It’s the Economy: Explaining Hong Kong’s Identity Change after 1997

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Abstract: Scholars and practitioners have provided two main explanations for the rising exclusive localism identity in Hong Kong: the rising economic pressures on grassroots citizens and the political discontent caused by the delayed political reforms. However, little research has systematically investigated the identity shift in Hong Kong after 1997. Using the Public Opinion Survey data and time-series analysis methods, we find that housing price positively contributes to the salience of localism identity in Hong Kong and this effect is particularly strong among the younger generation. In contrast to the claims of pro-democracy activists, Beijing’s political intervention has a negligible impact on Hong Kong people’s identity transition.

Key words: democratization, globalization, Hong Kong politics, identity

1 An earlier draft was presented in the 2016 ISA-Asia Pacific Conference in Hong Kong. Please contact the authors for the earlier draft presented.
Introduction

An event that was completely unimaginable when Hong Kong (HK) reunited with China in 1997 occurred in late March 2016. A group of students from multiple universities in the city founded the so-called Hong Kong National Party (HKNP) that explicitly asked for Hong Kong independence and declared that it would not recognize the Hong Kong Basic Law, the mini-constitution of HK. Amid the rising tide of localism, the foundation of HKNP is only one of the recent manifestations of an emerging identity crisis among the HK people. According to the Public Opinion Program (POP) managed by the University of Hong Kong, at the end of 2017, almost 40% of the people identified themselves exclusively as a “Hongkonger”, and the proportion was as high as 69.7% among those between the age of 18 and 29. It is evident that HK is wrestling with an identity crisis.

However, HK people used to have a strong Chinese identity not long ago. In the 1990s, HK people initiated a highly nationalistic anti-Japanese Baodiao Movement that asserted the Chinese sovereignty over the Diaoyu/Senkaku Islands. In the second half of 2008 when Beijing hosted the Summer Olympics, only 21.8% of the interviewees identified themselves as “Hongkonger” exclusively in the POP survey, while 34.4% of them identified themselves as “Chinese” exclusively. Hence, one scholar, relying on the POP survey results as of 2008, concluded that the local

identity of Hong Kong “has been converging with the national one,” and that “the new sovereignty has become more receptive among the Hong Kong Chinese communities” even compared to residents of Macao. Nevertheless, the data in the second half of 1997---soon after the sovereignty transfer---is similar to that of 2017: 35.9% respondents identified themselves as “Hongkonger” exclusively and only 18% as “Chinese.” In other words, the past 20 years have witnessed more than one drastic identity change among the HK people (See Figure 1).

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4 Four polls were conducted in the second half of 1997, in August, September, October, and December, respectively. The POP website provides half-yearly averages. See HKU POP SITE, available at https://www.hkupop.hku.hk/chinese/popexpress/ethnic/eidentity/halfyr/datatables.html. Last accessed: 10 May 2016.
The major task of this article is to identify the determinants of the changes in HK people’s identity after the 1997 reunification. Students of identity politics have established that identities can change, and they tend to change through political and economic processes. On one extreme, an influential argument is that the economic problems resulting from economic integration with mainland China are responsible for growing localism identity in HK, such as high inflation rate, soaring housing prices, and stagnant real wages. Others disagree and claim that the seeming setbacks in pro-democracy movement as a result of the interventions from Beijing’s Central Government have more explanatory power in the changes of HK people’s identity.

We offer the first systematic test for the two contrasting arguments abovementioned. Our empirical evidence consistently suggests that housing prices are positively associated with the localism identity among HK people. The positive

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effects of housing prices on the localism identity are particularly strong among the younger generation. This result implies that the increasing economic pressures on grassroots residents are mainly responsible for the emergence of localism in HK. On the other hand, political variables, such as the interpretation of Basic Law and the decision on the election methods for the Chief Executive (CE) and Legislative Council (LC) made by the National People's Congress Standing Committee (NPCSC) are poor predictors for identity change in our models. We argue, in the conclusion and discussion section, that the rise of exclusive localism identity in HK, similar to the rise of populism in many other countries, can be regarded as a rebellious movement against neoliberal economic integration.

**Contextual Background**

In this section, we briefly review the political and economic development of Hong Kong after its reunification with Mainland China in 1997, and qualitatively examine how salient events in the economic and political domains may have shaped the identity discourse among the HK people.

