

THE U.S. SANCTIONS AGAINST HONG KONG



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THE US SANCTIONS AGAINST HONG KONG – A THREAT OR A BLUFF?

THE EVENTFUL YEAR 2019

A stable society is one of the factors which make an economy tick and fly. 2019 was an eventful year to Hong Kong. Except in the first few months, the Hong Kong society was hardly said to be stable. The initial opposition to the proposed amendment to the extradition law, which would have allowed transfer of fugitives to mainland China, Macao and Taiwan, had escalated into a wide and prolonged anti-government movement. The initial peaceful demonstration turned to violent protests and riots. The violence was so serious that it finally prompted the Chinese Central People's Government to enact the national security law for Hong Kong.

ENACTMENT OF THE NATIONAL SECURITY LAW

Under Article 23 of the Hong Kong Basic Law, Hong Kong is required to enact laws (i) to prohibit any act of treason, secession, sedition, subversion against the Central People's Government, or theft of state secrets, (ii) to prohibit foreign political organizations or bodies from conducting political activities, and (iii) to prohibit political organizations or bodies of Hong Kong from establishing ties with foreign political organizations or bodies.

The Hong Kong Government had previously attempted to enact the law by tabling the National Security (Legislative Provisions) Bill in 2003. However, the Bill was subsequently withdrawn as a result of the massive demonstration on 1 July 2003. The enactment of the national security law becomes a "hot potato" which no one is willing to touch. The situation remains unchanged, despite the successful enactment of the national security law by the Macao Government in 2009.

The rise of anti-government movement in 2019 is a turning point. It is widely believed that the lack of national security law is one of the reasons which allow the anti-government movement to develop unceasingly, which finally turns to be violent. Since it is unlikely that Hong Kong can enact the national security law on its own, at least in the near future, the Chinese Central Government has no option but to enact the law for Hong Kong after 23 years after Hong Kong's return to Chinese sovereignty in 1997.

On 30 June 2020, the Hong Kong National Security Law (HKNSL) was enacted and passed by the Standing Committee of the National People's Congress and became in force in Hong Kong on 1 July 2020. The HKNSL focuses on the prohibition of secession, subversion, terrorism and collusion with foreign forces. Its provisions are more onerous than those proposed in the National Security Bill tabled in 2003. There is no doubt that the HKNSL was enacted with the anti-government movement in mind. It however needs time to tell if the HKNSL can restore stability to the Hong Kong society. As expected, the enactment has drawn sharp criticism from the Western countries.

THE U.S. SANCTIONS

In response to the enactment of the HKNSL, the U.S. Government has passed the Hong Kong Autonomy Act and cancelled the Hong Kong's special preferential trade status on the grounds that the HKNSL would threaten free speech and other liberties in Hong Kong and damage the national interest of the U.S.A. Whether the HKNSL would threaten free speech and liberties in Hong Kong is a matter of "wait and see". It is also a matter only for Hong Kong anyway. It is however open to everybody's guess as to what national interest of the U.S. Government would be damaged by the enactment and operation of the HKNSL. Similar complaints are also made and actions taken by some other U.S. allied countries against both Hong Kong and China.

The removal of Hong Kong's preferential trade status provided under the U.S. Hong Kong Policy Act 1992 means that Hong Kong will no longer be treated by the U.S.A. as a separate customs and travel territory from the rest of China. In other words, there will be restrictions imposed on the U.S. export of sensitive or dual use technologies to Hong Kong. The U.S. Government will also levy a tariff (currently at 25%) on Hong Kong's goods exported to the U.S.A. The effects of these sanctions are yet to be seen, but the sanctions do raise concerns to some people about the viability of the Hong Kong's financial position. Before we move on, it should be noted that the so-called preferential trade status here is not the one granted by the World Trade Organization, which cannot be cancelled unilaterally by the U.S.A.

Since U.S.A. is the largest amongst its allies economically, and, for one reason or another, it also takes the most aggressive actions against Hong Kong and China, a discussion of the U.S. sanctions will give a rough picture on the potential effects of the

actions taken by the U.S.A. and its allies on Hong Kong's financial position. We will therefore focus our discussion on the potential effects of the U.S. sanctions.

