

# How China Sees the Hong Kong Crisis

## The Real Reasons Behind Beijing's Restraint

By Andrew J. Nathan

Massive and sometimes violent protests have rocked Hong Kong for over 100 days. Demonstrators have put forward five demands, of which the most radical is a call for free, direct elections of Hong Kong's chief executive and all members of the territory's legislature: in other words, a fully democratic system of local rule, one not controlled by Beijing. As this brazen challenge to Chinese sovereignty has played out, Beijing has made a show of amassing paramilitary forces just across the border in Shenzhen. So far, however, China has not deployed force to quell the unrest and top Chinese leaders have refrained from making public threats to do so.

Western observers who remember the violent crackdown on pro-democracy demonstrators in Tiananmen Square 30 years ago have been puzzled by Beijing's forbearance. Some have attributed Beijing's restraint to a fear of Western condemnation if China uses force. Others have pointed to Beijing's concern that a crackdown would damage Hong Kong's role as a financial center for China.

But according to two Chinese scholars who have connections to regime insiders and who requested anonymity to discuss the thinking of policymakers in Beijing, **China's response has been rooted not in anxiety but in confidence.** Beijing is convinced that Hong Kong's elites and a substantial part of the public do not support the demonstrators and that what truly ails the territory are economic problems rather than political ones—in particular, a combination of **stagnant incomes and rising rents.** Beijing also believes that, despite the appearance of disorder, its grip on Hong Kong society remains firm. The Chinese Communist Party has long cultivated the territory's business elites (the so-called tycoons) by offering them favorable economic access to the mainland. The party also maintains a long-standing loyal cadre of underground members in the territory. And China has forged ties with the Hong Kong labor movement and some sections of its criminal underground. Finally, Beijing believes that many ordinary citizens are fearful of change and tired of the disruption caused by the demonstrations.

**Beijing therefore thinks that its local allies will stand firm and that the demonstrations will gradually lose public support and eventually die out.** As the demonstrations shrink, some frustrated activists will engage in further violence, and that in turn will accelerate the movement's decline. Meanwhile, Beijing is turning its attention to economic development projects that it believes will address some of the underlying grievances that led many people to take to the streets in the first place.

This view of the situation is held by those at the very top of the regime in Beijing, as evidenced by recent remarks made by Chinese President Xi Jinping, some of which have not been previously reported. In a speech Xi delivered in early September to a new class of rising political stars at the Central Party School in Beijing, he rejected the suggestion of some officials that China should declare a state of emergency in Hong Kong and send in the People's Liberation Army. "That would be going down a political road of no return," Xi said. "The central

government will exercise the most patience and restraint and allow the [regional government] and the local police force to resolve the crisis.” In separate remarks that Xi made around the same time, he spelled out what he sees as the proper way to proceed: “Economic development is the only golden key to resolving all sorts of problems facing Hong Kong today.”

## ONE COUNTRY, TWO SYSTEMS, MANY QUESTIONS

Chinese decision-makers are hardly surprised that Hong Kong is chafing under their rule. Beijing believes it has treated Hong Kong with a light hand and has supported the territory’s economy in many ways, especially by granting it special access to the mainland’s stocks and currency markets, exempting it from the taxes and fees that other Chinese provinces and municipalities pay the central government, and guaranteeing a reliable supply of water, electricity, gas, and food. Even so, Beijing considers disaffection among Hong Kong’s residents a natural outgrowth of the territory’s colonial British past and also a result of the continuing influence of Western values. Indeed, during the 1984 negotiations between China and the United Kingdom over Hong Kong’s future, the Chinese leader Deng Xiaoping suggested following the approach of “one country, two systems” for 50 years precisely to give people in Hong Kong plenty of time to get used to the Chinese political system.

But “one country, two systems” was never intended to result in Hong Kong spinning out of China’s control. Under the Basic Law that China crafted as Hong Kong’s “mini-constitution,” Beijing retained the right to prevent any challenge to what it considered its core security interests. The law empowered Beijing to determine if and when Hong Kongers could directly elect the territory’s leadership, allowed Beijing to veto laws passed by the Hong Kong Legislative Council, and granted China the right to make final interpretations of the Basic Law. And there would be no question about who had a monopoly of force. During the negotiations with the United Kingdom, Deng publicly rebuked a top Chinese defense official—General Geng Biao, who at the time was a patron of a rising young official named Xi Jinping—for suggesting that there might not be any need to put troops in Hong Kong. Deng insisted that a Chinese garrison was necessary to symbolize Chinese sovereignty.

