviations

FDI	Foreign Direct Investment
SAR	Special Administrative Region
OCTS	One Country, Two Systems
HKSM	Hong Kong Stock Market
HKMA	Hong Kong Monetary Authority
GFCI	Global Financial Centres Index
GDP	Gross Domestic Product
NIE	New Institutional Economics
ERO	Emergency Regulations Ordinance
CE	Chief Executive
LegCo	Legislative Council
EC	Executive Council
PRC	People's Republic of China
WEF	World Economic Forum
HI	Historical Institutionalism
SEZ	Special Economic Zones
BRI	Belt and Road Initiative
RMB	Renminbi
HSI	Hang Seng Index

Table of Contents

I.	Introduction		
	a. Introduction	3	
	b. Outline	4	
	c. Methodology	5	
II.	China's Economic Interests in Hong Kong		
	a. The Strength in Hong Kong's Financial Institutions	7	
	b. Hong Kong as China's Financier and Middleman	9	
III.	Political Instability and its Economic Effects		
	a. New Institutional Economics	. 13	
	b. Political Instability in Hong Kong	. 14	
	c. Economic Effects of Political Instability	. 16	
IV.	Why is Hong Kong Facing Political Instability		
	a. Historical Institutionalism: Critical Junctures Count	. 18	
	b. The Lasting Legacy of Colonial Hong Kong: 1967 Riots	. 19	
	c. The Creation of a Hybrid Institution: 1997 Handover		
	d. Fear of 'One China' Dream: 1st July 2003 March		
	c. The Result of the Past: 2019 Protests	28	
V.	Effects of Current Political Instability on Hong Kong and China Economic Interests		
	a. The Impact of Current Political Instability upon Hong Kong's Financial	. 30	
	Institutions		
	 b. The Impact of Current Political Instability upon Chinese Interests in Trade and Investment 	. 32	
VI.	Conclusion	. 35	
VII.	Discussion	. 37	
	References	. 39	
	Appendix		
	A. Hong Kong - China Economic Relationship	47	
	B. Number of Mass Civil Events in Hong Kong	. 48	
	C. Perception of Freedom in Hong Kong	. 49	
	D. Foreign Direct Investment: % of GDP	50	

I. Introduction

a. Introduction

Hong Kong has developed into a leading international financial centre with seamless access into both Chinese and global markets, becoming a gateway for global trade and investment with bank transactions totalling to \$10trn in 2019 (The Economist, 2020). The territory's recognition since 1997 as a Special Administrative Region (SAR) of the People's Republic of China (PRC), operating under the framework of '*One Country, Two Systems*' (OCTS), has been crucial in establishing Hong Kong's financial institutions. Hong Kong has skillfully cultivated its role, becoming a central factor in realising China's economic interests in trade and investment by acting as the financier and middleman; funnelling 63% of total foreign direct investment (FDI) in and out of China (Hong Kong Monetary Authority, 2019).

Recently, Hong Kong has become a geopolitical flashpoint in contemporary global politics since the violent 2019 anti-government protests began. The status of Hong Kong as a global financial centre, acting as a conduit between global capital markets and China's financial system, is threatened by America withdrawing trade privileges after "China's iron-fisted response" to street protests in Hong Kong implying it is not autonomous from the Mainland (The Economist, 2020). The manifestation of these violent protests are a symptom of a larger institutional problem resulting from political instability. Scholars such as Yep and Bickers (2009) state the rise in political unrest is a result of a separate identity formed by the citizens of Hong Kong that is detached from China's, stemming from the British Colonial era. Sing (2009) argues that political activism stems from the hierarchical nature of the political institution which is covertly ruled by the elite within Beijing since the 1997 Handover. Additionally, Sing contends that the PRC has adopted a firm patriotic and controlling stance which manipulates Hong Kong's governance to further oppose extant local citizens' political-cultural identities for democratic reform. Comparatively, Preston (2016) claims that the wish of the people for self-determination and democracy have been continuously disregarded under both periods of British and Chinese administrations, resulting in an inherently flawed settlement which does not adhere to the wish of its citizens.

As illustrated above, there is an abundance of literature expounding the origin of political instability within Hong Kong. However, there is little research combining multiple perspectives on the origin of current political instability in Hong Kong, as well as its effect upon China's vested economic interest in trade and investment. This thesis seeks to investigate these questions utilising the framework found in the theory of *'Historical Institutionalism'* (HI), which is an approach under the study of *'New Institutional Economics'* (NIE). I argue that the root causes of political instability are related to three critical junctures, namely, the *1967 Riots, 1997 Handover,* and *2003 1st July March,* which have had a formative influence over the development of institutional instability leading to the recent 2019 protests. NIE also allows for the theorisation and conceptualisation of financial-economic effects resulting from current political instability in Hong Kong that hinder Chinese economic interests.

Using an institutional approach I will answer the research question: *how has political instability within Hong Kong manifested from three critical junctures of the 1967 Riots, 1997 Handover and* 2003 1st of July March led to the 2019 protests and how does this political instability affect China's economic interest in trade and investment?

b. Outline

The first section explains Hong Kong's financial institutions role as China's financier and middleman upon which Chinese economic interests in trade and investment rely. The second section provides the theoretical framework for analysis of Hong Kong within the theory of NIE. NIE outlines the importance of inclusive, politically stable and legitimised institutions for long-term economic prosperity. Political instability is then defined and through this definition Hong Kong is found to be politically unstable. The third section draws on the NIE theory presented previously by using HI to analyse the root causes of institutional political instability in Hong Kong and trace this back to the three critical junctures: *1967 riots, 1997 Handover*, and *2003 1st July March*, which has led to the 2019 protests within Hong Kong. The last section then applies the theory of NIE, with the findings from the three critical junctures to analyse the effects of political instability upon Hong Kong's financial institutions. Quantitative and qualitative data found in Hong Kong's global

financial ranking, Gross Domestic Product (GDP), Hang-Seng Index (HSI) and FDI as a percentage of GDP within Hong Kong's 2019 financial year is examined to support the theory. These findings are qualified by how China's economic interests are affected by investor uncertainty, volatility within the Hong Kong Stock Market (HKSM), and the loss of Hong Kong's status as a SAR region and ability to allow efficient economies of scope.

c. Methodology

This thesis undertakes a literature review from a combination of digital and printed resources. Online resources were located using the *World Economic Forum (WEF), Global Financial Centres Index (GDCI), Hong Kong Monetary Authority (HKMA), CEIC-data* and *Smartcat* databases. Printed material was procured from the University of Groningen's Library, and subscriptions of several relevant newspapers such as *The Economist* and *South China Morning Post*.

To locate relevant, peer-reviewed material, a range of techniques were used, such as keyword searches: *New Institutional Economics, Hong Kong's Protests, Political Instability, One Country, Two Systems* and *Critical Junctures*. Additionally, I researched recognised experts in the field of *Institutionalism, politics of China-Hong Kong relations* and *Historical Institutionalism*, such as Douglas North, Peter Preston, Ruth and David Collier. Sources were also obtained using the snowball method from the bibliography of journals, articles or books related to specific areas.

The criteria for selecting literature included the suitability of a topic, content quality, and year of publication. If the article fits the criteria, a synopsis of the relevant information was recorded in a spreadsheet with the publication date, source and main criticisms. To ensure the most relevant and recent findings were used, I would start by triangulating data or claims with other similar empirical and conceptual papers. When appropriate and possible, I tried to use materials published within recent years, especially when discussing the economy, recent events and interests of states and territories.

When collecting quantitative and qualitative data for researching the economic effect during the 2019 protests on Hong Kong and China, a range of indicators were used such as HSI¹, FDI², GFCI and GDP. Some limitations are acknowledged when interpreting these indicators in distinguishing an economic effect. Firstly, these indicators don't explicitly differentiate and isolate external influence on global events such as the US-China trade war and the beginning of the Coronavirus pandemic, which could affect the results of the raw data when interpreting the specific effect of the 2019 protests. Secondly, the 2019 protests took place recently, which makes a conclusion on the longer term economic impact difficult. Conversely, this thesis draws on financial data to illuminate short-term effects, which can be linked to the 2019 protests. In combination with theoretical frameworks a conclusion on the long term economic impact can be suggested.

¹ The Hang Seng Index (HSI) is Hong Kong's *"freefloat-adjusted market-capitalization-weighted stock-market index."* It records and monitors the largest companies of the Hong Kong Stock Market, and is the main indicator of the overall market performance within the territory (Chen, 2020).

² Foreign Direct Investment (FDI) according to the International Monetary Fund (2020) is where an individual or business owns 10% or more of the voting power, or equivalent ownership of under another legal power, of a foreign company.

II. China's Economic Interest in Hong Kong For Trade and Investment

a. The Strength in Hong Kong's Financial Institutions

Hong Kong went through an impressive economic transformation from a rural fishing village in the early 19th century to a thriving entrepôt by the 20th century, to a leading global financial and business hub in the 21st century. Its success has been branded as *'The East Asian Miracle,'* earning Hong Kong the title of being one of the four *'Asian Tigers'* (World Bank, 1993).³ In 2019, Hong Kong was the third largest financial centre in the world. The number of multinational firms with regional headquarters within the territory has risen from 744 in 1997 to 1,333 currently. The Stock Exchange of Hong Kong is the fourth largest stock market globally (The Economist, 2019a). Hong Kong's economic development has relied heavily on its strong quasi-liberal foundation that adhere to the rule of law, a laissez-faire style of governance,⁴ regulatory efficiency and limited restrictions on the flow of services, goods and capital (Sung, 1991). This chapter illustrates the benefits of Hong Kong's financial-economic model for Mainland China. Thereafter, I will explore the dual reliance China has with the *'open door policy'* through which Hong Kong acts as a financier and middleman for trade and investment.

Various scholars contend that the importance of Hong Kong's economic institution for the PRC will decline due to the rise in rival financial hubs such as Shanghai, which have opened up PRC's banking system to facilitate direct investment into China (Yeung & Shen, 2008, p. 527). Nevertheless, Li Sheng (2018) emphasises that financial institutions in Shanghai are not equivalent to those in Hong Kong and are not likely a replaceable substitute. Shanghai as a rival financial hub will fall short due to the "problems of its financial infrastructure, such as lagging behind financial research, backward financial education, the insensitivity of firms to interest rate changes, the low

³ An '*Asian Tiger*', or in other terms an '*Asian Dragon*' is a region within Asia whose economies rapidly expanded during the 1960s - 1990s with high economic growth and industrialization. The four tigers of Taiwan, Hong Kong, Singapore and South Korea are considered as highly developed and affluent economies.

⁴ The principle of laissez-faire within an institutional perspective means the government plays a hands-off role in guiding and interfering within its economic system. Therefore, governmental actions, such as subsidies and regulations, are absent.

credibility of economic agents, severe moral hazard, adverse selection in bank lending and stock listing, and corruption and rent-seeking culture of government officials" (p. 173).

Hong Kong's financial institutions' success and access to western markets rests on its special status and its adherence to international law. Strong legal protection of property rights combined with financial expertise and markets far outstrip that of its competitors within Shanghai (Li Sheng, 2018). Hong Kong's technological innovation, capital accumulation, functioning and trusted markets are key for lowering transaction costs and boosting financial trade (Wang et al., 2013).

