

Hong Kong 'emergency declaration' to elicit strong US Congress response complicating trade deal & global macro outlook

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The likely declaration of a 'state of emergency' by the embattled Hong Kong authorities will elicit a strong US Congressional response, which will complicate the already fraught trade talks, and dampen the global economic outlook for 2020. The US Congress will likely pass The Hong Kong Human Rights and Democracy Act of 2019 by a veto-proof majority if the Chinese authorities proceed with an emergency declaration or deploy troops.

Hong Kong demonstrators still unhappy

On September 4, Hong Kong's Special Administrative Region (HKSAR) leader, Carrie Lam, withdrew the controversial extradition bill. It failed to quell the frustration among demonstrators who demanded *additional* 4 points to be met before they give up their struggle: (1) the chief executive (Carrie Lam) must resign, (2) the government must retract its characterisation of the violent clashes as "riots", (3) there must be a full independent inquiry into the actions of the police and (4) everyone arrested in respect of the clashes must be unconditionally freed. Demonstrations are set to continue until demands are met.

New Hong Kong bill

In February, Republican Senator Marc Rubio and two other senators, proposed new measures to stop China's "Made in China 2025" programme, including a renewal of the United States-Hong Kong Policy Act of 1992. Majority leader Mitch McConnell initiated that bill which allowed Hong Kong to be treated separately from Mainland China concerning trade and economic control ahead of the 1997 handover.

The new bill - **Hong Kong Human Rights and Democracy Act of 2019** - has gained considerably in momentum and is now enjoying bipartisan support, helped by 17th weeks of huge demonstrations in Hong Kong that have seen thousands of people arrested. In order to become law, it needs to pass both houses of Congress and to be signed by President Donald Trump. Some supporters believe it could be on President Trump's desk for his signature as early as mid-October. An emergency declaration in Hong Kong will accelerate a swift passage of this law.

Key provisions of the US Hong Kong Human Rights and Democracy Act of 2019:

- It reaffirms the principles set forth in the United States-Hong Kong Policy Act of 1992, including support for democratization, human rights, and the importance of Hong Kong remaining sufficiently autonomous from China to justify different treatment under U.S. law.
- It reinstates the requirement for the Secretary of State to issue a report on conditions in Hong Kong of interest to the United States, including developments related to democratic institutions in Hong Kong, no later than 90 days after enactment and every year through 2023.
- It requires the Secretary of State to certify that Hong Kong is sufficiently autonomous before enacting any new laws or agreements affording Hong Kong different treatment from the People's Republic of China.
- It requires the President to identify persons responsible for the surveillance, abduction, detention, or forced confessions of certain booksellers and journalists in Hong Kong, and other actions suppressing basic freedoms, and to freeze their U.S.-based assets and deny them entry into the U.S.
- It makes clear that visa applicants who resided in Hong Kong in 2019 shall not be denied visas based on the applicant's arrest, detention or other adverse government action taken as a result of their participation in the nonviolent protest activities related to Hong Kong's electoral process.

Basic Law offers China emergency powers

According to **Hong Kong Basic Law**, the Chinese government has the right to declare state of emergency under **paragraph 18** which states: *"In the event that the National People's Congress Standing Committee decides to declare a state of war or, by reason of turmoil within the HKSAR which endangers national unity or security and is beyond the control of the SAR government, decides that the region is in a state of emergency, the Central People's Government may issue an order applying the relevant national laws in the region."* By all indications, Hong Kong is moving to invoke these measures.

China caught between a rock and a place.

China may either have to accept the precarious Hong Kong situation which grinds down the economy, erodes confidence in HKSAR and makes the Chinese Communist Party (CPC) leadership look weak; (something highly undesirable as the current gap between the third (March 2018) and fourth plenums (October 2019) has been the largest since the early 1970s), raising fears about instability within CPC's top leadership; Or China could declare state of emergency, bring boots on the ground in Hong Kong and arrest all demonstrators. If it opts for the latter it would be met with wrath in Washington's ire and force President Donald Trump to sign the new bill as well sharply reduce Trump's ability to strike a trade deal with China in the near-term. However, an emergency declaration could also accelerate US congressional action if it leads to further violence. Hong Kong, like North Korea is emerging as a pawn in US-China trade war.

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