

Analysis Report: 19 Years After Hong Kong's Handover

- **Local awareness is rising, political groups face restructuring, and generational change is accelerating.**
- **Economic growth continues to slow; concern rises over the risks from integration of the Mainland and Hong Kong economies.**
- **Protests intensify; there is concern over freedom of the press and judicial authority.**
- **The international community continues to affirm the business environment, but has grown concern over the outlook for "one country, two systems" in Hong Kong.**
- **Mainland China deliberately highlights that "one country" outweighs "two systems"; frequent conflict between the Mainland and Hong Kong undermines the Hong Kong people's confidence in the future.**
- **Taiwan-Hong Kong relations develop steadily and personnel exchanges continue to grow.**

Overall Review and Analysis

Hong Kong was handed over to mainland China in 1997. The government of the Republic of China (ROC) positions Hong Kong as a "special areas" uniquely from other areas of the Mainland to maintain consistency and continuity in its Hong Kong policy, premised on Hong Kong maintaining its free economic system and autonomous status. The government annually reports on developments in Hong Kong at all levels and the status of Taiwan-Hong Kong relations. This is the 19th such report, covering an observation period from from July 2015 to early July 2016.

In the 19 years since the handover, Hong Kong has generally maintained the normal functioning of its political, economic and social systems. At the same time, Hong Kong faces the challenge of change. With respect to political development, commentators say that the repercussions of the "Occupy Central Movement" have yet to dissipate. The movement has awakened local awareness and turned it into a new political wave that has stirred a "generational change" and "generational conflict." The Legislative Council, Election Committee member elections, and Chief Executive elections came in quick succession from the second half of 2016, with fierce campaigns, radical political views, a volatile public mindset, and international concern over "one country, two systems" operations, among other factors. Mainland China must prudently respond to these changes.

Regarding economic development, Hong Kong continued to be ranked as the world's freest economy for the 22nd year and the world's most competitive economy in 2016. However, amidst an

uncertain global economic outlook, Hong Kong's economic expansion slowed, leading the government to forecast growth at 1-2% in 2016. Integration of the Mainland and Hong Kong economies continued. However, external concern remained that the steady increase of mainland China's influence on financial, political, and economic affairs in Hong Kong could have a negative effect and believe it will affect Hong Kong international ranking in political and press freedom or the Global Financial Centers Index.

Regarding social development, protests continued and intensified in Hong Kong over the past year, exerting a powerful pressure on governance in Hong Kong. The phenomenon of media "self-censorship" continued to attract attention, yet the people still have expectations for the media's role in monitoring the government.

During the period observed in this report, Hong Kong remained free to participate in international organizations and to sign international agreements. Its business environment was also internationally affirmed. At the same time, the international community showed concerns over the development of democracy and human rights in Hong Kong. U.S. Congressional committees suggested that the British Parliament and U.S. Congress jointly investigate the status of implementation of the Basic Law of the Hong Kong. Follow-up developments will be especially worth watching.

Mainland China recently tightened control over Hong Kong. However, there have been frequent conflicts between the Mainland and Hong Kong, especially the disappearances of staff at Hong Kong's Causeway Bay Bookstore. Commentators say these incidents not only involve illegal "cross-border arrests," but also raise deep concerns among the people of Hong Kong over whether the "two systems" protect freedom and human rights in Hong Kong. According to a local opinion poll in Hong Kong, 64% of the respondents said they felt "pessimistic" about the outlook for Hong Kong, while the percentage of respondents saying they felt proud to be national citizens of mainland China fell seven percentage points over the same period last year to 31%, the lowest level since 1997. Only 10% of the respondents in the 18 to 29 year-old group felt proud to be national citizens of mainland China. The Mainland authorities would do well to consider the significance of these polls.

Personnel, economic, and trade exchanges and official interaction between Taiwan and Hong Kong continued to steadily progress. In 2015, Hong Kong received more than 2 million visitors from Taiwan, ranking second among visitors to Hong Kong, while Taiwan received about 1.25 million visitors from Hong Kong, a record high. There are currently 7,340 Hong Kong students studying for degrees in Taiwan, first among all foreign students. Annual trade between Taiwan and Hong Kong in 2015 surpassed US\$39.5 billion. Taiwan and Hong Kong are each other's fourth largest trading partner. Official interaction between Taiwan and Hong Kong also continued. A Taiwan minister without

portfolio, specially appointed deputy minister of the Mainland Affairs Council, director of the National Palace Museum, and many local government heads and deputy heads successively visited Hong Kong. The Taiwan–Hong Kong Economic and Cultural Co-operation Council and Hong Kong-Taiwan Economic and Cultural Cooperation and Promotion Council, established under promotion of the governments of Taiwan and Hong Kong, respectively, convened their sixth joint meeting in Hong Kong, joined by several deputy heads of ministries in Taiwan. In the past year, Hong Kong's Secretary for Transport and Housing, Secretary for Constitutional and Mainland Affairs, and other top officials visited Taiwan for exchanges.

In the future, the government will, in accordance with the Act Governing Relations with Hong Kong and Macao, and premised on Hong Kong maintaining its free economic system and autonomous status, apply rules for exchanges between Taiwan and Hong Kong and Macao different from the rules for other areas of the Mainland. It will also ensure national security and duly adjust related measures in response to developments.