The close and interconnected economic and geographical relationship with China allows Hong Kong SAR efficient and flexible access into Mainland's market (Ash & Kueh, 1993). Hong Kong's role as a conduit has bridged the gap between China and foreign markets due to establishment of separate trade deals from those of the Mainland. Examples can be seen in the US-Hong Kong Policy Act of 1992, which permits freedom from American tariffs on Hong Kong exports and imports that are imposed on the PRC.⁵ This was especially beneficial to Hong Kong during the US-China trade war in 2018 as it forced the majority of trade and investment to flow through China's *"back-door"* allowing the territory to reap the rewards (Financial Times, 2019). The other benefits of Hong Kong's SAR status is *"allow[ing] for higher credit rating, lower risk-weights for bank and counterparty exposures; the ability to clear dollars easily; independant membership of the WTO, "equivalence" status for the stock exchange with those in America, Europe and Japan; recognition as a "developed stock market" by index firms and co-operation agreements with other securities regulators" (The Economist, 2019a).*

The formation of these separate rules structuring Hong Kong's economic institutions differ from those of the PRC. The OCTS doctrine allows Hong Kong autonomy, to self regulate and determine independent policies and lower tax rates. This has been intrinsic to building Hong Kong as a

⁵ The US-Hong Kong Policy Act, which is approved by the US congress, states that as long as Hong Kong adapts to international standards, it has its export control system separate from mainland China. However, the US congress can withdraw this act if its autonomy under the SAR is compromised.

leading global financial centre from which China economically both benefits and is mutually dependent upon.

b. Hong Kong as China's Financier and Middleman

Hong Kong has played a significant role as a conduit for FDI bilaterally in and out of China since the PRC implemented the 'open-door policy', initiated by Deng Xiaoping in 1978. The policy liberated and opened up China's economy gradually on a trial basis under an "infection prevention" ⁶ strategy, starting with implementation of special economic zones (SEZ) such as Shanghai, Shenzhen, and Guangdong (Loh, 2006). These SEZ have relied heavily on FDI to kick-start their economies and allow significant development within these cities. Through the demand for FDI and trade, the PRC established Hong Kong as a major financier. It became "a channel for the redistribution of goods originating from, or destined for, China, ... strengthening the integration of the region into the southern Chinese economy" (Ash & Kueh, 1993, p 715). Hong Kong in 2019 accounted for an average of 63% of FDI in and out of China, and the HKSM holds a value of \$4.9trn compared to China's \$6.4trn. Roughly 70% of capital was raised through HKSM by Chinese firms, predominantly global technology firms such as Xiaomi and Meituan (The Economist, 2019a). As per Appendix A, there has been an increase in the PRCs percentage share of inward FDI and total trade since the handover in 1997. China and Hong Kong have become more reliant upon each other for trade and FDI. A mutually beneficial and symbiotic relationship with regards to their integrated economies.

China still operates capital control under the state-capitalist market,⁷ which limits the financial system and transfer of money in and out of the country. Furthermore, the PRC has an opaque legal system which does not assure protection of property rights in regards to FDI (Lin, Cai, & Li, 2003).

⁶ The '*infection prevention strategy*' as stated by Loh (2006) is where China experimentally implemented policies which permitted more economic freedoms. These policies were allowed on a tightly controlled '*trial basis*' to limit outside influences from penetrating the mainland too quickly and thereby causing '*chaos*' and political disruption to the PRC regime in China.

⁷ State Capitalism is an economic system in which the state has a significant share in commercial (i.e. for profit) economic activity and state-owned business enterprises organise production through processes of centralised labour and capital accumulation. The state can also resume the dominance of corporatised government agencies or by obtaining controlling shares through publicly listed corporations.

A state-capitalist economy intrinsically introduces a level of mistrust as the state picks the winners, ignoring competition, thereby reducing the appeal of FDI directly into mainland China. Hong Kong acts as a third party financier and middleman, providing a level of trust and insurance as it operates under a protected free market system with established laws (Child & Tse, 2001). Thus, the PRC's tightly controlled bureaucracy hinders its ambition to have a global financial centre which facilitates FDI directly.

China is currently the world's largest holder of FDI, and according to Edward Gu (1997), its reliance and dependence on FDI have grown since its open-door policy. Foreign investors and corporations have been establishing an increase in *"grafted joint-ventures"* (GJVs) that have benefited development of China's economy. In *'The China Miracle,'* Justin Lin et al. (2003) states, a crucial stimulus to enhancing China's economic growth has been the rapid development of trade. Trade has generated both static and dynamic trade gains,⁸ further complemented by the productivity-enhancing technical progress from rapidly-expanding foreign investment. Even though financial centres such as Shanghai and Shenzhen were established in the 1990s to increase the capacity for direct investment, and bypass PRC's financier in Hong Kong, reforms of the PRC's banking system are far from complete. For an efficient financial institution to be established in Mainland China, it requires *"reliable financial reporting and auditing system together with a standardized credit rating system"* (Child & Tse, 2001, p. 10). Until China addresses these limitations, the PRC will continue to have a keen economic interest in Hong Kong's role as a financier.

Scholars predicted the importance of Hong Kong's role as a middleman would decline after both China's ascension to the World Trade Organisation in 2001, and integration into the global market economy. It was predicted China would start to deal directly with foreign countries and corporations that bypass Hong Kong (Yeung & Shen, 2008, p. 527). Richard Bush (2016, p. 173) forecasted that the reliance and emphasis China had upon Hong Kong would decrease as it became

⁸ 'Static' gains from trade maximise national output, and in turn social welfare, due to optimum utilisation of the state's resources. 'Dynamic' gains are seen by countries experiencing accelerated economic growth through benefits from trade participation.

less important to China in economic value. For example, Hong Kong's share of China's overall GDP shrunk from 19% in 1997 to 3% in 2014 (See Appendix A). However, these predictions do not consider rising demand for intermediation as a result of China's decentralising economy. Using Townsend's theory of intermediation (1978), a middleman creates opportunities for trade and investment by providing efficient structures to minimise the number of trade links, thereby lowering transaction costs. The need for intermediary agents increases as economies decentralise, as creating excess trade links decreases efficiency.

China is currently decentralising its foreign trade system, and Yun-Wing Sung (2005a, p. 2) states that China is *"replacing vertical channels of command by horizontal links [as] the number of trading partners and trade links multiplied rapidly, creates a huge demand for intermediation."* Hong Kong has been required as the middleman due to its comparative advantage in trading as it has already established a sizable financial economy of scope and agglomeration. Sung also reinforces Hong Kong's crucial intermediary role as a middleman for financial trade and investment due to achieving a significant portfolio for investment. It has become the premier offshore centre in raising capital through the HKSM to fund Chinese enterprises (Sung, 2005b, p.115). In 2005 the total funds raised over eleven years for these Chinese enterprises amounted to USD 102 billion (Sung, 2005a). However, the role of Hong Kong as a middleman goes far beyond being an important gateway for China to raise capital within the territory through FDI. Hong Kong has also built a portfolio as the centre for Chinese offshore RMB activities.

Siwei Cheng (2015) states in their book on '*RMB: Towards Internationalization*,' that Beijing aims to internationalise the RMB in its long term strategy to reduce reliance on the American dollar, and establish an alternative global currency market. The PRC's strategy in RMB internationalisation is intended to help reduce transaction costs, avert currency attacks, establish a self-sufficient, stable currency, avoid exchange rate risk, obtain FDI at a lower cost of transaction, as well as increase its global political power. One essential step noted by the HKMA in its press release (2015) is that to achieve RMB internationalisation, Beijing needs a robust offshore RMB market. Currently, Hong Kong's financial model habilitates this role by providing a bridge *"linking [efficiently] the onshore*

RMB market with the offshore market." A report by Hong Kong Financial Services Development Council (2019) stated that "Hong Kong is also the world's largest offshore RMB foreign exchange and interest-rates derivatives market, [the territory] accounts for 75% of [the total] RMB activity outside Mainland China."

Hong Kong's intermediary role in trade and investment using its offshore RMB capital can also be used to support and sustain China's new international infrastructure initiatives such as the 'Belt and Road Initiative' ⁹(BRI) (Bush, 2016). As China starts to invest abroad and internationalise the RMB, Hong Kong will be utilised as a conduit for outward trade building upon its investment portfolio. In the report they stated that Hong Kong has unique advantages in its "sheer variety of offshore RMB investment products, [which] investors have easy access [to, and it] has developed a trusted, stable ecosystem for RMB-related finance." This symbiotic relationship illustrates the dual dependency and opportunity each state has upon each other for economic growth and stability, as each entity is gradually developing into an integrated economy. China's reliance upon Hong Kong's financial model, and established position as financier and middleman for trade and investment, highlights the potential threat to the Mainland's economic interest should any instability occur in Hong Kong's institution which affects the SAR economy.

⁹ The 'One Belt, One Road' or Belt and Road Initiative (BRI) is a global development initiative implemented by the PRC in 2013, involving investments and infrastructure development in over 70 countries and international organisations. It is stated by scholars including Yan Liang (2020) that the RMB internationalisation plan has enabled financing of investments, such as the BRI, thus interlinking both initiatives.

III. Political Instability and its Economic Effect

a. New Institutional Economics

This chapter examines 'New Institutional Economics' and how this theory can be applied to explore the roots of political instability within Hong Kong and by extension the economic effects on Hong Kong and the PRC. The framework of NIE highlights the central function institutions play in establishing an efficient and stable environment that governs human interaction and shapes the political and economic climate. It is established that stable and inclusive political institutions with efficient and trusted economic institutions are key drivers for sustaining economic prosperity (Acemoglu & Robinson, 2012). If political instability continues for a long time, it damages investor confidence through increased uncertainty in financial markets. A strong indicator of political instability is the presence of political activism and increased mass social protests as has occurred in Hong Kong. At the end of the twentieth century, emphasis was placed on institutions' political stability to increase development after failure to implement pure concepts of western neoclassical ideas in developing countries (North, 1973). When institutional policies such as privatisation, socialism or liberalism are implemented without appropriate legal and regulatory frameworks or without having been sufficiently legitimised by civil society, it leads to severe instability, inefficiency and economic failures (Rutherford, 1994; Haggard, 2004).

Founding scholar in NIE, Douglas North, defined institutions as "the rules of the game in a society, or more formally, the humanly devised constraints that shape human interaction." (1990, p. 3). Institutions govern incentives in combination with informal societal norms, such as culture and beliefs, as well as formal rules such as laws, legislature or governmental systems, thus structuring social and economic interactions. North emphasises that without the informal norms of behaviour to back up or legitimise the "formal rules of the game" in a complementary manner, the rules won't work, and instability can arise (1990, p. 366). Legitimacy in this case is defined as the recognition of the formal rules within the existing institutions and authorities as the most appropriate and accepted ones by and for the society and its norms (Lipset, 1983). Thus, legitimacy of institutions is enhanced when institutional frameworks are aligned with collective beliefs. As such, to avoid

instability and disorder, formal institutions must be congruent with existing informal norms to promote cooperation and trust (Compton, et al, 2010).

Informal norms are a set of culture and beliefs derived from the past, which shape the views you hold about the present and the future. Informal norms of behaviour layout basic codes of conduct, thus establishing a structure which allows for the effective human interaction, which is crucial for economic activity and political stability (North, 1981). Therefore, to understand the current evolution of the institutions in Hong Kong and their political instability, cultural traditions and historical developments within the society, which are the foundation of these formal rules and informal norms, must be analysed (North, 1990). A historical perspective found in HI, derived under NIE theory, is a tool used within the next chapter to further explain the accumulated informal norms in culture and formal rules, which are a product of the past constraining the present, and underlies the political instability developed within Hong Kong.

