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The Housing Boom and the Rise of Localism in Hong Kong

Evidence from the Legislative Council Election in 2016

STAN HOK-WUI WONG AND KIN MAN WAN

ABSTRACT: Localist parties have become an emerging force in Hong Kong's political landscape. What has caused the rise of localism in the city? Extant studies focus on cultural and social factors. In this article, we propose a political economy explanation: global and regional economic factors have caused a housing boom in Hong Kong since the mid-2000s and produced impactful redistributive consequences. While homeowners benefit tremendously from the hike in asset prices, non-homeowners stand to lose. Their divergent economic interests then translate into political preferences; homeowners support political parties that favour the status quo, while non-homeowners tend to support those that challenge it. Using a newly available public opinion survey, we find preliminary evidence in support of our argument. In particular, homeowners are less likely to identify with localist parties and tend to vote for pro-establishment ones. High-income earners, however, are more likely to vote for localist parties.

KEYWORDS: localism, wealth inequality, home ownership, Hong Kong elections, political identification, vote choice.

Introduction

Localism is on the rise in Hong Kong, as attested by the proliferation of self-proclaimed localist political parties and their rising electoral support in recent elections. What has caused the rise of localism? Extant studies focus predominantly on cultural explanations, such as generational politics (Wong, Zheng, and Wan 2017), Hong Kong identity and anti-China sentiment (Ma 2011, 2017; Veg 2017; Kaeding 2017), or societal approaches (So 2017).

In this article, we argue that in addition to cultural and social factors, there is an economic origin that contributes to the political ascendancy of the localist parties: homeownership. The inexorable rise of asset prices in Hong Kong, due to both regional and global factors, is associated with impactful redistributive consequences; asset-holders continue to benefit, while those without any assets are lagging farther and farther behind with respect to wealth distribution. This wealth inequality further translates into divergent preferences over the socio-economic status quo: asset-holders are anxious to preserve it, whereas non-asset holders are willing to challenge it. Our argument yields distinct, testable hypotheses for voting behaviour. Using newly available election study data, we find strong support for our argument. In particular, we find that homeownership is a significant predictor of political identification and vote choice in the 2016 Legislative Council election. In particular, homeowners are less likely to identify with localists and more likely to vote for pro-establishment parties.

The rest of the article is divided into the following sections. In the first part, we discuss the rise of localism in Hong Kong in recent years and some dominant explanations for this phenomenon. We then present our argument. In the next section, we present the hypotheses, followed by a discussion of the data and operationalisation in the fourth section. Finally, we

present the results of the empirical analysis. We then make concluding remarks.

The rise of localism in Hong Kong

The meanings of localism or the localist camp have changed over time since Hong Kong's sovereignty transfer in 1997. We can broadly divide the term localism into two sub-categories, namely left-wing localism and right-wing localism.

The changing face of localism in Hong Kong

In the first decade after the sovereignty transfer, the term localism was often associated with the construction of a local cultural identity. Hong Kong witnessed several large-scale social movements of heritage conservation such as the Preserving Lee Tung Street Movement in 2004 and the Star Ferry and Queen's Pier Movement in 2006. The activists involved in these movements were usually identified as "left-wing localists" (Veg 2017; Kaeding 2017), because unlike social activists of the previous generations, who had a keen interest in the social and political development of mainland China, these activists focused almost exclusively on local economic problems, including income inequality and "real-estate hegemony" (Wong 2015a).⁽¹⁾ Ku (2012) points out that local activists were shifting their action framework from global interests to everyday life, rethinking how to balance life space and developmentalism. These movements have arguably

The data used in this article come from the *Hong Kong Election Study* (HKES), a research project generously funded by the Research Grants Council of Hong Kong (GRF Ref. No.: 14615915).

1. The term "real estate hegemony" emerged circa 2010. It reflects a widely held belief that the government is controlled by business interests, especially the interest of the real estate sector.

inspired a new wave of social activism in Hong Kong's young generations (Ku 2012).

Left-wing localism was gradually eclipsed by right-wing localism in the second decade after the sovereignty transfer. Many advocacy groups can be subsumed under the umbrella term right-wing localism; even though their core ideas are not necessarily compatible or coherent, the overtones of these groups are distinctly more inward-looking than left-wing localism. At times, they even appeal to people's anti-immigrant and anti-mainland sentiments. In particular, right-wing localists often emphasise that Hong Kong has its own political system,⁽²⁾ culture, and institutions that should be kept unmolested by the negative influences of mainland Chinese. Some groups have openly advocated an anti-China sentiment (Ma 2015, 2017), self-determination, and independence (Lee 2017). Right-wing localism coincides with political radicalisation, which manifests itself in the emergence of political violence (Yuen 2015; Lee 2017).⁽³⁾ One illustrative example was the 2016 Mongkok Riot.⁽⁴⁾

Electoral success

How popular is the localist camp? Elections provide an imperfect, yet useful, indicator of public support for the localist camp. In the 2015 District Council election, many localist candidates made their electoral debut. Some succeeded in capturing seats. In the 2016 Legislative Council by-election for the New Territories East geographical constituency, which was held a month after the Mongkok Riot, Edward Tin-kei Leung, the former spokesperson for a right-wing localist group, Hong Kong Indigenous, gained a sizable number of votes (15.3% of the total vote), despite the presence of candidates from the two main political camps (namely, the pan-democratic and pro-establishment camps).

Localists emerged as a third force to challenge the existing political order in the 2016 Legislative Council election of the following September. Right-wing localists such as Wai-ching Yau, Baggio Leung and Chung-tai Cheng managed to obtain 10.9% of the vote, which entitled them to three seats. Left-wing localists (also known as progressive localists (Ma 2017)) Eddie Hoi-dick Chu, Siu-lai Lau, and Nathan Kwun-chung Law were elected, capturing 8% of the total vote. In other words, candidates of the two localist wings together won 19% of the total vote. The unprecedented electoral success of the localists was indicative of this camp's rising public support. An important question is, "who supports or opposes the localists?"

