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THE COORDINATED DEVELOPMENT OF HONG KONG'S ECONOMY AND
MAINLAND CHINA'S ECONOMY IN THE POST-EPIDEMIC ERA

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CONTENTS

INTRODUCTION.....	3
GENERAL CHARACTERISTICS OF THE WORK	4
CHAPTER 1 THE RESEARCH BASIS OF HONG KONG'S ECONOMIC DEVELOPMENT	6
1.1 Literature review at home and abroad	6
1.2 Research ideas and research methods	8
1.3 Theoretical principles and method.....	9
CHAPTER 2 OVERVIEW OF HONG KONG'S ECONOMIC DEVELOPMENT UNDER THE EPIDEMIC	11
2.1 Economic Analysis of Ancient Hong Kong	11
2.2 Hong Kong's economic development history-after returning to the mainland.....	16
2.3. The once prosperous polycentric Hong Kong	19
2.4 Looking back on Hong Kong's first recession in 2019.....	21
2.5 Impact of COVID-19 on Hong Kong's economy	26
2.6 U.S.-China trade friction hurts Hong Kong economy	31
2.7 Local social events will still plague Hong Kong's economy	37
CHAPTER 3 PROSPECTS OF HONG KONG-MAINLAND ECONOMIC COOPERATION AND POTENTIAL PROBLEM SOLVING	40
3.1 The history of economic cooperation between Hong Kong and the Mainland.....	40
3.2 Current status of economic cooperation between Hong Kong and the Mainland ..	44
3.3 Solutions to potential problems in the process of economic cooperation between Hong Kong and the Mainland.....	48
3.4 To fight the epidemic together, Hong Kong and the mainland cooperate with each other.....	52
3.5 Coordinated economic development between the Hong Kong SAR and the Mainland in the post-epidemic era.....	54
CONCLUSION	58
LIST OF REFERENCES	59

INTRODUCTION

Since the 1990s, with the development of the world economy, the economic interdependence of various countries has continued to increase, and a wave of economic integration has been set off worldwide. The establishment of economic integration organizations was very rapid. In addition to the increase in number, the nature and importance of economic integration organizations have also developed significantly. Both in depth and breadth have played an unprecedented role in promoting economic integration in the history of economic development.

Due to the specialization of the division of labor and the development of economic cooperation towards economic integration, investment has become an important part of economic exchanges and is playing an increasingly important role in economic life. The content of economic integration has become more abundant and the cooperation mechanism has become more flexible, which has effectively promoted the development of the national economy, investment growth and economic prosperity. Economic integration has become an important trend in world economic development. Economic integration has also received extensive attention from governments and international organizations, and has become a major trend in global economic integration. This is a hot topic in economics and science. As a new category, many experts and scholars have conducted in-depth discussions and studies on the impact of economic integration on all aspects of investment, thereby effectively promoting the development and promotion of economic integration investment at a higher level.

Therefore, this article examines the investment effects of economic integration from both theoretical and practical perspectives, examines the innovation and transfer effects of investment from traditional theories, and analyzes the static and dynamic effects of economic integration between the Mainland and Hong Kong. The effect is analyzed, and it is hoped that the research in this article can be used as a reference for measuring the investment effect of economic integration.

GENERAL CHARACTERISTICS OF THE WORK

List of keywords. HONG KONG ECONOMY, MAINLAND ECONOMY, COVID-19, ECONOMIC INTEGRATION, GLOBAL TRADE

Purpose, objectives, object and subject of research.

The purpose of this master's thesis is to examine the form of Hong Kong's economic development in the context of a global economy severely hit by COVID-19 and how Hong Kong can promote economic development in the post-epidemic era in concert with mainland China, and to make relevant recommendations for implementation Achieving the stated goals identified solutions for the following tasks:

- study of the history of sovereignty in Hong Kong;
- study of the economic development of Hong Kong before its return to the motherland;
- study the economic development of Hong Kong after its return to the motherland;
- study the economic changes in Hong Kong before and after the epidemic;
- study the major structures and problems of Hong Kong's economy at present;
- study on the Economic Cooperation between Hong Kong and the Mainland in the Post-Epidemic Era;
- make recommendations to improve the state, functioning of banking system as an element of financial system in China;
- assess the risks, uncertainties and safety of the implementation of the proposed measures.

The purpose of this master thesis is to study the development of economic cooperation between Hong Kong and Mainland China in the post-COVID-19 era

The research object of the master's thesis is the economic system and trade system of Hong Kong, China

The research topic is to explore possible measures for economic cooperation with Mainland China on the premise of ensuring the stable development of Hong Kong's economy

The scientific novelty of the study includes the following aspects: This study clarifies the concept of economic integration; based on the use of research methods combining macro and micro analysis, it proposes suggestions for economic cooperation between Hong Kong and the Mainland in the post-epidemic era

Provisions submitted to the defense.

As a result of the conducted research, the following results were obtained, submitted for defense:

1. The theoretical basis of economic integration: trade integration, currency integration, economic policy integration, economic planning integration, etc.;
2. The impact of Hong Kong's history and current situation on economic development
3. Analyze the economic structure of Hong Kong and find out the key issues of economic cooperation between Hong Kong and the Mainland. The author puts forward suggestions for economic cooperation between Hong Kong and the Mainland.

Master student's personal contribution. The paper is an independent scientific study in the field of COVID-19 and the global economy. All theoretical regulations and implementation suggestions contained in the dissertation announcement submitted for defense are novel or practical, and are formulated by the applicant himself.

Information on the structure of the master thesis. The master thesis is presented as a 66-page computer text, including an introduction, an overview of the work, the main part of 5 chapters, a conclusion and used references. The master thesis contains 18 figures and 53 literature sources.

CHAPTER 1

THE RESEARCH BASIS OF HONG KONG'S ECONOMIC DEVELOPMENT

1.1 Literature review at home and abroad

Foreign researchers very early studied the impact of economic integration on trade and formed a complete theoretical basis, but studies of the impact of economic integration on investment were carried out very late and relatively lagged behind, and research on the investment effects of economic integration Integration is essentially divided into two aspects, on the one hand, in the study of static impact, and on the other - in the study of dynamic impact.

The renowned economist Ding Ning (1977) was the first to propose an eclectic theory of international production and use geographic advantages as a motivation for international direct investment [1]. A theoretical model of direct international investment is presented. In this model, both the property advantage and the internalization advantage are viewed from the perspective of the foreign investor, that is, the investing country, while the geographic advantage theory is viewed from the perspective of the foreign applicant. Location factors are primarily market factors, cost factors, trade barriers, investment climate factors and framework conditions. In addition, location benefits can also be categorized into natural capital metric markets and capital metric markets. The usefulness of natural gifts refers to the usefulness of natural conditions, which primarily includes the benefits of natural resources, labor, geographic conditions, and climate. The environmental benefits generated by investment are artificially created resources of location: they include factors such as the state of economic development, industrial structure, government economic policies, as well as social and institutional factors, the value of location advantage in relation to the effects of economic division and investment is not one and also. He divided direct investment into commodity research types, market research type, strategic wealth research type, efficiency research type, trade and distribution, co-benefit type, etc. Different types of investments have their own strategic goals, so the investment effects do not coincide. ... In addition, Dunning's theory of stages of investment development includes dynamic analysis of the impact of location benefits on international direct investment and illustrates the general context and trends of international direct investment, as well as the degree of economic development.

