Being an international financial center, Hong Kong has long been proud of its free flow of capital, sound financial infrastructure, an influx of talent from across the world and an independent legal system.

However, China's plans to impose national security legislation on Hong Kong have raised concerns about a potential flight of capital and talent from the financial hub. US Secretary of the Treasury Steven Mnuchin's remarks on Thursday last week that he was working on measures that could restrict capital flows through Hong Kong signified that Washington's responses to Beijing's security legislation are not merely verbal threats, but actions in the making.

The announcement came after US President Donald Trump early this month ordered the US Department of the Treasury-led Working Group on Capital Markets to recommend measures to protect US investors from Chinese companies' failure to adhere to US rules on accounting and disclosure.

A report on policy recommendations is due within 60 days. Subsequently, Washington is to roll out capital market measures in response to the security legislation, restricting and likely undermining Hong Kong's status as a global financial hub.

Any move to rattle the financial system of Hong Kong — which is the third-largest US-dollar trading center in the world — would have an enormous effect on the territory as well as global financial markets. Restricting Hong Kong's use of the US dollar in the settlement system, for instance, would be an extreme measure that could force many financial institutions in the territory into a crisis regarding their business operations.

Businesses in Hong Kong, ranging from trading firms to hedge funds, if subjected to capital flow restrictions, would face capital chain disruptions and might have to consider moving their assets out of the territory.

Reports over the past few weeks have indicated higher demand for US dollars from Hong Kong firms and banks, with some even saying that wealthy residents of the territory have started to seek offshore options to park their assets.

Ironically, a number of Chinese companies have been considering listing their shares in Hong Kong after the US Senate last month passed a bill that could expell Chinese companies from US stock exchanges unless US authorities can inspect their audits.

Last week, Netease Inc became the latest US-listed Chinese firm to complete a secondary listing in Hong Kong, which came after Alibaba Group Holding Ltd's Hong Kong listing last year and ahead of JD.com Inc's planned debut on Thursday.

Over the past 20 years, Chinese companies have been seeking to list their shares on US stock exchanges, which has always been a hot topic among investors. Listing shares on foreign exchanges has enabled Chinese business owners to move their assets out of the country for various purposes, while US and international investors have been able to buy Chinese equities with rapid growth potential.

However, US-China relations are changing, and the trend of Chinese firms shifting listings from the US to home markets, including Hong Kong, is here to stay.

Hong Kong Exchanges & Clearing Ltd was the fifth-biggest stock exchange worldwide last year. However, the proposed national security legislation would weaken Hong Kong's status as a global trade and financial center, and change the characteristics of the local stock exchange, adding more Chinese firms to the Hang Seng Composite Index.

In other words, the Hong Kong stock exchange is becoming more Sinicized rather than internationalized, and should Hong Kong's role wane, it would be quickly supplanted by other international commercial centers and might be phased out.

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