The first five years after the reunification created gloomy memories for most HK people. The 1997 Asian Financial Crisis and the spread of Severe Acute Respiratory Syndrome (SARS) in 2003 led to an economic downturn in the city.
The unemployment rate rose from 2.2% in July 1997 to 8.6% in July 2003.\(^8\) The accumulation of economic and social grievances, in addition to the controversial proposals for the enactment of Article 23 of the Basic Law, eventually resulted in the July 1 protests in 2003. Approximately half a million people participated in street protests and demanded the CE Tung Chee-hua to step down. Since then, the July 1 protests have been held annually on the anniversary date of HK’s reunification.

The massive protests in 2003 triggered a change of Beijing’s policy towards HK. After 2003, Beijing gradually abandoned its non-intervention attitudes. Economically, to revitalize HK’s economy, the Chinese Central government introduced a new travel policy—the so-called Individual Visit Scheme (IVS)—that allowed individual mainland tourists from certain cities to obtain a seven-day visa to visit HK, and concluded a free trade agreement between Mainland China and HK---The Closer Economic Partnership Arrangement (CEPA)---that provides HK companies preferential access to the markets of the Chinese Mainland.\(^9\) IVS and CEPA helped HK economy recover rapidly in the next years, bringing a 6.9% real GDP growth rate and a 4.8% unemployment rate in 2006.\(^10\)

Politically, the Central Government also tried to strengthen its influence over HK. In 2004, local pro-democracy activists demanded universal suffrage for both the

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\(^10\) Census and Statistics Department, HKSAR.
2007 CE election and the 2008 LC member election, but the NPCSC responded that the conditions for universal suffrage still “do not exist.”\textsuperscript{11} Similarly, in 2007, the NPCSC vetoed universal suffrage for the 2012 CE election and the abolition of functional constituencies in LC, whose members were mostly elected indirectly, though NPCSC promised that the CE election in year 2017 “may be implemented by the method of universal suffrage,” and that thereafter all LC members could be elected by the same method.\textsuperscript{12} In 2010, the Central Government and moderate pro-democracy activists reached a substantial compromise concerning the methods of selecting CE and forming LC in year 2012.\textsuperscript{13}

Despite the back-and-forth in democracy movements, Hong Kong under Tsang Yam-Kuen administration (2005-2012) was generally regarded as the best period after the reunification. In addition to economic recovery, the threat to political


\textsuperscript{13} In the 2012 CE election, the Election Committee to elect the fourth term CE was composed of 1,200 members from four sectors, with an increase of 400 members compared to the previous term. In the 2012 LC election, 70 rather than 60 members were to be elected, including half returned by functional constituencies and the other half returned by geographical constituencies through direct elections. The newly added five members returned by the functional constituency of District Council (Second) were elected by all registered voters who were not the voters of other functional constituencies (including uncontested functional constituencies). See Annex I and Annex II, Basic Law full text.
freedom was perceived to be decreasing as well.\textsuperscript{14} HK people’s Chinese identity also reached its peak when the 2008 Summer Olympics were held in Beijing and its equestrian games were held in HK. However, it was also under Tsang’s administration that the negative impacts of economic integration with Mainland China began to emerge. First, economic restructuring as a result of the relocation of manufacturing sector from HK to Mainland China increased income inequality, though the polarization of income had begun since the 1980s, long before Tsang became the CE.\textsuperscript{15} Moreover, the influx of mainland capital and tourists produced a series of negative impacts on residents in HK: while the former were contributing to soaring housing prices and rising rents, the latter had caused a number of social problems for local residents, such as cross-border smuggling. As a consequence, with the deterioration of HK people’s perception on ordinary Mainlanders, anti-Mainlander sentiments started to appear in HK.

The relations between many HK people and the Central Government also deteriorated when the Education Bureau of HK attempted at introducing the Moral and National Education (MNE) around 2012, a school curriculum that was blamed to be political brainwashing. The anti-Chinese government sentiments and localism thoughts grew more salient during and after the 2014 Umbrella Movement, a series

\textsuperscript{14} Ming Sing, “Explaining Mass Support for Democracy in Hong Kong”, \textit{Democratization} 17, no.1 (2010): 175-205.
of street protests in response to the NPCSC’s proposed reforms to the selection methods of CE.  

Although Beijing’s choice to allow elections on one-person-one-vote basis was arguably an improvement over the existing arrangement, many people in HK still feared that Beijing could in effect manipulate the selection of candidates. The LC, therefore, rejected the NPCSC proposal, in June 2015, and the 2017 CE was still elected by the 1,200-member Election Committee. As a result, the city was further trapped in a political crisis.