Motta and Norman (1996) [2] used the partial equilibrium model of oligopolistic firms to analyze the investment effects of economic integration. They concluded that a manufacturer's investment decision for a fully symmetrical three-country, three-

manufacturer model is primarily determined by factors such as the economic characteristics of the manufacturer's model, the cost of trade in the region, and the size of the country. Removing trade barriers as a result of economic integration will allow companies outside the zone to increase their investments in the zone.

Nearby modified the model of Mott and Norman (2002) and specifically simplified the investment decisions of companies. A fundamental study of the investment behavior of companies in a region is an investment decision made by companies outside the region [3]. They believe that investing in avoiding trade barriers and investing in an export platform from producers outside the zone will increase the flow of investment into the zone.

In terms of research on the investment effect of economic integration, local scholars have also conducted useful research. Lee Wannan (2004) combined practice and theory to study the investment effect of the ASEAN Free Trade Area. He believes that the removal of various investment restrictions will increase investment from outside the region, increase the overall competitiveness of the region and ensure sustainable economic growth [4]. Du Qunyang and Song Yuhua (2004) have clearly defined the concept of investment effects [5]. And we got a model for measuring investment transfer and investment creation. A detailed analysis of the investment status of China and the ASEAN region and the conclusion is that the main factor influencing the investment effect of the China-ASEAN free trade zone in the future is the transfer of investments and the effect of creating investments from outside. region to region.

Wu Binh and Huang Tao (1997) used traditional foreign direct investment theories [6], business management and marketing theories to create a mathematical model to analyze the impact of investments. They concluded that investment is broken down into "economic acquisition phases." "And 'use the capture scene', the investment effect has changed.

Yang Xianming (2000) systematically researched the theory of stages of international direct investment and discussed a number of theoretical and practical issues of attracting investment at the stage of employment promotion, labor force and development phase of investment in labor [7]. Based on the analysis of the relationship between direct international investment and economic development, the process of using foreign direct investment for direct foreign investment is divided into: the stage of absorption of foreign direct investment; from the stage of FDI absorption to the gradual development of FDI; work-related investment has been replaced by technology-based investment and trade-based investment; capital-intensive resource-based investments have cross-over effects, and so on. The effect of an investment varies significantly depending on the different stages of investment.

San Xuguo (2002) is based on the historical facts of the rapid growth of

investment in the last decade of the twentieth century [8]. Using a new model of economic growth theory and analyzing the relationship between investment and economic growth in China based on Chinese data, it is concluded that there is a positive correlation between economic growth in China and investment inflows.

Dong Yan and Fan Zhaobin (2006) analyzed and studied various regional economic integration organizations and indicated that factors such as market size, wages and market opening in a region have a significant impact on investment flows. ... The conclusion is that the investment effect of economic integration in South-South and North-South free trade zones is very clear. Consequently, it is necessary to continually improve the superiority of the area in order to stimulate the flow of investment.

Zhang Hong and Tsai Tongjuan (2007) studied the investment status of the China-ASEAN Free Trade Area and used quantitative methods to analyze the impact of investments in the free trade area [9]. The conclusion is that the investment effect of economic integration is large, and the effect of investment creation in the free trade zone is greater than the investment pass-through effect.

From the above statement, we can conclude that most researchers studied the effects of investment from the point of view of economic integration in a general sense, and did not study their impact on investment due to the trend of the complex development of the world. saving. In addition, Russian scientists have carried out only a simple theoretical analysis.

1.2 Research ideas and research methods

This article uses theoretical and empirical methods to study the impact of mainland China's investment in Hong Kong and offers constructive suggestions for empirical results. The full text is divided into seven chapters. The introduction mainly focuses on the context of the topic selection and the high importance of research, summaries of research literature at home and abroad, the main content of the dissertation and the definition of related concepts, and the main research methods and innovative ideas of the article.

The first chapter of the dissertation is devoted to the theoretical foundations of economic integration between mainland China and Hong Kong. The theory of the investment effect of economic integration in its dynamic and static aspects is presented. The static effect theory includes the investment creation effect and the investment pass-through effect. ... Dynamic effect theory is discussed separately in terms of economies of scale, market expansion and increased competition.

The second chapter presents the investment status of mainland China and Hong

Kong in the process of economic integration and the impact of mutual investment promotion on economic and trade development.

The third and fourth chapters form the basis of the article, which mainly includes the theoretical part and part of the empirical model of the investment effect of the economic integration of mainland China and Hong Kong. The theoretical part is the investment effect of the economic integration of mainland China and Hong Kong. It shows the investment effect of economic integration in mainland China and Hong Kong from a dynamic and static perspective. Part of the empirical model uses an econometric regression model to analyze and test the impact of investments. The results show that the investment effect of economic integration has a profound impact on economic development and sustainable economic growth in mainland China and Hong Kong.

The fifth chapter is mainly devoted to countermeasures and proposals to optimize the investment effect of mainland China and Hong Kong. Make proposals for investment and development of economic integration of mainland China and Hong Kong.

The sixth chapter focuses on the investment effects of economic integration between mainland China and Hong Kong.

1.3 Theoretical principles and method

R.Z. Lawrence was the first to propose the concept of "economic integration", which corresponds to the elimination of "shallow economic integration" that restricts cross-border trade and investment [10].

The government of Bemard Huckman is of DEKonan's view that economic integration is the coordination and cooperation of the government to eliminate the consequences of market segmentation, reach an agreement on economic integration in the region and create a large single market in the region [11-20]. Or eliminate the cost of entering a large market and implement non-discriminatory trade in goods and services in the region, thereby facilitating trade and investment in the region. Thomas S. Schelling considers economic integration to be "self-limiting." After that, there is greater economic freedom." "Thus, economic integration is not only a policy of economic integration for production, but also a policy of economic integration for sales.

(1) Combination of theoretical standard analysis and empirical application analysis. In addition to theoretical and normative analysis, it places increasing emphasis on blending with practicality and proposes constructive countermeasures and proposals for the investment impact of the economic integration of mainland China and Hong Kong.

(2) This article combines qualitative analysis methods with quantitative analysis methods and uses a large number of graphs and data to quantitatively analyze the investment status of mainland China and Hong Kong. At the same time, qualitative analysis methods are used to illustrate the investment effects of mainland China and Hong Kong.

(3) The horizontal comparison method is combined with the vertical comparison method. This article analyzes both the current investment situation in Hong Kong in mainland China and the current investment situation in Hong Kong. It also identifies and compares the current investment status at two locations with the cross and longitudinal sections of the time axis.

CHAPTER 2

OVERVIEW OF HONG KONG'S ECONOMIC DEVELOPMENT UNDER THE EPIDEMIC

This long and narrow peninsula, with an area of only 1,065 square kilometers and a total population of 7 million, is the third largest financial center in the world and a center for trade, shipping and services in Asia. Hong Kong is a city with a strong civic style and strong commercial cultural traditions. Well-dressed financial talents emerging from the central building turned the corner and appeared in a squalid, cramped and crowded tea restaurant, but there was no lack of harmony. With this “civic spirit” and trade tradition, Hong Kong is a necessary gene for the region and country to develop easy finance [21].