When applying Peters (1999) normative claims in what constitutes a 'good' institution to North's 'rules of the game' (1990), there are four essential pillars in which institutions can promote an environment for political stability and reduced economic uncertainty. Firstly, there need to be a clearly defined and trusted set of formal rules which secure property rights, efficient markets, and a transparent judicial system in turn supporting low transaction costs. Secondly, a degree of stability is required for the institution to function. Thirdly, institutions have to hold influence over individual behaviours via incentives or enforcement. Finally, individuals have to have a shared value or meaning among the members of the institution through informal norms. Peters states that any alteration in one of the pillars can subsequently impact or alter another, highlighting the fragility of an institution and caution needed when implementing change.

b. Political Instability in Hong Kong

Political instability is a widely debated phenomenon due to the lack in consensus as to what it means to be stable, and the absence of agreement as to how to measure and operationalise political instability (Jong-a-ping, 2009). To obtain an all-encompassing definition of political instability is

almost impossible as the degree of instability and type a country observes varies. However, scholar Leon Hurwitz (1973, p.449) in 'Contemporary Approaches to Political Instability' gave the broadest definition that incorporates four dimensions of political stability seen as: "(a) the absence of violence; (b) governmental longevity/endurance; (c) the existence of a legitimate/constitutional regime; (d) the absence of structural change." Hurwitz notes that each of the four categories of political instability is interconnected; for example, the rise of violence can stem from another dimension, such as a lack of legitimacy.

Political instability within Hong Kong is a manifest as the rise of violence which is defined as "the degree or the amount of aggression directed by individuals or groups within the political system against other groups or against the complex of office-holders . . . [as well as] the amount of aggression directed by officeholders against other individuals and groups" (Feierabend & Feierabend, 1966, p. 250). These forms of violent aggression are found in significant political movements such as protests and riots which oppose the 'rule of the game.' Terrell (1971) states that civil violence is a direct manifestation resulting from political instability. Furthermore, he explains that the severity in military effort, or rate of civil unrest can be a determinant to analyse the extent of societal stress, or political activism, resulting from political instability.

Hong Kong has experienced a notable increase in the number of public order events which oppose the *'rules of the game'* (see Appendix B), and a decrease in legitimacy for its political institution by its people (Sing, 2006). The most recent events seen in the 2019 protests have become increasingly violent and aggressive. Hong Kong had to utilise its own riot police as well as Chinese internal military troops stationed within Hong Kong to maintain order. Violence with severe directed aggression was seen between the protestors and the government police force in which tear gas, bricks, and rubber bullets were deployed (The Washington Post, 2019). The severity and scale of the political instability within the region reached a peak in 2019 when the Chief Executive (CE), Carry Lam invoked an Emergency Regulations Ordinance (ERO) law in Hong Kong which banned face masks during the violent and lengthy protests (The Economist, 2019b). ERO laws were only to be invoked if the CE believed there to be a state emergency or public danger within the territory.

15

These actions confirmed that political instability existed within Hong Kong. I examine the root causes of political instability within Hong Kong leading up to the current 2019 protest under the framework of NIE, which incorporates a HI perspective. This will be explained within the next chapter.

c. Economic Effects of Political Instability

The quality of formal institutions which don't express features of political instability is an essential basis for sustainable economic prosperity.¹⁰ Rodrik et al. (2004) even go as far as to say *"institutions rule"* as a determinant for economic growth. Economic institutions which are inclusive and stable have achieved sustainable and high economic growth as they promote secure property rights, functioning markets, capital accumulation, open-door policy for FDI and technological invention.¹¹ Scholars Robinson and Acemoglu define inclusive institutions as ones that *"allow and encourage the participation by the great mass of people that make best use of their talents and skills."* To be key drivers of sustained economic policy these institutions have to *"feature secure private property, an unbiased system of law, and a provision of public services that provides a level playing field in which people can exchange and contract."* (2012, p.74)

The opposite of *'inclusive'* institutions are *'extractive'* institutions. Extractive institutions exclude the majority of the population from creating and participating in the economic and political system, thereby increasing inequality, decreasing legitimacy and resulting in institutional economic and political instability. Robinson and Acemoglu (2012) state that the overall long-term economic growth is inhibited if the minority elite run and prosper from an extractive set up. Extractive systems damage Hong Kong's financial institutions as entrepreneurs have less incentive to innovate and invest in a nation with a history of extractive institutions. These institutions develop and perpetuate hierarchies by sustaining high levels of socio-economic inequality, restrictive freedoms, and continued actions which reaffirm a *"predatory"* top-down structure. This extractive political and economic environment polarizes cultural norms from their formal rules, thereby, according to

¹⁰ See, e.g., Knack and Keefer (1995), Keefer and Knack (1997), de Haan and Siermann (1998), Aron (2000), Berggren (2003), Glaeser et al. (2004), Acemoglu and Johnson (2005), and Butkiewicz and Yanikkaya (2006).

¹¹ See work under Acemoglu & Robinson (2012), Bosworth and Ofer (1995), and Zak (2002)

North (1990) destabilising the formal institutions. To achieve sustainable economic growth, political organisations need to obtain a pluralistic distribution of power which is inclusive, fosters political stability, while maintaining a legitimised rule of law (Acemoglu & Robinson, 2012).

Economic Scholar Dipak Gupta (1990) summarised that "without political stability, the people cannot have confidence in their economy, and when faith is lacking, the people find safer places to place their monies, rather than in the economy." Multiple empirical results have demonstrated that different types of political instability caused by events such as coups, assassination or regime change will generally negatively impact upon economic growth (Jong-A-Pin, 2009; Alesina et al. 1996). More specifically, studies by Matta et al. (2017) have also empirically demonstrated that less extreme forms of political instability such as mass civil unrest with structural regime changes have also been shown in general to effect an immediate, short-term, fall in economic output, which will never recover fully in the subsequent five years. The reasons given for this was that "mass protest tends to signify events that cause a more profound increase in political uncertainty. The prospect of people coming onto the streets again in the future may introduce a new, potentially uncontrollable element of uncertainty about a country's future direction and thus have a more negative effect on business confidence and investment." (p. 19)

IV. Why is Hong Kong Facing Political Instability?

a. Historical Institutionalism: Critical Junctures Count

History is important to understand and explain the present trajectories of a nation's institutions. This is why NIE scholars study '*Historical Institutionalism'* (*HI*). HI understands that the primary point of analytic departure within institutions is rooted in the early history of their policy choices, events or governmental systems. These previously established formal rules and the culture presiding over institutions, determine the subsequent logic behind future or current decisions (Skocpol, 1992). HI uncovers that change is contingent upon, and constructed by unfolding events, rooted in '*critical junctures*' that determine the path an institution will take (Collier & Collier, 1991). A critical juncture is "*an event or set of events* ... *that has a large and enduring impact*." (Mahoney et al., 2016 p.77) These junctures are usually macro-events such as regime change, social movements, economic depressions, etc. where the consequences are seen long after the event has occurred. HI explains the roots of conflict between informal norms shaping society and formal rules governing the institutions creating present social unrest.

In the last two decades, Hong Kong has witnessed a rapid emergence of claims for political self-determination, autonomy and democratisation by its citizens from mainland China (Lecours & Dupré, 2018). These developments were unexpected as Hong Kong was considered to be politically indifferent and an exceedingly pragmatic society (Hoadley, 1973; King, 1977; Lam, 2012; Lau, 1982) ostensibly devoid of a national identity (Mathews et al., 2008). Using the NIE framework specified through HI, the political unrest stemming from self-determination claims is explained by looking at three critical junctures: (a) *1967 Riots*, (b) *1997 Handover*, and (c) *2003 1st July March*.

While scholars of HI have formulated criticisms of the validity of conclusive evidence as to whether recent changes in Hong Kong's claims for political self-determination are direct manifestations of critical junctures, and to what extent critical junctures influence the current institution within the region (Peters, 1999), I argue that the recent emergence in political activism over the last two decades, suggests causes in incidents of a transformative nature (Sewell, 1996; Preston, 2016), which is linked to the critical junctures identified. HI as an approach is an

appropriate means of explanation of political instability within Hong Kong as it includes an avenue which looks at policy across time, thus allowing for a greater scope of explanation.

NIE through an HI approach places a significant emphasis on current institutions exhibiting an agenda based on 'path dependence' (Krasner, 1984). In addition to the requirement that the culture of a society has to support its institutional 'formal' structure through 'informal norms' (North, 1990). If the current institutional framework is derived from the past, the question lies in what critical junctures have led to a sudden path of change, and whether the associated consequence shaped Hong Kong's current institutions contributing to the political instability which is manifested in the 2019 protests.

b. The Lasting Legacy of Colonial Hong Kong: 1967 Riots

The '1967 Riots' originated in a plastic flower factory and escalated into wide-scale violence and civil unrest against the government of Hong Kong, leading to the death and arrest of 51 and 4,500 citizens respectively. The factory workers and unions refused to accept new working regulations. The protests that demanded improved social welfare and workers rights were then taken over by the pro-Beijing, anti-British, leftist campaigners within Hong Kong who aimed to overthrow British colonial rule. The uprising was considered a *"spillover from the cultural revolution,"*¹² where the Maoist Communist Party of China called for Hong Kong-Chinese to *"be ready to respond to the call of the motherland and smash the reactionary rule of the Hong Kong-British Authorities" (Cheung, 2009, p.3)*. The outcome of the 1967 riots prompted the colonial government to slowly implement socio-political reforms to appease the demands of the lower and middle-class citizens. This was particularly seen during the MacLehose era¹³ of colonial rule, when governance, electoral

¹² The Cultural Revolution was a socio-political movement launched by Chairman Mao Zedong of the Communist Party of China from 1966 until 1976. The goal was to instil Maoism as the dominant ideology and purge remnants of capitalist and traditional elements from Chinese society. Mao accused that bourgeois elements had infiltrated the society and government as they intended to restore capitalism. To eliminate his rivals of revisionists, he insisted on a violent class struggle within the CPC and factories, schools, and government institutions. The Cultural Revolution destroyed China's economy and social development as the party persecuted tens of millions of people, with an estimated death toll between hundreds of thousands to 20 million. (Lin, et al., 2003)

¹³ The MacLehose era is a period between 1971-1982 where during his time in office, governor Murray MacLehose implemented a wide range of reforms that laid the foundation of modern Hong Kong institutions, some which are still in act today. He expanded welfare, created public housing programmes, and established the ICAC to prevent corruption combined with District boards to improve government accountability.

reforms, education, housing, and infrastructure reforms were executed (Carroll, 2009; Bickers & Yep, 2009). The riots were deemed a *"watershed* [moment in] *Hong Kong's postwar history"*, which led to the opportunity *"of producing a new system and reform."* (Cheung, 2009, p.5).

The 1967 riots was the first critical juncture which had a continuing and crucial influence on the current institutional political instability within Hong Kong, leading to the 2019 protests. The root cause of the riots was two-fold: a lack of socio-political reform aligned with the wishes of the citizenry, as well as a shortage of available housing, further exacerbated by the influx of Chinese refugees. The expressed desire of the citizens for reform was met by the newly appointed Governor Grantham under British control with the tactic of *"obfuscation and delay"* (Ure, 2012, p.118). Hong Kong, before the 1967 riots, was ruled as a *'colonial society'*, structured by racial and class hierarchies of business and colonial elites (Preson, 2016, p. 45). The British Empire's main emphasis within Hong Kong was to maintain its thriving economy driven by *'positive non-interventionism'*¹⁴ (Tsang, 2004), and as a result, created a region known as a *"colonial sweatshop"* (Cheung, 2009, p.1). The pre-existing problem of overcrowding was exacerbated by the mass migration of Chinese refugees to Hong Kong during the 1950s, a product of the Chinese revolution under the Maoist regime (Tsang, 2004). Squatter settlements were common, and the quality of social welfare and education was not progressing at the same rate as the economy, which ultimately led to large-scale criticism of the colonial government (Tsang, 2004).