Existing explanations of the rise of localism

Extant works that study the rise of localism in Hong Kong revolve around three dimensions: cultural identity, democratic transition, and mainland integration. For the cultural identity explanation, studies argue that the rise of the Hong Kong identity leads to public support for localism (Ip 2015; Veg 2017; Ma 2017; Kaeding 2017; Steinhart, Li, and Jiang 2017) or at least provides a basis for a discursive change (Chan 2017). However, cultural identification as a Hong Konger is not tantamount to support for localism. Cultural identity is also a fluid and contested concept. Some political parties, including those from the pro-establishment camp, actually compete to define themselves as the "real locals." It is also important to note that the rise of localism is potentially a global phenomenon (Levitsky and Ziblatt 2018).

The democratic transition thesis focuses on the tortuous and never-ending political transition that Hong Kong has experienced. Although the democracy movement has lasted for decades, no substantial progress has been

made. Many pro-democracy supporters are suffering from "transition fatigue" (Ma 2011), which in turn translates into growing dissatisfaction with traditional opposition parties, commonly known as the pan-democrats.⁽⁵⁾ The stalled transition may also undermine the patience of members of the traditional opposition elite, making them more willing to compromise with the government on political reforms. In particular, the Democratic Party's support for a government-initiated political reform in 2010 was lambasted by radical political groups, who saw the party's endorsement as a betrayal of democracy. This incident has deepened the internal conflict within the opposition camp. Many supporters of the radical opposition saw pan-democrats as the vested interest of the status quo, if not a secret collaborator with the government (Wong 2015b). Meanwhile, electoral support for right-wing localists steadily increased at the expense of the traditional opposition camp.

Elite dissension continued to plague the opposition camp in subsequent years.⁽⁶⁾ The radical wing advocated a more militant approach to fighting for democracy, while belittling the traditional opposition's stubborn adherence to peaceful, dialogue-seeking tactics, which brought no substantial progress. During the Umbrella Movement, the authorities' heavy-handed approach further divided the opposition. As the movement failed to extract any concessions from Beijing, many believe that there is no way to achieve a democratic transition as long as Hong Kong remains part of China. The idea of separatism and self-determination emerged in society, and gained traction among right-wing localism supporters.

Another likely cause for rising anti-mainland sentiment was Hong Kong's deep social integration with mainland China since the sovereignty transfer, especially after 2003. Mainland Chinese could apply to migrate to Hong Kong if they manage to obtain a "one-way permit" from mainland authorities. The permit has a daily quota of 150. Since 1997, about one million mainland Chinese have settled in Hong Kong. They account for one-seventh of the city's population (Wong, Ma, and Lam 2018). The large influx of these immigrants has aroused unease or even hostility among Hong Kong locals. As in other societies, it takes time for these immigrants to assimilate into the local community. The process may trigger clashes with locals due to differences in values and norms. For one thing, mainland immigrants in Hong Kong tend to hold political preferences different from local people; they are more likely to identify themselves with the pro-establishment camp (Wong, Ma, and Lam 2016, 2018).

2. Prior to the sovereignty transfer, Beijing promised to govern Hong Kong under the principle of "one country, two systems," which allows Hong Kong to keep its own political institutions, market economy, and civil liberties.
3. Comparing with radical wing parties and localism advocates, traditional opposition parties such as the Democratic Party and Civic Party are more in favour of a peaceful and orderly change of the political system. The pan-democrats' moderate approach to fighting for democracy is often portrayed as ineffectual and biased toward the status quo.
4. Lau Stuart et al., "Mongkok Riot: How Hong Kong's First Night in the Year of the Monkey Descended into Mayhem," *South China Morning Post*, 10 February 2016, <https://www.scmp.com/news/hong-kong/article/1911341/mong-kok-riot-how-hong-kongs-first-night-year-monkey-descended-mayhem> (accessed on 30 August 2018).
5. Since the sovereignty transfer, the opposition has repeatedly used the cue of democratic transition to mobilise support in street protests and in the voting booth. As the democratic transition is nowhere in sight, the cue of democratic transition has lost its appeal to citizens, which may contribute to the emergence of "transition fatigue." One illustrative example is the July 1 Rally, an annual anti-government procession. Its turnout declined significantly after the Umbrella Movement. HKUPOP, "七一遊行人數點算計劃" (*Qi yi youxing renshu diansuan jihua*, July 1 rally headcounting project), *HKU POP SITE*, 1 July 2018, <https://www.hkpopop.hku.hk/english/features/july1/index.html> (accessed on 25 August 2018).
6. For instance, Neo Democrats, a localist political party split from the Democratic Party; Hong Kong Indigenous and Youngspiration's protest tactics and political stances are significantly different from the pan-democrats.

In addition, Hong Kong has also witnessed a massive influx of mainland tourists. Thanks to the introduction of the Individual Visit Scheme (IVS) in 2003 and the one-year multiple-entry policy in 2009, the number of inbound tourists from mainland China increased from 12 million in 2004 to 45 million (or 77% of all tourists) in 2015. This influx has boosted the local economy while simultaneously fuelling a variety of social problems, including congestion (So 2017), the growth of parallel trade activities, and a shortage of daily goods and public facilities such as hospital beds and delivery rooms (Tang and Yuen 2016; Legislative Council 2012). Public resentment culminated in a series of anti-mainland protests such as “recovering Sheung Shui and against cross-border traders.”