At first, Hong Kongers seemed to accept their new role as citizens of a rising China. In 1997, in a tracking poll of Hong Kong residents regularly conducted by researchers at the University of Hong Kong, 47 percent of respondents identified themselves as “proud” citizens of China. But things went downhill from there. In 2012, the Hong Kong government tried to introduce “patriotic education” in elementary and middle schools, but the proposed curriculum ran into a storm of local opposition and had to be withdrawn. In 2014, the 79-day Umbrella Movement brought hundreds of thousands of citizens into the streets to protest Beijing’s refusal to allow direct elections for the chief executive. And as authoritarianism has intensified under Xi’s rule, events such as the 2015 kidnapping of five Hong Kong-based publishers to stand trial in the mainland further soured Hong Kong opinion. By this past June, only 27 percent of respondents to the tracking poll described themselves as “proud” to be citizens of China. This year’s demonstrations started as a protest against a proposed law that would have allowed Hong Kongers suspected of criminal wrongdoing to be extradited to the mainland but then developed into a broad-based expression of discontent over the lack of democratic accountability, police brutality, and, most fundamentally, what was perceived as a mainland assault on Hong Kong’s unique identity.

Still, Chinese leaders do not blame themselves for these shifts in public opinion. Rather, they believe that Western powers, especially the United States, have sought to drive a wedge between Hong Kong and the mainland. Statements made by U.S. politicians in support of the recent demonstrations only confirm Beijing's belief that Washington seeks to inflame radical sentiments in Hong Kong. As Xi explained in his speech in September:

As extreme elements in Hong Kong turn more and more violent, Western forces, especially the United States, have been increasingly open in their involvement. Some extreme anti-China forces in the United States are trying to turn Hong Kong into the battleground for U.S.-Chinese rivalry.... They want to turn Hong Kong's high degree of autonomy into de facto independence, with the ultimate objective to contain China's rise and prevent the revival of the great Chinese nation.

Chinese leaders do not fear that a crackdown on Hong Kong would inspire Western antagonism. Rather, they take such antagonism as a preexisting reality—one that goes a long way toward explaining why the disorder in Hong Kong broke out in the first place. In Beijing's eyes, Western hostility is rooted in the mere fact of China's rise, and thus **there is no use in tailoring China's Hong Kong strategy to influence how Western powers would respond.**

### **IT'S NOT ABOUT THE BENJAMINS**

The view that Xi has not deployed troops because of Hong Kong's economic importance to the mainland is also misguided, and relies on an outdated view of the balance of economic power. In 1997, Hong Kong's GDP was equivalent to 18 percent of the mainland's. Most of China's foreign trade was conducted through Hong Kong, providing China with badly needed hard currencies. Chinese companies raised most of their capital on the Hong Kong stock exchange. Today, things are vastly different. In 2018, Hong Kong's GDP was equal to only 2.7 percent of the mainland's. Shenzhen alone has overtaken Hong Kong in terms of GDP. Less than 12 percent of China's exports now flow through Hong Kong. The combined market value of China's domestic stock exchanges in Shanghai and Shenzhen far surpasses that of the Hong Kong Stock Exchange, and Chinese companies can also list in Frankfurt, London, New York, and elsewhere.

Investment flowing into and out of China still tends to pass through financial holding vehicles set up in Hong Kong, in order to benefit from the region's legal protections. But China's new foreign investment law (which will take effect on January 1, 2020) and other recent policy changes mean that such investment will soon be able to bypass Hong Kong. And although Hong Kong remains the largest offshore clearing center for renminbi, that role could easily be filled by London or Singapore, if Chinese leaders so desired.

Wrecking Hong Kong's economy by using military force to impose emergency rule would not be a good thing for China. But the negative effect on the mainland's prosperity would not be strong enough to prevent Beijing from doing whatever it believes is necessary to maintain control over the territory.

### **CAN'T BUY ME LOVE?**

As it waits out the current crisis, Beijing has already started tackling the economic problems that it believes are the source of much of the anger among Hong Kongers. Housing prices have tripled over the past decade; today, the median price of a house is more than 20 times the median gross annual household income. The median rent has increased by nearly 25 percent in the past

six years. As many as 250,000 people are waiting for public housing. At the same time, income growth for many Hong Kong residents has fallen below the overall increase in cost of living.

Beijing believes that if it could make improvements on those metrics, the situation in Hong Kong would stabilize in a sustainable way

In mid-September, China's main party newspaper, *The People's Daily*, published a lengthy commentary endorsing a proposal to seize private land in Hong Kong for the purpose of building public housing. The tycoons in Hong Kong seem to have gotten the message: just last week, *New World Development*, a major real-estate firm, announced that it would donate nearly three million square feet of farmland—almost a fifth of the company's holdings—to Hong Kong's government and to nonprofit organizations, for the purpose of building more public housing.

Meanwhile, there is little indication that the top leadership in Beijing is divided over the handling of Hong Kong or that Xi's position has been weakened by the upheaval there. Barring a flare-up of prolonged and large-scale violence, Beijing is determined to stay the course, relying on the Hong Kong government, police, and business community to keep pressure on the demonstrators until the pro-democracy movement dies out