The U.S. sanctions just come into operation and their effects are yet to be seen, but some predictions can be made by looking at the statistics of the trade carried out between Hong Kong and the U.S.A. In passing, please note that the trade figures stated below may not be reconcilable, since they are reported on different bases and some of them are seasonally adjusted and some not. Although the figures are historical data, they can show the trend and position of the trade carried out between Hong Kong and the U.S.A. over the past years, which is sufficient for the purposes of our discussion here.

TRADE WITH THE U.S.A. FROM THE HONG KONG PERSPECTIVE

We first look at the trade statistics provided by the Hong Kong Census and Statistics Department. Please note that the references to "Table [xx]" in the following tables refer to the numbers assigned to the relevant statistical tables published on the Department's web-site "www.censtatd.gov.hk".

POSITION AND FLOW OF DIRECT INVESTMENTS OF HONG KONG AT MARKET VALUE (HK\$ BILLION)

INWARD DIRECT INVESTMENTS (TABLE 48)			OUTWARD DIRECT INVESTMENTS (TABLE 50)	
Year	Total Investments	From U.S.A.	Total Investments	To U.S.A.
2014	11,602.9	385 (3.32%)	11,246.90	78.1 (0.69%)
2015	12,335.9	314.6 (2.55%)	11,869.40	85.7 (0.72%)
2016	12,608.1	313.7 (2.49%)	11,992.80	89.9 (0.75%)
2017	15,189.8	325.9 (2.15%)	14,169.10	92 (0.65%)
2018	15,380.6	291.1 (1.89%)	14,331.20	110.7 (0.77%)

It can be seen from the above figures that U.S.A. is not a popular place for Hong Kong investors. During the period from 2014 to 2018, Hong Kong investors made less than 1% of their total outward direct investments in the U.S.A. On the other hand, the U.S. foreign direct investments in Hong Kong are decreasing from HK\$385 billion in 2014 to HK\$291.1 billion in 2018. While the U.S. direct investments in Hong Kong appear to be substantial, these represent only about 2 to 3% of the total foreign direct investments made in Hong Kong during the period from 2014 to 2018.

EXTERNAL MERCHANDISE TRADE STATISTICS (AT HK\$ MILLION)

IMPORTS (TABLE 57)			EXPORTS (TABLE 61)	
Year	Total Import	From U.S.A.	Total Export	To U.S.A.
2017	4,357,004	213,737 (4.91%)	3,875,898	330,198 (8.52%)
2018	4,721,399	231,128 (4.90%)	4,158,106	356,797 (8.58%)
2019	4,415,440	212,902 (4.82%)	3,988,685	304,004 (7.62%)

Again, the above figures seem to be substantial. It should however be noted that Hong Kong is an important hub for merchandise trade carried out between China and the U.S.A. From the figures drawn from a research note titled "Methodology of U.S. – China – Hong Kong Triangular Merchandise Trade Statistic Reconciliation", which was published by the U.S. International Trade Commission in August 2013, during the period from 1996 to 2011, 80% to 97% of goods exported from Hong Kong to the U.S.A. were originated from China; and 35% to 50% of goods imported from the U.S.A. to Hong Kong were re-exported to China. If the trend continues after 2011, which is likely to be the case, it can be said that about half of the goods imported from the U.S.A. will be re-exported to China and a significant part of the goods exported to the U.S.A. are originated from China. Unless there is a drastic reduction of the China – U.S. merchandise trade, it is likely that Hong Kong will remain to be the hub of the triangular merchandise trade, at least, in the near future.

IMPORTS AND EXPORTS OF SERVICES (AT HK\$ MILLION)

IMPORTS OF SERVICES (TABLE 84)			EXPORTS OF SERVICES (TABLE 83)	
Year	Total Import	From U.S.A.	Total Export	To U.S.A.
2014	569,724	63,120 (11.08%)	800,104	120,228 (15.02%)
2015	570,435	63,787 (11.18%)	780,839	116,810 (14.96%)
2016	574,520	65,578 (11.41%)	739,036	104,814 (14.18%)
2017	597,191	66,265 (11.10%)	776,275	110,583 (14.25%)
2018	627,373	69,906 (11.14%)	842,913	120,036 (14.24%)

For some who may not be familiar with these terms, imports of services refer to purchase of services from the rest of the world, whereas exports of services refer to sale of services to the rest of the world. To put this in context, imports of services from the U.S.A. are services Hong Kong residents pay in the U.S.A. Conversely, exports of services to the U.S.A. are services U.S. residents pay in Hong Kong.

