



# China-US Trade Disputes (XXXIII)

FUNG BUSINESS INTELLIGENCE

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## Trump announces new punitive measures against China and orders elimination of special treatment for Hong Kong

*Last Friday (29 May), US President Donald Trump announced new punitive measures against China and ordered his administration to begin the process of eliminating the special treatment for Hong Kong, heightening tensions with China. We will continue to closely monitor developments in this regard.*

### US announces new retaliatory measures against China

At a White House news conference on 29 May, Donald Trump viciously attacked China, blaming China for 'misconduct' including 'ripping off the US', 'cover-up' of the COVID-19, 'illicit espionage' to steal US industrial secrets, and 'violation' of commitment to Hong Kong's autonomy. In light of all these 'misdeeds', Trump announced new punitive measures against China.<sup>1</sup>

First, Trump has issued a proclamation<sup>2</sup> to ban graduate students and researchers with ties to the Chinese government from using student visas to enter the US, effective from 1 June. The move, according to Trump, will better secure the US's vital university research and intellectual property.

Second, Trump has instructed his Presidential Working Group on Financial Markets to study the 'differing practices' of Chinese companies listed on the US financial markets, with the stated goal of protecting US investors. The precise details of the move were not immediately clear.

<sup>1</sup> <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-actions-china/>

<sup>2</sup> <https://www.whitehouse.gov/presidential-actions/proclamation-suspension-entry-nonimmigrants-certain-students-researchers-peoples-republic-china/>

Trump's announcement came after China's legislature approved last Thursday (28 May) a plan to draft a new security law to be imposed on Hong Kong, and US Secretary of State Michael Pompeo certified to the Congress (on 28 May) that Hong Kong 'does not continue to warrant treatment under US laws in the same manner as US laws were applied to Hong Kong before July 1997'.

### [Trump orders elimination of special treatment for Hong Kong](#)

Trump also said that he was directing his administration to begin the process of eliminating the 'different and special treatment' for Hong Kong, with upcoming actions to:

- Re-consider a full range of agreements with Hong Kong, from extradition treaty to export controls on dual-use technologies, with 'few exceptions'.
- Revoke Hong Kong's preferential treatment as a separate customs and travel territory from the rest of China.
- Revise the State Department's travel advisory for Hong Kong to reflect the 'increased danger of surveillance and punishment by the Chinese state security apparatus'.
- Sanction Chinese and Hong Kong officials directly or indirectly involved in 'eroding Hong Kong's autonomy'.

### [Our assessments of possible changes of US policies towards Hong Kong and their impacts on Hong Kong's economy and trade](#)

The US may use provisions under the *Hong Kong Human Rights and Democracy Act of 2019* to impose the following actions/sanctions on Hong Kong:

1. **Ban on exports of sensitive technologies to Hong Kong:** The US may render Hong Kong equivalent to the Chinese Mainland for the purposes of export controls, banning the exports of sensitive technologies to Hong Kong. That said, with the China-US tech war looming over the past few years, the US is likely to have controlled technology transfer and restricted technology exports to Hong Kong well before a sanction is officially declared.
2. **Termination of separate treatment of visa applications by Hong Kong residents and Mainland Chinese residents:** US visa applications from Hong Kong residents currently enjoy separate consideration, which is generally believed to be more favorable than that faced by Mainland Chinese residents. The US may cease such separate treatment, making it more cumbersome for Hong Kong residents to undertake business or personal travels to the US.

3. **Cessation on the recognition of Hong Kong as a separate customs territory:** The US may place Hong Kong within the Chinese Mainland's customs territory for the purpose of bilateral trade and customs cooperation. The 'China Section 301 tariffs' could then be applied on Hong Kong as well. This will lead to tangible yet limited impact on Hong Kong's economy and trade.
- Impact on Hong Kong's domestic exports to the US: The US will treat Hong Kong's domestic exports as exports from the Chinese Mainland. This possibly implies that certain Hong Kong exporters will face a jump in tariffs. While this may have been a considerable threat in 1992, when the *United States – Hong Kong Policy Act* was enacted, a change in tariff regime is much less of a concern to Hong Kong nowadays. Hong Kong's domestic exports to the US decreased from HK\$64.6 billion (8.29% of GDP) in 1992 to HK\$3.57 billion (0.13% of GDP) in 2018. The total economic impact of a tariff hike on domestic exports by the US is estimated to be less than HK\$1 billion.
  - Impact on re-exports through Hong Kong to the US: In 2018, Hong Kong's re-exports to the US amounted to HK\$353 billion, accounting for just 8.6% of Hong Kong's re-exports. Around 80% of these exports originated from the Chinese Mainland.
    - For goods transshipped through Hong Kong, or where processing does not lead to changes in the country of origin, there will be no implication on tariffs.
    - Even in cases where a US policy change leads to an increase in tariffs to the US market, it is likely that the Chinese Mainland and other countries will continue to use Hong Kong as an entrepot because of the efficiency, economies of scale and flexibility offered by Hong Kong.
    - However, in transactions where final processing in Hong Kong leads to changes in country of origin, the goods may be subject to higher tariffs. In such cases, whether enterprises will continue to use Hong Kong as a hub depends on whether the abovementioned benefits from re-exporting via Hong Kong outweigh the costs arising from higher tariffs.
  - In the event that the US ceases to recognize Hong Kong as a separate customs territory, it is important to ensure that the final destinations of Hong Kong's re-export trade continue to recognize Hong Kong's customs supervision and the certificate of origins (COOs) issued by Hong Kong. The US's continued recognition of COOs issued by Hong Kong is set out in the *United States – Hong Kong Policy Act of 1992*. In an extreme scenario, the US could cease to recognize the COOs issued by Hong Kong, making it impossible to re-export goods via Hong Kong to the US.
  - The US could also withdraw its recognition of Hong Kong as an independent member of international organizations such as the WTO and APEC.

## FUNG BUSINESS INTELLIGENCE

**Fung Business Intelligence** collects, analyses and interprets global market data on sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

### About Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including trading, logistics, distribution and retail. The Fung Group comprises 42,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

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