

# ARGO ASSOCIATES

**Briefing 13 August 2019**

*What next for Hong Kong?*

Hong Kong summers are typically long and stormy, but this year has added the extra ingredient of tear gas to the usual typhoons and thunderstorms. Protests against a proposed bill that would have allowed extradition to mainland China (among other jurisdictions) have ranged from a peaceful and dignified two-million-strong march to violent attacks on Hong Kong's Legislative Chamber, the Liaison Office of the Central People's Government and police stations across the territory. Although the government has announced that the Extradition Bill has been suspended the protests have continued and the protesters' demands have moved from an initial focus on the bill to include the demand for universal suffrage that was key to the Occupy movement that paralyzed the city in 2014.

Despite increasingly stern statements from Hong Kong's Chief Executive Carrie Lam - warning that Hong Kong is on "the verge of a very dangerous situation" - a detailed plan for resolving the increasingly bitter divide between the government and the protesters remains to be found. While the numbers of protesters have dropped off somewhat the intensity of the protests has increased as has the severity of the police response.

The future is difficult to predict but there are five main scenarios that could play out:

1) Negotiated settlement - in this scenario the Hong Kong government offers some concessions to the protesters, including full withdrawal of the Extradition Bill, an independent inquiry into alleged police brutality, and possibly the resignation of Carrie Lam. Such a settlement remains unlikely for now;

2) Crackdown by Hong Kong police - the Hong Kong police could impose even tougher tactics in an attempt to stop the protests, perhaps including curfews or temporary bans on assemblies (the police are already refusing to give permission for some planned protests) as part of a package of emergency measures; however, such tactics might just generate more anger and violence from the protesters;

3) Crackdown by the People's Liberation Army - Hong Kong's constitution does allow the Hong Kong government to request intervention by the PLA (although they would still be subject to Hong Kong law unless a state of emergency was declared, which would effectively allow for Chinese laws to apply across the territory). An intervention by the PLA would certainly stop the protests but would be likely to severely damage Hong Kong's key role as a gateway to the Chinese market for foreign investors and as a place for Chinese companies to raise money. In the short term, as emergency measures, the Chinese government would be likely to impose capital controls on Hong Kong as well as reporting restrictions. In the medium term, foreign professionals would leave, the number of financial transactions would drop sharply and Hong Kong would find it difficult to maintain its role as a global financial centre. Although this scenario remains unlikely for now, it should be considered more seriously if the protests have not been brought under control by late September for reasons explained below;

4) Muddling through until the protests stop - The HK government essentially tries to wait out the situation while controlling the level of protest. This, it might be hoped, could lead to protests gradually stopping after a period of weeks;

5) Muddling through while protests continue - this is the same as scenario 4 but in this case the protests do not stop and may continue to escalate. This will ultimately lead to scenario 2 or 3.

Scenarios 4/5 are the most likely for now and thus we should expect to see a continuation of protests in the short-term. Scenarios 4/5 do not involve a resolution to the problems of the protests, however, and even if protests gradually dwindle away (as envisaged in scenario 4) the underlying dynamics that are leading to the protests will remain, suggesting that protests will flare up again when a new “trigger issue” comes up.

While the current government policy is to wait out the protests, with military intervention as a last resort, there are reasons to believe that time is running out for this strategy to succeed. The Hong Kong government and the CCCP will be keen to ensure that protests are completely under control by the start of October as that month will see both the 70th-anniversary celebrations of the founding of the People’s Republic of China and the annual Policy Address of Hong Kong’s Chief Executive. The increasing number of interventions by the Hong Kong and Macau Administrative Affairs Office, including the notable statement that the protesters actions are akin to terrorism, shows that the response to events is increasingly coming directly from the Central Government rather than from the Hong Kong government itself. The situation is exacerbated by the current tensions between the United States and China and the increasingly nationalist mood in the latter. Many commentators have tended to see an intervention by the PLA as unthinkable, partly as they draw a comparison to the Tiananmen Square protests, but from a Chinese perspective this is a false analogy; in Hong Kong the PLA would be expected to act in a more disciplined and less brutal manner. The risk of such an intervention may be small but it is not to be dismissed out of hand, given the significant consequences that it would entail.

