

The Hong Kong crisis reflects China's hegemonic ambitions

With deeper economic integration of Hong Kong, China will have the advantage of having two major financial centres: Shanghai and Hong Kong. This gives it an advantage in global financial markets by challenging US supremacy in the financial sphere

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Hong Kong has been in the news since June 2019, on account of a series of protests by pro-democracy students' groups. On June 30, Chinese President Xi Jinping signed a new law that would give China jurisdiction over 'complicated' cases involving secession, subversion, terrorism, and collusion with a foreign country or 'external

elements' that would endanger national security. The law came into force in Hong Kong a few hours later.

China considered the new legislation necessary to deal with situations where the Hong Kong government could not effectively counter what China perceived to be foreign interference and threats to national security.

With its latest move, China has effectively taken control of Hong Kong. It has also set the stage for political and economic confrontation, not just with the people of Hong Kong, but also with the United States and its European allies, and many other countries in the Asia-Pacific region, notably Japan and Taiwan.

Historical Context

Under the terms of the agreement governing Britain's handover of Hong Kong to Chinese control in 1997, when its 99-year lease over it ended, the territory was part of an arrangement called 'one country, two systems'. This involved China being responsible for Hong Kong's foreign affairs and defense, but the territory maintaining its own distinctive legal system for another 50 years, until 2047.

Hong Kong's special status was meant to ensure that it continued to be an independent international financial hub, with investors assured of protections under a legal system that was western in terms of orientation. Any major changes in regulation, until 2047, was to be undertaken by the Hong Kong Legislative Council — the 'LegCo'.

China's attitude towards Hong Kong has considerably hardened ever since Xi assumed office in 2012. In June 2019, the Hong Kong government proposed a new extradition law that would have allowed Hong Kong nationals to be extradited to China for legal violations, but was forced to withdraw it in the face of public protests.

The recent legislation indicates that the Chinese government is now willing to ignore the provisions of the 1997 Basic Law and enact the legislation for Hong Kong unilaterally. It also fits into a pattern of Chinese behaviour where it ignores international agreements and treaty obligations when it feels necessary to demonstrate that it is now a global power that should not be challenged.

Economic Context

However, why is there this hurry in exercising greater control over Hong Kong? Several conjectures may be put forward.

First, frustrated at the inability of the LegCo to pass the national security legislation, the Chinese government may have decided to act at a time when the international community is busy handling the COVID-19 pandemic.

Second, like other countries, China is going to experience a deep slowdown in its growth in the post-COVID-19 situation. The International Monetary Fund (IMF), in its latest World Economic Outlook of June 20, projected Chinese GDP growth in 2020 at 1 percent — a *downward* revision of 5 percent from IMF's January projections. In such a situation greater political control could be a precursor to greater economic and financial integration of Hong Kong with the mainland that could give a boost to the mainland's economy.

Hong Kong remains central to the economy of mainland China for two reasons. First, Hong Kong continues to be a source of round tripping of foreign direct investment to China reflecting factors such as tax advantages and fiscal incentives, property rights protection, and expectations on exchange controls and exchange rates.

Second, with deeper economic integration of Hong Kong, China will have the advantage of having two major financial centres in a country, viz., Shanghai and Hong Kong. This gives it an advantage as it seeks to emerge as a major player in global financial markets by challenging US supremacy in the financial sphere.

Way Ahead

Even with the Basic Law, China had the option to integrate Hong Kong fully with the mainland by 2047. Considering the fact that Hong Kong occupies a key role in Chinese hegemonic ambitions, China seems intent on bringing that integration forward, if necessary, by breaking its international obligations.

Perhaps the time has come for leading nations of the world to come together to counter China's aggressive behaviour outside its borders, and its violation of treaty obligations.

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