2.1 Economic Analysis of Ancient Hong Kong

2.1.1. Ancient Hong Kong: Origins and Changes

Hong Kong is an important global economic center, the third largest international financial center after New York and London, and its economic and political history is largely determined by its geographic location. The territory of Hong Kong consists of two main islands (Hong Kong Island and Lantau Island) and a mainland hinterland. Thus forming the natural geographical port of Guangdong Province in southeastern China [22]. In a sense, Hong Kong's role in the international economy has considerable continuity, as it originated as a commercial entrepot for China's regional and global trade, and it still plays this role today. After World War II, Hong Kong's economy and society developed rapidly, not only among the "Four Asian Tigers", but also one of the richest, most economically developed and highest living standards in the world.

According to data released by the Hong Kong Census and Statistics Department, in 2021, Hong Kong's total population is 7.4 million, and its nominal GDP will reach HK\$2,861.62 billion, a year-on-year increase of 6.4 %; Hong Kong is struggling to implement economic recovery, with exports up 19 % and consumer spending gradually recovering, gaining 5.6 % growth [23-26]. Business investment has increased, economic activity is recovering from the impact of the new crown epidemic, and the unemployment rate has fallen sharply to 4.1 %. According to the World Investment Report 2021 of the United Nations Conference on Trade and Development (UNCTAD), Hong Kong's direct foreign investment in 2020 will reach US\$119.2 billion, ranking

third in the world, after the US (US\$156.3 billion) and mainland China. (\$149.3 billion). By the end of 2021, Hong Kong's stock market ranks fourth in Asia and seventh in the world in terms of market capitalization, with a total market capitalization of US\$5.4 trillion. HKEx's IPO fundraising amounted to US\$42.3 billion, ranking fourth in the world [27].

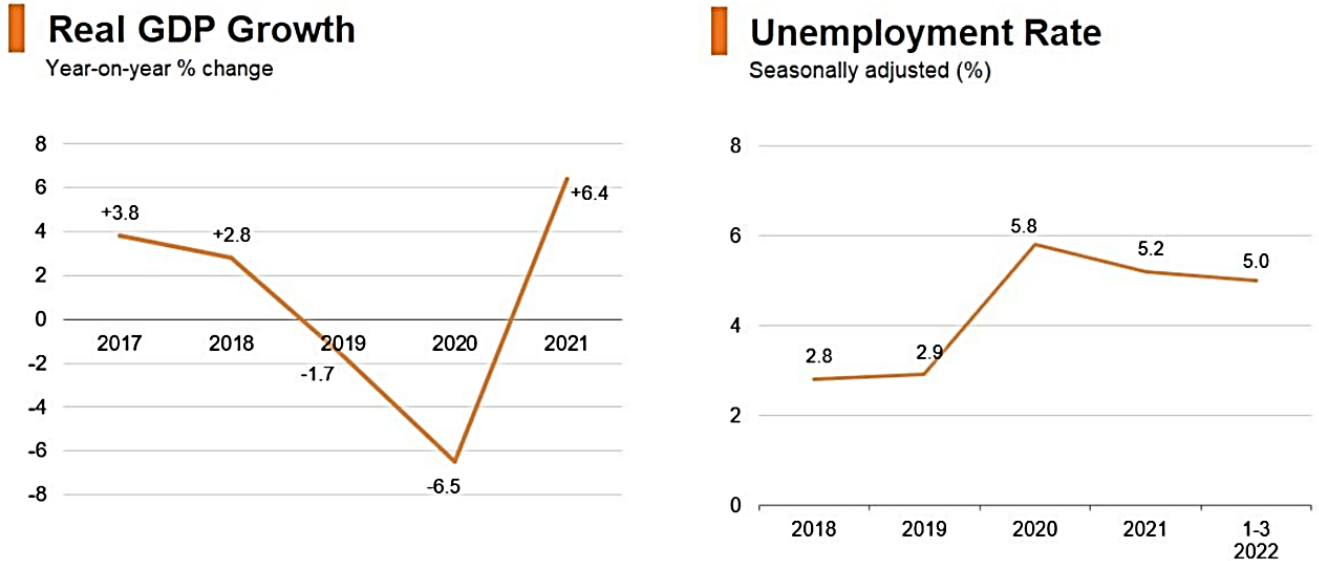


Figure 2.1 – Hong Kong GDP and Unemployment Rate

Source: compiled by the author

2.1.2. Hong Kong in the 19th Century: Finance and Trade

The Sino-British war ended with the collapse of the Qing court. On June 7, 1841, the United Kingdom declared Hong Kong a free port, which the United Kingdom hoped to greatly promote its foreign economic expansion ambitions during the period of rising capitalism. However, Britain underestimated the stubborn resistance of China's natural economic structure of agriculture and cottage industry to imported goods, and was too optimistic about the prospects of trade between the two countries. Britain's blind export and promotion failed to overcome the stubborn resistance of China's small-scale peasant economy in a short period of time, resulting in a large backlog of commodities. By the end of 1843, there were only 12 larger and 10 smaller British firms in Hong Kong [28-31].

At the same time, the irregular trade in Hong Kong's trade developed rapidly. Opium smuggling and coolie trade became the main economic activities of British merchants between the two Opium Wars. In the second half of the 1840s, four opium were shipped to China from India. Three-thirds were resold through Hong Kong. The

opium trade and the coolie trade were two important factors in the economic development of the British colony in Hong Kong in the late 1940s [32-35].

After the Second Opium War, China was forced to open more coastal ports and some ports along the river. The British ceded South Kowloon in 1860 and placed all the vast waters between Hong Kong and Kowloon under their own occupation. These are crucial to Hong Kong's status as an entrepot. The opening of the Suez Canal in 1869 shortened the route between Europe and Hong Kong. In 1871, European cable and telegrams were directly connected to Hong Kong, which further strengthened the relationship between Hong Kong and the rest of the world, which further had a significant impact on the establishment of Hong Kong's status as an entrepot trade port. By the end of the 19th century, Hong Kong had become China's inland, coastal shipping center and ocean shipping center, a transportation hub extending in all directions, and an important port in the world [36-40].

In 1853, the British Standard Chartered Bank obtained the right to issue currency in Hong Kong. In 1865, Britain, the United States, Germany and other countries co-founded HSBC in Hong Kong. At the same time, trading firms gradually gained a firm foothold in Hong Kong. British-owned Jardine and Baoshun, and American-owned Flagship Changdu flourished for a while, and finance and trade in Hong Kong grew rapidly [41].

2.3.1 Inflow of 1937-1960 resources + textile industry + entrepot trade port

However, in 1937, Shanghai was invaded by Japan, and large numbers of bankers and businessmen moved south, and Hong Kong's personal wealth increased dramatically. In the late 1940s, after the defeat of the Nanking-Kuomintang government, large volumes of capital began to flow from Shanghai to Hong Kong. The rapid influx of people and wealth has changed the social fabric of Hong Kong. The chaos of war brought money to Hong Kong. Equipment, professionals and a large number of people allowed Chinese capital to grow rapidly and gradually form an economic strength capable of competing with foreign capital [42].

The textile industry, the backbone of old Shanghai, has become Hong Kong's greatest gold treasure. In 1953, the United States approved the import of goods from Hong Kong, so the textile industry employed more than 600,000 people (which was over 20 % of Hong Kong's population at the time), and textiles and clothing accounted for over 50 % of the entire population of Hong Kong. Kong export value. Small to medium sized garment factories and trading houses are scattered throughout Hong Kong. Export growth and low tariffs led to a rapid increase in Hong Kong's small re-export trade. This

prosperity continued until the continent was reformed and reopened in the late 1970s.