The above explanations, while capturing certain aspects of the rise of localism in Hong Kong, almost entirely ignore the economic factor. This omission is unwarranted, because the rather small open economy of Hong Kong during this period has experienced dramatic changes. In what follows, we will discuss how these changes produce redistributive consequences that ultimately manifest themselves in politics.

Our argument

Our central argument is that global and regional economic factors have contributed to the escalation of asset prices in Hong Kong, which in turn has significantly widened wealth inequality in Hong Kong since the mid-2000s. The “winners” of such economic development are not necessarily high-skilled workers, because high-skilled workers without assets are likely worse off if the return on human capital fails to catch up with the increase in asset prices. Our argument yields a distinct implication for individual political attitudes: asset owners are significantly more satisfied with the status quo than those without assets. Their attitudinal difference will also manifest itself politically; those without assets are more likely to support political parties that challenge the status quo, while asset holders are likely supporters of parties that defend the existing socio-economic order.

The subprime mortgage crisis that broke out in the United States in the late 2000s and the ensuing Great Recession that wreaked havoc on the global economic order have stimulated research on the relationship between asset ownership and political outcomes. Studies find that assets, rather than income, are a stronger predictor of one’s political preference and participation. Persson and Martinsson (2016) argue that assets such as property ownership must be analysed separately from both social class and income, for asset ownership has an independent effect on people’s economic self-interest. Some scholars point out that high-risk assets holders such as homeowners tend to be politically conservative and oppose resource redistribution. On the other hand, numerous studies find that income has limited influence on political attitudes (Nadeau, Foucault, and Lewis-Beck 2010, 2011; Lewis-Beck, Nadeau, and Foucault 2013). Stubager, Lewis-Beck, and Nadeau (2013) argue that asset holders tend to support the government and politicians who can protect and increase their asset values. Page, Bartels, and Seawright (2013) contend that wealthy citizens are concerned more about tax rates and unemployment rates than about (traditional, democratic, and progressive) values. In addition, studies show that homeowners participate in politics and elections actively to maintain public policies beneficial to the housing market (Holian 2011; Zavisca and Gerber 2016). Ansell (2014) and Persson and Martinsson (2016) further suggest that higher asset or housing values cause stronger conservative effects.

The key insight of these studies is that homeowners want to maintain a stable political environment because they are the vested interests of the status quo (Verberg 2000; Conley and Gifford 2006; Doling and Ronald 2010). Lee and Yu (2012) argue that the homeowner effect is strong in authoritarian or hybrid regimes such as Singapore and Hong Kong. Their observation is consistent with recent democratisation theories that link democratic transition to capital mobility (Acemoglu and Robinson 2005; Boix 2003); people who hold immobile assets are more likely to support the authoritarian incumbent because they have difficulty transferring their assets abroad in anticipation of likely tax increases after democratisation.

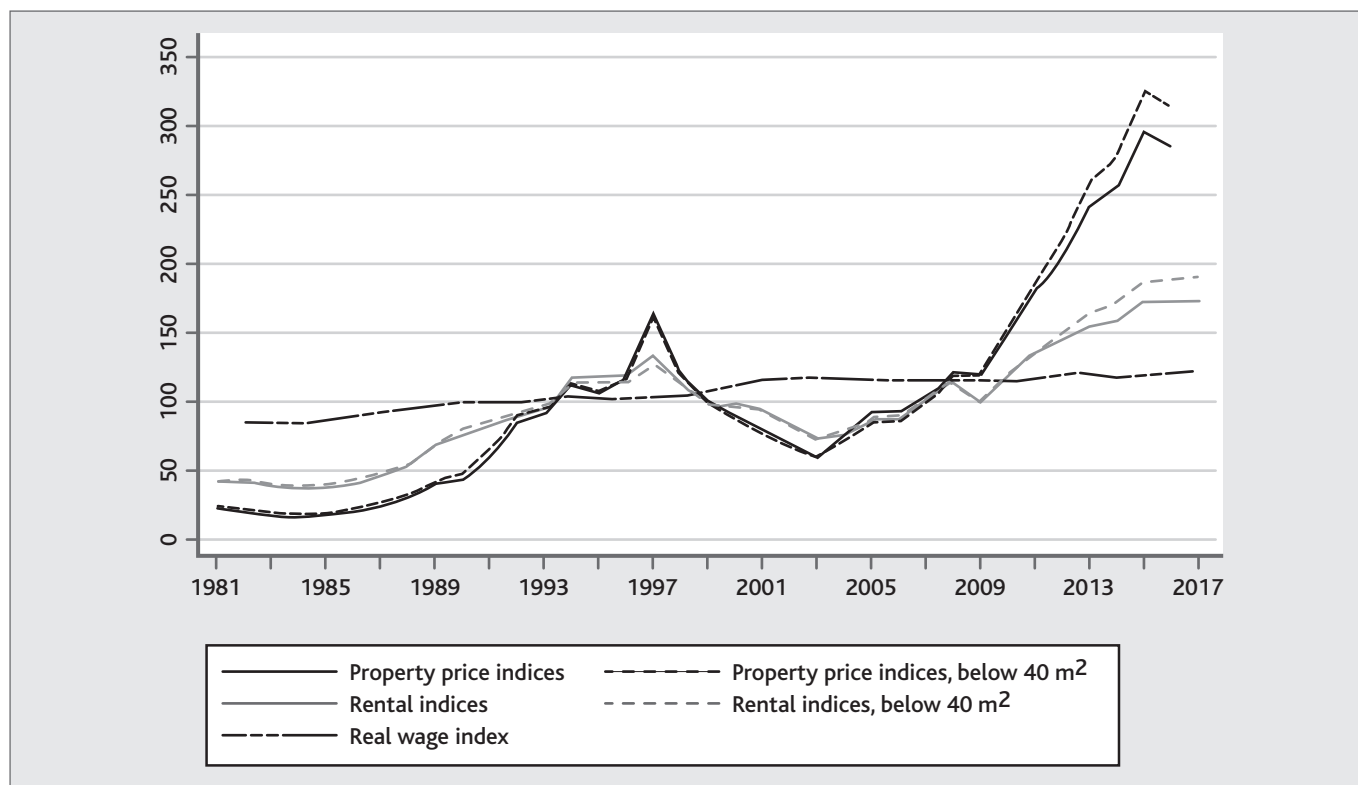
The inexorable rise of asset prices in Hong Kong

In the post-war period, Hong Kong’s housing market has gone through several boom and bust cycles. Most notably, in 1997, Hong Kong experienced a dramatic economic recession as a result of the Asian Financial Crisis. The crisis also punctured the housing bubble developed in the previous years. In the following years, housing demand continued to contract.

