

MACROCOSM

Hong Kong Human Rights Act: Another Weapon for Trump

Thursday, November 21, 2019

Donald Luskin

It proves being “soft on China” is political kryptonite. Xi dares not try to outlast Trump.

The Chinese currency – our canary in the mineshaft for the likelihood of a US/China trade deal – has been weakening, as we predicted, ever since China dove Michael Bloomberg tentatively threw his hat in the ring for 2020 (please see the chart below, and [“The Bloomberg Threat”](#) November 12, 2019). *It has weakened a little further, and there’s been a general risk-off chill in the air this week, as Congress moved to pass [the Hong Kong Human Rights and Democracy Act of 2019 \(HKHRA\)](#), a bill supporting pro-Democracy protestors in Hong Kong, which is [likely to be highly offensive to China](#), perhaps even to the point of derailing trade talks.*

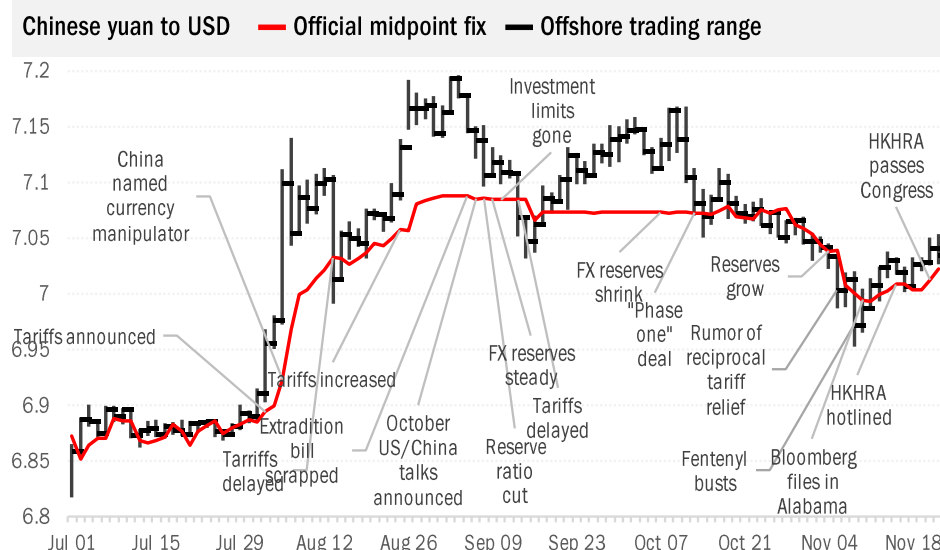
The bill has now passed the Senate by unanimous consent, passed the House with only [one nay](#) – that of Thomas Massie (R-KY04) – and President Donald J. Trump [has indicated](#) he will sign it.

China will squawk – it has already [summoned US diplomats](#) to get officially chewed out and warned of retaliation. *But the reality is that the bill is, effectively, entirely symbolic – so the Chinese reaction will be symbolic as well. More than that: the bill symbolizes the solid bi-partisan consensus that China is political kryptonite, that no politician of either party dares to be “soft on China.” It is a message to China that Trump has permanently*

Update to strategic view

US MACRO, ASIA

MACRO, FX: The Hong Kong Human Rights and Democracy Act of 2019 has passed Congress and will likely be signed by Trump. It won’t derail a “phase 1” trade deal, although it may delay it a bit while China squawks. HKHRA is purely symbolic, so China’s reaction is purely symbolic. It doesn’t tie Trump’s hands, or the hands of future presidents, in any way. Indeed, gives Trump new moral authority. Most important, it expresses the reality that no US politician dares be seen as being “soft on China” – so China can clearly see that trying to outlast Trump through the 2020 election is a fruitless risk. Even “engagement” evangelist Bloomberg is going to have to backtrack, which will remove any hope China may have had for being rescued from the trade war by his long-shot candidacy.

[\[Strategy dashboard\]](#)


Source: Bloomberg, TrendMacro calculations

Copyright 2019 Trend Macrolytics LLC. All rights reserved. This document is not to be forwarded to individuals or organizations not authorized by Trend Macrolytics LLC to receive it. For information purposes only; not to be deemed to be recommendations for buying or selling specific securities or to constitute personalized investment advice. Derived from sources deemed to be reliable, but no warranty is made as to accuracy.

changed the narrative about China – from one of “[engagement](#)” with a rising power gradually moving toward liberty, to one of “[containment](#)” of a predatory adversary. If Chinese president-for-life Xi Jinping ever thought he could out-last Trump and deal with a more pro-China US president after 2020, this should cure him of that delusion. No one else is going to be any easier to deal with, and some – especially Elizabeth Warren (D-MA) – would be worse (see “[Trump♥Muslims \(In China\)](#)” October 9, 2019). At least Trump is seen by China as a businessman who can be dealt with in terms of rational interests, not “progressive” ideology.

