

US SAYS HONG KONG'S AUTONOMY IS GONE, SOWING CHINA TRADE DOUBT

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Secretary of State Michael Pompeo announced the decision Wednesday, a week after the government in Beijing declared its intention to pass a national security law curtailing the rights and freedoms of Hong Kong citizens

The Trump administration said it could no longer certify Hong Kong's political autonomy from China, a move that could trigger sanctions and have far-reaching consequences on the former British colony's special trading status with the U.S.

Secretary of State Michael Pompeo announced the decision Wednesday, a week after the government in Beijing declared its intention to pass a national security law curtailing the rights and freedoms of Hong Kong citizens.

"Hong Kong does not continue to warrant treatment under United States laws in the same manner as U.S. laws were applied to Hong Kong before July 1997," Pompeo said in a statement. "No reasonable person can assert today that Hong Kong maintains a high degree of autonomy from China, given facts on the ground."

The move comes as tensions between the world's two largest economies continue to escalate, fueled by accusations from President Donald Trump that China was slow to disclose the peril of coronavirus. Trump has threatened consequences for Beijing over its handling of the pandemic and more recently its steps to assert more control over Hong Kong.

A finding on Hong Kong's autonomy was compelled by last year's Hong Kong Human Rights and Democracy Act. The law signed by Trump requires such a certification each year.

Pompeo's decision opens the door for a range of options, from visa restrictions and asset freezes for top officials to possibly imposing tariffs on goods coming from the former colony.

"The United States stands with the people of Hong Kong as they struggle against the CCP's increasing denial of the autonomy that they were promised," Pompeo said, referring to the Chinese Communist Party.

'Thread the Needle'

China has warned that it would retaliate if the U.S. put sanctions on Hong Kong or interfered in its affairs.

"If anyone insists on harming China's interests, China is determined to take all necessary countermeasures," foreign ministry spokesman Zhao Lijian told reporters on Wednesday. "The national security law for Hong Kong is purely China's internal affair that allows no foreign interference."

In another point of conflict between the U.S. and China, Huawei Technologies Co. Chief Financial Officer Meng Wanzhou failed Wednesday to persuade a Canadian judge to end extradition proceedings, keeping her under house arrest in Vancouver as the fight against U.S.

efforts to prosecute her moves forward.

On Hong Kong, the Trump administration will probably focus on financial sanctions and visa restrictions on Chinese officials while holding back on tariffs, export controls and investment restrictions until there's more clarity on the new law, according to David Loevinger, a former China specialist at the U.S. Treasury who's now an analyst at TCW Group Inc. in Los Angeles.

"They have to thread the needle of coming down on Mainland and Hong Kong officials who support this while not being seen as attacking the Hong Kong people," he said.

China took back control of Hong Kong from the U.K. under an agreement known as "One Country, Two Systems," in which it promised to give the former colony broad political and economic independence for 50 years. But under President Xi Jinping, China has steadily asserted more control over Hong Kong, touching off a wave of protests that stalled only as the coronavirus pandemic swept the globe.

The U.S. action hits Hong Kong after a year of often-violent protests and the Covid-19 pandemic that has slammed its economy.

Earlier Wednesday, protesters planned to gather at the city's Legislative Council, which was debating a separate law that would criminalize insulting China's national anthem. Yet they ended up getting nowhere close, and the hearing proceeded as normal -- a far cry from about a year ago, when a mass of people managed to thwart a bill that would allow extraditions to China.

Role Lessening

While Hong Kong remains a major trading hub and a key gateway from China to the rest of the world, it matters far less to the country's fortunes than it once did. In 2019, 12% of China's exports went to or through Hong Kong, down from 45% in 1992. China is also far less reliant on inflows of foreign capital and expertise, and has made a much lower priority of making the yuan an international currency.

"Hong Kong is incredibly vulnerable to a massive income shock like this because it's the most levered economy in the world by many counts," said Whitney Baker, the New York-based founder of Totem Macro, which advises funds overseeing more than \$3 trillion.

"Blowing up Hong Kong's banking system doesn't really serve the interests of penalizing China or protecting Hong Kong's autonomy, so we don't really get that as an approach," Baker said. She said she's been short Hong Kong property stocks and the latest tensions only strengthen the case for that.

Nonetheless, the city still matters. Hong Kong's open capital account and adherence to international standards of governance are unmatched by any mainland Chinese city and make it an important base for international banks and trading firms.

Trump, asked about the prospect of sanctions at the White House on Tuesday, said his administration is "doing something now" that he would unveil later in the week.

"It's something you're going to be hearing about over the next -- before the end of the week," Trump said. "Very powerfully, I think."

Under the U.S.-Hong Kong Policy Act of 1992, Washington agreed to treat Hong Kong as fully autonomous for trade and economic matters even after China took control. That meant Hong

Kong was exempt from Trump's punitive tariffs on China, can import certain sensitive technologies and enjoys U.S. support for its participation in international bodies like the World Trade Organization.

But the law enacted last year gives the administration broad authority to impose sanctions or other punishments. The administration can also revoke Hong Kong's special trading status if it chooses.

Such a decision, however, would have far-reaching consequences and jeopardize Hong Kong's role as one of the world's leading trade and banking hubs, so the Trump administration may start with smaller steps targeting Chinese Communist Party officials rather than moves that would have far-reaching economic consequences, particularly during the coronavirus pandemic.

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