Even if the protests are subdued or fizzle out before October, there will remain the problem of the lack of any long-term plan for dealing with the tensions in Hong Kong, which derive both from a lack of democratic accountability and legitimacy on the part of the Hong Kong government and from economic and housing inequality throughout the territory. If these issues remain, protests are likely to recur as soon as another trigger issue such as the Extradition Bill comes up. The structure of Hong Kong society – the maintenance of a number of freedoms typical of a liberal society but without universal suffrage – is highly unusual and probably unsustainable in the long-term. Hong Kong will have to either move towards a more democratic and accountable political system or a more repressive and less liberal one. Ironically, both China and the West may draw a similar conclusion from Hong Kong’s recent history: Western-style liberalism (including freedom of the press and of assembly) and market capitalism is incompatible with a fundamentally totalitarian system, even when the latter is relatively hands-off. If Hong Kong is unlikely to be granted a more democratic system, the only logical conclusion would be that those freedoms that are ultimately incompatible with the Chinese system will be progressively reduced.

Businesses and investors may consider these political considerations to be largely irrelevant to their operations, but the case of Cathay Pacific – where the Chinese Civil Aviation Administration is threatening to ban Cathay’s operations unless they remove employees who have supported the protests from working on flights to and from China - offers an example of the way that companies may be forced to choose between the private opinions of their employees and their commercial opportunities in mainland China. Should businesses be monitoring the political opinions and actions of their employees? What price should they pay for access to the mainland Chinese market? This is a question that they will need to consider.

## About Argo Associates

Argo Associates is structured around a single overriding purpose: providing our clients with the information and intelligence that will allow them to navigate acquisitions, investments, disputes, or frauds in a clear-sighted and rational way, minimizing risk and maximizing opportunities.

Information gathered may clarify the profile and background of key business people and managers; it could illuminate the operations of a company or demonstrate a history of fraud or mismanagement; or it could help our clients to assess the political situation in a given jurisdiction and how it may affect their investments or business operations.

Headquartered in Hong Kong, Argo Associates assists clients across Asia and – through international partners – globally.

## Intelligence Gathering

“Intelligence” is central to making sense of the world and to decision-making. Argo Associates has developed a network of well-placed human sources across Asia and – through our partners outside Asia – globally. This network provides insights beyond what is available publicly – into leadership, operations, strategy, corruption, red flags, political connections and so on - and is supplemented by extensive research and analysis of publicly available sources – corporate filings, litigation filings, regulatory communications, media articles, social media postings and so on. In a world in which information is increasingly commoditized, high-level intelligence and analysis provides the insights that give our clients an edge over their competitors.

## Fraud, Corruption and Disputes

Our intelligence-gathering techniques and in-depth research and analysis have also helped our clients uncover frauds within their operations or in those of a portfolio company or recent acquisition. Our professionals have provided numerous reports for arbitration or legal proceedings to recover the proceeds of fraud. We have also assisted clients in tracing assets globally when bringing a high-value claim against a company or individual. In high-profile disputes we have assisted a number of top law firms in gathering information, evidence and intelligence in support of their clients’ cases.

## Political Risk

Our political risk work has developed naturally out of our intelligence and investigative capabilities. We see political risk as an important part of the evaluation of many investments, mergers and acquisitions, as well as a key element of commercial disputes in many markets. We have helped our clients look at political risk in a new way, not just in terms of the broad outline of potential political developments in various countries, but with a focus on the impact on their businesses. For example, will growing frictions between two countries lead to tariffs that could impact the specific sector in which a portfolio company operates? Or, how will rising protectionism in a country alter the possibility of a fair result in an ongoing commercial dispute? Frequently, politics is local as much as national and we understand the importance of drilling beneath the widely-circulated opinions to a real understanding of what is happening.



## Our Founder – Jason Wright

Jason Wright is the founder and Managing Director of Argo Associates.



Prior to founding Argo, he was a Managing Director in Hong Kong for Kroll, the company that created the modern investigations and intelligence sector. Before moving to Asia seven years ago he worked for Kroll in Italy for five years and then briefly in London. While assisting clients on numerous transactions, investigations and disputes in Asia and Europe, particularly for private equity funds, banks, hedge funds and special situations investors, Jason has also specialized in the analysis of political risk, whether that has involved examining the role of local politicians, regulators and other stakeholders, or broader geopolitical concerns.

