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What do the protests in Hong Kong mean for global firms?

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Demonstrators gather on Nathan Road in the area of Mongkok in Hong Kong.

Photo by Bloomberg — Getty Images

The foreign business community is worried about the impact of a violent crackdown on protestors by Hong Kong's police or, even worse, an order from Beijing to deploy Peoples Liberation Army troops.

By Clay Chandler

Two months before this week's demonstrations in Hong Kong, the world's four largest accounting firms issued an unusual joint statement warning that non-violent protests agitating for greater democracy in this city would have an "adverse and far-reaching impact" on its economy.

The statement, published in advertisements in Hong Kong's leading Chinese language dailies, painted a bleak picture of how protests would paralyze the city: Demonstrations would roil financial markets, spook investors and wreak "social and economic damage that can hardly be quantified," the firms predicted. A prolonged standoff would drive multinational corporations from the city, destroying jobs and putting Hong Kong's global competitiveness at risk.

The ads were a public relations disaster. In the Hong Kong press, critics lambasted the firms—Ernst & Young, KPMG, Deloitte and PricewaterhouseCooperhouse—for partisan fear-mongering, and condemned senior executives at the firms for succumbing to pressure from state-owned enterprises from China's mainland who are among their biggest clients.

The backlash illustrates the hazards for global companies of wading into local politics—particularly on matters as charged as Hong Kong's relations with China's central government. And yet the ads also highlighted an important truth. Foreign investors and global companies play a crucial part in this city's economy, and have a keen interest in preserving Hong Kong's role as a conduit between China and the rest of the world.

As the "Occupy Central" movement drags into its second week, with pro-democracy protesters giving some ground Monday, Hong Kong's foreign business residents are keeping their heads down. Hong Kong chapters of the leading global chambers of commerce have uttered nary a peep about the protests. With China's state-run media blaming unrest in Hong Kong on foreign "black hands," no one wants to be singled out as a propaganda target.

Privately executives with global firms and funds admit they're worried about what's happening in Hong Kong. But conversations in recent days with nearly a dozen influential foreign investors, financiers, and senior corporate executives suggest they're not worried about protests themselves. Indeed, many expat business leaders say they are encouraged that Hong Kongers would make such a passionate stand for

greater autonomy.

Nor does Hong Kong's foreign business community buy the doomsday claims that protests alone can do lasting harm to the city's economy. They don't feel frightened, or even inconvenienced by the protests. No one said they or their firms were thinking of leaving.

What *does* concern global executives in Hong Kong is the prospect of a violent crackdown on protestors by Hong Kong's police or, even worse, an order from Beijing to deploy Peoples Liberation Army troops.

Such a show of force might clear the clear the streets and demonstrate Beijing's resolve. But global executives here fear it would do so at the expense of polarizing the city, leaving the majority of Hong Kong's residents sullen, resentful and impossible to govern.

They worry a crackdown would erode confidence in the rule of law, free press, open education system and other institutions that have helped make Hong Kong one of the world's greatest business cities. Executives at several global firms warned of an exodus of Hong Kong's middle class, many of whom hold dual passports and own assets in other countries.

Bloody suppression of pro-democracy protestors also would shatter long held assumptions about future of China itself. Since Deng Xiaoping opened China's economy to outside investment in the 1990s, foreign businesses have poured capital and technology into China in the belief that mainland cities, as they prospered, would come to look more like Hong Kong, with clear rules governing commerce and more rights and freedoms for middle class consumers. A crackdown would signal China's leaders have a different vision, and want Hong Kong to be more like other mainland cities rather than the other way around.

One reason global executives feel so relaxed about Hong Kong's Occupy Central movement is that they're not the focus of its wrath. Protestors here are railing against China's authoritarian political system, not Western-style capitalism or global banks. Demonstrators have surrounded Hong Kong's government office complex and gathered in some of the city's shopping areas but left Hong Kong's stock exchange and the corporate office towers unmolested.

In that sense, Hong Kong's "Occupy" movement bears almost no resemblance to Occupy Wall Street, the American anti-business coalition whose name it has borrowed. In many ways, the interests of global firms and those of students manning the barricades are aligned. Both fear that the institutions and values that define Hong Kong as a global business hub are in jeopardy.