Figure 1 shows that the housing price index reached a high level of 163.1 in 1997, and the rental price index also peaked at 134.5. Both indices, however, dropped by half to 61.6 and 73.6 between 1997 and 2003, before returning to their long-run upward trend in the years after. In particular, since 2009, housing prices have recorded the strongest and longest period of growth. By 2015, the housing price index reached an unprecedentedly high level at 296.8, twice what it was in 1997. The rental price index also reached 174.7, a 30% increase from 1997. It is also worth noting that the hike is across-the-board, regardless of the size of the housing units. In fact, since 2009, the price increase of small housing units has often surpassed that of larger, luxurious types of quarters. This implies that home ownership is increasingly out of the reach of ordinary citizens.

Conversely, the change in real wages was much less dramatic during the same period. As seen in Figure 1, the real wage index looks almost like a flat line compared with all other indices related to housing. The discrepancy between wage increase and the growth of asset prices sets the current housing boom apart from that observed in mainland China and those previously seen in Hong Kong. For instance, many housing booms in Hong Kong in the second half of the last century accompanied remarkable wage growth. Perhaps this is also why previous booms failed to generate a deep political divide in society.

Decreasing housing affordability has forced many potential home buyers to stay longer in the rental market, which in turn drives up rental prices. Many citizens therefore need to adjust their living quality downward in order to satisfy their housing demands. The housing boom has actually caused the proliferation of substandard quarters such as “subdivided flats,” referring to apartments partitioned into two or more cubicles often equipped with independent toilet and kitchen facilities. Ironically, the occupants of these substandard flats are not necessarily the most impoverished, who may have access to government subsidised housing (i.e. public rental estate housing). A recent government report shows that subdivided units are currently housing approximately 5,000 citizens who identify their occupation as managers, administrators, and professionals (Census and Statistic Department 2018). The finding of the report suggests that income is not an accurate measure of wealth. Many in Hong Kong have become “income rich, asset poor.”

Figure 1 – Changes in property prices and real wages in Hong Kong (1981-2017)

Sources: Property Price Indices & Rental Indices: 1999=100; Real Wage Index: 1990=100, Rating and Valuation Department (2017).

Global and regional factors

The inexorable rise of property prices in Hong Kong is due to both global and regional factors. Asset prices are influenced by monetary policy and money supply (Eickmeier and Hofmann 2013). The global housing boom prior to 2008 was mainly caused by deregulation and subprime mortgages, which ultimately engendered the Great Recession that struck all major economies. To deal with the economic crisis, the central banks of countries such as the United States, England, European countries, and Japan resorted to a controversial monetary policy tool, quantitative easing (QE), to stimulate the market (Coën, Lefebvre, and Simon 2018; Weale and Wieladek 2016; Rahal 2016). Quantitative easing involves a central bank's purchase of a massive amount of government bonds and targeted financial assets in order to increase liquidity and provide stimulus to the economy. The increase in money supply stimulates spending and investment. Much of the investment capital has been funnelled to global housing and stock markets. Rahal (2016) shows that residential investment responded strongly to the new monetary policy. Huston and Spencer (2018) further suggest that the explosive increase in money supply as a result of quantitative easing has fuelled asset bubbles. Weale and Wieladek (2016) find that large-scale asset purchases have sent global asset prices to a risky level.

The quantitative easing of the United States rapidly fuelled a housing boom in Hong Kong, in part because Hong Kong's currency is pegged to the US dollar. As the US dollar remained weak, assets in this small open economy looked more attractive to investors compared with assets in other countries of the region. The timing also coincided with Hong Kong's relaxation of tourism and immigration policies geared toward mainland Chinese, who began looking for overseas investment opportunities thanks to the ap-

preciation of the Renminbi (RMB). In fact, Hong Kong plays a unique and crucial role in the internationalisation of the RMB (Leung 2011; Eichengreen, and Lombardi 2017). In 2004, Hong Kong became the world's first market to conduct offshore RMB business, and the RMB cross-border trade settlement within the pilot areas was expanded to 20 provinces in 2010 (Wang 2017). Hong Kong has long been the largest RMB offshore hub over the world. As Germain and Schwartz (2017) mentioned, fully 80% of the RMB credit transactions in the world occurred between Chinese and Hong Kong entities. RMB internationalisation heavily relied on Hong Kong, which implies an enormous capital influx into the city, stimulating, not surprisingly, its housing market. Both global and regional factors therefore helped create one of the most lasting housing booms in the city.

Government responses and their limitations

Cross-border flows and exchange depend on the creation of liquidity that is the result of a complex set of regulations and institutions. For this reason, the government has an important role to play. In the case of Hong Kong, the government since the colonial period has claimed to adhere to the *laissez-faire* principle,⁷ which provides some leeway for the government to justify its economic inaction (Goodstadt 2005). In addition, the city had experienced an extended period of recession in the housing market (1997-2003). For this reason, during the long-running housing boom since the mid-2000s, the Hong Kong government was reluctant—at least initially—to contain the hike in housing prices, claiming that it should not interfere in

7. Some contend that in essence the state consciously engineered a finance-led growth model (Ip 2017) that engendered a land-dependent economy (Wong 2015a).

the housing market. However, skyrocketing property prices brewed public discontent. In 2010, the Hong Kong government began to levy duties on some real estate transactions. Despite these belated measures, housing and rental prices kept breaking record highs.

