The current issue and full text archive of this journal is available on Emerald Insight at:
www.emeraldinsight.com/2046-3162.htm

Red capital in Hong Kong

Heidi Wang-Kaeding
Department of Political Science, Trinity College Dublin, Dublin, Ireland, and
Malte Philipp Kaeding
Department of Politics, University of Surrey, Guildford, UK

Received 12 February 2018
Revised 18 April 2018
Accepted 28 November 2018

Abstract

Purpose – The purpose of this paper is threefold: first, to recount the scale, composition and agents of red capital in Hong Kong; second, to conceptualise the peculiarity of red capital; and third, to explore the impact of red capital on the political and economic institutional setup in Hong Kong.

Design/methodology/approach – The paper consults the comparative capitalism literature to conceptualise the phenomenon of red capital. The paper gathers data from Hong Kong Stock Exchange and indices to provide an overview of red capital. Furthermore, the case study of 2016 Legislative Election is deployed to investigate the mechanisms of red capital's influence. The paper concludes with a summary of how red capital may challenge the validity of the "One Country, Two Systems" framework.

Findings – This paper argues that red capital replicates China's state–capital nexus in Hong Kong and morphs the game of competition in favour of Chinese nationally controlled companies. In tandem with the emerging visibility of the party–state in Hong Kong's economic sphere, the authors observe attempts of Chinese economic actors to compromise democratic institutions, deemed obstacles to state control.

Originality/value – This paper is the first attempt to systematically embed the discussion of red capital into comparative capitalism literature. This study provides conceptual tools to examine why red capital could pose a threat to liberal societies such as Hong Kong. Through this paper, we introduce a novel research agenda to scrutinise capital from authoritarian states and investigate how the capital is changing the political infrastructure shaped by liberal principles and values.

Keywords Hong Kong, Comparative capitalism, Red capital, State–capital nexus

Paper type Research paper

Introduction

The growth of "red capital" in Hong Kong raises pertinent questions which challenge the conventional wisdom about the city's image as one of the most liberal and successful capitalist systems in the world and China's "invisible hand". The term "red capital" refers to the money from the People's Republic of China (PRC) which allows Mainland Chinese-domiciled enterprises to register at the Hong Kong Stock Exchange (HKEX) as either red chip or H-share companies. Mainland entities made its entry to the HKEX in 1972. Since then, Hong Kong has experienced a steady arrival of Chinese-backed enterprises. The influx of red capital is increasingly felt and reflected in official HKEX statistics, exposing the aforementioned "invisible hand". By 2016, over half of Hong Kong-listed companies are from the Mainland, and red capital entities comprise 63 per cent of market capitalisation and run as the most active force in the Hong Kong's market (Lian, 2017).

The presence of "red capital" is a consequence of economic integration between Hong Kong and the Chinese Mainland. The abundant literature on this relationship has highlighted the importance of Hong Kong for China. Hong Kong-originated foreign direct investment was vital for China's development (Gallagher, 2002) and the Hong Kong Special Administrative Region (HKSAR)'s status of an international finance centre allows Chinese companies to access international capital (Shih, 2017) or circumvent domestic restrictions on the private sector (Tsai, 2007). What is neglected in the existing discussion of economic integration is how the Mainland is changing Hong Kong.

Our conceptualisation of "red capital" goes beyond the popular journalistic understanding of merely money originating in the PRC. Instead, it builds on the existing academic discussion of "red capitalist" and "red capitalism". Dickson (2003) coins the term "red capitalist" to describe the strategy deployed by private entrepreneurs in China of

Asian Education and Development Studies
Vol. 8 No. 2, 2019
pp. 149-160

2046-3162
DOI 10.1108/AEDS-02-2018-0032

cultivating political connections, to translate their relationship with political elites into commercial benefits. The emergence of "red capitalists" gives rise to a symbiotic relationship between the state and private entrepreneurs and indicates the political strings attached to business actors in China. Whereas "red capitalists" focus on the agent aspect of Chinese capitalist system, red capitalism looks at its structure. The "red" element in red capitalism is best explained by Walter and Howie's (2011) description of China's markets which "have all the trappings of Western finance […] but they remain small extensions to the vast grounds of the Forbidden City" (p. 240), the pinnacle of political power in China. Their examination of China's financial reform highlights three aspects of direct relevance for our study: the dominance of the Chinese Communist Party (CCP) over the capital market, the existence of competing interests, for example of bureaucracies, with consequences opposing national leaders' intentions and Hong Kong's role as place to conduct a "small, controlled experiment" (Walter and Howie, 2011, p. 231) to develop an alternative model for state/party-business relations.