2.1.4. 1960-1996 Real Estate and Financial Industry

In the late 1960s, Hong Kong successfully evolved from a warehouse trading port to a manufacturing and shipping center for export processing. However, the financial sector is not yet its main business, and the securities market is also going through fruitless times - there are only dozens of stocks traded in the entire market, dozens of brokers exist, and liquidity is extremely limited. However, dawn came. The chaos of public order in Hong Kong in the 1960s forced the British authorities in Hong Kong to adjust their policies. The first is zero tolerance in the fight against corruption and the abolition of the police (the "Independent Commission on the Fight against Corruption" was founded in 1974). After the "corrupt officials", the British authorities in Hong Kong gradually transformed into a modern, transparent and efficient government. Gradually, an embryonic form of a legal society emerged, which laid a solid foundation for the further liberalization of financial trade. Second, importance needs to be given to building livelihoods, increasing investment in infrastructure, and increasing China's political participation. The impact of this series of measures is enormous: Hong Kong's economic growth continues to accelerate, Chinese capital is growing rapidly, and the real estate and financial sectors are starting to show results [43].

December 17, 1969 is a landmark day in the financial history of Hong Kong. The Far Eastern Exchange has officially opened, headed by Chinese businessman Li Fuzhao. He broke the dominance of foreign capital in the securities market. From this starting point, the Hong Kong Stock Exchange has entered the "era of four conferences," with heroes battling each other.

At the same time, Hong Kong launched the Ten Year Housing Plan (1972) and the Home Ownership Plan (1976). Land prices in Hong Kong began to rise and real estate became a thriving business. In addition to bank lending services, mortgage services have become a new growth point in the financial sector, and the rise in real estate prices, in turn, stimulates investment demand. A positive circle is forming between the financial and real estate industries and is a powerful driver of Hong Kong's rapid transformation from manufacturing to financial services.

Since the 1970s, the wave of "liberalization" of financial supervision around the world, and globalization and the integration of capital markets have become an irreversible trend. Hong Kong abolished foreign exchange controls, opened up a gold market, created a commodity futures market, and opened banking licenses. From 1978 to 1982, the freedom of entry and exit from capital was fully realized - Hong Kong

turned into a real "free harbor". Political barriers have been completely removed, together with the unique advantage of location, combined with the industrial and commercial foundations laid over the past 20 years, Hong Kong is today in harmony with the world. For Hong Kong, the 1970s and 1980s seemed special. Whenever a wave came, she held tight to the top of the wave.

In 1986, the Hong Kong Stock Exchange ended the era of four sessions and the merged Hong Kong Stock Exchange became the only exchange in Hong Kong. All transactions were processed using computerized trading systems, which significantly increased the transparency of market transactions. and decreased surveillance. Complexity. The opening of the order for the transaction further pushed the internationalization of Hong Kong's financial system. From 1970 to 1994, Hong Kong's GDP per capita grew from \$ 925 to \$ 21,421. Growth rates during this time were expressed in double digits (except for 1985). There was a golden age everywhere. During the day, Hong Kongers ran, danced and drank. Tea, talking English in Oxford, traveling abroad ... all revealing precious and drunken fans.

2.1.5. 1997 Asian financial crisis, economic stagnation

The Asian financial crisis that broke out in 1997 broke the process of rapid economic development in Asia, and the subsequent reduction in capital investment caused a serious blow to the economies of Asian countries, and they entered economic recession one after another. Thailand, South Korea and Indonesia are the countries most affected by the financial turmoil. After the asset bubble disappears, because the countries are close to bankruptcy, they are unable to pay off their debts and are in great need of international support.

In October 1997, after using funds to swept across Southeast Asia, international speculators led by Soros turned their attention to Hong Kong, which had been handed over to the People's Republic of China for less than three months. Although the situation in Hong Kong was better than that in Thailand at that time, there were also many real estate and stock market bubbles. In the end, Jones and Soros chose Hong Kong as the main battlefield for the second wave of shocks. Facing the rampant attack of international financial speculators, the Hong Kong SAR government decided to fight back. In August 1998, the Hong Kong Monetary Authority used the Exchange Fund to invest huge funds in the stock and futures markets, preparing to face the financial battle head-on with international speculators. Before the outbreak of the defense war, Hong Kong not only had its own foreign exchange reserves of 82 billion US dollars, but also the central government's foreign exchange reserves of 128 billion US dollars. The two

combined exceeded Japan's 208 billion US dollars and ranked first in the world at that time.

In the end, although the Hong Kong SAR government fought off international speculators and won the financial defense war, Hong Kong's economy was severely injured and its economic development stagnated. It took six years for the per capita GDP to return to the level of 1997.

2.2 Hong Kong's economic development history-after returning to the mainland

Hong Kong's return to the motherland is about to celebrate its 25th anniversary. With "one country, two systems", economic globalization, Hong Kong's free market economy, highly transparent regulation and the support of the central government, Hong Kong's economy has developed rapidly. After bottoming out in 2003, the economy recovered rapidly and reached a new peak. In 2021, the gross domestic product will reach 368.115 billion US dollars. In particular, changes in the financial industry have propelled Hong Kong to become an international financial center.

After the return of Hong Kong, the financial industry suffered two major shocks. One is the Asian financial crisis, and the other is the international financial crisis that evolved from the US subprime mortgage crisis. Although the two crises had a certain impact on Hong Kong, with the large-scale support from the mainland and Hong Kong's own economic foundation, Hong Kong's economy has gradually recovered, the financial market is functioning normally, and financial institutions have developed steadily. Hong Kong has successfully dealt with two crises and accumulated rich experience, laying the foundation for the future development of Hong Kong. Through continuous development and innovation, Hong Kong has seized the opportunities of the new century, and various industries have developed rapidly to provide more comprehensive services for local and international investors. Hong Kong has now formed a banking system, foreign exchange market, money market and securities market. Hong Kong's status as an international financial center is increasingly consolidated.

2.2.1. Ranked among the best in international competitiveness and economic freedom

The international community has always valued the competitiveness and freedom of Hong Kong's economy and has fully affirmed Hong Kong's principles of maintaining a free and open market. Excellent rule of law, efficient public sector and system, and efforts to actively enter new markets and support the development of new industries.

These estimates have not changed since the reunification. They fully reflect the successful implementation of the One Country, Two Systems concept in Hong Kong. Among them, the Fraser Institute of Canada and the United States Heritage Foundation have long recognized Hong Kong as the region with the highest degree of economic freedom in the world.

2.2.2. The advantages of "One Country, Two Systems" promote Hong Kong's financial center into the "Port of Nurem"

As a city in China, Hong Kong has retained the original "one country, two systems" system, and has benefited from various "first-in, first-out" policies brought about by the reform and opening up of the mainland after the handover, such as "one country, two systems" and other advanced policies. In terms of economic and trade harmony between the two places, trade liberalization, offshore RMB activities, and financial market connectivity, Hong Kong can take the lead in benefiting from the reform and opening up of the Mainland. At the same time, Hong Kong has the highest degree of internationalization among many Chinese cities. The legal system and common law are also well known internationally, making financial services, professional services and other industrial and business support services lucratively rewarding in the global economy and awarded to the Port of New York.

Hong Kong is the freest economy in the world and one of the world's service-oriented economies. In 2020, Hong Kong's service industry accounted for 93.5 % of GDP. In 2020, Hong Kong was the world's sixth-largest merchandise exporter, up two places from 2019, according to the World Trade Organization.

