

What Hong Kong Losing Its ‘Special Status’ Would Mean: QuickTake

By Iain Marlow and Daniel Flatley | May 27, 2020 5:36AM ET

Under the [United States-Hong Kong Policy Act of 1992](#), the U.S. treats Hong Kong, a semi-autonomous part of China, differently than the mainland in trade, commerce and other areas. Now U.S. President Donald Trump could possibly [rescind](#) that “special status” to punish China for recent [moves](#) to tighten its grip on the city amid a [resurgence](#) of pro-democracy street protests. In its most extreme form, that would effectively mean treating the global financial hub no differently than any other Chinese city, a seismic shift that could harm both economies at an already difficult time. China has promised [countermeasures](#) against any foreign “interference.”

1. Is the special status in jeopardy?

Maybe. The president has long had the power to suspend it with an [executive order](#), yet hasn’t. But there’s added pressure now: a U.S. law passed last year requires the secretary of state to certify -- as part of [an annual report](#) to Congress -- whether Hong Kong remains “sufficiently autonomous” from Beijing to justify its unique treatment. That includes assessing the degree to which Hong Kong’s autonomy had been eroded by the government of China. (Hong Kong is part of China but has a different legal and economic system, a [holdover](#) from its time as a British colony.) The law also provides for sanctions against officials deemed responsible for human rights abuses or undermining the city’s autonomy. Such sanctions were also said to be under consideration at the White House in the wake of the Chinese government’s decision in May to impose new national security laws on the city.



Photographer: Kyle Lam/Bloomberg

A tear gas is fired during a demonstration in Tsim Sha Tsui, Nov. 18.

2. What would losing it mean for Hong Kong?

An estimated \$38 billion in trade between Hong Kong and the U.S. could be jeopardized. “Longer term, people might have a second thought about raising money or doing business in Hong Kong,” said Kevin Lai, chief economist for Asia excluding Japan at Daiwa Capital Markets. It would be “the nuclear option” and “the beginning of the death of Hong Kong as we know it,” said Steve Tsang, director of the University of London’s SOAS China Institute.

3. What about for the U.S.?

It has its own reasons for not rocking the boat too much. Hong Kong, the only semi-democratic jurisdiction under Chinese rule, offers U.S. companies a relatively safe way to access the Chinese market and employs a U.S. dollar peg, linking it with the American financial system. According to the Congressional Research Service, the largest U.S. trade surplus in 2018 was with Hong Kong — \$31.1 billion. Some 290 U.S. companies had regional headquarters in the city that year and another 434 had regional offices, [it said](#). Hong Kong’s first justice minister after the handover to China in 1997, Elsie Leung, told the South China Morning Post in May that any damage [would be mutual](#): “We are not just getting the benefits – it’s a free-trade arrangement which is good for both sides.”



Demonstrators wave a Hong Kong Independence flag and an American flag during a protest on Sept. 29.

4. And more broadly?

Any sanctions or move to rescind the special status would further strain the relationship between the U.S. and China, already under pressure from the coronavirus pandemic, the Hong Kong [protests](#), an ongoing [trade war](#) and other issues. In addition to the annual review of Hong Kong's trading status, the new law requires the president to freeze U.S.-based assets of, and deny entry to the U.S. by, any individuals found responsible for abducting and torturing human rights activists in Hong Kong. Such sanctions could come sooner than a suspension of the trading status, and would obviously complicate things further.

5. How autonomous is Hong Kong?

When Britain [handed](#) Hong Kong back to China, the Chinese government pledged that the city would have a "high degree of autonomy" in its legal and economic affairs for 50 years, under an arrangement known as "one country, two systems." The 2019 U.S. [report](#) on conditions in Hong Kong said the city's autonomy was "sufficient -- although diminished." After the protests erupted in June 2019, the State Department said that "[continued erosion](#)" of Hong Kong's autonomy put its "long-established status in international affairs" at risk.

6. How has China responded?

“Hong Kong is purely China’s internal affair,” Foreign Ministry spokesman Zhao Lijian [said in Beijing](#) on May 27, promising to take “necessary countermeasures” against any “interference” by “external forces.” After the U.S. law was passed last year, China said it would [sanction](#) some U.S.-based activist groups including the [National Endowment for Democracy](#), [Human Rights Watch](#) and [Freedom House](#), and suspend port visits by U.S. Navy ships to Hong Kong. “China urges the U.S. side to correct its mistakes and stop any words and deeds that interfere in Hong Kong affairs and China’s internal politics,” Foreign Ministry spokeswoman Hua Chunying said then. The official Xinhua News Agency has [dismissed](#) as “groundless” accusations about the loss of freedom or human rights issues in Hong Kong. It also noted that the 2018 [Human Freedom Index](#) compiled by the Fraser Institute, a Vancouver-based think tank, ranked Hong Kong at No. 3, well ahead of the U.S. at No. 17.

7. And Hong Kong?

The city’s leader, Chief Executive Carrie Lam, has said it would be “[totally unacceptable](#)” for foreign legislatures to interfere in Hong Kong’s internal affairs, and that sanctions would only complicate the problems in the city. (Lam was [selected](#) in 2017 by a committee of 1,200 political insiders overwhelmingly loyal to the Chinese government.) She has sought to [reassure](#) investors that the city still adheres to the rule of law and has an independent judiciary. She also has [defended](#) police actions.

8. Is this what the protesters have been seeking?

As a [largely leaderless movement](#), the Hong Kong protests have made no official request for international assistance. But some prominent Hong Kong pro-democracy activists including Joshua Wong had [testified](#) in Washington in favor of the bill, seeking to put pressure on China. On the streets of Hong Kong, some protesters have made clear their interest in U.S. support by waving American flags, [singing “The Star-Spangled Banner”](#) and calling on Trump to “[liberate](#)” Hong Kong.

The Reference Shelf

- QuickTakes on [Hong Kong’s autonomy](#) and the [national security laws](#) Beijing wants to impose.
- The Congressional Research Service [fact sheet](#) on Hong Kong.
- China [criticizes](#) the U.N. high commissioner for human rights, Michelle Bachelet, for wading into the issue.
- Watch activists Joshua Wong’s and Denise Ho’s [testimony](#) via Bloomberg TicToc.
- Hong Kong faces [ominous questions](#) about what happens in 2047.
- A Bloomberg Opinion editorial saw [a small window](#) for compromise in Hong Kong.

--With assistance from Josh Wingrove and Alfred Liu.

To contact the reporters on this story:

Iain Marlow in Hong Kong at imarlow1@bloomberg.net;

Daniel Flatley in Washington at dflatley1@bloomberg.net

To contact the editors responsible for this story:
Jodi Schneider at jschneider50@bloomberg.net;
Daniel Ten Kate at dtenkate@bloomberg.net
Paul Geitner, Grant Clark