Theory and Hypotheses

According to the definition by Kanchan Chandra, identity is a subset of categories in which certain attributes are necessary for membership. Identity categories/attributes include region, religion, sect, language family, language, dialect, caste, clan, tribe, physical features, etc. Every person has multiple identity categories that make him or her eligible for multiple memberships. Thus, Chandra’s definition of identity is very general, and can be used in the analysis of ethnic, cultural, or regional identity. Chandra also stresses that identity is an outcome of social construction, thus can be shaped by economic, political, and

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17 “The Future of Democracy in Hong Kong.” Hearing before the Congressional-Executive Commissions on China, 20 November 2014, p.35.
social processes. Under certain circumstances, some categories/attributes can be activated, making some identities more salient than the others. In other words, identity can change temporally even for the same person. Social scientists who regard identity as an endogenous variable are interested in examining the conditions under which certain categories/attributes are activated. For example, constructivists would be interested in figuring out why and how the ability to speak Cantonese is activated as an identity category that distinguishes Hongkonger from Mainlanders, instead of treating it as an exogenous variable that primordialistically distinguishes the two peoples. Echoing the constructivists, we will treat identity as a variable to be explained.

A growing body of literature sheds light on the identity issue of HK. Veg offers a two-dimension framework to study the discourses of identification in HK since the 1970s: pan-Chinese versus local, and ethno-cultural versus civic. While the ethno-cultural localism highlights HK’s special language and customs, the civic localism emphasizes more on fighting for democracy in Hong Kong, but not necessarily for the democratization in China. Despite such differences, localism identities share one characteristic in common: they reject the ethno-cultural pan-Chinese discourse promoted by the Chinese government. The civic (pro-democracy) Chinese identity, on the other hand, is not categorized as one sort of localism in Veg’s framework, as this group of people not only do not give up their Chinese identity, but also are

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20 According to Veg, civic localism is distinguishable from civic pan-Chinese identity in the sense that the later group still preserves a strong Chinese identity despite that they oppose the rule of the Chinese Communist Party. On the other hand, civic localism focuses much more on the political development in Hong Kong and cares much less about the political development in mainland China. See Sebastian Veg, “The Rise of ‘Localism’ and Civic Identity in Post-handover Hong Kong: Questioning the Chinese Nation-state,” The China Quarterly 230 (2017): 323-347.
aimed at building democracy for their country fellows (tongbao). Therefore, the one million HK people who protested on street after the Tiananmen Incident in 1989 were far from advocators of localism identity. Even in the July Forth vigil of 2013 the organizers put forward the slogan, “love the country, love the people: the Hong Kong spirit” (aiguo aimin, xianggang jingshen), which is a demonstration of the civic Chinese identity. Meanwhile, those who participated in the vigil but argued against using this slogan were, instead, advocating a civic localism identity.

Hence, what really distinguishes pan-Chinese and localism identity in HK is not the attitudes towards the Chinese government because both types of identities can be aligned with democratic values and disapproval of the rule of CCP. Instead, what really matters is whether one regards pan-Chinese community as relevant. In this sense, localism identity, unlike civic pan-Chinese identification, has always been exclusive. Therefore, the measure of exclusive identity in HKU POP, which we use as dependent variable in the empirical analysis, is an appropriate proxy in terms of quantifying the strength of localism at a macro-level, because those who embrace pan-Chinese identification, regardless of their attitudes towards democratic values, are not likely to identify themselves as Hongkonger exclusively. Pan-Chinese people would choose mixed identities in the survey such as Hongkonger in China or Chinese in Hong Kong. In a word, we are interested in what causes localism identity that is by essence incompatible with the pan-Chinese identity, instead of HK people’s attitudes towards democratic values and democratic reform, which can be advocated by both promoters of civic localism and followers of civic pan-Chinese identity.
Scholars and practitioners suggest that a process of identity change is taking place in Hong Kong, and a large proportion of them attribute it to the economic and political interactions between the city and Mainland China in the post-1997 era.\textsuperscript{21} However, most of the evidence they present is anecdotal, thus it remains to be systematically explored whether, and to what extent, these factors are shaping the localism identity of HK people.\textsuperscript{22} The task of this paper is to fill this gap.

Given that HK people are experiencing severe income inequality and widespread poverty, and that these problems are widely attributed to economic integration with Mainland China that is driven by and mainly benefits Hong Kong’s capitalists,\textsuperscript{23} it is reasonable to link the growth of Hong Kong localism identity to the economic structural transformation of the city in the past decades. In the opinion of many localists, the influx of mainland capital along with HK government’s economic policy has resulted in inflation that decreases the real income of the working class. This inflation also drives up house prices, which becomes decreasingly affordable,

\textsuperscript{21} For example, see Chin Wan-kan, \textit{Xianggang chengbang lun (Hong Kong City-state)}, 2nd edition (Hong Kong: Enrich Publishing, 2012).