Based on the previous conceptualisation and our focus on the impact of the Mainland on Hong Kong, we conceive red capital as a component of a broader strategy by the Chinese state to extend its influence and control to systems outside the Mainland. The primary feature of red capital is a synergy between economic measures and political will. This synergy materialises through so-called "united front work" (Wong, 1997), which is evident in the case of Taiwan. Beijing constrains political choices in Taiwan with the strategy of "using business to steer politics" (Wu, 2016, p. 426). Through economic integration, the Chinese authorities cultivate local agents (Taiwanese business and political elites), purchase Taiwanese media to manufacture public opinion (Wu, 2012), and create Cross-Straits interest groups to influence legislation and policy implementation (Wu, 2009, p. 147).

The party–state adopts a similar strategy in Hong Kong. First, Beijing enters and penetrates critical and high-impact industries in both territories and aligns local industries with national interests. Secondly, Chinese business investment choice is driven by the intention to maximise market share and to establish Hong Kong and Taiwan's economic reliance on China (Lee, 2014). Parallel with the influx of red capital is a rapid downward trend in Freedom House's ranking of Hong Kong, measuring civil liberties and political rights (Freedom House, 2017). The peculiar correlation between Hong Kong Freedom House ranking and red capital merits attention as the intervention by Beijing's representatives in Liaison Office[1] in local electoral institutions intensifies and successfully dodges the cheques and balances of Hong Kong's political system (Kaeding, 2017).

The objective of this paper is to explore how red capital affects the political and economic institutional setup in Hong Kong. We address two specific questions:

RQ1. What makes red capital distinctive?

RQ2. What are the mechanisms in utilising economic measures to re-orient a liberal society – which was promised democratisation – away from universal suffrage and democracy (Article 68, Basic Law)?

The paper consults the comparative capitalism literature to set the conceptual framework to unpack red capital. We then provide an overview of red capital in Hong Kong, based on the information of Mainland entities from HKEX. This is followed by an outline of mechanisms in which Mainland capital induces change to the liberal institutional configuration in Hong Kong. We resort to a historical comparison of the business–politics coalition before and after the 1997 handover. Additionally, the case study of 2016 Legislative Election allows us to explain how red capital functions as a tool of Beijing's political control. The paper concludes with a summary with a reflection on how red capital may challenge the validity of the "One Country, Two Systems" framework.

Distinctiveness of red capital

The Chinese state capitalist system is marked by the hybridity of "Leninist control" of the party–state and "relentless private capital accumulation" (McNally, 2012, p. 751). The question of how red capital is unique must be embedded in the comparative capitalism literature which delineates institutional vectors to facilitate an assessment of different national capitalist systems. McNally proposes the concept of Sino-capitalism to underline the uniqueness of China's capitalism. Sino-capitalism comprises three institutional spheres: networks espoused by an informal coalition between political and economic elites, state-led development administered by large-scale state firms monopolising critical industries and policy adaptation in the process of integration to the global neoliberal order (McNally, 2012, pp. 750-755). Nölke *et al.* (2015) expand McNally's scope to rising powers (including China) and crystallise developmental patterns of these economies into the model of state-permeated market economy. In this model, national capital controls the corporate governance, and state-owned banks guard the financial flow. The market mechanism is overshadowed by the state–business coalitions which are maintained by "reciprocal mechanisms of loyalty and trust" based on informal interpersonal relationships (Nölke *et al.*, 2015, p. 543).

In other words, the game played in China is fundamentally different from Western markets, which suggests the incompatibilities between Chinese state capitalism and the liberal economic order. State intervention in the capitalist development is in contradistinction to the neoliberal tenet of financial management with the critical ingredients of privatisation, free and open market, and the norm of transparency for global investors (Nölke *et al.*, 2015, p. 543). Emerging powers' tight grip on capital control hinders transnational financial flows, and the practice of establishing large state-owned investment funds, i.e. Sovereign Wealth Funds, further undermines the global market and signals a "recalibration of the state–capital nexus" (Stephen, 2014, p. 929). States deploy social norms such as reciprocal personal relationships, political stability and hierarchy which are at odds with established liberal values.

The persistence of the state–capital nexus controlled by the state–business coalition is re-writing the game of competition as the Chinese state exhibits its effective usage of the market and financiers to generate wealth and enhance the competitiveness of its national champions (Zhao, 2017, p. 10). Price mechanism and market are tools to increase wealth and power to the Chinese state (McNally, 2012, p. 759). The "battlefield" of competition shifts from territory to "the ability to capture market share of high value-added, knowledge-intensive industries" (Stephen, 2014, p. 923) as they proffer a future monopoly position for the winners.

In order to formulate and control the monopoly, the informal network between private capital holders and political elites of the party–state interweave the business groups' pursuit of commercial interests with the developmental strategy pursued by the political elites. The symbiotic relationship between business and political interests engenders the possibility that political elites mobilise state resources to steer competition towards national developmental objectives and gains for a selected few.

The comparative capitalism literature highlights the illiberal nucleus behind red capital and the state's heavy-handed intervention in manipulating its movement. Red capital differs from other capital due to its political kernel as the party–state expects red capital to deliver objectives which are beyond commercial and business interests.