2.2.3. Hong Kong has become the primary destination for mainland residents to travel abroad

Tourism is one of the main economic pillars of Hong Kong. In 2018, the number of tourists visiting Hong Kong was 65.148 million, the tourism industry accounted for about 4.5 % of the GDP, and the number of employed people was about 257,000, accounting for about 6.6 % of the total employment in Hong Kong. In 2019, due to the impact of local social incidents, the overall number of visitors to Hong Kong dropped by 14.2 % to 55.91 million compared with 2018. Entering 2020, the tourism industry has been severely hit by the COVID-19 epidemic. In 2020, the number of visitors to Hong Kong dropped sharply to 3.56 million. The epidemic and the closure of customs have brought a nearly devastating blow to Hong Kong's tourism industry. The development of

Hong Kong's tourism According to the Bureau's data, there will be 91,398 tourists (global tourists excluding local tourists from Hong Kong) visiting Hong Kong in 2021, a year-on-year decrease of 97.4 % compared with about 3.56 million in 2020, and 55.91 million in 2019. Even more incomparable.

The vast majority of Hong Kong's tourism revenue is driven by mainland tourists. In 2019, there were more than 55.91 million visitors to Hong Kong, of which 43.77 million were from the mainland, accounting for 78.29 %. Even in 2020, when the epidemic broke out, this proportion is still as high as 75 %. In terms of tourism revenue, according to the Hong Kong Statistical Yearbook (2021 Edition), mainland tourists provided Hong Kong with a total of about HK\$157.6 billion in tourism consumption in 2019, accounting for 77.87 % of the total.

Although Hong Kong's tourism industry has been hit hard during the new crown epidemic, Hong Kong's tourism industry is still competitive enough in the world, especially with tens of millions of tourists from the mainland, to revive Hong Kong's tourism industry, it must be Under the premise of preventing and controlling the new crown epidemic, it will gradually attract tourists from all over the world to return to Hong Kong.

2.2.4. Trade and logistics still have certain advantages

With the continent's continually improving economic development and increasing openness to the outside world, along with the rapid development of the Internet, manufacturers and foreign buyers in the mainland, as well as consumers in the mainland and overseas traders, can interact more easily, making Hong Kong too much of an import. The re-export industry is also facing the problem of disintermediation, with Hong Kong's container terminals ranked fifth in the world. Hong Kong's foreign trade in goods and services expanded significantly after the reunification. The former fell from HK \$ 2.9 trillion in 1996 to HK \$ 7.6 trillion in 2016, while the latter fell from HK \$ 463.2 billion in 1999 to HK \$ 1.38 billion in 2015. The trade and logistics industry is very important to the Hong Kong economy. The workforce in this sector is 748,000, accounting for 19.8 % of the total workforce. In addition, the trade and logistics industry also helps other industries to develop, which contributes to the overall competitiveness of Hong Kong's business.

2.2.5. Innovative technology is the future trend and focus

Since reunification, the four-pillar industries have been the main engine of Hong

Kong's economic growth. The government also encourages the diversified development of local industries. He identified six sectors that have clear advantages in Hong Kong and have the potential for further development (eg culture and creativity, education). Industry. Medical industry. Environmental protection industry. Innovative technological activities and industry testing and certification). The Hong Kong SAR Government believes that innovation and technology is the future trend and direction. Let the economy move towards diversification and high value creation. And to promote the advancement of youth, promote the modernization and transformation of the macroeconomic structure, strengthen the competitiveness and improve the quality of life of the population. Over the past two years, the government has done a lot of work, such as creating an innovation and technology bureau, encouraging universities and private companies to research and development, helping startups, etc., in promoting economic development in a diversified environment. direction with high added value.

2.3. The once prosperous polycentric Hong Kong

Hong Kong has a small land area and scarce resources, but it has created an economic miracle. He was once known as one of the "Four Little Dragons of Asia". It was once the third largest in the world, the third largest financial center in the world and the sixth largest gold trading center in the world. The top ten business units in the world, the largest port in the world, etc. These achievements are inextricably linked to Hong Kong's persistence in pursuing a policy of "low taxes, free, open and fair competition" over the years. Today, Hong Kong's position in the world further contributes to Hong Kong's continued commitment to these policies and to the promotion of Hong Kong's economic prosperity.

2.3.1. Become the world's top three international financial centers

In 2007, Hong Kong became the largest stock options hub in Asia. Hong Kong is ranked third by the International Financial Center according to the 2013 report of the International Financial Center, prepared jointly by the Xinhua News Agency and the Chicago Mercantile Exchange. In terms of foreign direct investment inflows, Hong Kong is one of the ten best in the world. According to Forbes' 2012 Global FDI Inflow Rankings, Hong Kong ranks third in the world with \$ 75 billion. At the same time, the annual net inflow to Hong Kong exceeds tens of billions of Hong Kong dollars using the example of a financial derivatives account in a financial account.

2.3.2. Become a world-renowned international shipping, trade, and logistics center

Hong Kong is a central hub of the Far East trade route and a distribution center for goods. On the one hand, it uses customs barriers in the surrounding areas to actively develop re-export trade. Since 1988, Hong Kong's re-export trade has overtaken domestic exports; On the other hand, trade with Hong Kong is free and imported. The development of export trade is unique, and now Hong Kong is among the ten largest economic entities in the world. At the same time, warehouse trade has contributed to the development of Hong Kong's logistics industry. The Hong Kong government is building an international airport, strengthening port construction and providing a range of maritime, air, forwarding and related services to many cities around the world with the busiest and most efficient container terminals in the world. According to historical data, the added value of the trade and logistics industry accounts for about 25 % of Hong Kong's GDP each year, making it Hong Kong's largest pillar.

Take maritime logistics, for example. In 1980, the Hong Kong port's total throughput reached 1.47 million TEU, overtaking Kobe, Japan to become the third largest port in the world. In 1987, it overtook Rotterdam in the Netherlands with 3.45 million TEU to become the largest in the world. The container port has won this title over the years.

2.3.3. International Tourism Center

As an international transport hub, Hong Kong annually receives a large number of tourists from the east and west who travel through Hong Kong, attracting an extremely large number of tourists to the region. Hong Kong has unique and rich tourism resources and has great potential to attract tourists from all over the world. In 2005, the number of mainland tourists visiting Hong Kong reached 23.36 million, generating over 100 billion yuan in tourism revenue. The information environment and resources of the local Dada network have made Hong Kong's ability to attract tourists to the global tourism market quite high. Based on these advantages, Hong Kong not only develops local tourism resources and strongly attracts foreign tourists to visit Hong Kong, but also pool the tourism resources of its surroundings as a whole to promote and attract them to the international tourism market. From this point of view, Hong Kong plays an extremely important role in organizing tourism sources in the international tourism market.

2.4 Looking back on Hong Kong's first recession in 2019

In 2019, Hong Kong's economy experienced a rapid downturn due to the dual impact of insufficient domestic and external demand, and the following four important characteristics emerged.

2.4.1 *The first recession in the past ten years is the main reason for the local turmoil*

Hong Kong's economy performed poorly in 2019, shrinking from quarter to quarter. GDP growth rates in the first half fell sharply from 4.1 % in the same period in 2018 to 0.5 %; The figure in the third quarter is 2.8 %, which is well below the figure for the previous year and therefore well below the modest growth seen in the first half of the year. ... GDP contracted 0.3 % and 3.0 % for the quarter in the second and third quarters of 2019, and Hong Kong's economy began to plunge into a technical downturn. Despite a decrease in aggressive behavior amid turmoil due to year-end adjustments, the fact that China and the United States reached Phase 1 of a trade deal, and other favorable factors, GDP declined in the fourth quarter. Hong Kong's GDP as a whole fell 1.2 % in real terms over the year.