\textsuperscript{22} Chein Huei Wu tests whether economic integration with Mainland China has an effect on the level of democracy and rule of law in HK and Taiwan. Wu’s empirical results suggest that economic integration with Mainland China undermines press freedom in Taiwan and HK, as well as HK’s performance in local governance. Wu’s paper mainly focuses on the impact of trade and immigrants, and it does not examine how economic integration interacts with political factors in determining HK and Taiwan people’s identity. See Chein Huei Wu, “Dance with the Dragon: Closer Economic Integration with China and Deteriorating Democracy and Rule of Law in Taiwan and Hong Kong,” \textit{Hong Kong Law Journal} 45 (2015): 275-293.

particularly for the young. 24 Lofty home prices and lowering life quality are
believed to have stimulated social movements like the 2014 Umbrella Protests. 25
Thus, we expect the economic factors activate the exclusive localism identity of
HK people.

Hypothesis 1: The real wage level is negatively associated with the salience of
localism identity in Hong Kong.

Hypothesis 2: The housing prices are positively associated with the salience of
localism identity in Hong Kong.

However, economic structure is not the only explanation for the emergence and
change of identity. John Breuilly, a “modernist” in nationalism studies, contends
that localism is above all about politics and politics is about power, thus the
salience of identity may be related to the objectives of obtaining and using state
power. 26 Moreover, Paul Brass argues that the willingness of elites from the
dominant group to share political power can determine the way ethnic conflicts are
resolved. 27 According to him, a relatively open system of political bargaining and

24 Chin Wan-kan, Xianggang chengbang lun (Hong Kong City-state), 2nd edition (Hong
25 Liyan Chen, “Beyond The Umbrella Movement: Hong Kong's Struggle with Inequality
In 8 Charts,” Forbes, available at
http://www.forbes.com/sites/liyanchen/2014/10/08/beyond-the-umbrella-revolution-hong-
26 Umut Ozkirimli, Theories of Nationalism: A Critical Introduction (2nd edition) (Palgrave
Macmillan, 2010), pp.84-85.
27 Paul R. Brass, Ethnicity and Nationalism: Theory and Comparison (New Delhi: Sage
competition is an effective strategy to avoid civil wars or secession movement.\textsuperscript{28} Although these “modernists” do not dismiss the role of economic factors, they tend to give more credit to political factors in the process of identity formation. In general, this group of authors believes that power sharing can enhance national identity while dampening the salience of local identity.

In the context of HK, researchers point out that the underdevelopment of democracy has a direct impact on the legitimacy of the regime, thus giving rise to public discontent and localism ideology.\textsuperscript{29} Therefore, we may expect that it is the lack of progress in reforming the election methods for the CE and LC that is responsible for the increasing salience of localism identity in HK. In addition, the interpretation of the Basic Law by the NPCSC is also regarded as a threat to the “high degree of autonomy” of HK. Hence, if the modernists are correct, the interpretation of the Basic Law as well as the decision to veto universal suffrage in the election of CE and LC by the NPCSC should have a positive effect on the salience of localism identity.

\textit{Hypothesis 3: The interpretation of the Basic Law by the NPCSC has a positive effect on the salience of localism identity in Hong Kong.}

\textsuperscript{28} Paul R. Brass, \textit{Ethnicity and Nationalism: Theory and Comparison}, pp.60-61.  
Hypothesis 4: The decision to veto universal suffrage by the NPCSC has a positive effect on the salience of localism identity in Hong Kong.

Research Design

This paper offers the first systematic test on whether economic or political factors could explain the growth of localism in HK in recent years. Instead of focusing on individual-level opinion, we conduct a structural-/macro-level analysis. The macro approach has been widely used in the public opinion literature, particularly in---but not limited to---the study of American presidential approval rate and Taiwanese identity. Although such approach cannot help us delve into identity formation and identity change of particular individuals, it can capture the general trend of localism identity in HK. Since we are interested in the effects of structural variables (i.e., the economic and political development in HK as a whole), focusing on the general trend of identity change is methodologically appropriate. While there exist residual variances at the individual level that are not accounted for in macro-level analysis, they are unlikely to do a great disservice to our causal inference. For example, while some people’s identity salience may be highly sensitive to the change of housing prices, others may be highly insensitive. When estimating the average effect of housing prices on identity change, the existence of these individuals located in the two extremes of a spectrum will not confound our