Extant works show that in Hong Kong, housing prices influence people's trust of the government and happiness, perhaps for a good reason. The Hong Kong government since 1997 has been based on the political support of a narrow coalition of business elites spearheaded by real estate developers.⁽⁸⁾ As Bueno de Mesquita and Smith (2011) point out, regimes that depend on a small "winning coalition" tend to provide less public good. In the case of Hong Kong, Ma (2016) finds that members of the functional constituencies of the Legislative Council, who represent sectoral interests, lobbied for favourable policies and more state resources. It is therefore not surprising that many in Hong Kong suspect collusion between the government and property developers. Similarly, many do not believe that the government is genuinely interested in containing the hike in housing prices, because doing so would undermine the vested interests of the real estate elite.

The level of distrust in the government varies. Wong, Zheng, and Wan (2016, 2017) find that higher housing prices (Centa-City Index, CCI) increase people's political trust but damage the ratings of the Chief Executive. However, they suggest that housing prices have heterogeneous effects on individuals. Using an Age-Period-Cohort model, they find that higher housing prices damage young people's (below 25 years old) satisfaction with the government. Another study shows that economic growth and the rise of housing prices make people happier, but the effects are significant only among the middle-aged and the elderly (Chiu and Wong 2017). Castro Campos et al. (2016) find that only 18% of university students have the confidence and willingness to buy high-quality private housing in the future. The finding indicates that the hike in asset prices has far exceeded the return on education or human capital, such that even well-educated young people, who are likely high-wage earners, feel pessimistic about their financial future. Indeed, Wong (2015a) argues that most college graduates are not wealthy enough to become property owners, while their wage level disqualifies them from public rental housing. They are squeezed between rising asset prices and decreasing returns on education, rendering them more politically radical. Thus, many protests during this period were framed against the so-called "real estate hegemony."

As discussed, the inexorable rise of asset prices is associated with impactful redistributive consequences; asset-holders continue to benefit, while those without asset are lagging farther and farther behind with respect to wealth distribution.

Hypotheses

We argue that asset ownership is an important factor that shapes one's political preferences in Hong Kong. Because homeowners enjoy a value-adding asset, they would favour political parties that preserve the status quo, while opposing political forces that challenge it. Localist parties are famous or infamous for their radical tactics and political ideologies, such as independence and self-determination, both of which are likely to provoke a heavy-handed state crackdown, thereby threatening political stability. These constitute the first hypotheses of this study:

H1. Homeowners are less likely to favour the localist camp than non-homeowners.

H2. Homeowners are more likely to favour the pro-establishment camp than non-homeowners.

H3. Homeowners' probability of voting for the localist camp is significantly lower than the probability of voting for the pro-establishment camp.

H4. Income is not a significant predictor of political identification.

H5. Income is not a significant predictor of vote choice.

The first two hypotheses are about political identification, while the last one is concerned with vote choice. These two concepts are not exactly identical for two reasons. First, political identification measures one's affinity for a particular party or political camp. One can favour more than one party, especially when party identification in places such as Hong Kong is weak. However, vote choice in many cases involves selecting one out of many similar options.

Vote choice is further complicated by the possibility of strategic voting; one may not necessarily vote for a party that represents one's "ideal point." The issue of strategic voting is salient in Hong Kong because the District Council elections adopt the electoral formula of single-member districts. Although direct elections to the Legislative Council adopt proportional representation (PR), Carey (2017) shows that the particular PR employed in Hong Kong (namely, PR using the Hare Quota with Largest Remainders formula) produces a high degree of fragmentation of party lists. Under such circumstances, voters have an incentive to vote strategically in order to prevent the least preferred party or political camp from getting elected. In fact, in the 2016 Legislative Council election, some pro-democracy activists organised a large-scale vote-coordination campaign known as the "Thunder Go" in hopes of maximising the performance of the opposition camp as a whole.

It is important to study vote choice, as the outcome determines the relative power of political camps. This is not to say, however, that the measure of political identification is immaterial. It can reflect one's genuine political preferences independent of electoral considerations. For instance, a localist supporter may not vote for the localist camp, simply because its chance of getting elected is slim. But if more and more citizens subscribe to localism, this camp may eventually overcome the tipping point that prevents it from being chosen under strategic voting. For this reason, we separately examine political identification and vote choice in the following empirical analysis.

As discussed, global and regional economic factors affect wealth inequality in Hong Kong through asset prices. The resulting political fault line is between asset holders versus non-asset holders, rather than between high- and low-income groups. In fact, it is no longer uncommon to find wage earners who are "income rich, asset poor." We therefore predict that income is not a significant predictor of political identification and vote choice (H4 and H5).

Data and operationalisation

We test our hypotheses using a post-election survey collected immediately after the 2016 Legislative Council election. The survey, which is part of a larger election study project known as the Hong Kong Election Study (HKES), was implemented by YouGov using its online panel. The post-election survey re-targeted 4,148 respondents who had completed a pre-election survey, and successfully retained 1,776 respondents (42.8%).

8. Wong (2012) empirically shows that many firms listed on the Hong Kong Stock Exchange have directors or major shareholders serving in a Beijing-designed co-optation institution, the Election Committee.

