

Market Update

Understanding the Hong Kong Problem!



Wong Tai Sin Temple, site of neighbourhood street protests and vandalism

The Disappearing Cantonese Diaspora within Chinese Culture

By Bruce VonCannon

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The Voice for Reason

Comments and Views for the Individual Investor

(Note to Reader: This is the second of a series of commentaries by Bruce VonCannon providing analysis and background to the current crisis in Hong Kong. It can be found online at www.voncannononline.com. For further inquiries kindly send email to bvoncannon@rexmereassociates.com)

(September 15, 2019)- One aspect of the current unrest in Hong Kong that deserves special attention is the unique nature of the Cantonese ethnicity within Chinese culture.¹ On this subject I dare to claim some bragging rights as my wife is the daughter of proud Cantonese parents. While the typical Westerner may view Chinese people as part of a large homogenous whole, among Chinese across mainland China and in overseas Chinese communities around the world there is a strong awareness of the many sub-ethnicities within Chinese culture. The Cantonese command respect among Chinese as one of the more enlightened and industrious ethnic groups within China. Historically they have been more affluent owing to their coastal proximity and exposure to trade and commerce. Their contributions to Chinese history and culture is vast and they have produced famous personalities including the likes of Bruce Lee (gong fu master and film star), General Yuan Chong-Hsuan (of the early 17th Century Ming Dynasty, noted HIV researcher Dr. Flossie Wong-Staal, and most notably Dr. Sun Yat-Sen, the acknowledged father of modern China who guided China briefly after the fall of the Ching Dynasty in 1911 when it ceased to be an empire and became a republic.

Guangdong Province, located in the southern part of coastal China in the Pearl River Basin, is the original home of Cantonese culture. It boasts a land mass of approximately 69,000 square miles making it slightly larger than the state of Florida in the U.S. and a boasts a friendly climate largely similar to Florida as well. While the state of Florida has a population of of 21 million, Guangdong differs vastly here as it boasts a population of over 100 million. Guangdong Province's bustling capital city of 6 million, Guangzhou, was formerly called

“Canton” in most Western geography and history publications until the Communist Revolution in 1949. Since then the Mandarin dialect version of the capital city, Guangzhou, has been increasingly used when referring to it. Although Guangdong Province is only 7% of the the Chinese population of 1.3 billion today it accounts for roughly 18% of the nation’s GDP ranking it the among the most affluent of China's 26 provinces and rivalling the other municipal and provincial juggernauts of Shanghai and its adjacent Zhejiang Province (in central China) and Beijing and its surrounding Hebei Province (in northern China). Just to give the reader an estimation of the level of prosperity in Guangdong Province today, its GDP of USD 2 trillion last year equaled that of the entire country of Russia.

Same Bed, Different Dreams!

Hong Kong borders on Guangdong province and most Hong Kongers identify themselves as being Cantonese and speak Cantonese just like their fellow Cantonese just across the border although with some slight variation in accent. However, an important linguistic transformation has taken place within China during the past 70 years. Mandarin (a northern dialect and the official dialect of China) has become the lingua franca used all across China including Guangdong province. One bright example of this phenomenon is the city of Shenzhen, literally a short walk just across the border from the Hong Kong district Luo Hu. Shenzhen was a sleepy village of just under one million residents until the early 1980s. However, once it was designated a Special Economic Zone (SEZ) with tax free incentives by the central government under the reforms of Chinese leader Deng Xiao-Ping in the late 1970s, its population expanded exponentially. As a result, Shenzhen today can almost be described as the “Miami of China.” Just as Miami is a city located in the southern United States with so many transplanted migrants from northern regions particularly New York and Canada as well as Latin America and where one does not so often hear southern accents, Shenzhen has attracted many migrants from other parts of China. Today non-native Shenzhen residents outnumber the local residents. In Shenzhen one hears more northern Chinese accents speaking Mandarin than the local Cantonese dialect.

The success of Shenzhen is staggering and probably without parallel in modern history. During the period of between 1980 and 1999 over 25,000 factories set

up operations in Shenzhen attracting millions of domestic migrants from inland provinces all over China. They arrived in Shenzhen seeking to earn their bounty and fortune. The population of Shenzhen today has swollen to 13 million (dwarfing Hong Kong's 8 million in just 30 years) and home to many of China's unicorns including corporate names now known in the West such as Tencent and Huawei.² The GDP of Shenzhen surpassed that of Hong Kong for the first time last year. One could almost say "Shenzhen has out Hong Konged Hong Kong!"

One might also take note of the large migration of mainland Chinese who have moved into Hong Kong during the past 22 years since Hong Kong was retroceded back to China from Great Britain. It is estimated that over 1 million mainland Chinese have moved to Hong Kong. While Cantonese is still the most widely used dialect in Hong Kong, walking down the street at lunchtime in Central District today is quite different from the 1960s and 70s when Hong Kong was almost exclusively a Cantonese speaking city. Today one hears Mandarin dialect being spoken by almost every other pedestrian. The impact of this large migration into Hong Kong has had mixed impact on Hong Kong residents. They both love it and hate it. While China permits an average of 10,000 mainlanders to visit Hong Kong daily in order to boost its tourism and the retail sectors, there has also been a feeling among native Hong Kongers of being overwhelmed. Unlike in the United States where large numbers of migrants particularly from Central America are often impoverished, poorly educated, and lacking medical insurance, many of the mainlanders who have moved to Hong Kong since 1997 are often very well educated, multi-lingual and highly sought after in well paying jobs in multinational corporations in Hong Kong. In part it is one of the reasons that increasingly Cantonese is fast becoming replaced by Mandarin as the lingua franca in Hong Kong.

