



Hong Kong Crosses the Rubicon & Weekend Links

How long can the CCP allow violent displays of disrespect for its authority *within* “one country,” without seeing its credibility begin to erode more broadly?

If “one country” and “two systems” are deemed incompatible by Chinese leadership, it’s clear which construct they will choose and which they will abandon.

The Hong Kong ban on wearing masks in public is likely a precursor to a broader restriction on civil liberties and quite possibly a more forceful crackdown on civil disobedience by Hong Kong police. Surely they would have anticipated this [likely response](#)...

*Protesters called for a **mass show of defiance** against Hong Kong’s newly imposed mask ban -- including a cheeky march in Halloween masks -- as the government invoked rarely used powers to quell the unrest. A court denied an injunction application against the law and the city’s metro operator shut down all services late Friday for the first time since the demonstrations started.*

Thousands in the streets wearing masks this weekend is easy to predict. So what does the government plan on doing next? Apparently, [all options are on the table](#).

At a press conference to announce the new anti-mask law Carrie Lam told journalists “freedoms are not without limits.” Asked about further restrictions, including a possible delay to local elections set for November, she said that if violence did not stop, the government would not rule out any measures permitted by law.

The emergency regulations ordinance, created by British authorities to break up port strikes in 1922, had not been used for over half a century, and never since the handover of Hong Kong to Chinese rule in 1997. It gives Lam virtually unlimited powers, although legal scholars said the government could be challenged in court if anything it did violated the Basic Law, the territory’s constitution.

*“**We have the duty to use all available means to stop the escalating violence and restore calmness in society,**” Lam said in a combative press conference unveiling the new law. “The decision to invoke the emergency regulations ordinance is a difficult, but also a necessary one for public interest.”*

*“So far, we have not immediately moved on to the next step ... [but] **if the violence escalates, as a responsible government, we must make use of existing legal provisions,**” she said. “We would not rule out any measures that we can reasonably implement under the current law.”*

Expect the [police to start using a heavier hand](#):

In the documents seen by Reuters, the police manual changed some guidelines on how officers could act when considering force.

The updated guidelines also removed a line that said "officers will be accountable for their own actions", stating only that "officers on the ground should exercise their own discretion to determine what level of force is justified in a given situation".

Civic Party lawmaker Tanya Chan said that change was significant. "It told officers that they would be personally liable, which has become quite an issue now. By deleting this line, it gives the impression that the police force will support officers in whatever they do," she said.

When facing "Defensive Resistance", officers are advised to consider new methods, including tear gas and pepper spray, according to the documents.

Officers should also consider using additional actions such as rubber bullets, water cannon with tear liquid and bean bag rounds against any cases of "Active Aggression".

[Protest groups fear internet restrictions](#) are a possibility:

Soon after the face-mask ban was announced, LIHKG, the de facto online headquarters of Hong Kong's protesters, began to urge people to download virtual private networks (VPN).

A post titled "Buy VPN! Buy VPN! Buy VPN!" by LIHKG-user "Bloody" on Oct. 4, had 675 comments within a short time, and became the most discussed topic on the website's political affairs channel. "Soon, LIHKG and Telegram could be blocked. VPNs are the only hope we have, please purchase one when the tools are still available!" Bloody wrote.

Paranoia? [Maybe not...](#)

Apple Inc.'s App Store is reviewing a recent decision to reject a Hong Kong app designed to track police activity in the midst of increasingly violent pro-democracy protests in the city.

The app, known as HKmap.live, is a mobile version of a website that helps users avoid potentially dangerous areas, according to the developer, who uses the alias Kuma to remain anonymous. It was rejected from Apple's App Store because it "facilitates, enables, and encourages an activity that is not legal," Apple told the developer, according to a copy of the rejection notice seen by Bloomberg News. "Specifically, the app allowed users to evade law enforcement," Apple wrote.

The developer said the app is built to "show events happening" in Hong Kong, but what users choose to do with that information is their choice. "We don't encourage any advice on the map in general," the developer told Bloomberg News. "Our ultimate goal is safety for everyone."

Hong Kong has descended into a vicious circle of violence and oppressive response that leads to escalating violence with no end in sight. **Events have pushed "one country" and "two systems" past the point of compatibility.**

[This piece in Foreign Affairs](#) strikes me as an accurate assessment of the root of Beijing's continuing miscalculation in its handling of the situation:

***Beijing is convinced** that Hong Kong's elites and a substantial part of the public do not support the demonstrators and **that what truly ails the territory are economic problems rather than political ones**—in particular, a combination of stagnant incomes and rising rents. **Beijing also believes that, despite the appearance of disorder, its grip on Hong Kong society remains firm.** The Chinese Communist Party has long cultivated the territory's business elites (the so-called tycoons) by offering them favorable economic access to the mainland. The party also maintains a long-standing loyal cadre of underground members in the territory. And China has forged ties with the Hong Kong labor movement and some sections of its criminal underground. Finally, Beijing believes that many ordinary citizens are fearful of change and tired of the disruption caused by the demonstrations.*

***Beijing therefore thinks that its local allies will stand firm and that the demonstrations will gradually lose public support and eventually die out.** As the demonstrations shrink, some frustrated activists will engage in further violence, and that in turn will accelerate the movement's decline. Meanwhile, Beijing is turning its attention to economic development projects that it believes will address some of the underlying grievances that led many people to take to the streets in the first place.*

This view of the situation is held by those at the very top of the regime in Beijing, as evidenced by recent remarks made by Chinese President Xi Jinping, some of which have not been previously reported. In a speech Xi delivered in early September to a new class of rising political stars at the Central Party School in Beijing, he rejected the suggestion of some officials that China should declare a state of emergency in Hong Kong and send in the People's Liberation Army. "That would be going down a political road of no return," Xi said. "The central government will exercise the most patience and restraint and allow the [regional government] and the local police force to resolve the crisis." In separate remarks that Xi made around the same time, he spelled out what he sees as the proper way to proceed: "Economic development is the only golden key to resolving all sorts of problems facing Hong Kong today."

