



The Bottom Line

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U.S. THREATENS TO REMOVE HONG KONG'S SPECIAL STATUS

Summary

The Trump administration announced Friday, May 29, that it would begin the process of ending the American government's special relationship with Hong Kong, but the President was unclear about the speed and full scope of the actions, leaving many questions unanswered.

Background

On July 1, 1997, after 156 years of British colonial rule, Hong Kong became a Special Administrative Region (SAR) of the People's Republic of China. Hong Kong's status is defined in two documents: The Joint Declaration signed by Britain and China in 1984 and The Basic Law promulgated by China in 1990. These documents formally establish the concept of "one country, two systems" under which Hong Kong is guaranteed a high degree of autonomy, except in foreign affairs and defense, and state that Hong Kong's social and economic system, lifestyle, and the rights and freedoms enjoyed by the Hong Kong people will remain unchanged for at least 50 years.

Hong Kong residents share many values and interests with Americans and have worked to make Hong Kong a model of what can be achieved in a society based on rule of law and respect for civil liberties. Hong Kong remains an open and largely tolerant society in which both local and foreign non-governmental organizations continue to operate freely and representatives of the media work with few government-imposed restrictions. The Hong Kong Policy Act of 1992 laid out American policy toward post-handover Hong Kong and established a preferential trade status for Hong Kong that depended on its continued autonomy from mainland China. The U.S. evaluates the city's autonomy by the degree to which "one country, two systems"—the policy laid out in the joint declaration—is upheld.

Following proposed changes to Hong Kong's extradition law to allow fugitives to be sent off-island, pro-democracy protests began in June of 2019. In response, The Hong Kong Human Rights and Democracy Act of 2019, introduced by Rep. Jim McGovern, Sen. Marco Rubio and Rep. Chris Smith, passed both the Senate and House after gaining rare bipartisan support. The act entails a State Department-led annual assessment of whether Hong Kong retains sufficient political autonomy to continue to qualify for favorable trading terms with the United States. Any officials deemed responsible for violating human rights could face sanctions and visa restrictions.

Current Status

In 1997, Hong Kong's economic output was nearly one-fifth the mainland's, making it a necessary growth engine for Beijing. Today, Hong Kong's output is less than 3 percent of the mainland. While investors still prize Hong Kong's rule of law, low taxes, and transparent business environment, they have grown more accustomed to doing business in mainland cities like Shanghai, where the stock market is bigger than Hong Kong's by value. By acting now, the Communist Party is wagering that the world needs China, with or without Hong Kong. China is also acting at a time of political strength. It has contained the coronavirus within its borders, a feat few other countries have managed. The moment may have emboldened China's top leader, Xi Jinping, to take steps that his predecessors dared not.

Beijing announced a measure on May 21, detailing the Chinese central government's decision to bypass Hong Kong's legislature and institute a national security law in the region. On May 27, Mike Pompeo certified before Congress that Hong Kong is no longer sufficiently autonomous, leading to the Trump administration's edict. The response of the business community has been muted so far. Even if it protested, business has always come back to China, whether in the wake of the 1989 Tiananmen Square crackdown or British handover of Hong Kong back to China in 1997.

Impact

U.K. Prime Minister Boris Johnson, in an op-ed in the South China Morning Post, said the U.K. will expand immigration rights for roughly 2.9 million Hong Kong residents if Beijing proceeds with its controversial national security law. The anticipated exodus could result in Hong Kong's talent elite leaving Asia.

More than 1,300 U.S. companies operate in Hong Kong, benefiting from proximity to China, as well as the city's independent judiciary and rule of law. Hong Kong's exports are exempt from U.S. tariffs and other protectionist measures on Chinese goods. Should Hong Kong be enveloped completely by China, both those conditions could change. Changes are already taking place, including a limited visa ban on Chinese students and the elimination of the license exemption "CIV" for Civil End Users (requiring a license for national security-controlled items on the Commerce Control List) for exports to Hong Kong.

RESOURCES:

[Trump Signs Legislation to Protect Human Rights in Hong Kong](#) (Time)
[Why China May Call the World's Bluff on Hong Kong](#) (NY Times)
[United States-Hong Kong Policy Act of 1992](#) (Congress.gov)