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SVA Update Number 15 – Hong Kong Situation – Threat Assessment – 19 May 2020

The reassertion of control over Hong Kong's Legislative Council ("LegCo") by the pro-government faction has ended months of paralysis in the chamber.

However, the move also highlights how Beijing aims to reassert control over Hong Kong, meaning that the political contest will intensify, even as the economy slows and as international frictions rise. Businesses must prepare for turbulence.

The establishment strikes back

On Friday 7 May 2020, Starry Lee Wai-king, head of the pro-government Democratic Alliance for the Betterment and Progress of Hong Kong ("DAB"), took control of the House Committee of the Legislative Council ("LegCo").

Well ahead of the meeting, she walked briskly to the chair's seat. Her supporters then surrounded the podium, and saw off physical opposition from pan-democrat representatives. She later ordered the removal of some members, in order to re-establish calm in the chamber.

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Her move has ended months of logjam in the LegCo, which came about due to filibustering organised by the vice chairman of the committee, Dennis Kwok Wing-hang. The result had been a failure to appoint a chairman, and a resulting backlog in day-to-day business, including the passage of economic relief packages.

Regaining the initiative

Starry Lee's actions appear to be part of a broader plan aimed at re-establishing Beijing's control over Hong Kong.

Indeed, in recent weeks, Luo Huining, the head of the Central Government Liaison Office, has called for new national security laws, in line with Article 23 of Hong Kong's Basic Law, described the protests as a "major blow" to the rule of law, and decried the "mutual destruction" under way.

The Hong Kong government is now labouring to implement Beijing's fiat. Of particular note was a recent reshuffle of government ministers, aimed at ensuring effective implementation of policy; opposition within civil service ranks to some government decisions had been evident.

Equally important was the arrest of senior pan-democrat politicians for attending or organising illegal protests, which some commentators see as an effort to neutralise key opposition leaders ahead of polls scheduled for September 2020. If convicted, these politicians might not be able to run in the forthcoming elections.

The government now hopes to advance long-delayed legislation in the LegCo, including controversial bills, such as one criminalising insults to the national anthem. Indeed,



Matthew Cheung Kin-chung, the Chief Secretary, has called for a second reading of that law on 27 May 2020. Other national security legislation may follow.

Equally significant is the emergence of the Hong Kong Coalition, a pro-Mainland alliance headed by former Chief Executives Tung Chee-hwa and Leung Chun-ying, and comprising 1,545 prominent citizens, including tycoons and politicians. This group will no doubt champion the actions of pro-establishment groups in the months ahead.

The police have also become more assertive, making arrests rapidly and without hesitation, and conducting anti-terrorist drills. Of course, a risk is that junior police officers, irked by a well-orchestrated social media campaign painting their actions as abusive might breach discipline – and thereby provoke more demonstrations. Certainly, the protest movement will not find satisfaction in an Independent Police Complaints Commission (“IPCC”) report published on 16 May that largely vindicated the force for actions during the protests.

Finally, the courts are also reopening, with hearings related to protest related cases taking place – some resulting in custodial sentences. The jailing of protesters might assist in re-establishing order, but could also lead to radicals attacking the courts, or judicial officials. Separately, increased pressure on the judiciary to toe the party line can also be expected from the Mainland.

On the back foot

The opposition response has, so far, been muted. The two LegCo fracas have provoked some protests with the police arresting about 250 people. However, many people stayed at home, fearful of infection, or deterred by rules that prohibit gatherings of more than eight people.



Even so, the intensity of protests seems sure to increase. An event on 27 May will attract attention, as will the 4 June commemoration of the 1989 Tiananmen Square massacre – subject to an upsurge in COVID-19 cases. The risk is that these protests descend into violence orchestrated by radicals, as in the past or if the police are targeted by improvised explosive devices.

In addition, the movement is using new trade unions to advance its agenda. These unions may add to influence ahead of the Legislative Council elections in September 2020, and will provide for leverage in certain industries; their hold over the medical sector is especially strong. However, recent disclosures of the widespread use of false addresses to register such unions may impact on their effectiveness or make them vulnerable to police action.

Activists are also pursuing judicial review actions. Intriguingly, one case seeks to establish whether the Central Government Liaison Office has breached Article 22 of Hong Kong's Basic Law – and, in so doing, raises question as to whether such mainland institutions are subject to the city's longstanding checks and balances. Most likely, they are not.

