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Point of No Return, U.S. Financial Sanctions against China Up for Discussion

~ Careful Attitude to Investment ~

Yesterday (June 30th), the National Security Maintenance Law for Hong Kong, which rips away Hong Kong's autonomy and democracy from its very roots, was enacted and immediately enforced by the NPC Standing Committee. At a stroke, Hong Kong's democracy and autonomy were lost, and the one-country-two system was over. We have no choice but to think that the Point of No Return has now been reached, from where there is no possibility of ever returning to how things were. The world will surely see the situation develop into a fierce US-China Cold War.

Denial of "One Country, Two Systems" can only mean the denial of "One World, Two Systems"

The world after the end of the US-Soviet Cold War was one that consisted of a so-called "One World, Two Systems" arrangement, whereby capitalism, with its basis in liberal democracy, and China, under the dictatorship of the Communist Party, coexisted. Even though the systems were different, they were both based on a common interest in the prosperity of the global economy. Despite the fact that they had different systems and values, they shared mutual respect and self-control. The symbol and focal point of this arrangement was the structure of "One Country, Two Systems" in Hong Kong. By entombing the "One Country, Two Systems" in Hong Kong, the Xi Jinping regime is now, naturally, engaged in destroying the "One World, Two Systems" structure too.

If all respect and discretion towards the other party is lost, then economic gains can easily be sacrificed, and so it becomes impossible for the markets to remain calm. By taking advantage of the window of opportunity squeezed in between the world being plunged into chaos by the COVID-19 pandemic, and prior to the Xi Jinping regime embarking upon what can be described as a 19th- 20th century-style "Imperialistic pursuit of profit", the liberal democratic nations now have choice but to stop China's expansionism even if it means that they have to pay the economic cost. More specifically, the liberal democracies countries will be asked if they are really prepared to cut their living standards to support Hong Kong's democracy.

In 1997, Britain returned to China both Hong Kong Island and the Kowloon Peninsula (acquired in the Opium Wars), along with the leased land of the New Territories, because China's Deng Xiaoping had promised to maintain the "One Country, Two Systems" structure for 50 years (until 2047). The new National Security Maintenance Law for Hong Kong has now broken this promise. The next risk is now aiming squarely at Taiwan. Hong Kong also has both US and British interests, and severe oppression of democracy and control of information has already provoked a backlash. Disturbances are inevitable.

"System Coexistence" is revealed as a lie

There is a logic in China which does not listen to world opinion. It derives from a sense of crisis that China's sovereignty is being threatened. This logic goes that if the momentum of the 1 million protests that took place in Hong Kong, with a population of 7.4 million, during last year's "Fugitive Offenders" disturbances, Hong Kong will never be assimilated into China. The decision is therefore that the only time to prevent this is now, and indeed this recognition is surely correct.

The essence of the issue is that the (false) convenience for a liberal democracy under US hegemony to maintain any coexistence with the Communist China has now come to an end. And the reason for this is that China has been increasing the scale of its presence so rapidly. The Xi Jinping regime, which has been confronted since 2018 by the prospect of a trade war and the attack on Huawei by the Trump administration, at first adopted a harmonious posture. But although it seemed for a while as if it had returned to its original "Umitsu Yomei Line (a strategy of hides one's claws and biding one's time)", in an attempt to conceal the

Musha Research Co., Ltd.

President

Ryoji Musha

Tel +81-3-5408-6818

musha@musha.co.jp<http://www.musha.co.jp>

901 Renai Partire Shiodome

2-18-3 Higashishinbashi,

Minato-ku, 105-0021 Tokyo

pursuit of hegemony under the cover of the COVID-19 pandemic, it is now no longer even trying to hide its intentions. In fact, it is fair to say that the post World War II international order entered upon an era of confrontation between the United States and China after the end of the Cold War between the US and the Soviet Union and the era of "One World, Two Systems" under the leadership of the United States.

The economic costs of the US-China Cold War cannot be overlooked

We had assumed, until last week, that the two countries would maintain some degree of moderation by attempting to minimize the adverse economic effects, even during a US-China trade war. We also assumed that China could not lose or afford to lose its function as an international financial centre in Hong Kong, which is a gateway for raising dollar funding, and would protect Hong Kong's "One Country, Two Systems", but that did not happen. China believes that, even if the "One Country, Two Systems" structure is lost, Hong Kong's financial function can be maintained, and is even thinking of trying to maintain it by brute force, but the liberal democracy countries are not very likely to be able to tolerate this. Moreover, it would be impossible for global money to remain in a Hong Kong which has lost its freedom.

Financial sanctions against China are on the rise

The United States will continue to apply the strongest sanctions it can against China. Financial punishment, a ban on the use of dollars, and a de facto financial blockade of China have long been on the cards. In addition to the "Hong Kong Human Rights Democracy Act" passed last year, the US Senate also unanimously passed the "Hong Kong Autonomy Act" on June 25. It is highly likely that it will be approved after passing the House of Representatives and be signed by President Trump (June 28th, Sankei Shimbun). The Act imposes sanctions on individuals and organizations involved in the application of restrictions on Hong Kong's autonomy, and can freeze assets, prohibit transactions with financial institutions, and suspend the issuance of visas.

Bloomberg reported on June 30th that "Access to the US financial system could be cut off, since many sanctioned officials may be assumed to use large Chinese banks." Francis Chan, a Hong Kong-based senior analyst at Bloomberg Intelligence (BI), said in a report on 30th June that the legislation "bars financial institutions from providing accounts to sanctioned officials, many of who may be assumed to use the services of China's biggest banks. Banks in violation risk being cut off from accessing the US financial system. Industrial & Commercial Bank of China Ltd., China Construction Bank Corp., Bank of China Ltd. and Agricultural Bank of China Ltd., the nation's four largest state-backed lenders, had a combined 7.5 trillion yuan (\$1.1 trillion) equivalent of U.S. dollar liabilities at the end of 2019, of which 47% were deposits, according to their annual reports. The rest came from interbank borrowing and issuing securities to global investors."

If this measure is enforced, it would immediately trigger a Chinese financial crisis. Now that the United States is no longer even trying to hide its trump card, there is no way that the markets can remain calm.