The 1967 Riots within Hong Kong was a transformative event which affected the path of contemporary Hong Kong, triggering two lasting consequences that are directly linked to its current state of political instability. Firstly, it led to a separate cultural identity of Hong Kong citizens distinct from mainland China, as the young generation started to think of themselves as *'Hong Kongers.'* The socio-political changes that resulted from the riots led to the Hong Kong-British government gaining legitimacy among the locals and a distinction grew between mainland Chinese citizens and *'Hong Kongers'*. Locals began to identify themselves as possessing a better quality of life, communities and institutions within Hong Kong as compared to mainland China. The cultural

¹⁴ Positive non-interventionism was an economic policy created in Hong Kong for non-governmental intervention and implemented in 1971 except for physical and regulatory infrastructure for market-based decision making.

revolution in China at that time further polarized the cultural and situational distinction between Hong Kong citizens from their mainland counterparts (Carroll, 2009). Matthew Turner, a previous professor of anthropology at the University of Hong Kong, stated:

"It was not until 1967 that the rhetoric of 'citizenship', of 'community' and 'belonging' was first deployed on a grand scale as anti-communist counter-propoganda. By the end of the sixties the idea of 'community' was no longer an irrelevance to the majority of the population. For alongside the official discourse, a local and largely unarticulated sense of identity had begun to emerge in Hong Kong." (Turner, 1995, p. 2)

These changes in informal norms and culture are now embedded in society, in which the majority of citizens are born and raised in the collective memory as *'Hong Kongers'*, not Chinese.

A second consequence of the 1967 riots was the formation of the notion of democracy, which began to be instilled within *'Hong Kongers.'* Governors such as Murray MacLehose and Chris Pattern slowly implemented policy changes which allowed for a partially representative political system (Preston, 2016). Full democratisation was however, not realised within the region as China did not approve of an elected Legislative Council (LegCo), nor Chief Executive (CE) (Cheung, 2009). These informal norms that were developed in the beliefs and ideas of society, through self-determinism, democracy and their own national identity are in contravention of the norms of the PRC.

c. The Creation of a Hybrid Institution: 1997 Handover

On the 1st July 1997, control over Colonial Hong Kong was transferred back to Mainland China from the British Empire, creating a SAR with a separate governing and economic system to that of the PRC. The *'Handover'* formally created the institutional framework of the One Country Two System (OCTS) doctrine, which included the creation of the *'Basic Law,'* and the *'Sino-British Joint Declaration'* that came to reshape Hong Kong's formal political and economic rules of the system (Tsang, 2004).

China and Britain negotiated the terms of the 'Handover', which allowed Hong Kong's citizens and

government certain freedoms and autonomy as a SAR. However, the PRC's indirect influence over the political system and '*Basic Law*, ' gave China higher formal authority over the socio-economic proceedings of the territory creating a hybrid institution (Wong, 2014; Ghai, 1999; Bush, 2016). The 1997 '*Handover*' has had two consequences which have led to the current political instability. The first was the creation of an extractive formal legal and political system under the PRC, which has been considered illegitimate within Hong Kong as they cannot govern or implement their own rules in line with their societal informal norms. Secondly, the OCTS doctrine created uncertainty regarding the future of the SAR as the framework was only agreed until 2047.

After the 1967 riots, Britain realised that Hong Kong was ultimately going to be retrocessed¹⁵ back to China, and this system change had to be planned to avoid chaos and uncertainty (Cheung, 2009). Thus, the 1984 '*Sino-British Joint Declaration*'¹⁶ was signed between London and Beijing, outlining the conditions and the process for the transfer of power before the '*Handover*.' The new necessary policies, formal transition, and political institutions developed under the OCTS was outlined in the agreement and then further embedded in Hong Kong's *Basic Law*.¹⁷ It specified that Hong Kong would continue to function within a capitalist, economic trading system, safeguarding '*Hong Konger*'s' freedoms and way of life in the doctrine of the OCTS until the end in 2047. The Joint Declaration (1984, ¶ 3.2 - 3. 5) declared that: ¹⁸

• "Hong Kong will be directly under the authority of the Central People's Government of the [PRC and] will enjoy a high degree of autonomy, except in foreign and defence affairs."

¹⁵ Retrocession is a legal term for the transfer of sovereignty which implies that it is reversing an earlier agreement. In the case of Hong Kong, in 1860 the Qing dynasty in China ceded power to the British who in turn retrocessed it back in 1997 during the *'Handover'* to the original sovereign state found in the PRC.

¹⁶ The Joint Declaration is an international treaty which is *"legally binding in all its parts. An international agreement of this kind is the highest form of commitment between two sovereign states."* (The Joint Declaration, 1984, §19)

¹⁷ The Basic Law is the overarching political doctrine that is taken to govern the relationship between Beijing and Hong Kong. It shapes the way law finds expression in practice - the notion of the one country, two systems rule. To view the full conditions of the Hong Kong Basic Law you can retrieve further information from The Basic Law. (1990). The basic law of the Hong Kong Special Administrative Region of the People's Republic of China. Hong Kong: Joint Pub. (H.K.) Co. Retrieved from

https://www.basiclaw.gov.hk/en/basiclawtext/images/basiclaw_full_text_en.pdf

¹⁸ To see more of the policies agreed in 1984 between London and Beijing see the The Joint Declaration. (n.d.). Retrieved from https://www.cmab.gov.hk/en/issues/joint3.htm

- "[The territory] will be vested with executive, legislative and independent judicial power, including that of final adjudication. The laws currently in force in Hong Kong will remain basically unchanged."
- "[citizens will retain their] rights and freedoms including those of the person, of speech, of the press, of assembly ... Private property, ownership of enterprises, legitimate right of inheritance and foreign investment will be protected by law."

Hong Kong's '*Basic Law*' came into full effect at the start of the OCTS policy after the critical juncture of the Handover in 1997 and set the foundation of the formal '*quasi-liberal-democratic*'¹⁹ institutions. The '*Basic Law*' formally preserves the autonomy of Hong Kong SAR and its residents in separate formal rules from China. It also protects citizens' rights in the political system to judicially review and check the government and its policies (Preston, 2016).

While Hong Kong is a SAR following differing institutional frameworks to that of China under OCTS, the PRC is still the sovereign power and has considerable influence in the formal rules of the political institution. There is an entrenched elite within Hong Kong, predominantly manipulated by the PRC, which holds political and economic power and forms a *"liberal oligarchy."* (Bush, 2016). Hong Kong's elite-dominated political system is very similar to that of China in the sense that the mechanisms which allow the concentration of power are used to shape and control governmental policies (Loh, 2010). The CE, currently known as Carry Lam, is elected by an election committee approved by the PRC. The CE then appoints 30 members to form the quasi-cabinet of the Executive Council (EC), and the local citizens elect 35 of the 70 LegCo members in the territory (Tsuang, 2004). Therefore, the current political system founded after the *'Handover'* favours the economic and social elite, who are pro-Beijing, and are not representative of the general population of Hong Kong (Loh, 2010; Ngok, 2007).

China's formal authority has also been established through the '*Basic Law*' in its mini-constitution which was co-established with the British by the PRC (The Basic Law, 1990). A professor of public

¹⁹ A liberal-democratic system operates by the rule of law, an independent judiciary and political freedoms which allows for the separation of powers to check and balance the government.

law, Yash Ghai, argues in his book 'Hong Kong's New Constitutional Order' (1999) that Hong Kongs' rule of law is a hybrid constitution combining elements from common law found in "British legal practice," and civil law in "Chinese practice." The primary purpose of the 'Basic Law' was to create economic autonomy designed to protect the capitalist structure for the business and corporate community to continue with trade. Ghai further states that the 'Basic Law' in Hong Kong is subordinate to Chinese law. He outlined that Hong Kong has no intrinsic claim to sovereignty, nor authority, and the Basic Law can be amended at any time by the PRC (The Basic Law, 1990; Wong, 2014). Legal scholar Benny Tai (2009) further states that Beijing has taken all the power, as the law was written and can be re-written by the PRC. China is thereby the most powerful player in the game as it elects the CE and dictates the rule of law and is thus in charge of the formal rules of the institution.

The 1997 Handover legislated these formal *'rules of the game'* under the OCTS framework, which left Hong Kong with a hybrid institutional system. Ma Ngok (2007) has stated that the structuring of the political society consequently left the power to the wealthy and cannot generate an effective political consensus as it is institutionally demobilized. The system is fractured and organisationally underdeveloped which restricts LegCo power and thereby prevents expression of the wish of the people which has led to mass socio-economic inequality. The organisation and function of the cabinet were designed by the British and Chinese to facilitate Hong Kong remaining an economic, not political, city after the Handover with Beijing having authority over the region (Cheung, 2008). Since the 1997 *'Handover'*, there have been three failed CEs which have been unable to curb the rise in political dissent within the territory (Ghai, 1999). An explanation lies in the hybrid institution that cannot deliver an effective or legitimate government within its formal rules which supports its citizens' informal norms. This resulted in political instability as expressed in civil unrest and ultimately led to the 2019 protests (Tai, 2009; Jones, 2015; Ngok, 2007).

The second consequence to the OCTS agreement is anxiety over the future of the institution which expires in 2047. As stated, there is no proper legal arrangement, nor declaration, for what the socialist Chinese state will do next regarding the territory of Hong Kong (Gittings, 2011; Chan;

2004). This uncertainty creates and gives rise to fear. Even at the start of the 1997 Handover, the primary concern voiced was what was going to happen to Hong Kong in 2047 (Ellis, 1997). In fact, the largest protest Hong Kong has ever experienced, since 2019, was in 1997 against the *'Handover'* (Wong, 2014). Hong Kong's future is yet unknown, which adds to the political instability and uncertainty in all aspects. The most significant indicator for the future will predominantly lie with the Hong Kong elite, or Chinese expressed intentions or actions, which as explained in the next chapter after 2003 1st July March, does not bode well for pan-democrats and anti-Beijing citizens in Hong Kong.

d. Fear of 'One China' Dream: 1st July 2003 March

The final critical juncture identified is the '*1st July 2003 March*,' which opposed the implementation of Article 23²⁰ in Hong Kong's Basic Law. Article 23 enabled the prohibition of any organisational or political activity in Hong Kong that opposed PRC. Citizens in Hong Kong perceived this as the first attack on their political freedom and autonomy as it was the first overt Chinese directed change violating the OCTS doctrine.²¹ The movement thereafter developed into a protest against multiple issues associated with poor leadership and inequality. Yet, more importantly, it triggered a broader social movement for self-determination and democratisation (Sing, 2009), stemming from their informal norms developed after the '*Riots*' of 1967 and further rejected during the '*Handover*' of 1997. It is deemed a profoundly transformative event in the development of Hong Kong's current political instability as it "*starkly reveals to the general public for the first time that a serious social problem exists and that deliberate policies and practices of the power holders cause and perpetuate the problem by violating widely held societal values and the public's trust" (Moyer, 2001, p. 54). Now every year, on the 1st of July, there is a protest calling for '<i>universal suffrage*' within Hong Kong (Sing, 2009).

²⁰ Article 23 of the Basic Law states: "The Hong Kong Special Administrative Region shall enact laws on its own to prohibit any act of treason, secession, sedition, subversion against the Central People's Government, or theft of state secrets, to prohibit foreign political organisations or bodies from conducting political activities in the Region, and to prohibit political organisations or bodies of the Region from establishing ties with foreign political organisations or bodies." (The Basic Law of Hong Kong: Chapter II, n.d.)

