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The impact of the Hong Kong Autonomy Act on Hong Kong's exports: Little to nothing

	<p>ECOGNOSIS ADVISORY LTD</p> <p>From the Greek: ΟΙΚΟΝΟΜΙΚΗ ΓΝΩΣΙΣ, (Ekonomiki Gnosis, Knowledge of economics)</p> <p>A global financial and economics advisory service covering economic and financial developments, equities, fixed income, forex, commodities and other assets</p>
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Summary: The signing of the Act by Trump was a textbook example of mixing and confusing strategy with tactics and thus losing completely the script. **If** the strategy was to “help” Hong Kong’s dissenters over China and also “punish” China for its actions in Hong Kong, and specifically the National Security law, **then** the tactic of punishing Hong Kong only, by

removing certain preferential treatments, especially on trade, somehow missed the point.

And it gets better.

The evidence on the likely impact on Hong Kong's exports is that the impact will be very mild to negligible. **In sum**, the tactic of removing the preferential trade treatment became, effectively, the strategy, but that tactic is unlikely to work in restricting Hong Kong's trade and thus, indirectly, affecting/punishing China.

NB. I do not cover here the other possible negative impacts on Hong Kong of the Act, such as visa restrictions, education, repercussions on the US property of "determined" persons or entities and other issues. Trade only. All the following data is taken from the July 2020 issue of Hong Kong's Monthly Digest of Statistics and press releases from the Hong Kong's Department of Trade and Industry

Fact 1

Hong Kong's direct trade with the US is very small in relation to total. In 2019 Hong Kong exports to the US accounted for 7.6% of Hong Kong's total exports, and imports from the US for 4.8 % of Hong Kong's total imports. Assuming punitive tariffs are imposed on all exports from Hong Kong to the US, then "only" about 7.6% of Hong Kong's exports will be impacted. As Hong Kong could retaliate by imposing import duties on US imports, then both flows could fall.

There is a little but crucial detail, always ignored in assessing trade impacts, that what affects GDP growth is not just exports (X), but also imports (M) or, more precisely, (X-M). So it is the growth in this difference that helps to determine GDP growth. If growth rates in both X and M fall, their contribution to GDP growth could be unchanged, although the impact on sectors of the economy could be positive and/or negative.

Fact 2

Welcome to the nightmare of "Outward Processing Trade" (OP) statistics. Take a deep breath and don't blame me. I am only an economist.

Hong Kong imports some goods, especially from China, where they were processed after they had been exported from Hong Kong. Also Hong Kong exports some goods, especially to China, where they will be processed and then re-exported to Hong Kong. This is the nightmare of accounting for **re-re-exports**. This OP trade is a very significant part of HK's trade. In 2019 re-exports from China alone stood at HKD 2,154.7 bl or 54.0% of total Hong Kong's exports. (NB. official statistics give conflicting numbers and/or interpretations on these flows. This is my own take). In the absence of statistics as to which countries these re-exports

are sold to, it can be assumed that a similar per cent of that re-export trade, 7.6%, same as that of Hong Kong's own total exports to the US, is sold to the US. This could then be another trade flow, which could be subject to US tariffs under the newly signed Act.

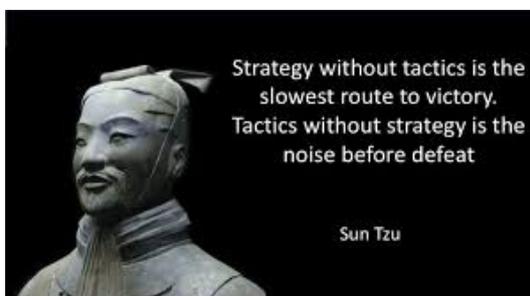
BUT the rules of country of origin will enter here, as easily half of these re-exports originated in China (see the 54.0% above) and, hence, should be already subject to the punitive tariffs in place since the start of the US-China trade war in 2018. So this part of Hong Kong's export trade will not be impacted by the impending removal of preferential treatment as it never had one. In other words, in terms of Hong Kong's total exports the maximum damage of impending tariffs will affect 7.6% plus 54.0% of 7.6%, a sum total of 7.6% plus 4.1 % = 11.7% of all Hong Kong exports. Hardly a nightmare, except for understanding the statistics!

Fact 3

Additional bits of information show the fine art of shooting one's foot in full action. The US will ban exports of defense items to Hong Kong, which are subject to export control. According to SCMP (16/7/20) these amounted between USD 400 ml to USD 500 ml each year between 2016-18. Presumably, and rather belatedly, this ban will stop Hong Kong from re-exporting these goods to China. Also sales of arms, crowd control equipment etc to the Hong Kong police will be banned. Remember these are US exports to Hong Kong and not Hong Kong exports to the US!

Conclusion

The "irritation effect" on China is very likely to be the strongest impact of the Hong Kong Autonomy Act, while the actual financial cost to Hong Kong's exports to the US will be very small as a percent of Hong Kong's total exports.



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