- We have noted that the arrival of Bloomberg on the 2020 election scene changes China’s calculus on that somewhat (again, see “[The Bloomberg Threat](#)”), because ever since the trade war began he has positioned himself as an unreconstructed “engagement” advocate. Indeed, his new Beijing-based New Economy Forum began today, with Bloomberg’s sidekick Henry Kissinger – patient-zero for “engagement” – warning that the trade war brings the US and China “to the ‘foothills of a Cold War.’” We’ve said something like that ourselves, calling the Trump Doctrine on China a “cold war with benefits” (see “[On the Margin: China – A Cold War with Benefits](#)” October 25, 2019). But we didn’t go on, as Kissinger did today, to analogize it to the days before World War One. If anything, we’ve analogized it repeatedly – as sources tell us Trump does – to the era of “appeasement” before World War Two, with the happy difference that we are not presently making the same mistakes that Europe did.
- For all of Kissinger’s yapping on Bloomberg’s Beijing stage, we think if Bloomberg is going to actually run for president, he will have to recant his “engagement” philosophy, just as he had to apologize this week for his “stop and frisk” policy as mayor of New York City. Already, Bloomberg has failed to show up for his own Beijing show, giving no reason, and leaving partners Kissinger and Henry Paulsen to make his apologies.
- We don’t mean to obsess about Bloomberg, particularly – he’s a long shot. But it’s useful to think about him as the last man standing on “engagement” – and to realize that he actually symbolizes the reality that China has no friends at this point in the US political establishment. It is simply going to have to make a deal, and it might as well make one with Trump – and lessen the risk that a lingering trade war will drive China into a disorderly first-ever recession.
- Again, HKHRA drives this home – while at the same time, it has nothing of substance in it that would force China to do anything other than rattle a few sabers here and there. Indeed, China’s chief trade negotiator, Vice Premier Liu He, said today – on the sidelines of Bloomberg’s conference, no less! – that he is “cautiously optimistic” about completing a trade deal, after having extended an invitation last week to the US negotiating team to come to Beijing.
- HKHRA declares the “sense of the Congress” about China’s human rights violations – which has about the same moral force as declaring National Secretaries Day (nowadays known, of course, as National Administrative Professionals Day).

Contact TrendMacro

On the web at
trendmacro.com

Donald Luskin
Dallas TX
312 273 6766
don@trendmacro.com

Thomas Demas
Charlotte NC
704 552 3625
tdemas@trendmacro.com

Michael Warren
Houston TX
713 893 1377
mike@trendmacro.energy

[\[About us\]](#)

Recommended Reading

[Keith Smith on Free Market Health Care](#)

Russ Roberts
Econtalk
June 18, 2019

[‘Absolutely No Mercy’: Leaked Files Expose How China Organized Mass Detentions of Muslims](#)

Austin Ramzy and Chris Buckley
New York Times
November 16, 2019

[How Google Interferes With Its Search Algorithms and Changes Your Results](#)

Kirsten Grind, Sam Schechner, Robert McMillan and John West
Wall Street Journal
November 15, 2019

[Can an Airport Get Too Big?](#)

Scott McCartney
Wall Street Journal
November 12, 2019

[\[Reading home\]](#)

- HKHRA goes on to require the president to certify, periodically, that China is in sufficient compliance with its treaty obligations to Hong Kong, and is in general compliance with global standards for human rights. If certification is not granted, then the US would no longer continue to treat Hong Kong as it does now – in the domains of trade, travel, legal reciprocity and so on – which is substantively identical to the way it treated Hong Kong before its handover to Chinese administration. It would only punish the citizens of Hong Kong to remove its legacy special status, so it's not clear strategically why a president would ever trigger such a thing.
- Certification would be, effectively, entirely in the hands of the president to grant or not – just as, today, the president (through the Treasury Secretary) designates, or does not, that China is, or is not, a “currency manipulator” (see [“China the Currency Manipulator, and So What?”](#) August 6, 2019).
- *This in no way ties Trump’s hands – or the hands of any future president – in trade negotiations. Indeed, it gives him a new weapon – albeit a merely symbolic one.*
- *We continue to believe that a “phase 1” trade deal will get done, and fairly soon – even if [it drags on a bit longer than previously expected](#) while China expresses its high dudgeon about HKHRA. We expect that even if it is not officially completed, that Trump will either defer or limit the new tariffs set to kick in on December 15 – and that when he does it will be a sign of progress in the talks, although we are braced for the consensus to portray it as just the opposite: a sign of weakness.*

Bottom line

The Hong Kong Human Rights and Democracy Act of 2019 has passed Congress and will likely be signed by Trump. It won't derail a “phase 1” trade deal, although it may delay it a bit while China squawks. HKHRA is purely symbolic, so China's reaction is purely symbolic. It doesn't tie Trump's hands, or the hands of future presidents, in any way. Indeed, gives Trump new moral authority. Most important, it expresses the reality that no US politician dares be seen as being “soft on China” – so China can clearly see that trying to outlast Trump through the 2020 election is a fruitless risk. Even “engagement” evangelist Bloomberg is going to have to backtrack, which will remove any hope China may have had for being rescued from the trade war by his long-shot candidacy. ▶