²¹ Articles published in SCMP (Harris, 2007) and (Cheung, 2003) are one of the many which expressed the opinion that it was "*oppressing*" and "*frightening [in] nature*" when reading the fine print of the Article 23 law. It was also claimed to be "*against the one county, two systems*" by violating Hong Kong's freedom and autonomy.

An explanation for the extreme reaction in the 2003 protests lies in Hong Kong citizens' mistrust regarding China's future ambitions for *reunification*, which lies in the PRC ideals of a *'Chinese Dream'*²² (Callahan, 2013; Poon, 2008). The PRC has publicly claimed, on multiple occasions, that the state of China has suffered a humiliating past in relations with western nations. Losing its hegemony and control over its rightful territories in a series of unequal treaties²³ prompted the ambition of full reunification and the rebuilding of a glorified nation under the *'Chinese Dream'* (Callahan, 2010). The rhetoric within the agenda of the PRC is centred around nationalism, Chinese prosperity, collective effort, and socialism (Callahan, 2015). All these claimed ambitions within China do not promote hope for the liberation of Hong Kong, nor does it express any move towards democratisation, which conflicts with Hong Kong citizens' expressed informal norms and claims (Davis, 2015). When Article 23 was proposed, citizens were extremely wary of Beijing's intentions in its measures and attitudes of control (Bradsher, 2003).

This critical juncture has triggered three consequences which have resulted in a notable surge in political activism stemming from the 2003 protests against the Article 23 anti-subversion legislation (see Appendix B). Firstly, the PRC's intrusion started to amplify widespread anxieties and fear in Hong Kong about the future of China's intent, and its increased ambition to annex Hong Kong in order for it to become part of a unified China (Davies, 2009; Cheung, 2014). Previously, Beijing had broadly kept its agreements in the Sino-British Joint Declaration under the OCTS doctrine. Hung Ho-fung (2014) notes that the OCTS policy promised Hong Kong a *'high degree of autonomy'*. This is being progressively restricted due to Beijing's interventions which are becoming ever more overt. Local politics have become more fraught since the 2003 protests, and Ho-Fung claims it is due to China's impatience to unify the territory which is against the Hong Kong people's

²² The Chinese dream was the rhetoric used by Xi Jinping after his election as premier which describes a set of national ethos and ideals in China. It emphasises China's return to a global hegemon and illustrates goals such as the 'One Belt, One Road' initiative. More can be found in the Economist (2013), which outlines Xi Jinping and his Chinese dream.

²³ China claims that they were mistreated during the Qing Dynasty when negotiating over territories such as Hong Kong. China feels it was a part of their national humiliation era when various Western powers and the Empire of Japan during the 19th and early 20th centuries signed unequal treaties after China suffered military defeats or threats by foreign imperialist powers.

wishes. Ho-Fung draws attention to the deep-rooted nature of Hong Kong as an extractive institution, as it has no sense of participation among Hong Kong citizens in its governance or legal system. With the PRC's future intentions concerning Hong Kong becoming very opaque, it has only left room for interpretation of China's threatening actions after Article 23. As there is no process in which the citizens can dictate, or express its opinion in the governing of Hong Kong, nor China.

Secondly, the 2003 protest was the largest movement since the handover of 1997, which then set a precedent for the PRC to adopt a more overt and confrontational approach over the governing of Hong Kong (Jones, 2015; Preston, 2016). The scale of the Article 23 demonstrations shocked the PRC and triggered a more interventionist approach in implementing more policies within Hong Kong to protect Chinese interests (Jones, 2015). For example, in 2012 Beijing introduced the nationalist *'Moral and Civic Education Act*, ^{'24} and in 2014 there was the retraction of the proposal for democratic reform, which prohibited a full public electoral procedure for the CE in 2017.²⁵ Finally it has led to the PRC introducing the extradition bill in 2019. The rise in China's assertion of power over Hong Kong's institutions has sparked fear amongst its citizens of an ever more restrictive Chinese rule in Hong Kong (Davis, 2009) and a loss in their perception of freedom (see Appendix C). All the above mentioned interventions have led to some of the largest mass gatherings ever in Hong Kong. It illustrates that China's increased involvement in altering the formal rules in the hybrid institution since the 2003 protest has not been accepted by the society and has resulted in political instability.

Finally, Agnes Ku (2009) and Sing (2009) claim that the government of Hong Kong has lost formal political legitimacy after the 2003 protests. The bill was rejected in a vote by LegCo, which demonstrated that the PRC and the pro-Beijing elite within Hong Kong's government did not have

²⁴ The Moral and Civic Education Act was deemed a move by the PRC and Pro-Beijing Elite within Hong Kong which sought to manufacture consent and approval of the PRC through promoting patriotism, nationalism in a *"bureaucratically organised top-down attempt to rework the sense of identity within Hong Kong"* (Tse, 2007). This triggered large-scale hostility and protests across the country.

²⁵ The 2014 retraction of the decision made in 2003 after the 1st July March to allow residents of Hong Kong to select under universal suffrage the CE, caused a large and hostile outcry from pro-democracy citizens transforming into the Umbrella Movement in 2014. This movement 'Occupied Central' for over three months which was the longest and most disruptive protests Hong Kong has faced since 2019 (Chan, 2014).

the support of civil society. This highlighted that the structure of the institution was fractured, unable to manage power relations nor implement change (Ku, 2009). Any change that China wished to achieve in the formal rules of the institution requires the individuals to be *"brought into the new regime."* (Compton, et al, 2010 p.420) The critical juncture of the 2003 protest culminated in a negative feedback process in which incentives for the citizens of Hong Kong to embrace political reform or the new rules issued by Beijing have been diminished. They do not trust that these formal rules protect their freedom and autonomy as a SAR. Since the final critical juncture of *'1st July 2003 March'*, there has been a reinvigorated interest in politics sparking numerous consequential effects leading to a notable surge in political activism, including the 2019 protests in Hong Kong (Lee & Chan, 2011).

e. The Result of the Past: 2019 Protests

In the Autumn of 2019, Hong Kong declared a state of emergency due to violent protests, in which *'Hong Kongers'* directed aggression towards its government and the PRC for introducing the *Fugitive Offenders Amendment Bill*.²⁶ The first protest occurred on March 15th, however, the movement gained wide-scale recognition in June 2019 when over a million Hong Kong citizens joined the movement and fought for six months, disrupting society, its economy and institutions (*The Economist, 2019a*).

The extradition bill invoked widespread fear and anxiety that the PRC could undermine Hong Kong's citizens' civil liberties and autonomy. *Hong Kongers* were concerned that this amendment would subject Hong Kong residents to the untrusted jurisdiction and legal system of mainland China (Purbrick, 2019). The extradition bill further displayed and demonstrated the PRC's interference in Hong Kong's institution, altering the formal rules of the system which the society did not legitimise and this drove political instability and unrest.

²⁶ '*Fugitive Amendments Bill*,' or in other terms '*Extradition Bill*,' was a legislature which allowed the extradition of suspected or wanted criminals to territories which did not have agreements with the Hong Kong government such as Mainland China and Taiwan.

Hong Kong's institutional path dependence led to political instability, and an extractive institution. This institutional trajectory took root from a combination of consequences derived from all three prior critical junctures to lead to the 2019 protests. Scholars McAdam and Sewell (2001) summarised that it is *"not the event* [critical juncture] *itself, but the importance that comes to be assigned to it in the immediate aftermath of the event that determines its transformative potential."* Each critical juncture contributed to events that followed, and impacted the citizens informal norms and formal rules, which culminated in the 2019 protests.

V. Effects of Current Political Instability on Hong Kong and China's Economic Interests

a. The Impact of Current Political Instability Upon Hong Kong's Financial Institutions

Thilo Hanemann, partner at Rhodium Group, one of the world's largest trade and investment firms, stated: *"there are looming longer-term concerns about the [political] situation potentially escalating, and undermining the rule of law and institutional set-up that have made Hong Kong such a special place for international investors"* (Bermingham, 2019). His quote summarises the vulnerability of Hong Kong's status as a trade and investment hub due to continued deterioration in the territory's ongoing political crisis. To illustrate the effects of political instability upon Hong Kong's financial institutions, I will utilise the NIE theory and then examine the data.

NIE theory states that prosperous economic institutions are inclusive and stable thereby allowing sustainable and high economic growth as they promote secure property rights, investor confidence, functioning markets, capital accumulation, open-door policy for FDI and technological invention. Hong Kong is considered to have failed the criteria as a 'good' institution under Peters (1999) normative NIE framework due to institutional political instability derived from the consequences of the critical junctures have lost institutional legitimacy and created extractive institutions, expressed in mass civil unrest. Citizens have not recognised Hong Kong's hybrid institutions as legitimate, and do not approve the involvement of China within its legal and governance systems, as illustrated in the 2019 protests which fought against these political office-holders trying to implement the 'Fugitive Offenders Amendment Bill.' The WEF report on 'Global Risks' (2019) have classified Hong Kong as a financial risk due to its recent social upheaval "damage[ing] investor confidence and undermin[ing] political capital—both fundamental conditions for prosperity."

Hong Kong has found itself in extractive institutions since the OCTS rule in 1997, as a significant part of the population are excluded from participating in economic or political affairs (Preston, 2016). Lack of political freedom and high inequality is said to be one cause of extractive

institutions (Acemoglu and Robinson 2012). The perception of freedom within Hong Kong is at an all time low in 2019 at 6.15 (see Appendix C). Inequality has also risen to the highest it has been in 45 years as Hong Kong's Gini-coefficient²⁷ is 0.54, higher even than China's of 0.39 (World Economic Forum, 2019).

Quantitative and qualitative data illustrates a deterioration in Hong Kong's financial institutions during the 2019 protest in its global financial ranking, GDP, HSI, and FDI. The GFCI 27th report (Morris, Mainelli, & Wardle, 2020) has recently diminished Hong Kong's global financial centre ranking from 3rd to 6th for 2020 with Tokyo, Shanghai and Singapore overtaking its place. While this has no logged quantitative effect upon the economic stability and growth within Hong Kong, it does demonstrate the impact the unrest has had upon the perceived stability and attractiveness the region holds for doing business.

In the 2019 'Annual Financial and Banking Report' by the HKMA, the overall economy and financial institutes are still functioning, profitable and stable even after this "eventful year." However, the whole economy is stated to have contracted by 1.2%. The first annual decline in over a decade since the 2009 recession (p. 53). Furthermore, in May the HSI plunged temporarily, triggered by the social unrest within the territory. Even though the Hang Seng Index realised an "overall gain in 9.1% for 2019, the average daily turnover declined by about 19% from a year earlier" (p. 56). The report acknowledges other global events to include the US-China trade war, slowing in global economic growth in addition to the 2019 protests. The data reflects the short-term effects that social unrest and uncertainty has had upon Hong Kong's level of productivity and confidence in its markets.

²⁷ The Gini-Coefficient index gauges economic inequality, measuring income distribution or, less commonly, wealth distribution among a population. The coefficient ranges from 0 to 1, with 0 representing perfect equality and 1 representing perfect inequality.

According to CEIC-data in Appendix D, there was a significant decrease between April to June in 2019 in Hong Kong's FDI as a percentage of GDP.²⁸ In June, Hong Kong realised the lowest recorded rate of FDI in its history at -22.477%. This can be strongly correlated to the period of high political instability within the region with high levels of social unrest and disturbance.