For Hong Kong, travel and transport services are the two main components of the imports and exports of services.

For travel, according to the statistical data provided by the Hong Kong Tourism Board, there were 65,147,555 visitor arrivals in 2018 and 55,912,609 visitor arrivals in 2019. Amongst them, there were 1,304,232 visitor arrivals and 1,107,165 visitor arrivals from the U.S.A. in 2018 and 2019 respectively. Although the U.S. visitors may be comparatively wealthy and tend to spend more, the visitor arrivals from the U.S.A. account for only approximately 2% of the total number of visitor arrivals in Hong Kong.

It therefore seems that a significant part of the imports and exports of services from and to the U.S.A. should be contributed by the transport services relating to the re-export of China-origin goods to the U.S.A. and U.S.-origin goods to mainland China. If this is the case, unless there is a significant reduction of trade carried out between China and the U.S.A., it is unlikely that the imports and exports of services from and to the U.S.A. will decrease drastically in the near future.

TRADE WITH HONG KONG FROM THE U.S. PERSPECTIVE

Let us now look at the international trade figures provided by the Bureau of Economic Analysis of the U.S. Department of Commerce.

U.S. DIRECT INVESTMENTS ON HISTORICAL-COST BASIS (AT US\$ MILLION)

US DIRECT INVESTMENTS IN H.K.			H.K. DIRECT INVESTMENTS IN THE U.S.A.	
Year	Total	Income without current cost adjustment	Total	Income without current cost adjustment
2015	69,367	5,663	10,981	(284)
2016	68,944	4,407	11,210	(109)
2017	81,234	6,056	11,022	(748)
2018	82,546	7,867	15,716	564

The U.S. direct investments in Hong Kong are modest at best. It should also be noted from the above figures that the U.S. investors made income from their direct investments in Hong Kong, whereas the Hong Kong investors suffered losses from their direct investments in the U.S.A.

U.S. TRADE IN ADVANCED TECHNOLOGY PRODUCTS (AT US\$ MILLION)

YEAR	BALANCE	U.S. EXPORTS TO H.K.	U.S. IMPORTS FROM H.K.
2017	12,361	13,018	657
2018	11,996	12,753	756
2019	4,788	4,958	171

Hong Kong is not a centre for innovation and technological research, although the Hong Kong Government wants to make it into one. The amounts of advanced technology products exported to Hong Kong are not substantial and keep decreasing over the past years. Since the volume of trade is small, any loss of the trade will not cause significant impact on Hong Kong's financial position. In any case, the U.S.A. enjoys a surplus from the trade with Hong Kong.

U.S. TRADE IN GOODS AND SERVICES (AT US\$ MILLION) – BALANCE OF PAYMENT BASIS

YEAR	TOTAL TRADE IN GOODS AND SERVICES WITH HONG KONG
2017	34,321
2018	33,980
2019	28,963

U.S. TRADE IN GOODS (AT US\$ MILLION) – BALANCE OF PAYMENT BASIS

YEAR	BALANCE	U.S. EXPORTS TO H.K.	U.S. IMPORTS FROM H.K.
2017	32,861	40,610	7,749
2018	31,395	38,206	6,811
2019	26,298	31,579	5,281

U.S. TRADE IN SERVICES (AT US\$ MILLION)

YEAR	BALANCE	U.S. EXPORTS TO H.K.	U.S. IMPORTS FROM H.K.
2017	1,460	11,700	10,240
2018	2,585	13,757	11,172
2019	2,665	14,234	11,568

The above trade figures show that the U.S.A. has substantial surplus in trade of goods and services with Hong Kong. They have earned substantial amounts of money from their trade with and through Hong Kong over the years.

IS THE SKY FALLING DOWN?