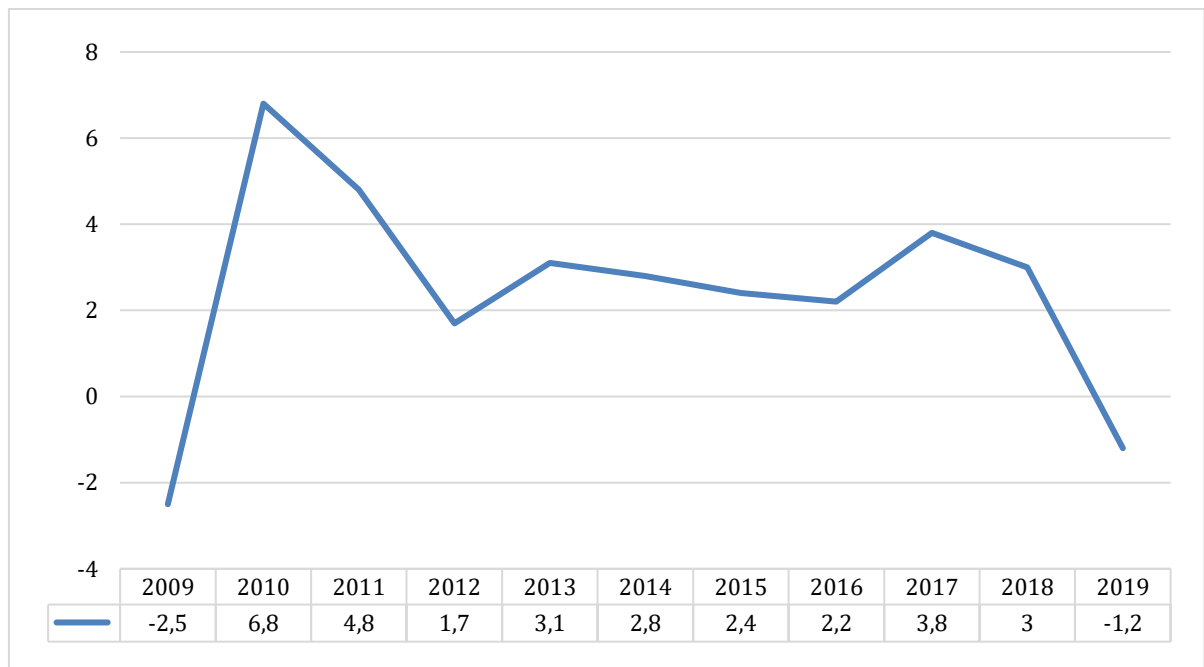


Figure 2.2 – Changes in the real growth rate of Hong Kong's GDP from 2009 to 2019

Source: compiled by the author

It was the first recession since the 2009 global financial tsunami and the fifth

economic recession in Hong Kong since the publication of GDP statistics in 1961.

Unlike previous economic downturns, this downturn was mainly driven by the turmoil caused by the amendments. The legal riots that erupted in June 2019 aimed to stifle economic activity and spread to various transport hubs and shopping centers in Hong Kong, Kowloon and the New Territories, causing severe downturns in the tourism industry, one of the four pillars of Hong Kong's industry. , the economy and a sharp deterioration in the export of services. Consumer and investment demand also weakened significantly, and the local economy, which was weakened by slowing global economic growth and increased trade disputes between China and the United States, was hit hard. In the first half of 2019, the number of visitors to Hong Kong rose another 13.9 % to a record 34.87 million. However, in July it began to decline. As a result, as the excitement around the change intensified, the number of visitors to Hong Kong dropped sharply. From August to December, it fell 39.1 %, 34.2 %, 43.7 %, 55.9 % and 51.5 %, respectively, so that only 21.04 million visitors visited Hong Kong in the second half of the year.

The combined monthly revenue of the Hong Kong tourism industry has fallen by more than HK \$ 10 billion, while the hospitality, restaurant, retail and related industries remain paltry. Take the hotel industry, for example. In recent years, Christmas has been the high season for the Hong Kong hospitality industry. But the Christmas season in Hong Kong hotels was especially deserted in 2019. Hotel occupancy in downtown areas fell from 60 % last year to 70 %. Take retail, for example. In the second half of 2019, retail sales in Hong Kong were down 20 %. Retail sales in Hong Kong fell 24.4 % in October, the largest drop since the 1981 record.

As a result, domestic demand in Hong Kong has slowed sharply. In the second half of 2019, private consumption spending fell 3.2 % in real terms, resulting in a 1.2 % annual decline in private consumption spending. On the other hand, over the past five years it has increased by an average of 4.2 %; Full Year 2019 Private Consumption Spending fell 1.1 %, the first negative year-on-year growth since 2004. Total local investment in fixed assets has declined for five consecutive quarters since the fourth quarter of 2018, down 15.7 % in 2018. back the second half of 2019; it fell 12.2 % during 2019, much worse than the 2009 global financial tsunami.

The turmoil of change impacted Hong Kong's GDP growth in the second half of last year by 5.3 percentage points and about 2.7 percentage points on annualized GDP growth last year. Last year, Hong Kong's GDP growth rate fell 4.1 percentage points from 2018. It turns out that the chaos of change is undoubtedly the key factor that triggered a recession in China this time around. In terms of external factors, the slowdown in global economic growth and trade disputes between China and the United

States further weakened Hong Kong's external demand and also had a significant impact on the Hong Kong economy. As a small open economy, Hong Kong has a foreign trade quota of 312 %. Economic growth is highly dependent on external demand.