An overview of red capital in Hong Kong

As an exploratory study, this paper utilises multiple methods to identify and categorise agents of red capital, analyse their operating logic and examine their impact on Hong Kong's political institutions and economic structures. A quantitative descriptive approach is employed to identify red capital entities. In a first step, official statistics from the HKEX between 1972 and 2017 were examined and 377 relevant companies identified. Next, these were coded into four categories in relation to the central government based on official data from the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and official company publications. The relative importance of the entities was gauged through further qualitative analysis, which resulted in a nuanced categorisation of listed Chinese companies. A brief historical comparison of Hong Kong's democratic progress illustrates the validity of the single case study of the 2016 Legislative Council Election to examine the mechanisms of red capital in the territory.

The importance of Chinese capital in Hong Kong is signified by the fact that since 2013 50 per cent HK-listed firms are from the Chinese Mainland, accounting for 57 per cent market capitalisation (Hong Kong Stock Exchange, 2013). The dominance of Mainland companies in HKEX continues to grow to the degree that in 2015 HKEX singles out Mainland enterprises into a separate section (Hong Kong Stock Exchange, 2015). The classification from HKEX broadly divides Mainland enterprises into H-share, red chip and the so-called Mainland private enterprises. Table I shows the proportion of each category in the composition of Chinese-related companies in the year of 2015 and 2016. In terms of quantity of entities, private companies from Mainland claims an overwhelming majority among red capital groups in Hong Kong. However, the significant share of company numbers does not translate automatically into a similar economic clout. Here the market capitalisation share offers a better indicator to gauge the scale of specific types of Chinese entities: company size. The market capitalisation proportion has been almost equally distributed among H-share, red chip and private companies, in spite of the fact that the number of private enterprises doubles that of H-share and triples the number of red chips. We use the ratio between the share of market capitalisation and company numbers to exhibit the relative weight of H-share, red chips and private companies. The rate, market capitalisation per company (Table I) presents the character of H-share and red chip entities as bigger size compared to private companies. We continue to probe into the composition of these two forms of entities to understand the consequence of the big-sized Mainland entities in Hong Kong.

Among the H-share and red chip companies listed in HKEX, we further unpack red capital entities and identify different types of Mainland entities based on different interests they represent. Corporations of different nature reflect a varying degree of implementing the "steer politics with business" strategy, and present different calculating formula between commercial profits and national strategic objectives. We differentiate Mainland entities into central state-owned enterprises (CSOEs), local SOEs (LSOEs), other SOEs (OSOEs) and private companies to reveal the diversity and complexity of Mainland interests represented in the HKSAR.

The first type, CSOEs, functions as an embodiment of national interest. Supervised by the SASAC, CSOEs are national policy tools which serve the overall industrial policy of

	2015	2016	Change
H-share	23.5%	23.7%	Increase 0.2%
	[33.9%]	[34.1%]	[increase 0.2%]
	(1.44)	(1.44)	(same)
Red chip	16%	16%	Same
	[33.7%]	[31.5%]	[decrease 2.2%]
	(2.1)	(1.97)	(decrease)
Private enterprises	60.5%	60.3%	Decrease 0.2%
	[32.4%]	[34.4%]	[increase 2%]
	(0.536)	(0.57)	(increase)

Notes: The first line indicates the percentage of entities numbers in each category. The square brackets indicate the share of market capitalisation. The parentheses show the ratio of capitalisation per company which is calculated by dividing market capitalisation share with the percentage of companies
Source: Authors' calculation based on market performance of 2015 and 2016 in HKEX reports

Table I.
Proportion of H-share, red chip and private enterprises in HKEX

the five-year plans. The logic which structures decisions and behaviours of CSOEs is the coherence with national industrial policy. The latest SASAC list of CSOEs comprises ninety-eight companies (SASAC, 2017). In total, 52 per cent of them are listed in HKEX's H-share list, and 53 per cent appear as red chip firms. They cover the sector of resources, energy, machinery, aviation, telecommunications, and transportation.

The second category, LSOEs, act for interests of various local governments as their business decisions are geared towards the fiscal needs of local jurisdictions (Li *et al.,* 2014), which are not always in line with the orchestrated economic policies from the central government. The motivation of LSOEs is to maximise profit-generating capacities and succeed in the fierce competition against LSOEs from other localities. LSOEs resourcefully make the use of the business environment in Hong Kong and comprise a majority (42 per cent) of H-share Mainland entities and almost one-third of red chip firms in HKEX. In fact, the first HKEX-listed H-share company is an LSOE, not a CSOE: Tsingtao Brewery Company Limited. The Municipal Government of Qingdao restructured its beer factory into a joint-stock company and listed the firm in HKEX, as an experiment to attract investment and diversify sources of capital. The successful experimentation of Qingdao induced a wave of local governments' entry to HKEX to register their SOEs in Hong Kong (Ma and Wu, 2003).