President Xi seems to be drawing lessons from the supposed deal that the Chinese populace has made with its government to forego political rights in exchange for improvements in material well-being. **Is he so obtuse as to not appreciate the fact mainland Chinese were never given a choice in the matter?**

The people of Hong Kong are unlikely to go gentle into that good night.

As for China itself, In a political system in which dissent is punished swiftly and severely, President Xi has no feedback with which to check his priors about the satisfaction of the Chinese people with the supposed bargain they've made with the CCP for material well-being...

[FT: Short-term Chinese Cheer Masks Deeper-Seated Concerns](#)

Among urban consumers, 22% would permanently leave China if they had the means to do so, according to a survey of 1,000 consumers by FT Confidential Research. This rises to 36% of our high-income group, defined as those living in households earning more than Rmb300,000 (\$42,122) a year. Overall, 64% of the 1,000 surveyed said they would not emigrate, although in first-tier cities such as Beijing and Shanghai, this falls to 59%.

Of course, Xi may get some feedback should the rate of improvement in China's material well-being falter..

[CSIS: The Anxiety Behind Beijing's Swagger](#)

A visitor to Beijing sees little visible evidence that China's huge economy is buckling under the pressure of the trade war with the United States...

*But other conversations during my trip suggested deeper anxieties. Even private conversations with Chinese scholars and officials revealed **a sense of defensiveness and victimhood that is striking for a country as ostensibly secure and successful as China**. No one was willing to acknowledge any Chinese responsibility for the parlous state of U.S.-China relations; a blameless China was simply under attack from an unreasonable Washington. A prominent retired diplomat took umbrage at the U.S. accusation of Chinese "theft" of intellectual property: "It offends the Chinese people to be called thieves and reminds them of the 'century of humiliation'." At a private dinner, **eight respected Chinese scholars—with no dissenters—asserted their firm belief that the United States was responsible for the protests in Hong Kong**.*

*The combination of bravado and defensiveness I saw at CDF has at least three immediate implications for the United States. First, it suggests that **Beijing is unlikely to make major concessions in the bilateral trade war**. Yes, the dispute is complicating Beijing's economic management and may even be causing political problems for Xi Jinping at home. For these reasons, a "mini-deal" over the next few months—say, Chinese soybean purchases and lifting of some investment restrictions in exchange for a deferral of some tariff hikes by the Trump administration and forbearance on Huawei—is possible. But it was clear to me that **China is more dug-in than ever on U.S. structural concerns** such as subsidies and preferences for state-owned enterprises.*

Second, Beijing is likely to move ahead with tighter controls at home.

*Third, a more defensive China could be a more dangerous one. Amped-up nationalism and a sense that China is under siege are likely to feed more assertive policies at home and abroad. **How Beijing acts on the continued unrest in Hong Kong is the most immediate source of concern.***

Elsewhere in U.S.-China relations, the [SCMP provides a good look at some of the fundamental economic problems with one-way capital account opening](#), namely that the growing necessity to bottle-up domestic capital flows is ipso facto evidence of an overvalued currency and asset markets...

China has a current account surplus of US\$88.2 billion and a financial account surplus of US\$45.4 billion, according to the international payment balance report released by the State Administration of Foreign Exchange over the weekend. However, the country

reported a huge deficit of US\$131.2 billion in the errors and omissions section, showing strong illicit capital outflows.

Marie Owens Thomsen, global head of investment intelligence at Indosuez Wealth Management, said Beijing's reluctance to offer a two-way investment flow is causing potential investors to drag their feet.

"The hallmark of a mature financial market, is that anybody who wants to participate in it can come in and can come out. Otherwise you're reluctant to go in," Owens Thomsen said. "If there are limits on how much [money] I can take back out, that's definitely holding people back."

"It's going to be very hard to open up the capital account when the currency is weakening, because then I would fear huge outflows," she added.

This one is a bit of a wild card, but watch this space for potential negative ramifications in U.S.-China relations:

[Tests show bootleg marijuana vapes tainted with hydrogen cyanide](#)

David Downs, the California bureau chief for Leafly, an online publication devoted to the cannabis industry, said downtown Los Angeles acts as the final destination for a supply chain that originates in China.

*"**This all starts in China** where you can get the empty cartridges both for the THC market and the nicotine market, as well as the additives, flavorings, and thickeners that are being put into these cartridges alongside the THC oil," Downs said.*

Meanwhile, President Trump is shoring up his support with the China-affected Farm belt...

[Trump administration tries to pacify farmers with major biofuels boost](#)

The package may help President Donald Trump shore up support in Iowa and other Midwestern farm states, where recent polls have shown his approval ratings underwater.

Corn-state lawmakers were quick to praise the deal.

"President Trump has made clear that he is an ally of corn and soybean farmers as well as ethanol and biodiesel producers," Sen. Chuck Grassley (R-Iowa), said in a statement. "He is fighting for the farmer. This announcement is great news for Iowa, the Midwest and the entire country."

In case you missed it from Macrolens this week, in anticipation of heightened tensions in Hong Kong and a poor result from U.S. – China trade talks: [Tail Trades for a Spooky October](#)

Have a great weekend.