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30 For example, see Robert S. Erikson, Michael B. MacKuen, and James A. Stimson, The Macro Polity (Cambridge University Press, 2002).
finding, because when the identity variable is aggregated, the residual variance generated by these extremists are cancelled out. 31

Following the standard practice in the public opinion literature, we use time series methods to estimate the effect of economic and political variables on the salience of localism identity among HK people. The unit of analysis is half-year, as the POP survey has been conducted regularly in June and December each year since 2004. 32

Here we adopt the definition given by Abdelal et al. who contend that identity is defined by what is not. 33 Thus, the dependent variable is the strength of exclusive Hong Kong identity, measured by the percentage of respondents who identify themselves exclusively as “Hongkonger” in the POP surveys. Mixed identities, including “Hongkonger in China” or “Chinese in Hong Kong”, are not used in our analysis. Since HK teenagers and college students have been playing a pivotal role in the democratization and localism movement, studying the responses of young people to the economic and political transformation after 1997 is of both academic and practical importance. We, therefore, also include the percentage of adults between 18 and 29 years old who identify themselves as “Hongkonger” as an alternative dependent variable.

32 Before 2004, the POP surveys were conducted three to six times per year. Since 2004, the surveys have been conducted every half year, each year in June and December, respectively. For the data collected before 2004, the POP website provides half-yearly averages, available at https://www.hkupop.hku.hk/english/popexpress/ethnic/eidentity/halfyr/datatables.html. Last accessed: 11 May 2018.
Our key economic independent variables include real wage and real housing price index. These variables could directly capture the increasing economic pressures on most HK people as the consequences of economic integration with Mainland China and structural disintegration of the HK economy. One consequence of economic integration with Mainland China is imported inflation, which hinders the growth of real income and drives up property prices (see Figure 2). If the inflation created by Mainland capital that floods into the city is the cause of localism sentiments, we should expect that real wage decreases the salience of exclusive HK identity, while housing prices are positively associated with the salience of exclusive HK identity. We also control for the unemployment rate and current GDP (denoted in million HK Dollar), both of which account for the general economic growth. Good economic performance (i.e., high GDP and low unemployment rate) may enhance the welfare of HK people, decrease their economic grievances, and weaken the localism HK identity. Unemployment rate, housing price index, and current GDP are measured with the corresponding indicators in the second and forth quarter in each year, while the level of real wage covers data points in June and December of each year. The housing price index is retrieved from the website of Federal Reserve Bank of St. Louis (year 2010=100), while the other three variables are collected from the HK Census and Statistics Department.

In addition to economic integration with Mainland China, political intervention from Beijing is often regarded as the cause of emergence and growth of localism sentiments in HK as well. The Central Government intervened in the political development of HK by---through the decision of NPCSC---interpreting the Basic
Law, or directly deciding on the election methods for the CE and the LC. To test whether these events have stimulated exclusive identity among HK people, we include two dummy variables. The first is “interpretation”, which is coded as 1 if the NPCSC offered interpretation on the article(s) of Basic Law, and 0 otherwise. The second is “decision”, which is coded as 1 if the NPCSC made a decision on the election methods for the CE and LC that were later vetoed by the LC, and 0 otherwise. If the decision of NPCSC was vetoed in the LC, it indicates that the proposal made by Beijing was seen as an intention to slow down the democratic reform by the pro-democracy camp in the LC. The reform decision in 2010, on the other hand, was passed in the LC due to the support of both pro-democracy and pro-Beijing camp. Therefore, this specific event was regarded as a substantial progress in the political development of HK, thus is not coded as 1 for the “decision” variable. In general, including these two dummy variables can allow us to perform an intervention analysis with time series data and directly estimate the impact of seeming setbacks in democratic reforms on the localism sentiments in HK.\footnote{Mark Pickup, \textit{Introduction to Time Series Analysis} (Sage Publications, 2014).} The summary statistics for the dependent and independent variables are presented in Table 1.
Table 1. Summary of Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of Exclusive Localism Identity among All Respondents</td>
<td>41</td>
<td>32.49512</td>
<td>7.070359</td>
<td>18.1</td>
<td>45.6</td>
</tr>
<tr>
<td>Percentage of Exclusive Localism Identity among Young Respondents (18-29)</td>
<td>37</td>
<td>44.32432</td>
<td>9.800295</td>
<td>22.9</td>
<td>69.3</td>
</tr>
<tr>
<td>Real Wage Index (1992=100)</td>
<td>40</td>
<td>115.7575</td>
<td>4.441234</td>
<td>104.3</td>
<td>123.3</td>
</tr>
<tr>
<td>GDP in Current Price</td>
<td>41</td>
<td>437759.5</td>
<td>116920.5</td>
<td>293,356</td>
<td>720,897</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>41</td>
<td>4.565854</td>
<td>1.529152</td>
<td>2.3</td>
<td>8.5</td>
</tr>
</tbody>
</table>
### Empirical Findings