The third category of those companies is the remaining SOEs, or other SOEs (OSOEs). The SOE reform of the corporate governance structure in the 1990s gave rise to this particular group of SOEs and changed the dynamic between nationally controlled firms and the government. OSOEs comprise less than 15 per cent of the total Mainland entities. This group of entities oscillates between the market and political logic as managers bear pragmatic task to maximise profit and yet their career trajectory is dictated by the nomenklatura system in which the party clings to personnel control power (Brødsgaard, 2012). Four national banks, for instance, fall in this category.

In summary, Chinese state capital dominates the H-share and red chip entities in Hong Kong. Our categorisation reflects various faces of Mainland entities and the political strings held by national and subnational officials. Since the sovereignty transfer, Hong Kong has become an arena of competing Mainland interests. A recent move of the CCP to coordinate the fractured interest representations is epitomised by President Xi Jinping's instruction to insert "party cells" to the governance structure of enterprises (Yam, 2016). This means the party body in enterprises assumes critical decision making power such as the appointment of top managers, investment decisions, and allocation of funds. Over 30 Hong Kong-listed SOEs modified their company's constitutions to explicitly include party cell staff in the decision-making process by 2017 without any official response from HK governing bodies. However, the regulatory body in Hong Kong has not yet reached consensus on questions of how the SAR's rules and laws may regulate the "party cells" (Yam, 2016). In other words, party agents could, without institutional constraints, use the ideological control to override Hong Kong's internationally recognised regulatory framework which follows the logic of liberal institutionalism, which worry foreign firms operating in China (Wu and Wong, 2017).

The pressing question is to what extent the existence of red capital reflects the authoritarian regime's political influence and materialises the strategy. Is Chinese political influence entering the port city with the influx of its capital? Why does red capital elevate concerns and worries for global investors? The next session examines to what extent the macroeconomic capitalist structure in China engenders political and institutional implications in places where red capital arrives.

Mechanisms of influence

We begin this section with a historical comparison to make a fair assessment of the impact of Beijing on political development in Hong Kong. Hong Kong was no democracy before 1997. The local business sector fought against democratic reforms before and after 1997 with the Hong Kong and British Government. Yet it was subject to albeit limited, public scrutiny through elections, independent courts and the free media. The British were reluctant to introduce meaningful democratic reforms prior to the arrival of Hong Kong's last Governor Chris Patten. The governor had supreme executive and legislative powers under the "supervening authority of the Colonial Office" (Ghai, 1991, p. 798). Senior government officials and local British business leaders formed a "close expatriate business alliance" (So, 1999, p. 30). The interests of large British conglomerates, so-called hongs, were institutionalised through their appointment as unofficial members of the Legislative Council and Executive Council by the governor (Sing, 2004, pp. 40-41). This allows local business interests to succeed until the mid-1980s in blocking legislation which would limit monopolies, avoid cartelisation or enforce competition (Miners, 1996, p. 253). The business community made sure that their conservative views prevailed in the concurrent political reforms through backing from China (Flowerdew, 1998, p. 60). A key result is the establishment of the Legislative Council Functional Constituencies, perpetuating the business elite' influence and illiberal elements of the colonial era beyond 1997.

The establishment of the HKSAR, coupled with the promise of "Hong Kong people governing Hong Kong" and gradual progress towards universal suffrage significantly altered the position of the Hong Kong business elite. Direct access to the Beijing regime extended the business–Hong Kong Government alliance by one player, with the central government emerging as the real power centre post-1997 (Fong, 2014, p. 209). In the past, there were neither limitations on government policies through democratic processes nor competition with UK SOEs. Although local business elites agitate against full universal suffrage and public accountability, they fully embrace the ideas of free market liberalism, the rule of law and recognise the value of some political participation and competition as their representatives participate in popular elections.

Business entities from China do not share these values and are attracted to Hong Kong merely for the advanced economic infrastructure and international links. Hence agents of red capital strongly oppose the evolution towards universal suffrage. Democratisation entails the potential for public engagement and empowerment, public accountability and resource redistribution. Ideologically both businesses with links to Mainland China and the Beijing Government reject this development. Consequently, they begin to alter the status quo and modify the political system in Hong Kong by keeping the useful components (free market and financial resources) and removing "inconvenient elements" such as political freedom, transparency, open competitions and universal suffrage. Indeed, during the Umbrella Movement in 2014, Hong Kong construction and property development firm, Chun Wo Development Holdings Limited withdrew its scholarship sponsorship for four universities which supported students in their demand for democracy. One month before the decision of the scholarship withdrawal, Chun Wo sold over 40 per cent of shares to Sunvi Investment based in Inner Mongolia (Shek and Chan, 2016). The Chun Wo's case indicates the political attitudes of local business groups tied to Mainland capital towards potential democratisation, the hidden influence of red capital from private enterprises.