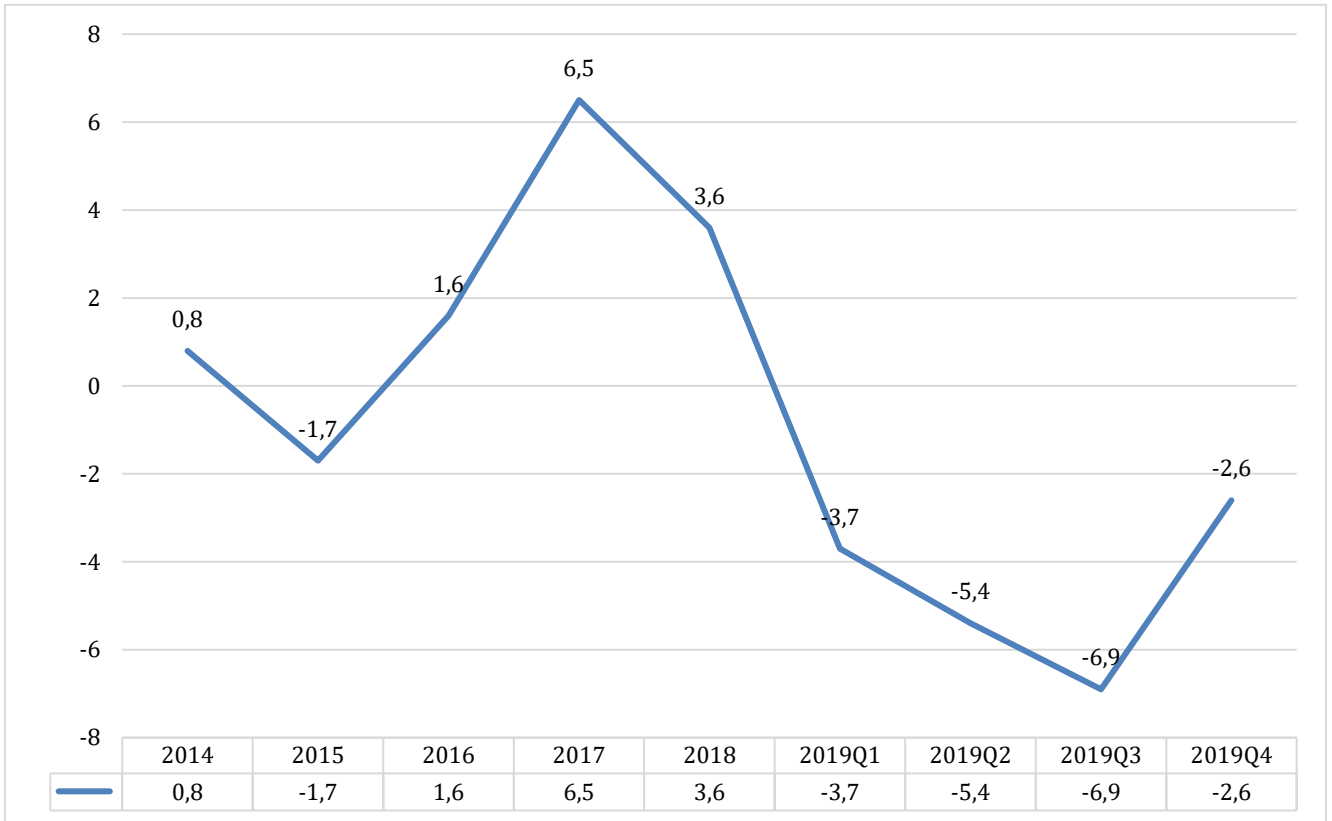


Figure 2.3 – 2014~2019 Hong Kong Private Consumption Expenditure Growth Rate

Source: compiled by the author

Mainland China and the United States in particular are Hong Kong's first and second largest economic and trading partners. Tariffs will inevitably affect Hong Kong's foreign trade performance. In November 2019, nearly two-thirds of China's imports were subject to US duties. The average tariff stands at 19.3 %, well above the 3 % before trade disagreements. Chinese countermeasures even cover about 90 % of Chinese exports to the United States. As a result, Hong Kong's exports to the United States fell sharply by 14.8 % in 2019, while exports to the mainland also fell 3.3 %. As a result, Hong Kong's total merchandise exports fell 4.7 % in real terms from the previous year. In contrast, in 2018, merchandise exports grew by another 3.6 % in real terms; Export of services; More significant declines of 9.9 %, of which 14.4 % and 25.0 % in the third and fourth quarters, respectively, which was even darker than during the Asian financial crisis in 1998 and the global financial tsunami in 2009 year. The World Trade Organization (WTO) predicts that global trade will grow another 1.2 % in 2019,

showing that the impact of trade disputes between China and the United States on Hong Kong is much higher than the global average.

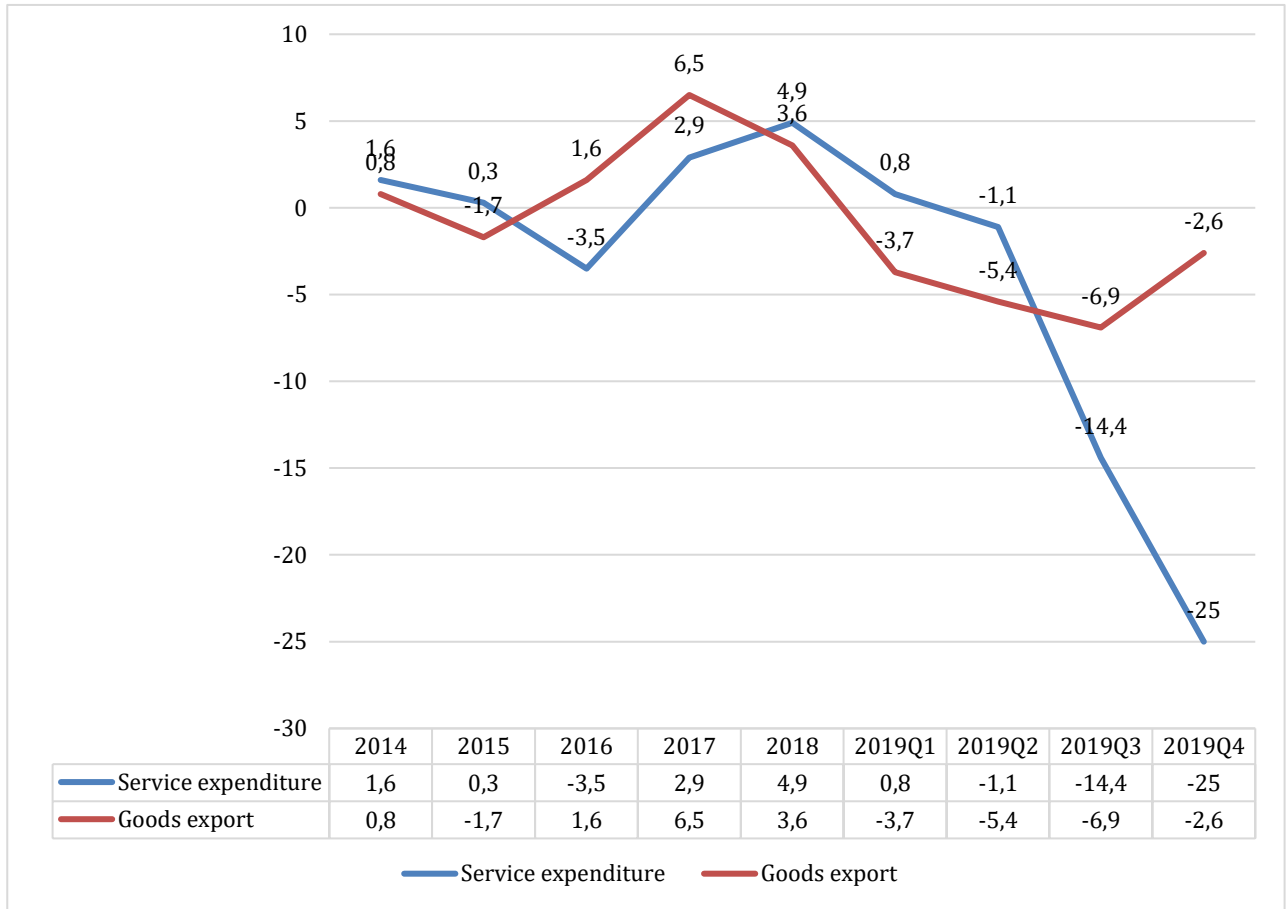


Figure 2.4 – Changes in Hong Kong's exports of goods and services from 2014 to 2019

Source: compiled by the author

2.4.2 Severely affects labor and employment, and the unemployment rate rebounds rapidly

Hong Kong's unemployment rate remained at 2.8 % from the fourth quarter of 2018 to the first half of 2019. However, in the second half of the year, it began to recover, reaching 3.3 % from October to December, which is the highest level since the third quarter of 2017. The total number of employees decreased from 3.8726 million at the end of 2018 to 3.8178 million people per year. October-December 2019, a decrease of 55,000; plus 3,363 new jobs per month over the past two years, it is estimated that 2019 is associated with an economic downturn. In total, more than 95,000 vacancies were affected. Among them, the unemployment rate in the consumer and tourism sectors remained at 5.2 %. As the supplementation turmoil has severely impacted many

economic activities, unemployment is expected to continue to rise, especially in the consumer, travel and hospitality sectors. It should be noted that Hong Kong's unemployment rate rose just 0.5 % in the six months from the start of the legal turmoil to the end of 2019.