In the book, *The Perils of Perception* (paper-back edition 2019, Atlantic Books), the author, Bobby Duffy, in explaining the drivers of human delusion, said in the preface that:-

“... The interactions between how we think and what we’re told are not well recognized. Almost all existing analysis tends to focus on one side or the other: on our fallible human brains or a manipulative information environment that leads us astray. This echoes our human need for simplicity and solutions: we want to see problems as caused by one thing or another, providing a clear focus to blame and a single answer. We therefore miss the real issue – that we live in a system that, by default, breeds delusion from multiple sources...”

“Excellent books that focus mainly on our own mistaken thinking largely ignore that there are actors in politics and communications that have vested interests in pushing a particular world view at us...”

“The much more frightening reality is that one reinforces the other. Politicians, media and social media achieve the reaction they desire by, for example, emphasizing vivid, negative, stereotypical stories precisely because we are influenced more by these than accurate but dry statistics. Politicians, journalists and content creators understand this intuitively, because they are human too (despite what some think). They are subject to the same biases as the rest of us, so even where this is not part of a dastardly plan, their own delusions drive their actions. This is then reinforced in feedback loops of achieving political results, and increasingly instantaneous ratings of popularity, viewing figures, clicks, shares or likes. The delusion can easily become the reality for vast swathes of the population...”

Human brains are fallible that they are susceptible to manipulation, bias, stereotype, delusion and so forth. As suggested by the author, in order to avoid falling into these traps, one should have statistical and news literacy and critical thinking skills. Instead of relying on our fast, instinctive thinking, we should rely more on our slower, deliberative thinking. We should also be more sceptical to the information (and disinformation) feeding to us. We need to read widely from different sources to get a more balanced view on an issue.

Coming back to our discussion, rather than believing in what the U.S. Government said, we should look at the statistics of the trade carried out between Hong Kong and the U.S.A. to see if the U.S. sanctions will have significant impact on Hong Kong's financial position. Is the threat real or simply a bluff?

From the discussion above, the trade statistics contradict many people's belief that the U.S.A. is a significant trading partner to Hong Kong, although it cannot be ignored.

The trading volume of advanced technology products exported from the U.S.A. to Hong Kong is small and decreasing. The effect of the restrictions on the export of sensitive or dual use technologies to Hong Kong will be minimal. It is unlikely that any loss of this trade will cause significant impact on Hong Kong's financial position. It should also be noted that the U.S.A. has enjoyed surpluses in their trade with Hong Kong over the years.

Since most of the goods exported from Hong Kong to the U.S.A. are originated from China, the effect of the imposition of a tariff (currently at 25%) on Hong Kong-origin goods exported to the U.S.A. will not be significant. The U.S. Government's claim that Hong Kong enjoys huge trade surpluses against the U.S.A. is evidently far from the truth.

Some people suggest that the U.S. Government may prohibit China and Hong Kong from using US\$ to do business or even cancel some or all of the US\$1,072.8 billion debt (figure in April 2020) owes to China. This simply will not happen, since this may lead to the collapse of the credibility (which is not much left) of the US\$ as an international trading currency. More importantly, if it really turns out to be the case, one may wonder who will be going to buy the U.S. products.

The economy of many Western countries, particularly the U.S.A., has been devastated by the poor handling (which is a common consensus) of the Covid-19 pandemic. The impact of the U.S. sanctions on Hong Kong will depend largely on the level of China's trade with the U.S.A. Unless the U.S.A. reduces or ceases its trading with China, which is unlikely, the impact of the U.S. sanctions on Hong Kong will be limited.

Finally, the U.S. sanctions and threats are apparently not well received by the business and finance sector. The Hong Kong Hang Seng Index continues to rise after the passing of the HKNSL on 30 June 2020.

Although Hong Kong will inevitably suffer if there is a loss of a trading partner, large or small, this is not a "life or death" matter. The sky will not fall down. We believe most of the Hong Kong people would like to see a return of a stable society one way or the other. In any case, Hong Kong people cannot force others to do business with them. Rather than relying on the "benefits or preferential treatments" (if these can be called as such) to be provided by others, Hong Kong should make and keep itself a profitable place for doing business. At that time, people will come to Hong Kong without being invited.

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