Based on the historical comparison, post-1997 business–politics dynamics, in general, is featured by the direct involvement of Beijing towards the goal of reducing Hong Kong into an imagined purely "economic city", the process of which surrenders local demands to "national interests". We identify three mechanisms through which the party–state deploys capital from Mainland China to achieve political objectives in the territory. First, Beijing cultivates new local agents who are, directly or indirectly, financially linked to Mainland capital. The loyalty of these new agents is ensured through their lack of an independent local power base and hence their total dependence on Mainland institutions such as the Liaison Office for support. A consequence of the rise of new agents is the parallel process of strategic weakening of established local elites linked to local interests. The second mechanism is the deployment of Mainland capital and resources to assist national firms to win market competitions, rendering local capitalists outperformed by their mainland counterparts. Third, the presence of red capital is used as a leverage to influence public opinions through media and manipulate elections by exerting pressure on Mainland entities' local recruits.

The first mechanism, cultivation of new agents, can be observed from the 2016 Legislative Council Election. Since 2008 the official representative of the central government in Hong Kong, the Liaison Office, has extended its involvement in Hong Kong electoral politics (Sing, 2009). From a previous focus on coordinating pro-establishment camp campaigns, it now identifies and handpicks loyal individuals with a professional background (Kaeding, 2017). Candidates like Dr Pricilla Leung and Paul Tse appeal to middle-class pro-establishment voters who did not resonate with traditional pro-Beijing parties' views. The former Secretary for Security Regina Ip and her party the New People's Party (NPP) targets votes from the middle-class. In 2016 the NPP managed to double its vote share and add an additional third seat in the New Territories East constituency, which was won by a newcomer Eunice Yung. It was widely speculated that the Liaison Office directly supported Ms Yung's campaign and immediately after the election Regina Ip visited the Liaison Office (*Ming Pao*, 2016).

The support of the NPP and Ms Yung in the New Territories constituency signals the promotion of new agents by Beijing and weakening of elites endowed with local interests. Ms Yung and another new candidate, the former President of the Law Society, Junius Ho, both ran in the New Territories constituencies and challenged the Heung Yee Kuk (the Kuk), a pro-establishment statutory advisory body made up from representatives of each rural committee in the New Territories. Members of the Kuk represent the economic elite in the region, and they maintain a close relationship with pro-business Liberal Party (LP) and the most significant pro-establishment party Democratic Alliance for the Betterment and Progress of Hong Kong (DAB). Due to favourable land-owing rights, the Kuk is relatively independent of the HKSAR Government.

The new agents Ho and Yung won seats at the expense of the LP and DAB, and their background indicates that their election was part of a plan to weaken the Kuk. In January 2016, the then Chief Executive C.Y. Leung fast-tracked the appointment of Junius Ho as Justice of the Peace (Lin, 2016), which endowed Ho with a seat in the Kuk Executive Council. As Ho was not endorsed by the Kuk for elections, he demonstrated his loyalty to the central government with the advocacy of reforming the Kuk in line with wishes from Beijing (Ng, 2016).

Whereas the Liaison Office's endorsement of Junius Ho indicates the weakening of elites with local interests, its support for Eunice Yung suggests the cultivation of new agents. Yung has some connections to influential village leaders in the New Territories, but her family ties points towards another crucial actor in Hong Kong: Chinese SOEs. Also, she repeatedly denied the linkage during the election campaign it was confirmed that her father was a former executive of the SOE China Resources. This corporation has significant interests in the real estate sector and hence is a direct competitor of the economic benefits of the Kuk and its property portfolio. When Chinese SOEs with unparalleled access to funds enter the property market, they hold an advantage in the property auctions by the HKSAR Government. In 2016, Chinese developers acquired 53 per cent of Hong Kong's land sale which, for the first time since the handover, marking red capital's dominance in the real estate sector (Bloomberg News, 2017). The access of local actors to the property market is notably limited, and exclusion from this lucrative investment field could curtail Hong Kong-based businesses long-term growth. It is therefore apparent that the process of cultivating new local agents pits local Hong Kong interests against those of the Mainland, which leads us to the second mechanism which aims to facilitate Mainland entities' dominance in the market competition.

The dominance of the real estate sector by red capital in Hong Kong is the most visible case illustrating how Mainland investors mobilise valuable resources to outperform their competitors in Hong Kong. Even pro-business and pro-Beijing local capitalists voiced their concerns over the unfair competition. The Founder of Hong Kong K. Wah Group, Lui Che Woo, states that Mainland investors can capitalise on support from the local and national government (Lian, 2017). Governmental backup comes in the form of privileged access to capital and bank credits. Mainland investors have fewer concerns about profit-making immediately after investments. Hong Kong's profitable real estate market is being transformed by the Mainland state–capital nexus. Arguably, the consequence is an increase in housing prices through the influx of red capital, suggested by former legislator and chairman of LP James Tien (Lian, 2017).