We focus on the post-election survey because voters may not reveal their ultimate vote choice in the pre-election survey for at least two reasons. First, they may strategically manipulate their answers to affect the outcome of the poll.⁽⁹⁾ Second, they may genuinely not know who they will vote for, because their ultimate decision depends on final poll results.⁽¹⁰⁾

Our dependent variables of interest are political identification and vote choice. The former is measured by a survey question: "How much do you like the following camp: pan-democrat, pro-establishment, and localist." For each political camp, respondents need to provide a rating ranging from 1 to 10, with 1 indicating "like the least" and 10 "like a lot." We construct three variables to represent these camps' ratings across respondents: **LikePanDemo**, **LikeProEst**, and **LikeLocal**.

The survey has a question that asks respondents to report their vote choice. We classify their answers into the three dominant political camps: pro-establishment, pan-democrat, and localist. For detailed classification, see the Appendix. We construct a categorical variable, **Vote**, to denote a respondent's vote choice, where those who voted for the localist camp are assigned a value of "1," those who voted for the pan-democrats a value of "2," and those who voted for the pro-establishment camp a value of "3."

The key independent variable is home ownership, which is constructed from one survey question: "Do you own, wholly or partially, a property in Hong Kong?" A dummy variable **Homeowner** is assigned the value of "1" if a respondent answers "Yes" and "0" otherwise. Another independent variable of interest is **Income**. The survey asks respondents to report their household income by choosing one of the eight income groups.⁽¹¹⁾

To reduce omitted variable bias, we also control for a variety of demographic variables that are likely correlated with the outcome and/or the variable of interest. In particular, as mentioned, young people in Hong Kong are torn between rising asset prices and a decreasing return on education. Their dissatisfaction with the status quo is likely high, while at the same time young people are unlikely to own property. Thus, we include a control variable for young people (**Young**) in all specifications.⁽¹²⁾ Other control variables include **Female**, **Married**, **Education**, and whether one was born in Hong Kong (**HKborn**). Table 1 shows the summary statistics of all the variables.

Results

We first examine the effect of home ownership on political identification. In Table 2, we report the OLS regression results on political identification.⁽¹³⁾ The results are similar. First, consider the localist camp. Homeowners are less likely to favour the localist camp than those who have no property.⁽¹⁴⁾ By contrast, homeowners have a stronger affinity for the pro-establishment camp.⁽¹⁵⁾

What about affinity for the traditional opposition camp (namely, the pan-democrats)? The results show that homeowners have no obvious preference for the pan-democrats.⁽¹⁶⁾ Taken together, the findings support Hypotheses 1 and 2, that homeowners are less likely to favour the localist camp and more likely to favour the pro-establishment camp than non-homeowners.

If homeowners favour the status quo, one may predict that high income individuals would also have a similar status quo bias. This is not the case, however. Consistent with Hypothesis 4, income is not a strong predictor of political identification and has no significant effect on people's political preferences.⁽¹⁷⁾ The result is not surprising, considering that many high-income individuals are unable to acquire homes. The salient political fault line lies in assets rather than income.

Table 1 – Summary statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
LikePanDemo	1,677	5.00	2.40	0	10
LikeProEst	1,689	3.70	2.80	0	10
LikeLocal	1,660	4.54	2.66	0	10
VotePanDemo	1,776	0.25	0.43	0	1
VoteProEst	1,776	0.22	0.41	0	1
VoteLocal	1,776	0.19	0.40	0	1
Homeowner	1,776	0.41	0.49	0	1
Young25	1,776	0.16	0.37	0	1
Young30	1,776	0.31	0.46	0	1
Income	1,776	4.43	1.75	1	8
Female	1,776	0.56	0.50	0	1
Married	1,776	0.46	0.50	0	1
Education	1,776	7.60	2.78	1	11
HKborn	1,776	0.90	0.30	0	1

Notes: For ease of interpretation, we divide the categorical variable **Vote** into three dummy variables: **VotePanDemo**, **VoteProEst**, and **VoteLocal**.

Besides, the results in Specifications (3) and (6) show that **Young** people favour the localist camp more than other age groups and have a weaker affinity for the pro-establishment camp, which indicates that the localist camp is a lot more popular among young adults than the pro-establishment camp.⁽¹⁸⁾

As for the other control variables, we only report those with a statistically significant coefficient. Married respondents tend to favour the pan-democrat camp less and the pro-establishment camp more. Consistent with the findings in Wong, Lam, and Ma (2016), respondents born in Hong Kong tend toward the pan-democratic rather than the pro-establishment camp.

Table 3 displays the multinomial logistic regression results related to the second dependent variable of interest, vote choice. The results are largely similar to political identification.⁽¹⁹⁾

9. "票站調查憂配票選民答相反意向" (*Piaozhan diaocha you peipiao, xuanmin da xiangfan yixiang*, Voters lie about their voting preference during the exit poll as they worried about tactical voting conducted by pro-establishment camp), *Ming Pao*, 23 November 2015, https://news.mingpao.com/pns/dailynews/web_tc/article/20151123/s00001/1448218650384 (accessed on 27 February 2018).
10. This is also the operation logic of the "Thunder Go" vote coordination campaign, which asked voters to wait for their final poll result, which was released on election night, before going to the voting station.
11. The eight groups are (1) HKD9,999 or less; (2) HKD10,000 – 19,999; (3) HKD20,000 – 29,999; (4) HKD30,000 – 39,999; (5) HKD40,000 – 49,999; (6) HKD50,000 – 59,999; (7) HKD60,000 – 79,999; (8) HKD80,000 or above.
12. To ensure that the empirical results are robust to the choice of the youth cut-off point, we include a dummy variable **Young25** that is assigned a value of "1" if a respondent is aged 25 or below and "0" otherwise, and we use an alternative dummy **Young30** that is assigned a value of "1" to respondents aged 30 and "0" otherwise.
13. A dummy variable **Young25** is included in Specifications (1) to (3); and a different youth cut-off point **Young30** is used in Specifications (4) to (6).
14. The variable of interest, **Homeowner**, has a negative sign on **LikeLocal**, as may be seen in both Specifications (3) and (6).
15. The coefficient on the variable **Homeowner** is positive and significant in Specifications (2) and (5).
16. Specifications (1) and (4) show that the variable of interest **Homeowner** is not significantly correlated with the dependent variable **LikePanDemo**.
17. The coefficient on **Income** is not statistically different from zero in any of the specifications.
18. The variable **Young**, whether the cut-off is at 25 or 30 years of age, is positively and significantly correlated with **LikeLocal** in Specifications (3) and (6). **Young** is also negatively and significantly correlated with **LikeProEst**.
19. The difference between Specifications (1) and (2) lies in that the first uses 25 years of age as a cut-off point for the variable **Young**, while the second uses 30. For both Specifications (1) and (2), the baseline comparison group is the pro-establishment vote (namely, **Vote** = 3). The coefficients on the first column of each specification are the relative log odds of voting localists versus voting pro-establishment, while those on the second column are the relative log odds of voting pan-democrat versus voting pro-establishment.

