

Viewpoints

Protests cloud Hong Kong's future as a world financial center

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Emerging Markets

Protests cloud Hong Kong's future as a world financial center



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Boston - Plumes of smoke and tear gas continue to cloud the future of Hong Kong as "Asia's world city" and global financial center, as protesters defied authorities, and police cautioned that the city was on "the brink of a total breakdown."

In troubling new developments, protests are now occurring midday in main business and tourist areas of the city (such as Central). Before, demonstrations occurred on weekends and at night and didn't really disrupt business as usual.

The new unrest, however, has disrupted business and significantly affected tourism and retail sales. A luxury mall in Central was vandalized early on November 13. Schools were scheduled to be closed for the first time on November 14 and 15 due to the protests. Chinese University of Hong Kong, where the clashes were November 12, has cancelled the rest of its semester and other universities have followed suit.

Trust in the Hong Kong police force has severely dropped since police first used tear gas against protesters in June. The situation has continued to deteriorate as protesters have turned increasingly confrontational, with tactics shifting to include the use of rubber bullets, batons and water cannons. The public is calling for a review and investigation of recent police methods.

If the protests continue as they have over the past few days, commerce in Hong Kong may come to a screeching halt and there could be broader implications on global financial markets:

- Hong Kong is the financial center of Asia, with a tremendous amount of money flowing through its markets. The protests could strain the financial markets, especially if they continue as daytime disruptions that affect business.
- Approximately 21% of the MSCI Emerging Markets Index comprises securities priced in Hong Kong dollars. Investors with EM equity portfolios that tightly track that index are going to be exposed to the situation in Hong Kong.
- Over the past few months, markets have been relatively calm in the wake of the protests

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but markets are now reacting. The Hang Seng Index is down about 5.6% since November 8.

- The clash also mirrors in a sense what is happening between China and the U.S. While the China/U.S. issue is partly one of economics, it also reflects differences in matters of security and values. China has more of an authoritarian stance while the U.S. has western, democratic views, which are echoed by Hong Kong's protesters.
- The Hong Kong/China conflict could affect the trade war between the U.S. and China depending on how things play out and on alliances.

In the past, Beijing had managed to gradually restrict rights and freedoms for Hong Kong citizens, while maintaining the city's status as a major financial center, with open markets and a freely convertible currency. Events of the past six months have decisively changed that balance.

Bottom line: It's unclear when or if the sight of the People's Liberation Army will replace the Hong Kong police, or how much longer Communist authorities will stand pat. But it's becoming increasingly clear that there is no return to the status quo ante.

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