The capitalisation of political resources is further encouraged as C.Y. Leung volunteered Hong Kong to join President Xi Jinping's signature Belt and Road Initiative. Hong Kong's regulatory body, the Securities and Futures Commission (SFC), indicated special treatment for Mainland infrastructure and construction firms to facilitate the materialisation of the Belt and Road Initiative (Yu, 2017). Local commentators regard SFC's statement as the government's attempt to change the rule of the game in which political objectives from Beijing overrides the rule of law (Lee, 2017).

The last tool targets voters and the public opinion. The burgeoning Mainland interests with the influx of red capital calls for political arrangements to safeguard the investment environment in Hong Kong. Mainland firms and Chinese business associations have stepped up their efforts to gear the proto-democratic institutions towards political stability inspired by the United Front Strategy. The 2016 Legislative Council election witnessed SOEs' attempts to influence the individual vote of their employees. Bank of China and China Resources Land were reported to instruct their recruits to vote for "patriotic candidates who 'love China and love Hong Kong'" (Jim and Wu, 2016), a de facto screening process which ties Hong Kong's electoral process with the interest of red company entities. More systematically, the Hong Kong Chinese Enterprise Association distributed voting instructions and a list of preferred candidates to its over 1,000-member companies. Liaison Office cadres hold positions in the Chinese Enterprise Association which subjects Mainland firms to the inspection of the Beijing Government. This behaviour reveals the mentality of Chinese political and business elites that collective interests override individual decision and an automatically-generated equation that receiving a wage from the Mainland entities somehow leads to the loyalty to Beijing.

Conclusion

This paper is the first attempt to systematically embed the discussion of red capital into comparative capitalism literature and propose an analytical framework to explore the distinctiveness of "red capital". Figure 1 visualises and summarises how red capital is changing the political and economic spheres in Hong Kong. We hope to use this paper to introduce a research agenda to jointly scrutinise the growing presence and visibility of capital from authoritarian states and seek ways to evaluate its impact. Due to the limitation on the scope, we must confine our focus on the state actor with emphasis on "strategy". Further research needs to investigate other actors, firms and legal representations, and the process of implementation to explore how capable (and willing) business actors are to materialise strategies proposed in this paper. As in the case of Taiwan, Huang (2017) identifies the limitation of "red capital" agent to change the existing economic-political structure due to regulatory barriers and the societal caution against "red capital" entities.

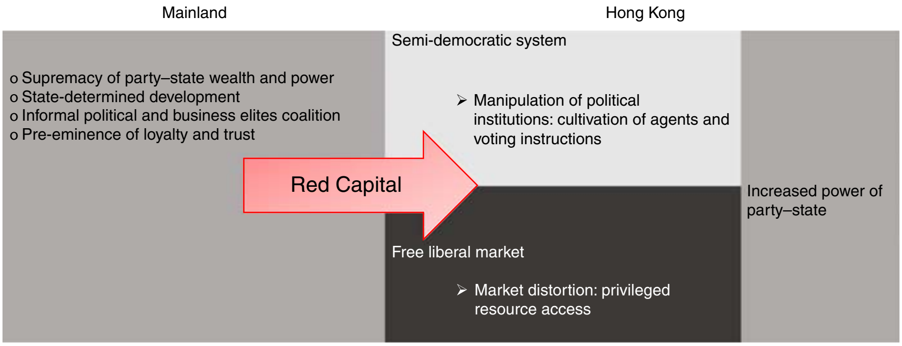

Figure 1.
Visualisation of findings

Our contribution to the discussion of Chinese capitalism is to confirm the political kernel of "red capital" to reveal mechanisms with which Beijing adjusts Hong Kong's institutions to serve its political goals. First, the weakening of business elites with a firm local basis and the cultivation of agents connected to Mainland entities indicate a power base reshuffle on the territory. Second, the replication of the Mainland state–capital nexus in Hong Kong translates political resources possessed by Mainland entities into a competitive advantage in the market. Last but not least, we find attempts of Chinese economic actors to compromise democratic institutions which are deemed as an obstacle to state control.

The presence of red capital and the state–business nexus pit Hong Kong interests against that of the Mainland, and exhibit the incompatibility between democratic institutions and Beijing's expectation to use Hong Kong's free economy for the development of Mainland enterprises. Red capital may point towards two possible future scenarios for a society experiencing dual economic and political control. The first situation would see a push back by local actors. The rise of localism indicates an urgent need to defend Hong Kong's interests. As a form of resistance localism has the potential to demystify the official rhetoric of Hong Kong–Mainland integration and the importance of the Chinese economy for Hong Kong. It thus offers the possibility of pushing Hong Kong away from Mainland's economic orbit via alternative political solutions. In the second possible scenario, society remains unaware and apathetic as red capital subtly and steadily reverses the democratisation process in Hong Kong. Either way would bring the certainty of One Country, Two Systems in question.

Note

1. The Liaison Office is a communication bridge between the Governments in Beijing and Hong Kong. Under the "One Country, Two Systems" principle and Article 22 of Hong Kong's mini-constitution the Basic Law it is not allowed to interfere in the affairs of the Hong Kong SAR.