Table 2 – Correlates of political identification

Dependent variable	(1) Favour pan-democrat	(2) Favour pro-establishment	(3) Favour localist	(4) Favour pan-democrat	(5) Favour pro-establishment	(6) Favour localist
Definition of young:	Young <= 25			Young <= 30		
Homeowner	-0.101 (0.212)	0.457* (0.251)	-0.681*** (0.233)	-0.092 (0.214)	0.430* (0.254)	-0.635*** (0.235)
Income	0.002 (0.063)	-0.029 (0.071)	0.073 (0.068)	0.001 (0.063)	-0.024 (0.071)	0.067 (0.068)
Young	-0.092 (0.199)	-0.729*** (0.235)	0.764*** (0.222)	0.014 (0.181)	-0.614*** (0.222)	0.777*** (0.206)
Female	-0.324 (0.209)	-0.443* (0.230)	-0.012 (0.227)	-0.325 (0.209)	-0.436* (0.229)	-0.019 (0.227)
Married	-0.531*** (0.203)	1.026*** (0.244)	-0.352 (0.241)	-0.506** (0.208)	0.984*** (0.252)	-0.266 (0.246)
Education	0.017 (0.041)	-0.037 (0.046)	0.054 (0.046)	0.016 (0.042)	-0.032 (0.046)	0.046 (0.046)
HKBorn	0.664* (0.371)	-0.606* (0.364)	0.010 (0.338)	0.669* (0.371)	-0.612* (0.365)	0.020 (0.340)
Constant	4.744*** (0.519)	4.466*** (0.528)	3.868*** (0.507)	4.717*** (0.520)	4.483*** (0.530)	3.810*** (0.508)
Number of observations	1677	1689	1660	1677	1689	1660
R squared	0.02	0.08	0.04	0.02	0.08	0.05

Notes: Favour pan-democrat, Favour pro-establishment, and Favour localist refer to the variables LikePanDemo, LikeProEst, and LikeLocal, respectively. Estimation strategy is ordinary least squares. Standard errors are in parentheses. * p<0.1, ** p<0.05, *** p<0.01.

As expected, the variable of interest, **Homeowner**, has a negative sign on the first column in Specifications (1) and (2), indicating that the probability

of homeowners voting for the localist camp is significantly lower than the probability of voting for the pro-establishment camp. Interestingly, **Homeowner**

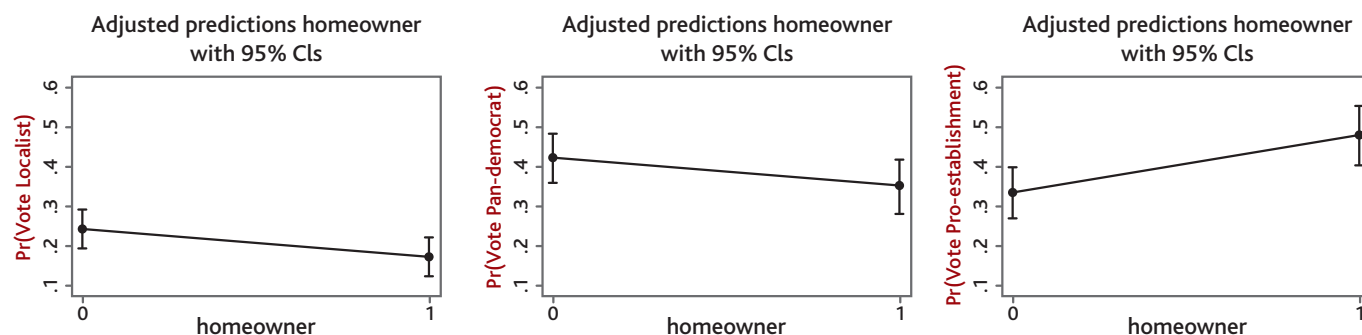
also has a negative and significant impact on voting for the traditional opposition camp, the pan-democrats, even though **Homeowner** is not significantly correlated with affinity for pan-democrats as shown in Table 2. This result may be due to the strategic voting that we mentioned. In particular, some non-homeowners who prefer localists to the pan-democrats may end up voting for the latter in hopes of preventing the least preferred—namely, the pro-establishment camp—from getting elected. The results in Table 3 support Hypothesis 3.

