

As protests continue, Hong Kong's economy lurches into recession

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Hong Kong's Financial Secretary Paul Chan signaled on a blog post on Sunday that figures to be released this Thursday would show negative growth for the third quarter GDP and that the territory's economy was in recession—defined as two successive quarters of contraction.

“The blow to our economy is comprehensive,” Chan wrote, adding that it would be extremely difficult for it to reach the government's forecast of 0.1 percent annual growth—made before mass protests erupted in June.

Chan identified tourism as one of the sectors that has been hardest hit. He described the fall in tourist numbers as “an emergency” with the number of visitors in the first half of October down by nearly 50 percent year-on-year. On average, hotels are only two-thirds full, compared to the same period last year.

Chan and the Hong Kong administration headed by Chief Secretary Carrie Lam blame the economic decline on protests demanding basic democratic rights. Five months of protests have certainly had an economic impact, particularly on tourism, which employs several hundred thousand workers in Hong Kong.

The whipping up of chauvinist sentiment directed against Chinese “mainlanders” by right-wing elements of the protest movement has contributed to a precipitous fall in tourists from throughout China, who last year made up three quarters of the 65 million people arriving in Hong Kong last year.

The protests, however, are only one factor in the deterioration of Hong Kong's economy, which is also being hit by the slowdown in the global economy and the impact of the US trade war measures directed against China. As a major conduit for goods and investment between China and the world, Hong Kong's economy is particularly sensitive to downturns in the

mainland.

Hong Kong's exports for the September quarter plunged by more than 7 percent year-on-year—the largest fall in nearly a decade, that is since the 2008-09 global financial crisis.

Last week, Chan announced economic measures to support businesses affected by the ongoing protests. These included halving rents on properties leased by the Hong Kong government and providing fuel subsidies for taxi drivers and fee subsidies for local ferries. Earlier relief measures included \$HK2 billion (\$US255 million) in aid to small companies and a \$HK19 billion stimulus package to boost economic growth.

However, as the financial secretary admitted, these steps would only “slightly reduce the pressure” on small and medium businesses. “Let citizens return to normal life, let industry and commerce to operate normally, and create more space for rational dialogue,” he wrote.

The protest movement, which was triggered by the administration's plans for legislation to allow extradition to the Chinese mainland, is being driven by widespread concerns for both democratic and social rights. Chief Secretary Carrie Lam has formally abandoned the extradition law. However, protesters are continuing to demand an inquiry into police violence, the dropping of charges against hundreds of people arrested, and for free elections based on universal suffrage for the legislative council and chief executive.

The deteriorating economy is not only being compounded by the protests but is itself one of the driving forces behind the mass demonstrations. Hong Kong is one of the most socially unequal cities in the world and also one of the most expensive in which to live. The free market policies of low taxes and limited

spending on social services designed to boost the profits of big business impact most heavily on the poor.

Writing in the *South China Morning Post* yesterday, prominent economic commentator Andy Xie urged the Hong Kong administration to reform its economic policy to restore calm. “The essence of Hong Kong’s current economic policy, which is billed as a *laissez-faire nirvana*, is a regressive tax in the form of high land prices. It strangles the middle class. When economic growth is fast, it obscures the negative impact of the policy. But prolonged slow growth exposes the corrosive effect the policy has on wealth equality and labour income.”

It is not just the middle classes that are being hit, but the working class and the poor.

A recent Oxfam report on Hong Kong noted that its Gini index—a measure of social inequality on a scale from zero to one, with zero indicating complete equality—was 0.539 in June last year. This was the highest in 45 years. By comparison, the US was at 0.411 and Singapore 0.4579.

In 2016 the median monthly household income of the top 10 percent of Hong Kong’s population was 43.9 times the bottom 10 percent. The poorest would have to work three years and eight months on average to earn what the richest make in a month. The city’s top 21 business tycoons had assets collectively equalling Hong Kong’s \$HK1.83 trillion (\$US230 billion) fiscal reserves as of April, according to data published by *Forbes*. The wealthiest five earned \$HK23.6 billion just in dividends in 2016 and 2017 but none of that was taxed.

Meanwhile the poorest sections of the population struggle to survive. Astronomical housing costs force some 21,000 people to live in cramped conditions in subdivided flats. Real wages have increased just 12.3 percent over the last decade and the minimum wage is just \$HK34.50 (\$US4.40) an hour. One in four children and one in three elderly live below the austere official poverty line. The slowing economy has led to rising unemployment and a decline in job opportunities particularly for young people.

While various media commentators recognise that the worsening social crisis is fueling the anger and frustration behind the protests, the various protest leaders and opposition parties, the so-called pan-democrats, raise no social demands. The official

opposition is part of the Hong Kong political establishment and reflects the interests of a layer of the business elite that are constricted by China. At the same time, they are deeply hostile to any movement of the working class.

The silence of the pan-democrats and associated groups has left the door open for right-wing organisations such as Civic Passion and Hong Kong Indigenous that seek to exploit the social discontent by blaming “mainlanders” for the lack of jobs and inflation, especially high housing rents and prices. Their chauvinist demagoguery only divides workers in Hong Kong with the working class throughout China, which faces similar social problems and the lack of basic democratic rights.

The protests, which have now continued for five months, have reached a political impasse. No one can doubt the courage and determination shown by the protesters. However, the only way to break out of the dead-end is a turn to the only social force capable of overturning the oppressive, police-state regime in Hong Kong—the working class in China and internationally—on the basis of a socialist perspective.



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