References

Bloomberg News (2017), "No relief for Hong Kong tycoons riled by High Chinese Land Bids", Bloomberg, 6 March, available at: www.bloomberg.com/news/articles/2017-03-06/no-relief-for-hong-kong-tycoons-riled-by-high-chinese-land-bids (accessed 8 February 2018).

Brødsgaard, K.E. (2012), "Politics and business group formation in China: the party in control?", *The China Quarterly*, Vol. 211, September, pp. 624-648.

Dickson, B. (2003), *Red Capitalists in China: The Party, Private Entrepreneurs, and Prospects for Political Change*, Cambridge University Press, Cambridge.

Flowerdew, J. (1998), *The Final Years of British Hong Kong: The Discourse of Colonial Withdrawal*, Macmillan, Basingstoke.

Fong, B.C.H. (2014), "The partnership between Chinese Government and Hong Kong's capitalist class: implications for HKSAR governance, 1997–2012", *China Quarterly*, Vol. 217, March, pp. 195-220.

Freedom House (2017), "Hong Kong-Freedom in the World 2017", available at: https://freedomhouse.org/report/freedom-world/2017/hong-kong (accessed 16 November 2017).

Gallagher, M.E. (2002), "'Reform and openness': why China's economic reforms have delayed democracy", *World Politics*, Vol. 54 No. 3, pp. 338-372.

Ghai, Y. (1991), "The past and future of Hong Kong's constitution", *China Quarterly*, Vol. 128, December, pp. 794-814.

Hong Kong Stock Exchange (2013), "Market information", available at: www.hkex.com.hk/-/media/HKEX-Market/Market-Data/Statistics/Consolidated-Reports/HKEX-Fact-Book/HKEx-Fact-Book-2013/fb_2013_c.pdf?la=zh-HK (accessed 1 November 2017).

Hong Kong Stock Exchange (2015), "Market information", available at: www.hkex.com.hk/-/media/HKEX-Market/Market-Data/Statistics/Consolidated-Reports/HKEX-Fact-Book/HKEx-Fact-Book-2015/fb_2015_c.pdf?la=zh-HK (accessed 1 November 2017).

Huang, J.-Q. (2017), "The advance of red capital", (hongse ziben de jinji) in Wu, J.-M., Tsai, H.-J. and Cheng, T.-B. (Eds), *Anaconda in the Chandelier: Mechanisms of Influence and Resistance in the "China Factor"*, Rive Gauche Publishing House, New Taipei City, pp. 87-146.

Jim, C. and Wu, V. (2016), "Exclusive – Chinese state enterprise workers in Hong Kong given voting guidance ahead of the poll", Reuters, 2 September, available at: https://uk.reuters.com/article/uk-hongkong-election-companies/exclusive-chinese-state-enterprise-workers-in-hong-kong-given-voting-guidance-ahead-of-poll-idUKKCN1182E5?feedType=RSS&feedName=topNews (accessed 14 December 2017).

Kaeding, M.P. (2017), "The rise of 'Localism' in Hong Kong", *Journal of Democracy*, Vol. 28 No. 1, pp. 157-171.

Lee, C.-F. (2017), "The root problem of red capital", *Apple Daily*, 11 May, available at: https://hk.news.appledaily.com/local/daily/article/20170511/20017484 (accessed 17 December 2017).

Lee, W.-C. (2014), *An Overview of Mainland Investment in Taiwan and its Impact on Taiwanese Economy (luzi laittai touzi gaikuang ji dui jingji de yingxiang fenxi)*, National Policy Foundation, Taipei, available at: www.npf.org.tw/3/13551

Li, M.H., Cui, L. and Lu, J. (2014), "Varieties in state capitalism: outward FDI strategies of central and local state-owned enterprises from emerging economy countries", *Journal of International Business Studies*, Vol. 45 No. 8, pp. 980-1004.

Lian, Y.-Z. (2017), "Red capital in Hong Kong", *The New York Times*, 1 June, available at: www.nytimes.com/2017/06/01/opinion/red-capital-in-hong-kong-china-investment.html (accessed 29 October 2017).

Lin, Y. (2016), "Ken Chow: three Beijing strangers coerced me to withdraw from election in Hong Kong", available at: www.theepochtimes.com/ken-chow-three-beijing-strangers-coerced-me-to-withdraw-from-election_2155368.html (accessed 17 December 2017).

McNally, C.A. (2012), "Sino-capitalism: China's reemergence and the international political economy", *World Politics*, Vol. 64 No. 4, pp. 741-776.

Ma, Q.-Q. and Wu, Q. (2003), *The History of China's Securities: 1978–1998*, CITIC Publishing Group, Beijing.

Miners, N. (1996), "Consultation with business interests: the case of Hong Kong", *Asian Journal of Public Administration*, Vol. 18 No. 2, pp. 245-257.