The coefficient on the variable **Income** is statistically different from zero in the “Localist” columns. The result is inconsistent with Hypothesis 5, which predicts a weak correlation between income and vote choice. Note, however, that the coefficient is positive, indicating that high-income individuals are actually more likely to vote for localists than for the pro-establishment camp. The finding suggests that holding home ownership constant, high-income people are fairly dissatisfied with the status quo. Part of the reason may be that high-income people have a higher expectation of their consumption power. When they find it increasingly difficult to purchase a property, the status inconsistency is likely greater than that experienced by individuals who earn less. Consequently, such income-rich, asset poor individuals become one of the most dissatisfied groups. In sum, although the data do not support Hypothesis 5, the positive and significant coefficient on income is

Table 3 – Correlates of vote choice

Definition of young:	(1) Young <= 25		(2) Young <= 30	
Comparison group:	Localist	Pan-democratic	Localist	Pan-democratic
Homeowner	-0.710*** (0.261)	-0.555** (0.246)	-0.612** (0.264)	-0.554** (0.249)
Income	0.146** (0.067)	0.050 (0.073)	0.139** (0.066)	0.052 (0.072)
Young	1.297*** (0.258)	-0.173 (0.287)	1.361*** (0.226)	-0.056 (0.254)
Female	0.450* (0.246)	0.357 (0.226)	0.442* (0.245)	0.355 (0.225)
Married	-0.630*** (0.235)	-0.837*** (0.262)	-0.465* (0.237)	-0.825*** (0.272)
Education	-0.011 (0.048)	-0.029 (0.045)	-0.036 (0.048)	-0.028 (0.046)
HKBorn	0.356 (0.401)	0.585 (0.362)	0.371 (0.398)	0.586 (0.362)
Constant	-1.181** (0.564)	0.052 (0.531)	-1.256** (0.556)	0.024 (0.532)
Number of observations	1173	1173	1173	1173

Notes: Estimation strategy is multinomial logistic regression. The dependent variable is Vote. The baseline comparison group is voting for the pro-establishment camp (Vote = 3). Standard errors are in parentheses. * p<0.1, ** p<0.05, *** p<0.01.

Figure 2 – Predicted probabilities of vote choice based on home ownership

Source: Authors' calculation based on the HKES data.

consistent with our contention that asset ownership forms a salient political cleavage in Hong Kong.

The coefficients shown in Table 3 are the relative log odds. It would be easier to interpret the effects of **Homeowner** by converting the log odds into probabilities. Figure 2 displays how **Homeowner** affects the predicted probability of voting for different political camps. The two graphs on the left indicate that the probability that homeowners would vote for the opposition, regardless of whether localist or not, is generally lower than non-homeowners. By contrast, the former's probability of voting for the pro-establishment camp is markedly higher than the latter.

As for the other control variables, **Young** is positive and significantly correlated with voting for the localist camp in both Specifications (1) and (2), suggesting that young people's probability of voting for the localists is significantly higher than the probability of voting for the pro-establishment camp. Female voters and voters with higher income have a higher probability of voting for the localist camp, while married respondents are less likely to vote for the localist camp and the pan-democrats.

Conclusion

Localist parties are an emerging political force in Hong Kong's political landscape. In this article, we present a political economy explanation for the increasing popularity of localism. Our contention is that global and regional economic factors have dramatically fuelled asset prices in Hong Kong since the mid-2000s, producing impactful consequences of wealth redistribution. Asset-holders benefit tremendously from this hike in asset prices, while those who have no assets stand to lose. The former favour the socio-economic *status quo* that causes the latter frustration and despair. The divergent economic outcomes translate into political preferences. While asset-holders favour political parties that preserve the *status quo*, the non-asset holders prefer those that attempt to subvert it.

We tested our argument using a post-election public opinion survey. Consistent with our expectations, we find that homeowners dislike localist parties and tend to vote for pro-establishment parties. The results are robust to the control of, for example, income, education, and different dummy variables for young voters.

Piketty (2014) points out that wealth inequality in the twenty-first century has mainly been caused by the capital gains, such as housing and the stock market, rather than by labour income. This effect is more pronounced in countries with lower tax and less government spending on public goods and redistribution (Albertus and Menaldo 2016). Hong Kong is a small open

economy with low tax and relatively low welfare redistribution. Not surprisingly, wealth inequality in Hong Kong is one of the highest in the world. Recent developments in the global economy have aggravated this wealth inequality further by fuelling the asset prices.

From this perspective, the rise of localism in Hong Kong is not unique. Rather, the economic mechanism behind it is broadly comparable with the rise of right-wing localism in other countries such as the United States with low tax and low welfare redistribution. The argument we present in this article should complement existing explanations for the rise of localism in Hong Kong, which focus rather exclusively on factors or experiences that are peculiar to Hong Kong.

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Appendix – Classification of political parties/individuals by camp in 2016 Legislative Council election

Political camp	Political parties
Pan-democratic	Democratic Party
Pan-democratic	Civic Party
Pan-democratic	Labor Party
Pan-democratic	League of Social Democrats (LSD)
Pan-democratic	People Power
Pan-democratic	Hong Kong Association for Democracy and People's Livelihood (ADPL)
Pan-democratic	Neighbourhood and Workers' Service Centre
Pan-democratic	Neo Democrats
Pro-establishment	Democratic Alliance for the Betterment and Progress of Hong Kong (DAB)
Pro-establishment	Hong Kong Federation of Trade Unions (FTU)
Pro-establishment	New People's Party
Pro-establishment	Liberal Party
Pro-establishment	Business and Professionals Alliance for Hong Kong (BPA)
Localist	Civic Passion
Localist	Proletariat Political Institute
Localist	Youngspiration
Localist	Demosisto
Localist	Local Power
Localist	Democracy Groundwork
Localist	Pioneer of Victoria Park
Localist	Hong Kong Localism Power
Localist	Kowloon East Community
Localist	Chu Hoi-dick Eddie
Localist	Wong Sum-yu
Localist	Chui Chi-kin

Notes: The list excludes political parties or individuals disqualified from running for the election.

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