This data shows a temporary decline in the GDP, and FDI combined with a volatile HKSM after the 2019 protests. Hong Kong's financial institution's reputation as a stable regulatory environment and secure hub for trade and investment has been threatened by the social unrest as shown in the GFCI report.

b. The Impact of Current Political Instability Upon Chinese Economic Interest in Trade and Investment

The PRC relies upon Hong Kong's financial institutions to act as financier and middleman for trade and investment. Since the *'open door policy,'* Hong Kong's financial institutions have been hailed as the gateway for overseas investors to access Chinese markets and vice versa. The HKSM and banking centres raise capital for investment in Chinese firms and facilitate offshore RMB activities like the BRI through a robust offshore RMB market (Bush, 2016). Chinese economic interests have become intertwined with the fate of Hong Kong's financial economy due to a dual-dependency developed from 1979 to 2004, whereby Hong Kong accounted for 43% of China's total cumulative FDI (Sung, 2005a, p.6).

A weakened financial institution and economy within Hong Kong due to the political instability will affect the PRC's economic interests through four mechanisms: (a) uncertainty within its institutions, (b) volatility within the HKSM, (c) the threat of losing its international recognition as a separate region to mainland China, and (d) smaller financial economies of scope.

²⁸ CEIC calculates Foreign Direct Investment as % of Nominal GDP from quarterly Foreign Direct Investment and quarterly Nominal GDP. Census and Statistics Department provides Foreign Direct Investment in local currency and Nominal GDP in local currency.

Investor uncertainty²⁹ affecting trade and investment stems from whether Hong Kong will remain a SAR after 2047 and whether an increase of mass civil events will cause social unpredictability and weaken investors confidence (Brunetti & Weder, 1997; Gupta, 1990). From a financial perspective, uncertainty is a threat as it limits FDI and capital raised within Hong Kong, which causes high inflation rates, condenses physical capital thereby limiting investment and trade.³⁰ This will restrict Chinese economic interests directly due to the dual dependency each entity holds upon the other's financial institutions for habilitating FDI.

Volatility and sharp fluctuations in the HKSM due to the 2019 protests have caused difficulty raising capital for Chinese firms such as Xiaomi and Meituan as they are heavily reliant on the currency, equity and debt market in the SAR to attract FDI (The Economist, 2019a). "Chinese firms account for half of all entities on the Stock Exchange of Hong Kong and represent more than two-thirds of capitalisation and 79% of turnover" (Foreign Policy, 2019). Any volatility can seriously disrupt China's economic interest in raising FDI, and clearing yuan for its internationalisation plan in RMB activities.

Since the 1997 'Handover' and the implementation of the OCTS framework, Hong Kong has been recognised as a separate institution. Political activism which opposes the PRC's increased interference within Hong Kong's institutions has triggered western countries to threaten Hong Kong's recognition as a separate institution, distinct from China due to the increase in overt interference by the PRC For example, Nancy Pelosi, speaker of the house of representatives in the USA has stated that *"if the horrific extradition bill passes, Congress would have to reassess whether Hong Kong was sufficiently autonomous to justify its current status in trade with America."* If Hong Kong loses its status as an autonomous region that is compatible with the west, Acts like the *'US-Hong Kong policy Act'* could be revoked (The Economist, 2019b). This would be a severe

²⁹ Investor uncertainty is the impact of uncertainty limiting investment in capital in financial schemes. Specifically, *'Uncertainty'* refers to the difficulty of forecasting outcomes due to limited or inexact knowledge. There is an inherent level of uncertainty whenever money is 'invested' with risk to make profit. The higher the uncertainty, the more limiting it is for general investment of capital in financial schemes (Brunett & Weder, 1997).

³⁰ See Studies and Article conducted on political instability and its effects under Aisen and Veiga (2013), Busse and Hefeker (2007), Schneider and Frey (1985) and Aisen and Veiga (2006).

blow to Hong Kong's financial institutions ability to act as a financier for Chinese economic interests.

Finally, Hong Kong's role as a middleman is especially advantageous to Chinese interests in trade and investment as it creates opportunities to provide efficient structures which lower transaction costs (Townsend, 1978). As China starts to decentralise its economy, its reliance on Hong Kong is theoretically going to increase. Hong Kong's ranking has dropped in the GFCI, which limits the middleman acquiring large financial economies of scope and investment, affecting China and its economic interests.

VI. Conclusion

Hong Kong is currently facing a rise in institutional political instability, which materialized into aggressive protests in 2019 against office-holders within the elite in the Hong Kong government and PRC. These protests are stated manifestations of political instability. The rise in civil unrest stems from three critical junctures, starting with the '1967 riots' in the Colonial era. This critical juncture fostered the enduring belief of a separate identity as 'Hong Kongers', rather than Chinese and the expectation of achieving self-determinism and autonomy.

When the '1997 Handover' occurred, the aspirations of Hong Kong citizens were not met in the development of the 'Joint Declaration' or the OCTS framework, which promised autonomy and 'Basic Laws.' The elites within Beijing and London excluded the majority of the population from participating, creating an extractive institution, accountable mainly to the PRC. Autonomy was hijacked by subordination of the 'rules of the game' to the PRC, as Beijing acquired control over the appointment of government executives to include the CE, EC, and LegCo. In addition, China's ability to override and rewrite the 'Basic Laws' left a vacuum of legitimacy for Hong Kong's institutions. The '1997 Handover' created not only a hybrid institution which cannot implement the beliefs of the population with formal rules, but also uncertainty towards the future of Hong Kong under China's rule once the OCTS agreement ends in 2047.

When the '2003 1st July March' occurred against the implementation of Article 23, it caused Hong Kong citizens to further reject the legitimacy of the governing authority, become increasingly politically active, as well as consolidate their identity as '*Hong Kongers*' not Chinese. As a consequence of Beijing's persistent and unsubtle interference in the democratic process and autonomy of Hong Kong as a SAR since 2003, the level of mistrust, fear and uncertainty has increased. This was compounded by the lack of clarity as to what Hong Kong's institutions will become after 2047. When the governing officials introduced the extradition bill in 2019, it was met with violent protests stemming from previous sensitivities relating to the 2003 critical juncture.

The financial institutions within Hong Kong rely on autonomy to support a separate rule of law to enable them to act independently as a financier but also as a middleman for trade and investment. Chinese economic interests in Hong Kong are heavily reliant on FDI to achieve the benefits of internationalisation of RMB, which support China's foreign economic initiatives such as the BRI.

It has been established theoretically and empirically that political instability constrains the realisation of sustainable economic prosperity. Extractive and delegitimised institutions within Hong Kong have increased political instability, thus, creating uncertainty in financial markets and resulting in reduced innovation and capital accumulation. Short-term financial and economic data, including Hong Kong's GDP, FDI and world standing as a global monetary and financial centre fell during the 2019 protests, supporting this theory. While these consequences appear to be temporary within Hong Kong, the presence of continued civil disobedience is likely to continue unless the root causes of political instability are addressed to reduce the threat to these primary conditions upon which China's economic interests lie.

It is significant that increasing investor uncertainty and volatility within the HKSM results in constriction of capital accumulation for trade and investment. There is also an increased threat by the international community retracting Hong Kong's status as a SAR with separate trade deals. Reducing Hong Kong's role as a middleman will have the effect of increasing transaction costs of trade and investment in and out of China and diminish Hong Kong's financial status and economies of scope.

VII. Discussion

These findings have significant implications for the broader discussions about Hong Kong - China relations which currently circulate in legacy media and literature.

China has repeatedly expressed its ambitions for a unified 'One China.' Whenever debates about Taiwan, Tibet and Hong Kong have been discussed, there has been no room for compromise on China's claims to sovereignty (Hung & Kuo, 2010). Since introducing Article 23 in 2003, the PRC has increasingly interfered in the legal and political institutions of Hong Kong to include the extradition bill in 2019, and now, in May 2020, China has drafted the 'National Security Law.' The law criminalises the acts of succession, subversion, terrorism and foreign' forces interfering in Hong Kong. This potentially criminalises free speech and the right of assembly. The PRC's actions do not bode well for Hong Kong to continue as a SAR with OCTS, nor for their aspirations for self-determinism after 2047. News outlets have speculated on this continued intervention and have hailed this as "the end of Hong Kong" (Forbes, 2020; The South China Morning Post, 2019).

The response of Hong Kong's citizens to China's interference has been repeatedly demonstrated by violent anti-government protests. Hong Kong citizens have an *"identity crisis* [of] *one country, two nationalisms"* (The New York Times, 2019), which I identify to have originated from the critical juncture in 1967. This conflicts with China's aims for unification to this day. Protesters have united under the impetus that *"Hong Kong is no longer autonomous,"* as it is turning into a *"One Country, One System"* (The Washington Post, 2020).

Debates have been ongoing whether Hong Kong can remain a global financial hub which is fit for China's interests. It could be the *"conduit's end"* (The Economist, 2020). Hong Kong's financial institutions are no longer perceived as independent of the PRC, thereby undermining the *'Basic Law'* to protect property rights. Hedge funds and financial companies are exploring alternatives due to social and political instability arising once again in 2020. Countries like the US are considering revoking its *"special status deal"* (Financial Times, 2020). Questions have been posed as to which financial centre could fill Hong Kong's role such as Singapore or Tokyo (Sheng, 2018), or whether

China will put its economic interests ahead of its 'One China' unification ambitions (The Economist, 2020).

China now faces a paradox. The more the PRC interferes with Hong Kong, undermining its citizens' demands to preserve self-determination and establish democratization, the higher the chance of political instability within the territory. This negatively affects the realization of sustainable financial prosperity within Hong Kong and so jeopardises China's economic interests.

Perhaps, China will be considering policy alternatives to de-risk its economic exposure by building up mainland financial capabilities as a priority. To the extent that China continues to compromise Hong Kong's independent institutions, curtailing regulatory, banking and judicial autonomy, the long term prospects for the territory remaining a leading international financial hub diminish.

References

Acemoglu, D., & Johnson, S. (2005). Unbundling institutions. Journal of Political Economy, 113(5), 949–997.

- Acemoglu, D., & Robinson, J. A. (2012). *Why nations fail: The origins of power, prosperity and poverty*. New York: Crown Publishers.
- Aisen, A., & Veiga, F. J. (2006). Does political instability lead to higher inflation? A panel data analysis. *Journal of Money, Credit and Banking*, 38(5), 1379–89.
- Aisen, A., & Veiga, F. J. (2013). How does political instability affect economic growth?. European Journal of Political Economy, 29(C), 151–67.
- Alesina, A., Ozler, S., Roubini, N., & Swagel, P. (1996). Political instability and economic growth. *Journal of Economic Growth*, 1(2), 189–211.
- Aron, J. (2000). Growth and institutions: A review of the evidence. *The World Bank Research Observer*, 15(1), 99–135.
- Ash, R. F., & Kueh, Y. Y. (1993). Economic integration within greater China: Trade and investment flows between China, Hong Kong and Taiwan. *The China Quarterly*, 136, 711–745.
- Berggren, N. (2003). The benefits of economic freedom: A survey. The Independent Review, 8(2), 193–211.
- Bermingham, F. (2019, November 27). Hong Kong's status as trade hub based on political stability, EU figures in protest-racked city warn. *The South China Morning Post*. Retrieved from https://www.scmp.com/economy/china-economy/article/3039610/hong-kongs-status-trade-hub-based-p olitical-stability-eu
- Bickers, R., & Yep, R. (2009). In May Days in Hong Kong: Riot and Emergency in 1967. Hong Kong: Hong Kong University Press.
- Bosworth, B., & Ofer, G. (1995). *Reforming planned economies in an integrating world economy*. Washington, D.C: Brookings Institution.
- Bradsher, K. (2003, July 1). Hundreds of thousands in Hong Kong protest security laws. *The New York Times*.
 Retrieved from https://www.nytimes.com/2003/07/01/international/asia/hundreds-of-thousands-in-hong-kong-protest-s ecurity-laws.html
- Brunetti, A., & Weder, B. (1997). Investment and institutional uncertainty: A comparative study of different uncertainty measures. *Weltwirtschaftliches Archive*. 134, 513–533.
- Bush, R. C. (2016). *In Hong Kong in the shadow of China: Living with the leviathan*. Washington, D.C.: Brookings Institution Press.