Ming Pao (2016), "[Post election] Eunice Yung comments on Regina Ip's visit to Liaison Office", available at: http://news.mingpao.com/ins/instantnews/web_tc/article/20160913/s00001/1473739505245 (accessed 17 December 2017).

Ng, K.-C. (2016), "Hong Kong lawmaker-elect Junius Ho calls for reform of Heung Yee Kuk", *South China Morning Post*, 23 September, available at: www.scmp.com/news/hong-kong/politics/article/2022020/hong-kong-lawmaker-elect-junius-ho-calls-reform-heung-yee (accessed 17 December 2017).

Nölke, A., Brink, T.T., Claar, S. and May, C. (2015), "Domestic structures, foreign economic policies and global economic order: implications from the rise of large emerging economies", *European Journal of International Relations*, Vol. 21 No. 3, pp. 409-445.

SASAC (2017), "List of central state-owned enterprise", available at: www.sasac.gov.cn/n2588035/n2641579/n2641645/index.html (accessed 5 November 2017).

Shek, W.-L. and Chan, T.-Y. (2016), "Anti-Umbrella movement developers withdrew university scholarship", *Apple Daily*, 1 December, available at: https://hk.news.appledaily.com/local/daily/article/20161201/19851429 (accessed 2 February 2018).

Shih, V. (2017), "Financial instability in China: possible pathways and their likelihood", Mercator Institute for China studies, Berlin, available at: www.merics.org/en/merics-analysis/china-monitor/merics-china-monitor-no-42/ (accessed 14 November 2017).

Sing, M. (2004), *Hong Kong's Tortuous Democratization*, Routledge, London.

Sing, M. (2009), "Hong Kong's democrats hold their own", *Journal of Democracy*, Vol. 20 No. 1, pp. 98-112.

So, A.Y. (1999), *Hong Kong's Embattled Democracy: A Societal Analysis*, John Hopkins University Press, Baltimore, MD.

Stephen, M.D. (2014), "Rising powers, global capitalism and liberal global governance: a historical materialist account of the BRICs challenge", *European Journal of International Relations*, Vol. 20 No. 4, pp. 912-938.

Tsai, K. (2007), *Capitalism without Democracy*, Cornell University Press, Ithaca, NY and London.

Walter, C.E. and Howie, F.J.T. (2011), *Red Capitalism: The Fragile Financial Foundation of China's Extraordinary Rise*, Wiley, Singapore.

Wong, W.-K. (1997), "Can co-optation win over the Hong Kong people? China's united front work in Hong Kong Since 1984", *Issues & Studies*, Vol. 33 No. 5, pp. 102-137.

Wu, J.-M. (2009), "The China factor and democracy in Taiwan (zhongguo yinsu yu Taiwan minzhu)", *Thought*, Vol. 11, pp. 141-157.

Wu, J.-M. (2012), *A Third Imagination of China (di sanzhong zhongguo xiangxiang)*, Zuo'an, Taipei.

Wu, J.-M. (2016), "The China factor in Taiwan", in Schubert, G. (Ed.), *Routledge Handbook of Contemporary Taiwan*, Routledge, London, pp. 425-445.

Wu, W. and Wong, C. (2017), "Germans wary of China's drive to gain more control over firms", *South China Morning Post*, 17 November, available at: www.scmp.com/news/china/diplomacy-defence/article/2120423/german-firms-warn-chinese-communist-partys-drive-gain (accessed 23 January 2018).

Yam, S. (2016), "Regulators' silence on Communist Party presence in listed state companies is deafening", *South China Morning Post*, 22 July, available at: www.scmp.com/business/article/1993277/regulators-silence-communist-party-presence-listed-state-companies (accessed 23 January 2018).

Yu, M.-E. (2017), "Securities support the listing of one belt one road firms and give green lights to firms which do not fulfil four criteria", *Ming Pao*, 12 April, available at: www.mpfinance.com/fin/daily2.php?node=1491939966462&issue=20170412 (accessed 23 January 2018).

Zhao, S. (2017), "Whither the China model: revisiting the debate", *Journal of Contemporary China*, Vol. 26 No. 103, pp. 1-17.

Further reading

Cheung, P.T.Y. (2011), "Who's influencing whom? Exploring the influence of Hong Kong on politics and governance in China", *Asian Survey*, Vol. 51 No. 4, pp. 713-738.

About the authors

Dr Heidi Wang-Kaeding is Assistant Professor in Asian Politics at the Department of Political Science, Trinity College Dublin, Ireland. She is also Faculty Member of the Trinity Centre for Asian Studies. Dr Heidi Wang-Kaeding is the corresponding author and can be contacted at: heidi.wang-kaeding@tcd.ie

Dr Malte Philipp Kaeding is Lecturer (Assistant Professor) in International Politics at the Department of Politics, the University of Surrey, UK. He is Member of the Hong Kong Transition Project (Hong Kong) and Associate Fellow of the European Research Center on Contemporary Taiwan (ERCCT), University of Tübingen, Germany.