**Jason Wright** / Founder &  
Managing Director



Suite 401, Printing House,  
6 Duddell Street  
Central, Hong Kong

Mobile: +852 9016 7522

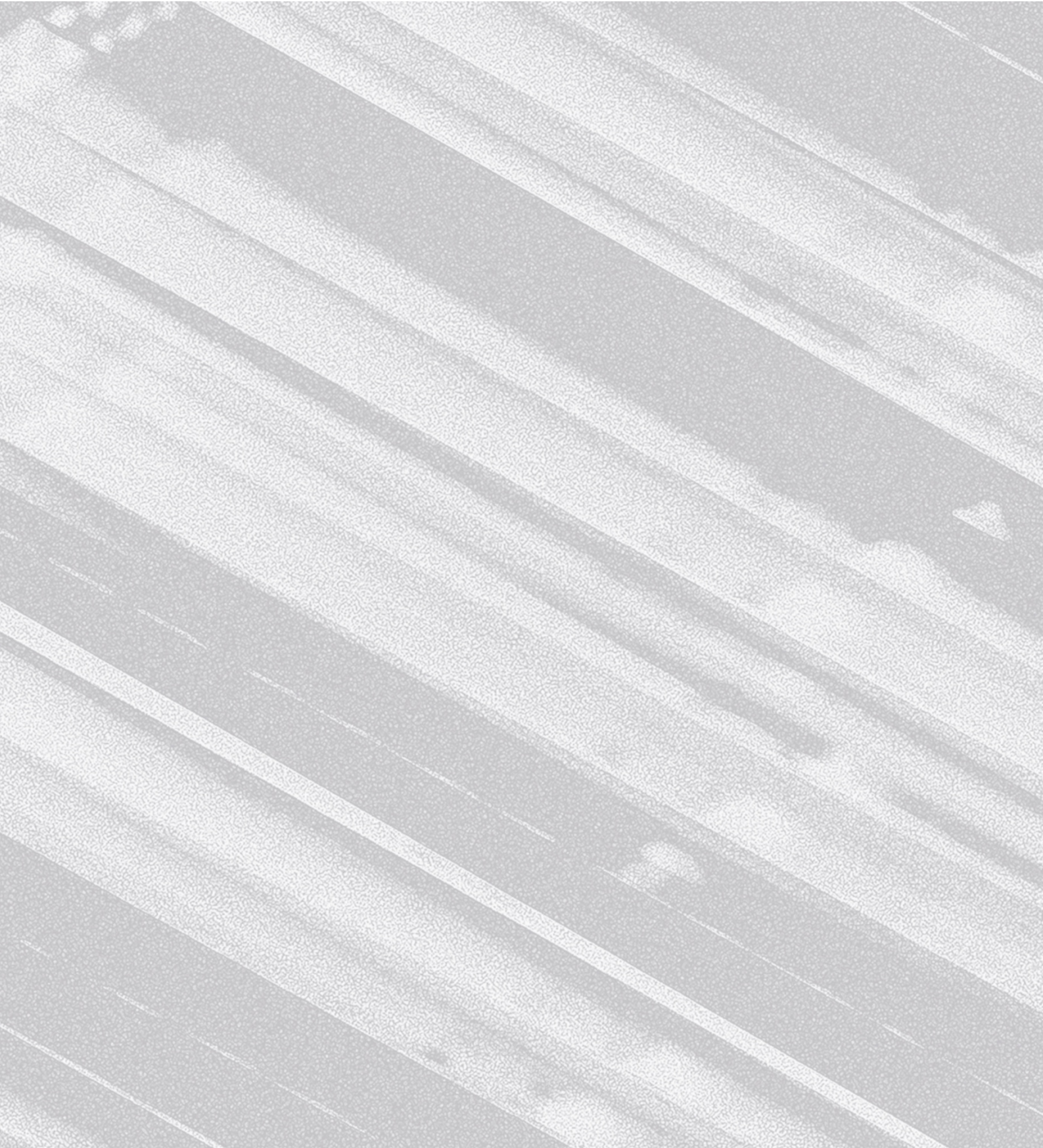
Direct Line: +852 3905 1892

[jwright@argoassociates.com](mailto:jwright@argoassociates.com)

[www.argoassociates.com](http://www.argoassociates.com)

Although he has managed projects across the whole Asia- Pacific region he has been particularly focused on Korea, China, and Southeast Asia, especially Indonesia, Vietnam, Malaysia and Thailand.

Jason is a scholar of St. Catherine's College, Oxford, having been awarded a Master of Arts (Oxon) in English Language and Literature, as well as a Master in State Management and Humanitarian Studies from La Sapienza University in Rome, Italy.



**[www.argoassociates.com](http://www.argoassociates.com)**  
**[info@argoassociates.com](mailto:info@argoassociates.com)**  
**+852 3905 1892**

**Argo Associates Limited**  
Suite 401, Printing House  
6 Duddell Street, Central  
Hong Kong