- Busse, M., & Hefeker, C. (2007). Political risk, institutions and foreign direct investment. *European Journal of Political Economy*, 23(2), 397–416.
- Butkiewicz, J. L., & Yanikkaya, H. (2006). Institutional quality and economic growth: Maintenance of the rule of law or democratic institutions, or both? *Economic Modelling*, 23(4), 648–661.
- Carroll, J. M. (2009). A Historical Perspective: the 1967 riots and the strike boycott of 1925-26. In R. Bickers & R. Yep (Eds.), *May Days in Hong Kong: Riot and Emergency in 1967*. Hong Kong: Hong Kong University Press.
- Callahan, W. A. (2010). China: The pessoptimist nation. Oxford: Oxford University Press
- Callahan, W. A. (2013). China dreams: 20 visions of the future. Oxford: Oxford University Press
- Callahan, W. A. (2015). The impact of Xi Jinping's governance of China. *The AsanForum*. Retrieved from www.theasanforum.org/the-china-dream-3-2/
- CEICDATA. (n.d). Hong Kong SAR, China Foreign Direct Investment: % of GDP. Retrieved from https://www.ceicdata.com/en/indicator/hong-kong/foreign-direct-investment--of-nominal-gdp
- Chan, J. (2014). Hong Kong's Umbrella Movement. *The Roundtable: The Common-wealth Journal of International Affairs.* 103(6), 571-580.
- Chan, K. K. L. (2004). Taking stock of One Country, Two Systems. In Y. C. Wong, Y. C (Ed.), *One Country, Two Systems in crisis: Hong Kong's transformation since the handover*. Langham: Lexington Books.
- Chen, J. (2020, January 29). Hang Seng Index (HSI) Definition. Retrieved from https://www.investopedia.com/terms/h/hangseng.asp
- Cheng, S. (2015). RMB: Towards internationalisation. Singapore: World Scientific Publishing Co.
- Cheung, A. B. L. (2008). The story of two administrative states: State capacity in Hong Kong and Singapore. *The Pacific Review*, 21(2), 121-45.
- Cheung, C. Y. (2014). Hong Kong's systemic crisis of governance and the revolt of the "Post-80s" youths: The anti-express rail campaign. In J. Y. S. Cheng (Ed.), *New Trends of Political Participation in Hong Kong*. Hong Kong, PRC: City University of Hong Kong Press.
- Cheung, G. K. (2009). Hong Kong's watershed: the 1967 riots. Hong Kong: Hong Kong University Press.
- Cheung, J. (2003, July 1). Article 23 against 'one country, two systems', says UK. South China Morning Post. Retrived from
 - https://www.scmp.com/article/420290/article-23-against-one-country-two-systems-says-uk
- Child, J., & Tse, D. K. (2001). China's transition and its implications for international business. *Journal of International Business Studies*, 32(1), 5–21.
- Collier, R. B., & Collier, D. (1991). Shaping the political arena. Critical junctures, the labor movement, and regime dynamics Latin America. Princeton: Princeton University Press.

- Compton, R. A., Giedeman, D. C., & Johnson, N. D. (2010). Investing in institutions. *Economics & Politics*, 22(3), 419–445.
- Davis, G. (2009). *Worrying about China: The language of chinese critical inquiry*. Cambridge, MA: Harvard University Press.
- Davis, M. C. (2015). Hong Kong's umbrella movement: Beijing's broken promises. *Journal of democracy*. 26(2), 101-110.
- de Haan, J., & Siermann, C. L. J. (1998). Further evidence on the relation between economic freedom and economic growth. *Public Choice*, 95(3–4), 363–380.
- Ellis, P. (1997). Uncertainty in the Hong Kong special administrative region. Business Horizons, 40(2), 59-64.
- Feierabend, I. K., & Feierabend, R. L. (1966). Aggressive behaviors within polities, 1948-1962: A cross national study 1. Journal of Conflict Resolution, 10(3), 249-271.
- Fisher, A. (2019, September 27). 'One Country, Two Nationalisms': The Identity Crisis Behind Hong Kong's Turmoil. The New York Times. Retrieved from https://www.nytimes.com/2019/09/27/world/asia/hong-kong-protests-identity.html
- Ghai, Y. P. (1999). *Hong Kong's new constitutional order: the resumption of Chinese sovereignty and the Basic Law.* Hong Kong: Hong Kong University Press.
- Gittings, D. (2011). What will happen to Hong Kong after 2047? *California Western International Law Journal*, 42(1), 37-60.
- Glaeser, E. L., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2004). Do institutions cause growth? *Journal* of *Economic Growth*, 9(2), 271–303.
- Gu, E. X. (1997). Foreign Direct Investment and the Restructuring of Chinese State-Owned Enterprises (1992–1995): A New Institutionalist Perspective. *China Information*, 12(3), 46–71.
- Gupta, D. (1990). The economics of political violence. New York: Praeger.
- Haggard, S. (2004). Institutions and growth in East Asia. *Studies in Comparative International Development*, 38(4), 53–81.
- Harris, P. (2007, November 24). The devil was in the details of Article 23. *South China Morning Post*. Retrieved from https://www.scmp.com/article/616916/devil-was-details-article-23
- Hoadley, J. S. (1973). Political participation of Hong Kong Chinese: Patterns and trends. *Asian Survey*, 13(6), 604–616.
- Ho-fung, H. (2014) The views of local consciousness in Hong Kong. Asia Pacific Journal. 12(44), 1-10.
- Hong Kong Economy. (2019, November 15). Economic Situation in the Third Quarter of 2019
- and Latest GDP and Price Forecasts for 2019 [Press Release]. Retrieved from

https://www.hkeconomy.gov.hk/en/pdf/19q3_pr.pdf

- Hong Kong Financial Services Development Council. (2019). *Hong Kong: A Leading Financial Hub of Offshore RMB*. Retrieved from https://www.fsdc.org.hk/en/leaders_blog/2020/2
- Hong Kong Monetary Authority. (2015, September 16). RMB Internationalisation Hong Kong: The Bridge Linking China with the Rest of the World [Press Release]. Retrieved from https://www.hkma.gov.hk/eng/news-and-media/speeches/2015/09/20150916-1/
- Hong Kong Monetary Authority. (2019, August 25). *Hong Kong as an international financial centre*. Retrieved from

https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/hong-kong-as-an-internation al-financial-centre/

- Hung, H., & Kuo, H. (2010). "One country, two systems" and its antagonists in Tibet and Taiwan. China Information, 24(3), 317–337.
- Hurwitz, L. (1973). Contemporary approaches to political stability. *Comparative Politics*, 5(3), 449–463.
- *International Monetary Fund.* (2020). Definition of Foreign Direct Investment (FDI) Terms. (Tech. No. 20). Retrieved from https://www.imf.org/External/NP/sta/bop/pdf/diteg20.pdf
- Jones, C. A. G. (2015) *Lost in China: Law, Culture and Identity in Post-1997 Hong Kong*. Cambridge University Press.
- Jong-A-Pin, R. (2009). On the measurement of political instability and its impact on economic growth. *European Journal of Political Economy*, 25(1), 15–29.
- Keefer, P., & Knack, S. (1997). Why don't poor countries catch up? A cross-national test of an institutional explanation. *Economic Inquiry*, 35(3), 590–601.
- King A. Y. C. (1977). The political culture of Kwun Tong: A Chinese community in Hong Kong. *Asian Journal of Social Science*, 5(1), 123–141.
- Knack, S., & Keefer, P. (1995). Institutions and economic performance: Cross-country tests using alternative institutional measures. *Economics and Politics*, 7(3), 207–227.
- Krasner, S. (1984). Approaches to the State: Alternative conceptions and historical dynamics. *Comparative Politics*, 16(2), 223-46.
- Ku, A. S. M. (2009). Civil society's dual impetus mobilizations, representations and contestations over the July 1st march in 2003. In M. Sing (ed.), *Politics and government in Hong Kong: Crisis under Chinese Sovereignty*. Hong Kong: Hong Kong University Press.
- Lam, W. M. (2012). Political identity, culture, and participation. In W. M. Lam, P. L. T. Lui & W. Wong (eds.), *Contemporary Hong Kong Government and Politics* (Expanded Second Edition). Hong Kong: Hong Kong University Press.
- Lau, S. K. (1982). Society and politics in Hong Kong. Hong Kong: The Chinese University Press.

- Lecours, A., & Dupré, J. F. (2018). The emergence and transformation of self-determination claims in Hong Kong and Catalonia: A historical institutionalist perspective. *Ethnicities*, 20(1), 3–23.
- Lee, F. L., & Chan, J. M. (2011). *Media, social mobilisation and mass protests in Post-Colonial Hong Kong: The power of a critical event.* London: Routledge.
- Liang, Y. (2020). RMB Internationalization and Financing Belt-Road Initiative: An MMT Perspective. *The Chinese Economy*, 53(4), 317-328.
- Lipset, S. M. (1983). Political Man: The Social Bases of Politics (2nd ed.) London: Heinemann.
- Lin, J. Y., Cai, F., & Li, Z. (2003). The internal and external environment for economic reform and sustainable development. In J. Y. Lin (ed.), *The China Miracle*. Hong Kong: The Chinese University Press.
- Lo, A. (2019, November 14). What future? It's the end of Hong Kong as we know it. The South China Morning Post. Retrieved from

https://www.scmp.com/comment/opinion/article/3037787/what-future-its-end-hong-kong-we-know-it

- Lockett, H. (2020, June 08). Hong Kong hedge funds explore exit as national security law looms. Retrieved from https://www.ft.com/content/2acb077f-9f81-4457-9932-5223334facee
- Loh, C. (2006). Hong Kong's relations with China: The future of One Country, Two Systems. *The Johns Hopkins University Press*, 73(1), 293–316.
- Loh, C. (2010). Underground front: The Chinese communist party in Hong Kong. Aberdeen, Hong Kong: Hong Kong University Press.
- Mahoney, J., Mohamedali, K., & Nguyen, C. (2016). Causality and time in historical institutionalism. In O.
 Fioretos, T. G. Faletti & A. Sheingate (eds) *The Oxford Handbook of Historical Institutionalism*.
 Oxford: Oxford University Press.
- Mahtani, S., McLaughlin, T., & Liang, T. (2019, October 2). For many in Hong Kong, Beijing's troops are already here: The Hong Kong Police Force . *The Washington Post*. Retrived from https://www.washingtonpost.com/world/for-many-in-hong-kong-beijings-troops-are-already-here-the-h ong-kong-police-force/2019/10/02/7e85b4e4-e460-11e9-b0a6-3d03721b85ef story.html
- Martin, I. (2020, May 22). Why China's New Security Law Could Spell 'The End Of Hong Kong'. Forbes. Retrieved from https://www.forbes.com/sites/iainmartin/2020/05/22/why-chinas-new-security-law-could-spell-the-end-
- Mathews, G., Ma, E. K. W., & Lui, T. L. (2008) *Hong Kong, China: Learning to belong to a nation*. London: Routledge.

of-hong-kong/#748e4f9a7f45

Matta, S., Appleton, S., & Bleaney, M. (2017). The Economic Impact of Political Instability and Mass Civil Protest. Centre for Research in Economic Development and International Trade, 17(3), 1–38.

