

Analysis Report: 15 Years After Hong Kong's Handover

Mainland Affairs Council

- Political operations remain smooth, but the changing political ecology arouses concern
- The economy maintains slow and steady growth amidst intense external competition
- Income inequality and freedom of the press are issues of concern
- The international community affirms Hong Kong's business environment, but is concerned about developments in the political system
- Mainland China continues to integrate with Hong Kong amidst increasing protests
- Taiwan and Hong Kong mutually establish representative offices and expand exchanges and cooperation

I. Overall Review and Analysis

Hong Kong was handed over to mainland China in 1997. The government of the Republic of China (ROC) treats Hong Kong as a "special areas", uniquely from the Mainland area, in order to maintain consistency and continuity in its Hong Kong policy and premised on Hong Kong maintaining its free economic system and autonomous status. The government therefore annually releases report on overall developments in Hong Kong and the status of Taiwan-Hong Kong relations. This is the 15th report, covering the period from July 2011 to June 2012.

Hong Kong's political, economic and social systems have functioned normally in the 15th years since the handover. During this period, Hong Kong held three major elections that brought a wave of political newcomers to power and had a long-term impact on Hong Kong's political ecology. Leung Chun-ying was elected as the Chief Executive in Hong Kong's most intense campaign, where there were frequent reports of negative campaigning and rumors of intervention by mainland Chinese agencies stationed in Hong Kong. Both international and Hong Kong media and academics called on the Mainland to honor its pledge of "Hong Kong governed by the Hong Kong people with a high degree of autonomy."

The European debt problem, downward adjustment of mainland China's economic growth target, and other external factors slowed Hong Kong's economic growth. However, the Mainland launched a series of economic measures to support Hong Kong, which resulted in

rapidly expanded Renminbi-denominated commercial activity in Hong Kong, and further advanced economic integration between the Mainland and Hong Kong. During the period observed by this report, the people of Hong Kong could still take to the streets to protest actions by mainland China or the Hong Kong government. The press remained generally free, but media self-censorship continued to raise concern. On the other hand, the Gini coefficient announced by the Hong Kong government reached 0.537, a 40-year high, indicated income inequality would be a difficult challenge facing the new government.

Hong Kong's business environment continued to be affirmed in assessment reports done by international organizations. However, the international community was concerned about developments of the political system which are critical to economic development. In messages congratulating the new government in Hong Kong, the UK, the US, and other countries expressed concern over whether Hong Kong is advancing towards universal suffrage.

Economic integration and personnel exchanges between the Mainland and Hong Kong continued to accelerate. The Mainland listed RMB11.8 billion worth of Renminbi-denominated bonds in Hong Kong ("dim sum bonds"), first in the world both by number of listings and the amount raised. Mainland tourists remained the biggest source of visitors to Hong Kong. However, cultural differences have led to conflicts and disputes in the process of integration. Finding ways to harmoniously integrate the two sides is another difficult challenge facing the new government.

Personnel, economic and trade exchanges and official government relations between Taiwan and Hong Kong advanced over the past year. Total bilateral trade amounted to about US\$41.7 billion last year (2011), making the two sides each other's fourth largest trading partner. In addition, more than 2.15 million Taiwanese people visited Hong Kong and over 660,000 Hong Kong people visited Taiwan, a new high. On the other hand, the number of Hong Kong students applying to study in Taiwan also reached a 60-plus-year high.

The renaming of Taiwan's representative office in Hong Kong is widely considered by the outside world as the most important indicator of improving relations between Taiwan and Hong Kong. After active communication and efforts by the ROC government, the name of the office was officially changed to the "Taipei Economic and Cultural Office" in July last year. The Hong Kong government opened a general office in Taiwan in May this year, upon Taiwan government's consent. In areas of cooperation, Taiwan and Hong Kong signed a Memorandum of Understanding on Banking Supervisory Cooperation and Air Services

Agreement. Exchanges and cooperation in taxation, visas, tourism, culture, health care, food safety, economic and trade have also advanced. The Hong Kong side responded positively on measures to facilitate visa applications for Taiwanese visitors. We hope that the two sides can fully utilize the mutually established offices as a platform to further expand and promote exchanges and cooperation between Taiwan and Hong Kong.