In this section, we empirically test the relationships between political and economic factors and the exclusive localism identity among HK people. We first test the stationarity of our two dependent variables by performing the Dickey-Fuller test. The null hypothesis is that a variable follows a unit-root process. The alternative hypothesis is that a variable follows a stationary process. The MacKinnon approximate p-values for both dependent variables are smaller than 0.05. Therefore, we conclude that the measures of exclusive localism identity among all HK people and younger HK people are stationary and do not have a unit root problem.

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Table 2 presents the ordinary least squares (OLS) analysis of the determinants of exclusive localism identity in HK from 1997 to 2017. We report both the coefficients and the robust standard errors clustered by each year in parentheses. To ensure that our results are not contaminated by the unobserved temporal trends, a specific year trend is further included in all models. As the year trend variable could partial out year specificities, when it is included, the errors are more likely to be a white noise process that satisfies OLS assumptions. The baseline model is reported in Model 1. To account for the potential serial correlation problem, we further add the lagged dependent variable in Model 2. Both models in Table 2 suggest that only the measure of real residential property prices has a consistently significant and positive effect on the dependent variable. In general, 1 percent increase in real residential property price is associated with at least 0.2 percentage point increase in HK people’s exclusive localism identity. Model 1 also suggests that 1 percent increase in the unemployment rate is associated with 1.9 percentage point increase in the exclusive localism identity in HK, though its coefficient is only statistically significant at 10% level. The estimated coefficients of real wage have a negative sign as we expect, though they are not statistically significant at conventional levels in both models. Finally, we do not find enough evidence to support the impact of NPCSC’s interpretation of the Basic Law or decision concerning CE and LC election methods on HK people’s exclusive localism identity.
<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th></th>
<th>Model 2</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coef.</td>
<td>SE</td>
<td>Coef.</td>
<td>SE</td>
</tr>
<tr>
<td>Lag. DV</td>
<td>0.322</td>
<td>(0.24)</td>
<td>0.322</td>
<td>(0.24)</td>
</tr>
<tr>
<td>Housing Prices</td>
<td>0.265***</td>
<td>(0.07)</td>
<td>0.211**</td>
<td>(0.09)</td>
</tr>
<tr>
<td>Real Wage Index (1992=100)</td>
<td>-0.256</td>
<td>(0.27)</td>
<td>-0.348</td>
<td>(0.35)</td>
</tr>
<tr>
<td>GDP in Current Price</td>
<td>-0.000</td>
<td>(0.00)</td>
<td>-0.000</td>
<td>(0.00)</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>1.905*</td>
<td>(1.08)</td>
<td>1.231</td>
<td>(0.94)</td>
</tr>
<tr>
<td>NPCSC’s Interpretation of Basic Law</td>
<td>0.112</td>
<td>(2.79)</td>
<td>-0.652</td>
<td>(2.27)</td>
</tr>
<tr>
<td>NPCSC’s Decision on Chief Executive Election</td>
<td>-0.015</td>
<td>(2.17)</td>
<td>1.018</td>
<td>(1.63)</td>
</tr>
<tr>
<td>Temporal Trend</td>
<td>-0.613</td>
<td>(0.57)</td>
<td>-0.215</td>
<td>(0.92)</td>
</tr>
<tr>
<td>Constant</td>
<td>1261.872</td>
<td>(1112.60)</td>
<td>479.196</td>
<td>(1806.86)</td>
</tr>
<tr>
<td>N</td>
<td>40</td>
<td></td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>R-sq</td>
<td>0.467</td>
<td></td>
<td>0.529</td>
<td></td>
</tr>
</tbody>
</table>

Note: * p<0.1, ** p<0.05, *** p<0.01. The dependent variable in the OLS model is the percentage of all respondents identifying themselves as Hongkonger in HKU POP. Robust standard errors clustered by year in parentheses.
Table 3: Determinants of Exclusive Localism Identity among Young People in HK