- McAdam, D., & Sewell, W. (2001). It's about time: Temporality in the study of social movements and revolutions. In R. Aminzade, J. Goldstone, D. McAdam, et al. (eds.), *Silence and voice in contentious politics*. Cambridge: Cambridge University Press.
- Mitchell, T. (2019, June 12). Hong Kong risks becoming a pawn in trade war with extradition bill. *Financial Times*. Retrived from https://www.ft.com/content/f4f3e26e-8cc1-11e9-a1c1-51bf8f989972
- Morris, H., Mainelli, M., & Wardle, M. (2020). *The Global Financial Centres Index 27* (27th, ed.). Long Finance and Financial Centre Futures. Retrieved from https://www.longfinance.net/media/documents/GFCI 27 Full Report 2020.03.26 v1.1 .pdf
- Moyer, B. (2001). *Doing democracy: The MAP model for organizing social movements*. Gabriola Island, BC : New Society Publishers.
- Ngok, M. (2007). *Political development in Hong Kong: political society and civil Society*. Hong Kong University Press.
- North, D. C., & Thomas, R. P. (1973). *The Rise of the Western World: a New Economic History*. Cambridge: Cambridge University Press.
- North, D. C. (1981). Structure and change in economic history. New York: Norton.
- North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge: Cambridge University Press.
- Peters, B. G. (1999). Institutional theory in political science: The new institutionalism. London: Continuum
- Poon, K. (2008). The political future of Hong Kong. London: Routledge
- Preston, P. W. (2016). The politics of China-Hong Kong relations: living with distant masters. Cheltenham, UK: Edward Elgar Publishing.
- Purbrick, M. (2019). A report of the 2019 Hong Kong protests. Asian Affairs, 50(4), 465-487.
- Rodrik, D., Subramanian, A., & Trebbi, F. (2004). Institutions rule: The primacy of institutions over geography and integration in economic development. *Journal of Economic Growth*, 9(2), 131–165.
- Rutherford, M. (1994). *Institutions in economics: The old and new institutionalism*. Cambridge: Cambridge University Press
- Sewell, W. H. (1996). Historical events as transformations of structures: Inventing revolution at the Bastille. *Theory and Society*, 25(6): 841–881.
- Schneider, F., & Frey, B. S. (1985). Economic and political determinants of foreign direct investment. World Development, 13(2), 161–75.
- Sheng, L. (2018). Hong Kong and Shanghai: a tale of two cities in China. Tempo Social, 30(3), 171–190.
- Shibani Mahtani, T. (2020, April 24). One country, one system: The week that China shredded its promise on Hong Kong. Retrieved from

https://www.washingtonpost.com/world/asia_pacific/one-country-one-system-the-week-that-china-shre dded-its-promise-on-hong-kong/2020/04/24/247fb3e6-7001-11ea-a156-0048b62cdb51 story.html

- Sing, M. (2006). The Legitimacy Problem and Democratic Reform in Hong Kong. Journal of Contemporary China, 15(48), 517-532.
- Sing, M. (2009). Hong Kong is at the crossroads: Public pressure for democratic reform. In M. Sing (ed.), Politics and government in Hong Kong: Crisis under Chinese sovereignty. Hong Kong: Hong Kong University Press.
- Skocpol, T. (1992). *Protecting soldiers and mothers: The political origins of social policy in the United States.* Cambridge. Cambridge University Press.
- Sung, Y. W. (1991). The China-Hong Kong connection: The key to China's open door policy. Cambridge: Cambridge University Press.
- Sung, Y. W. (2005a). *The evolving role of Hong Kong as China's middleman*. Hong Kong: Chinese University of Hong Kong.
- Sung, Y. W. (2005b). The emergence of greater China: The economic integration of Mainland China, Taiwan and Hong Kong. UK: Palgrave Macmillan.
- Tai, B. Y. T. (2009). An unexpected chapter two of Hong Kong's constitution; New players and new strategies.
 In M. Sing (ed.), *Politics and Government in Hong Kong: Crisis under Chinese Sovereignty*. Hong
 Kong: Hong Kong University Press.
- Terrell, L. (1971). Societal Stress, Political Instability, and Levels of Military Effort. The Journal of Conflict Resolution, 15(3), 329-346.
- The Basic Law of Hong Kong: Chapter II. (2017, April). Retrieved from https://www.basiclaw.gov.hk/en/basiclawtext/chapter_2.html
- The Basic Law of the People of Hong Kong Special Administrative Region of the People's Republic of China. (1990). Retrieved from https://www.basiclaw.gov.hk/en/basiclawtext/images/basiclaw_full_text_en.pdf

The Economist. (2013, May 4). Xi Jinping and the Chinese dream. Retrieved from https://www.economist.com/leaders/2013/05/04/xi-jinping-and-the-chinese-dream

- *The Economist.* (2019a, August 10). Turmoil in Hong Kong: Seeing Red. Retrieved from https://www.economist.com/briefing/2019/08/08/hong-kong-remains-crucially-important-to-mainland-c hina
- *The Economist.* (2019b, October 4). Carrie Lam invokes emergency laws in Hong Kong. Retrieved from https://www.economist.com/china/2019/10/04/carrie-lam-invokes-emergency-laws-in-hong-kong
- *The Economist. (2020, June 6).* Can Hong Kong remain a conduit between China and the world?. Retrieved from

https://www.economist.com/leaders/2020/06/06/can-hong-kong-remain-a-conduit-between-china-and-t he-world

The Joint Declaration. (1984). Retrieved from https://www.cmab.gov.hk/en/issues/joint3.htm

The World Economic Forum. (2019). *The Fraying Fundamentals: Risks to Economic Stability and Social Cohesion*. Retrieved from

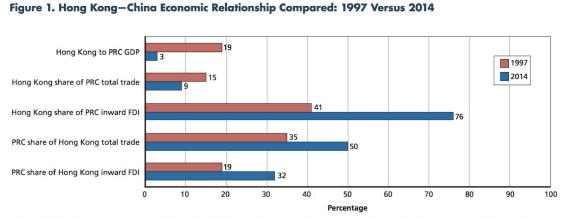
https://reports.weforum.org/global-risks-report-2020/the-fraying-fundamentals/#view/fn-36

- The World Bank. (1993). *The East Asian Miracle: Economic Growth and Public Policy*. New York: Oxford University Press.
- Townsend, R. M. (1978). Intermediation with costly bilateral exchange. *Review of Economic Studies*, 45(3), 417-25.
- Tsang, S. (2004). A Modern History of Hong Kong. Hong Kong: Hong Kong University Press
- Tse, T. K. C. (2007). 'Remaking Chinese identity: hegemonic struggles over national education in post-colonial Hong Kong'. *International Studies in Sociology of Education*. 17(3), 231-248.
- Turner, M. (1995). Hong Kong sixties/nineties: Dissolving the people. In M. Turner & I. Ngan (eds.), Hong Kong sixties: Designing identity. Hong Kong: Hong Kong Arts Centre.
- Ure, G. (2012). Governors, Politics and the Colonial Office: Public Policy in Hong Kong, 1918-1958. Hong Kong: Hong Kong University Press.
- Wang, Y., Shibusawa, H., Leman, E., Higano, Y., & Mao, G. (2013). A study of Shanghai's development strategy to 2020. *Regional Science Policy & Practice*, 5(2), 183-200.
- Wong, Y. C. (2014). Absorption into a leninist polity: A study of the interpretations by Nationals people's congress of the Basic Law in post handover Hong Kong. In J. Y. S. Cheng (ed.), *Trends of political participation in Hong Kong*. Hong Kong: Hong Kong University Press.
- Yeandle, M., & Wardle, M. (2019). The Global Financial Centres Index 26 (26th, ed). Long Finance and Financial Centre Futures. Retrieved from https://www.longfinance.net/media/documents/GFCI 26 Report v1.0.pdf
- Yeung, Y., & Shen, J. (2008). The Pan-Pearl River Delta: An emerging regional economy in a globalizing China. Hong Kong: Chinese University Press.
- Yip, H. (2019, December 11). China Still Needs Hong Kong. Foreign Policy. Retrieved from https://foreignpolicy.com/2019/12/11/protests-alibaba-economy-china-still-needs-hong-kong/
- Zak, P. (2002). Institutions, property rights, and growth. Recherches économiques de Louvain, 68(1), 55-73.

Appendix

Appendix A: Hong Kong-China Economic Relationship

Note. Reprinted from "Whither Hong Kong?", Scobell, A & Gong, M., 2016, *RAND Corporation*, p. 4. Retrieved from https://doi.org/10.7249/PE203

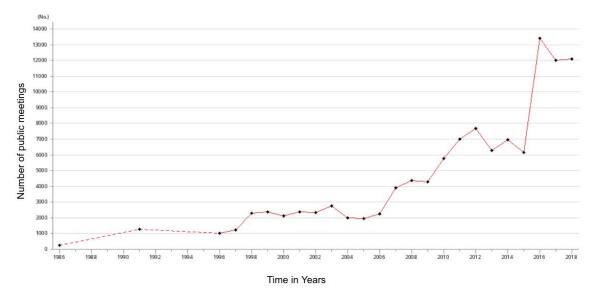


SOURCES: Trade and Industry Department of Hong Kong SAR; Comprehensive Department, Ministry of Commerce of PRC; China Statistical Yearbooks; United Nations Conference on Trade and Development; China share of Hong Kong inward foreign direct investment data were from 2013. NOTE: GDP = gross domestic product.

Appendix B: Number of Mass Civil Events

Note. Reprinted from "No. of public order", by Social Indicators of Hong Kong. 2018. Retrieved

from https://www.socialindicators.org.hk/en/indicators/political_participation/2.5



Statistics

Year	1986	1991	1996	1997	1998	1999	2000	2001
No.	247	1234	1008	1190	2247	2326	2064	2347
Year	2002	2003	2004	2005	2006	2007	2008	2009
No.	2303	2705	1974	1900	2228	3824	4287	4222
Year	2010	2011	2012	2013	2014	2015	2016	2017
No.	5656	6878	7529	6166	6818	6029	13158	11811
Year	2018							
No.	11880							

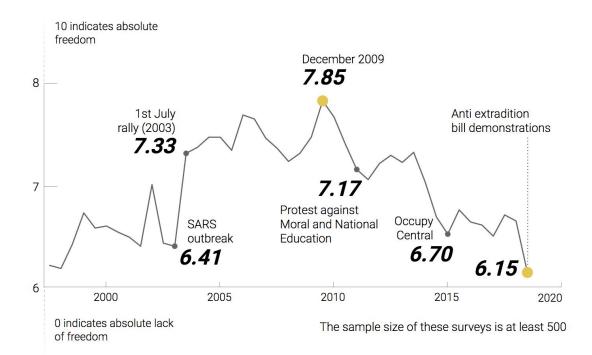
Operational Definitions

The number of public meetings including notified public meetings, public processions approved, notified public procession, non-notifiable public meetings and non-notifiable public processions. Figures for non-notifiable public meetings and non-notifiable public processions are fist maintained since December 1997.

Appendix C: Perception of Freedom

Note. Reprinted from "History of Hong Kong protests: riots, rallies and brollies" by Duhalde, M & Huang, H, 2019, July 4. *South China Morning Post.* Retrieved from

https://multimedia.scmp.com/infographics/news/hong-kong/article/3016815/hong-kong-protest-city/in dex.html



Appendix D: Foreign Direct Investment: % of GDP

CEICDATA. (n.d). Hong Kong SAR, China Foreign Direct Investment: % of GDP. Retrieved from

https://www.ceicdata.com/en/indicator/hong-kong/foreign-direct-investment--of-nominal-gdp