Expat executives don't profess strong views about issues at the crux of the protests. Ask for an opinion about whether it's fair for Beijing to restrict the field of candidates allowed to run for chief executive, the

city's top political post, or whether the current chief executive, C.Y. Leung, should be removed and most just shrug. Even so, many say they hope the demonstrations will send a message to Beijing about the value—and the fragility—of the "one country, two systems" formula that has worked so well for this city since it was returned to Chinese rule in 1997.

A peaceful protest, even one that dragged on for weeks, wouldn't do permanent damage to Hong Kong's economy. This city has seen far worse. So far, the pro-democracy demonstrations have been far less disruptive to city's economy than the SARS epidemic that swept Hong Kong in 2003 or the Asian financial crisis in 1999. Those events sent Hong Kong's stock and property into freefall and triggered a dramatic exodus of foreign firms. Both times, recovery was swift.

The cynical view is that Hong Kong doesn't matter much any more. In 1997, when Hong Kong reverted to Chinese sovereignty, the city's economy accounted for nearly 16 percent of China's national GDP. By the end of last year, rapid growth on the mainland had reduced Hong Kong's share to barely 3 percent. According to Trigger Trend, a Guangzhou-based consultancy, Hong Kong's 2013 GDP, an estimated $261 billion, trailed far behind that of Shanghai ($354 billion) and Beijing ($317 billion). By 2022, say Trigger Trend analysts, Hong Kong will be reduced to the status of "second tier" Chinese city behind Guangzhou, Shenzhen, Tianjin, Chongqing and Chengdu.

Hong Kong has surrendered its preeminence as a global shipping port, as new container terminals along China's eastern seaboard have come online. Hong Kong's stock exchange remains the world's sixth largest, but its market capitalization is smaller than that of the combined value of mainland exchanges of Shanghai and Shenzhen. And for foreign executives, mainland cities aren't the hardship postings they once were. In cities like Beijing, Shanghai or Guangzhou, expatriates can find comfortable lodgings, dine in world-class restaurants and send their children to well-managed international schools.

But such numbers understate Hong Kong's value, to global businesses and China itself. Over the past decade Hong Kong's stock exchange has helped Chinese companies raise hundreds of billions of dollars from global capital markets. The city's banks have lent generously to Chinese businesses. Hong Kong companies have led the development of entire industries, including textiles, toys, electronics and logistics, on the mainland.

Hong Kong is also an indispensable staging platform for global firms doing business in the rest of China. As China economy matures, Hong Kong's role as global gateway has increased, not diminished. In recent years, many global firms who invested aggressively in the mainland following China's admission to the World Trade Organization have redeployed many operations back to Hong Kong. Employees and their families have grown less willing to endure poor air quality, congested roads and tight restrictions on Internet access in mainland cities. Corruption is a constant headache. In the World Bank's "ease-of-doing-business" report, China ranked 96th last year, while Hong Kong ranked No. 2, trailing only Singapore, a five hour flight away.

Thus even as pro and anti-democracy pundits wring their hands about the prospect that foreign firms will flee to Shanghai or Singapore, the reality is that, for global funds and firms, the lure of locating in Hong Kong is stronger than ever. Restaurants and bars in Lan Kwai Fong and Soho are still heaving with Western bankers and brokers and waiting lists for admission to Hong Kong's leading international schools are hundreds of places long.

In 1995, with Hong Kong's reversion to Chinese sovereignty just two years away, the cover of *Fortune*'s Asia edition boldly proclaimed "The Death of Hong Kong."

"The naked truth about Hong Kong's future," *Fortune* declared, "can be summed up in two words: It's over." For the next two decades, this remarkable city showed that statement to be one of the most spectacularly bone-headed in *Fortune's* history. Now, with hundreds of thousands of Hong Kongers rallying in defense of all the things that proved *Fortune* wrong, Beijing and its hand-picked administrators in the Hong Kong government, seem bent on making that dire prediction come true.

Clay Chandler is a Hong Kong-based writer, editor and former McKinsey consultant with two decades of experience living and working in Asia. He is also a former Fortune Asia Editor.

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