Notwithstanding the population of 8 million living in Hong Kong and the 23 million living in Taiwan, there are roughly 1.3 Chinese living in mainland China. In addition, roughly 30 million Chinese live outside of China in overseas Chinese communities around the world ranging from Singapore, Malaysia, the Philippines, Thailand, Vietnam, and Indonesia to areas in major urban centers like New York, London, Toronto, and Los Angeles. Unique

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among the overseas Chinese communities historically has been the characteristic that they were originally populated by Cantonese. The first Chinese to come to the United States (largely contracted to build the transcontinental railway) were Cantonese. However, the landscape has been changing dramatically in the past 25 years. On the heels of investment from Taiwan and China into the United States in locations like Silicon Valley/Bay Area and in real estate markets like Los Angeles, Chicago, and New York as well as over 325,000 Chinese students studying in U.S. universities, Mandarin has replaced Cantonese in virtually every overseas Chinese community in North America and around the world.

“STATUS ANXIETY”

Here are some startling facts:

-Although Hong Kong's GDP has not dropped the past 20 years, its importance to China has become largely diminished with direct travel into China now possible from so many locations in North America and Europe and other parts of Asia. While Hong Kong's GDP has grown robustly in the past three decades and once accounted for close to 20% of China's GDP 30 years ago, today its GDP today only accounts for 3% of China's total GDP. With Hong Kong no longer holding a near monopoly on trade going in and out of China as it did from 1949 to 1976 under the British Colonial regime, this has induced a certain “status anxiety.”

-Just twenty years ago, Hong Kong's GDP was three times larger than the seven major cities across the border in neighbouring Guangdong Province. Today these same seven cities in Guangdong Province aggregately have a GDP three times larger than Hong Kong.

-With limited land space and high population density Hong Kong's economic vitality is essentially dependent upon three sectors: finance, tourism, and real estate. The reliance on these three business sectors increasingly builds the case for Hong Kong to become more closely integrated into the economy across the border in Guangdong Province, a geographical area officially given the name, Greater Bay Area (GBA), by the central government's state council. However, this integration is currently not a strategic aim of those Hong Kongers

participating in the current street protests. The irony is that, while Hong Kong remains adjacent to one of the hottest pockets of economic vitality in the world today, the young people of Hong Kong have not bought into this dream. Their desperation mirrors that of a generation left behind. Many in the streets have been chanting slogans like “Liberate Hong Kong,” “Revolution Now!”, and “Take back Hong Kong” as if to have taken a line like “Make America Great Again” from Trump supporters in the United States.

-Other Chinese communities in Asia, using Singapore and Taiwan as examples, have propagated an ethos around public schooling policies that require Chinese learning to be conducted in Mandarin dialect and 18 year males to serve a compulsory national military service for a period ranging from 1 to 3 years. These measures have in part created a reliable self-defence infrastructure as well as encouraged the development of pride and civic service. The Hong Kong government has adopted none of these policies. So today this first generation of young Hong Kongers in the streets, most of whom were born after retrocession in 1997, are rebelling in desperation and in a manner shocking to many. Sporting British Union Jack and U.S. Stars and Stripes flags in several of their street demonstrations, there is no question that they lack pride about being part of China. In a global and regional workplace that increasingly rewards language skills in English and Mandarin many do not speak Mandarin. The status quo policies have not prepared them for the future. Many observers of the street violence in Hong Kong ask what is the way out of the current denouement and what solution may be found to de-escalate the street violence in Hong Kong today? Beyond the obvious shortage of housing in Hong Kong as a key underlying cause of the current crisis, one might not be astonished to expect Hong Kong authorities going forward to be reviewing grassroots issues that include language policies in the education system and how to foster and rebuild community pride. In the meantime, in deference to my in-laws, I will return to viewing my favourite Cantonese actor, Donnie (Ji-Dan) Yen, of the powerful and culturally rich Ip Man movie series.

Stay tuned for the next special edition of “Understanding the Hong Kong Problem,” a special edition of “The Voice for Reason” by Bruce VonCannon.

Footnotes:

1) Wong Tai Sin Temple in the Kowloon District of Hong Kong was built in 1921 in honour of 4th century Taoist Deity, Wong Tai Sin. It is a popular tourist attraction for those wishing to burn incense and seek good luck or have their fortunes told.

2) A “unicorn” is a start-up company with a valuation in excess of USD 1 billion. CB Insights, a market intelligence firm in the venture capital space, estimated recently that in 2018 there were 310 unicorns globally with 150 coming from the US and 84 from China followed by the EU (33) and India (14).

**About the author:**

Bruce VonCannon is a native of North Carolina USA and currently a Managing Director with Vanheel Management Ltd., a Hong Kong SFC and U.S. licensed independent asset management firm founded in 2002. His career spanning 27 years in international banking and wealth management has included assignments in New York, Taiwan, Hong Kong, Singapore and Geneva. He is a frequent speaker at financial seminars, universities, and business forums and author of “A Guidebook for Today’s Asian Investor” (2017) published by Palgrave Macmillan.