<table>
<thead>
<tr>
<th></th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coef.</td>
<td>SE</td>
</tr>
<tr>
<td>Lag. DV</td>
<td>-0.253</td>
<td>(0.27)</td>
</tr>
<tr>
<td>Housing Prices</td>
<td>0.450***</td>
<td>(0.07)</td>
</tr>
<tr>
<td>Real Wage Index</td>
<td>0.384</td>
<td>(0.28)</td>
</tr>
<tr>
<td>(1992=100)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP in Current Price</td>
<td>-0.000</td>
<td>(0.00)</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>3.016**</td>
<td>(1.26)</td>
</tr>
<tr>
<td>NPCSC’s Interpretation of Basic Law</td>
<td>-0.514</td>
<td>(2.31)</td>
</tr>
<tr>
<td>NPCSC’s Decision on Chief Executive Election</td>
<td>-2.528</td>
<td>(2.96)</td>
</tr>
<tr>
<td>Temporal Trend</td>
<td>-1.200</td>
<td>(0.73)</td>
</tr>
<tr>
<td>Constant</td>
<td>2356.359</td>
<td>(1422.84)</td>
</tr>
<tr>
<td>N</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>R-sq</td>
<td>0.611</td>
<td></td>
</tr>
</tbody>
</table>

Note: * p<0.1, ** p<0.05, *** p<0.01. The dependent variable in the OLS model is the percentage of all respondents identifying themselves as Hongkonger in HKU POP. Robust standard errors clustered by year in parentheses.

As young people, particularly students, are the main participants in HK’s recent political movements, we further analyze the economic and political factors’ impacts on the exclusive localism identity among young respondents (aged 18-29) in the POP survey in Table 3. Again, we find that the residential property prices and unemployment rate have consistently and significantly positive effect on the dependent variable. Specifically, 1 percent increase in residential property price is associated with at least 0.45 percentage point increase in exclusive localism identity among young people. Meanwhile, 1 percent increase in unemployment rate is associated with around 3 percentage point increase in exclusive localism identity among young people. The substantive effects of housing prices and unemployment
rate are larger in the two models that analyze the identity shift of the young adults than in the full sample models. By contrast, the real wage, GDP, and political intervention by the Central Government do not have a statistically significant impact on young people’s attitude.

Both Table 2 and Table 3 suggest that economic factors rather than political factors mainly stimulate the rise of exclusive localism identity among HK people. In particular, the economic pressures caused by residential property prices substantially strengthen HK people’s exclusive localism identity. The unaffordability of houses in HK has been widely reported. HK’s housing price to income ratio has been among the highest in the world since 2009. In 2018, the ratio further raised to 41.08, which is 45% higher than the second highest in the ranking (China).\(^{37}\) The soaring house prices result in widespread dissatisfaction among many HK residents, particularly the young people. As LC member Ip Lau Suk-yee pointed out, young people in HK have an illusion of the British colonial rule and sympathize with the so-called HK independence movement largely because they are deeply frustrated by the unaffordable houses.\(^{38}\) Such anecdotal evidence complements the findings of our statistical models.


\(^{38}\) See: [https://hk.news.yahoo.com/%E8%91%89%E5%8A%89%E5%90%91%E6%94%BF%E5%BA%9C%E7%8D%BB%E8%A8%80-%E9%A6%96%E8%A6%81%E8%A7%A3%E6%B1%BA%E6%88%BF%E5%B1%8B%E5%95%8F%E9%A1%8C-221127184.html](https://hk.news.yahoo.com/%E8%91%89%E5%8A%89%E5%90%91%E6%94%BF%E5%BA%9C%E7%8D%BB%E8%A8%80-%E9%A6%96%E8%A6%81%E8%A7%A3%E6%B1%BA%E6%88%BF%E5%B1%8B%E5%95%8F%E9%A1%8C-221127184.html). Last accessed: 11 May 2018.
In addition, among the two control variables, GDP and unemployment rate, the latter has a positive effect on localism identity, especially among young adults, while GDP is a statistically and substantively poor predictor of identity shift. Finally, neither the interpretation of the Basic Law nor the decision on CE and LC members selection methods is statistically linked to the dependent variables. Thus, political interventions from the Beijing Central Government may have no independent effect on the localism identity in HK, controlling for economic factors. In sum, we find strong support for Hypothesis 2 (housing prices), but little support for Hypothesis 1, 3, and 4.