A limited insurgency movement is also emerging. Hong Kong has seen a number of bombs in recent months – with one sent to Police Commissioner Chris Tang Ping-keung on 20 April 2020. Police have also repeatedly seized explosives, most recently at St Joseph English Secondary School in Kowloon on 2 May 2020. These devices are generally small in scale, but their use demonstrates a clear intent to harm and may escalate.

A deal to end hostilities?

Yet, there is some scope for a resolution. Beijing could offer movement on the election process for a new Chief Executive in exchange for the passage of some less stringent national security regulations.

Of course, any such deal would depend on Beijing's willingness to compromise, which seems unlikely in its current temper, and on the ability of protest leaders to exert control over the radicals in the streets. For now, such prospects seem slim.

Distracted from the main challenges

Without a resolution, this political contest will distract from other challenges, thereby heightening other risks.

One clear concern is that the economy is flailing, hit hard not only by months of instability, but also by the pandemic, and a severe, global downturn. Hong Kong's GDP fell by 8.9% year-on-year in the first quarter of 2020, exports slumped 9.7%, and the housing market is beginning to wobble.

Of course, the local government has set aside funds to help, and Beijing has every interest in sustaining Hong Kong as an international financial centre, with a freely exchanged currency. Indeed, the People's Bank of China announced plans to facilitate payments amongst cities in the Greater Bay area on 15 May 2020. Such measures should bolster growth, but will also accelerate Hong Kong's absorption into the mainland.

A further threat stems from the fractious international environment. The deterioration of ties between Washington and Beijing means that developments in Hong Kong may take

on greater symbolism than hitherto. After all, the US State Department must soon assess whether changes in Hong Kong's autonomy merit alteration to its favoured trading status.

Washington has delayed a decision, originally due by 25 May, but must act soon. That it will do so amidst acrimony over the pandemic, and signs that the Sino-American trade deal is close to collapse, is troubling – putting aside the implications for Hong Kong of any trade restrictions, sanctions, or other aggressive measures against China.

An additional risk is that the lack of trust between the two great powers leads to miscalculations in the South China Sea, or even prompts Beijing to act against Taiwan. China could move so as to shore up domestic support – and to take advantage of America's perceived incapacity owing to the pandemic. Of course, the risk of conflict is low for now, but is rising.

The implications for business

Needless to say, this situation presents significant risks to business. A resumption of protests could impede companies' operations, while a bombing campaign, even if small, would harm investor confidence.

Equally, preoccupation with political contest may result in a weakening in administrative capacity, particularly if Beijing's actions erode existing checks and balances, even as threats from an ailing economy and tempestuous international environment swell.

Even so, Hong Kong remains a major financial centre, with a long history of business-friendly policies, of impartial justice, and of sound administration – as its success in tackling the COVID-19 outbreak has made clear. As such, the reasons for doing business here remain strong, as long as companies prepare accordingly. Certain Hong



Kong listed companies, such as the Macau (U.S. owned) casino operators are now facing acute risk as the crisis intensifies and as their concessions come up for renewal.

What can business do?

Businesses should act to understand, evaluate and mitigate these wider and growing challenges, so as to be in a position to handle the rapidly changing environment. Key actions to consider include:

- Re-assessment of contingency plans to focus on staff safety, and on protection of plant and property.
- Establishment of plans to deal with sudden, and lengthy, transport disruptions.
- Development of redundancy within communications systems.
- Offsite operation of some key activities. Large companies may wish to disperse capabilities around the region.
- Tight management of social media and advertising activities, to limit the prospect of inadvertently provoking ire from either camp.
- Monitoring of radical union cells, and preparation for industrial action, particularly if seen as “blue”.
- Establishment of plans to deal with bomb threats, hoaxes, or real incidents.
- Monitoring of US-China relations, so as to gauge what threats to commercial activities could arise, such as changes to trade rules or financial sanctions.
- Examination of the implications of higher tensions in the South China Sea and Taiwan Straits for operations.
- Specifically, examine political risk in certain segments such as the gaming, electronics and financial services areas.

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About Us

Steve Vickers and Associates (SVA) is a specialist risk mitigation and security consulting company. The company serves corporations, high net-worth individuals and insurance companies around the world. SVA assists clients both in mitigating risk and when necessary to respond swiftly and effectively to incidents and crisis situations.

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