Conclusion and Discussion

In this paper, we present the first systematic test on the relations between economic and political factors and identity shift after 1997 in HK. Empirical evidence suggests that soaring property prices as a result of government policy and economic integration with Mainland China are mainly responsible for the growth of localism identity. Meanwhile, we do not find robust evidence regarding the correlation between the level of real wage and the salience of localism identity. In contrast to the claims of many political activists, the seeming setbacks in the democratic reform---proxied by NPCSC’s decision on the selection methods for CE and LC members, and its interpretation on articles in the Basic Law---may have little effect on HK people’s identity. The empirical results are consistent across the full sample and the sub-sample of young adults.
The findings of this paper imply that economic dissatisfaction is the main driver of localism identity and independence movement in HK. Frustrated by the negative consequences of economic integration with Mainland China, such as imported inflation, residents in the city, particularly the young people, resort to a sentimental solution that advocates for a radical separation between HK and the Mainland. This group of people believes that breaking away from China could address the economic and social issues caused by the economic integration between HK and the Mainland, and embracing the exclusive localism identity can serve as a justification for such a movement: the exclusive localism identity can delegitimize the ethno-cultural claim of Beijing. Therefore, a fundamental solution for HK’s identity crisis lies in the improvement of ordinary residents’ economic welfare and increasing their share of benefits generated from economic integration. In other words, a redistributive scheme is needed to address the economic inequality and house unaffordability problem.

The phenomenon that the negative impacts of economic integration can nurture exclusive localism identity is not unique to HK. A growing literature in international political economy examines how populism arises in response to the downside of globalization in industrialized democracies. One major feature of

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populism is exclusiveness. Interestingly, many sentimental comments of localism activists in HK sound quite similar to U.S. President Donald J. Trump’s slogan, “build a wall”. The anti-immigration attitudes of many localist politicians in HK also share similarities with the positions of right-wing parties in Europe. The emergence of anti-establishment populism in HK, same as its counterparts in Europe and America, can be attributed to the negative effects of globalization and cross-border economic integration.

Indeed, both HK and other industrialized countries in Europe and North America have experienced in the past three decades a structural transformation of their economy, such as the demise of the manufacturing industries as well as the race-to-the-bottom competition driven by the inflow of cheaper labor. While the process of globalization continues, governments in Europe and America fail to react and offer sufficient support for those who are negatively affected by the tide of globalization. In these developed countries, the governments gradually abandoned the so-called embedded liberalism policies since the 1980s, which used to offer compensation scheme and social protection for those who are vulnerable in the process of globalization. In other words, influenced by the ideas of neoliberalism, welfare states retrench, and social protection in industrialized democracies gives way to

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free market. Those hurt by globalization, therefore, tend to hold an anti-globalization position that stresses the negative sides of economic integration and embrace an exclusive identity.

A similar pattern could be observed in HK, though unlike industrialized democracies the city has never gone through a transition from embedded liberalism to the dismantling of it. In HK, where laissez-faire has been the dominant doctrine, a strong social protection network has never been fully developed. For example, despite soaring real estate prices, the HK government has been slow to increase land and housing supply---the construction of public housing estates was even suspended between 2002 and 2011. The housing issue and the inactivity of HK government is widely criticized as a stimulus for the HK independence movement among the youth who feel frustrated because of the increasingly unaffordable houses. Thus, the rise of anti-Mainlander sentiments and exclusive localism identity is a negative outcome of economic integration/globalization and the HK government’s inability to protect the disadvantage groups. When the hope to redistribute wealth becomes slim, anti-establishment movement arises, and populist politicians are elected. This process is similar to the rise of populism in America, Hungary, and many other industrialized economies. Therefore, the findings of this paper encourage us to place the growth of localism identity in HK in a broader

43 See: https://hk.news.yahoo.com/%E8%91%89%E5%8A%89%E5%90%91%E6%94%BF%E5%BA%9C%E7%8D%BB%E8%A8%80-%E9%A6%96%E8%A6%81%E8%A7%A3%E6%B1%BA%E6%88%BF%E5%B1%8B%E5%95%8F%E9%A1%8C-221127184.html, last accessed: May 7, 2018.
context, and link it to the discussion on the negative impacts of globalization and neoliberalism.

One possible pitfall of this article stems from the relatively small sample size and short temporal horizon. Thus, more micro-level research is needed. Still, the findings of this paper can contribute to our understanding of the recent identity change in HK, and lay down a foundation for future micro-level analysis. Future research could examine the effect of individual-level variables like education and household income, and how they interact with macro-level variables to determine the identity of HK people. Students of HK politics could also pay attention to the identity shift among specific groups, such as immigrants from Mainland China. Moreover, since the emergence of localism identity in HK is one of the examples in which the downside of globalization is manifested, a comparative study between exclusive sentiments in HK and anti-established populism in other industrialized democracies could be intellectually fruitful. In sum, studying the identity issues of HK through various theoretical perspectives and approaches can generate new knowledge on the formation and change of public opinion, the political economy of globalization, and the relationship between economic transformation and democratization.