2.4.3 The property market showed a trend of high first and then low, but did not decline significantly

In 2019, the Hong Kong housing market first rallied and then fell again. The Private Property Price Index hit a record high in May 2019, up 10.4 % from the end of 2018, and was subsequently impacted by escalating trade disputes between China and the United States and changes, according to the Department of Ratings and Evaluation. This culminated in turbulence again. In December 2019, house prices fell 4.6 % from their all-time high in May, but are still up 5.3 % since the end of 2018. The resilience of the Hong Kong residential real estate market at exceptional times appears to exceed market expectations. The main reasons are that the US Federal Reserve has cut rates three times in a row, and low interest rates have contributed to the rise in property prices in Hong Kong; Secondly, the supply of residential buildings fell, and the number of private houses commissioned was only 13,643 units in 2019, compared with 20,968 units in 2018, which corresponds to a significant decrease of 35 %. Non-residential properties were included in the adjustment earlier and the decline was slightly more pronounced. With the increase in the number of mainland companies visiting Hong Kong, prices for private office buildings hit a new high in October 2018 before slowly adjusting to 7.9 % in December 2019; End-user prices were also “individual trips” to French metropolitan areas. Politically conditioned, it hit a record high in October 2018 and then began to correct. In particular, in the second half of 2019, the decline intensified due to the consequences of the changes. At the end of the year, prices in stores fell by 15.2 %. Of all types of property, the downward adjustment is the most important. Plant construction prices did not begin to fall until the second half of 2019, and by the end of the year, they also fell by about 10 %, immediately following the slump in retail stores.

2.4.4 The operation of the financial market is basically smooth, with relatively little impact

In 2019, the financial system and the Hong Kong market as a whole worked smoothly. The short-term Hong Kong dollar interest rate remained broadly stable. The

conjugate exchange rate mechanism worked in an orderly fashion. Trust; The asset market remained relatively stable, with the Hang Seng Index rising 9.1 % over the year.

In the second half of the year, Hong Kong stocks fluctuated during the legal turmoil, but the overall impact was not significant. Ring. However, the financial industry in Hong Kong hasn't gone smoothly. The main consequences of the changes include terrorist attacks by demonstrators on some banks and their branches, which partially affect their serviceability; International rating agencies downgraded Hong Kong's creditworthiness and outlook, which affected the international financial center. Image: Falling bank deposits, weak loan demand and contraction in sectors such as tourism and retail will weaken the asset quality of the banking sector and ultimately affect the performance of the financial sector.

2.5 Impact of COVID-19 on Hong Kong's economy

2.5.1. Basic judgment on the epidemic situation of COVID-19

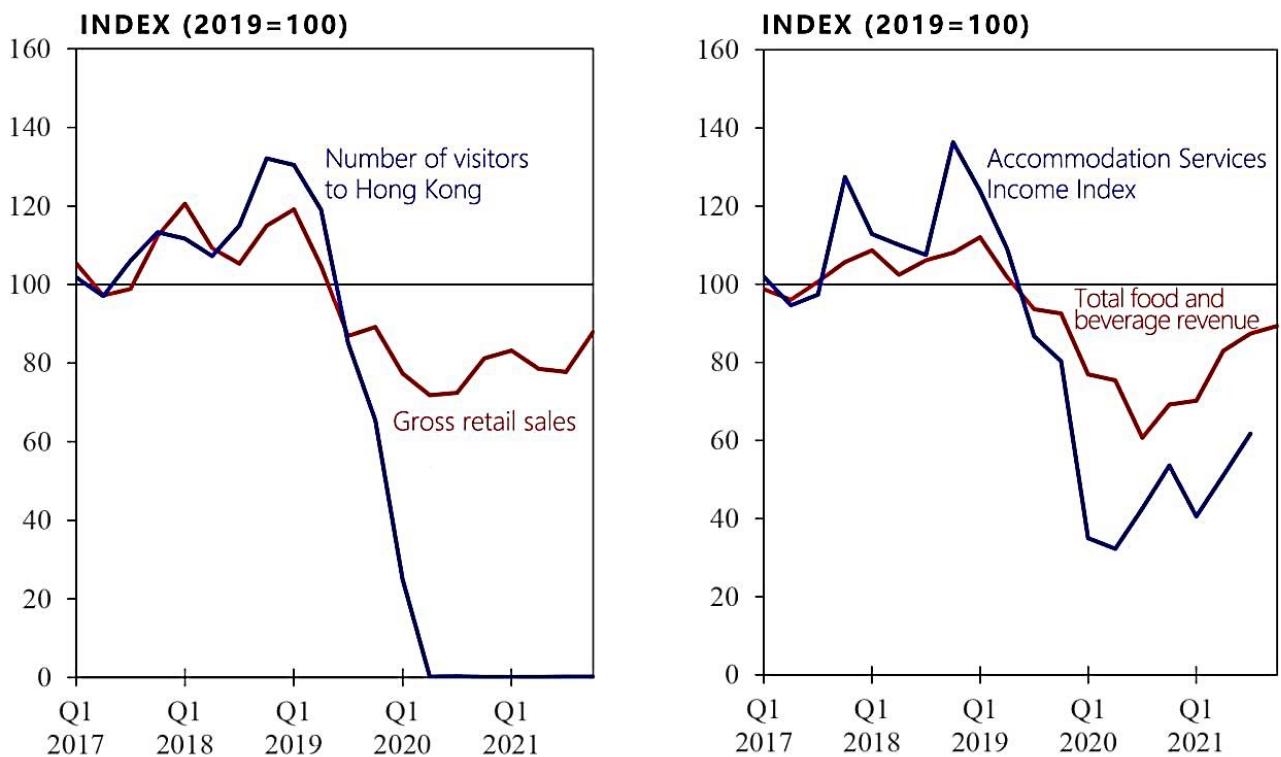


Figure 2.5 –Hong Kong Tourism and Accommodation Index

Source: compiled by the author

The outbreak of COVID-19 in 2019 coincided with the Chinese Lunar New Year. Hundreds of millions of people circulated between cities and returned to their

hometowns. As a result, the spread of COVID-19 was faster than that of SARS in 2003, and the impact was wider. It has developed into a global public health emergency and continues to spread around the world.

The COVID-19 epidemic has severely impacted Hong Kong's economic activities. Seven types of economic activities in Hong Kong (catering, retail, hotels, passenger transportation, other consumption by visitors to Hong Kong, construction and import and export) have been hit hard. According to a rough estimate, the total economic losses caused by the seven types of selected economic activities in 2020 and 2021 are about \$320 billion and \$246 billion respectively, which is equivalent to the total local production in the hypothetical scenario without the epidemic. 10.6 % of the value and 8.0 % [Document: Economic Notes of the Office of the Economic Adviser of the Government of the Hong Kong Special Administrative Region 2022/01].

The development of COVID-19 remains highly uncertain, with experts warning that COVID-19 could become chronic and persist like the flu, so there is a need to prepare for the worst and prepare for a recovery from the economic trauma of the pandemic plan.

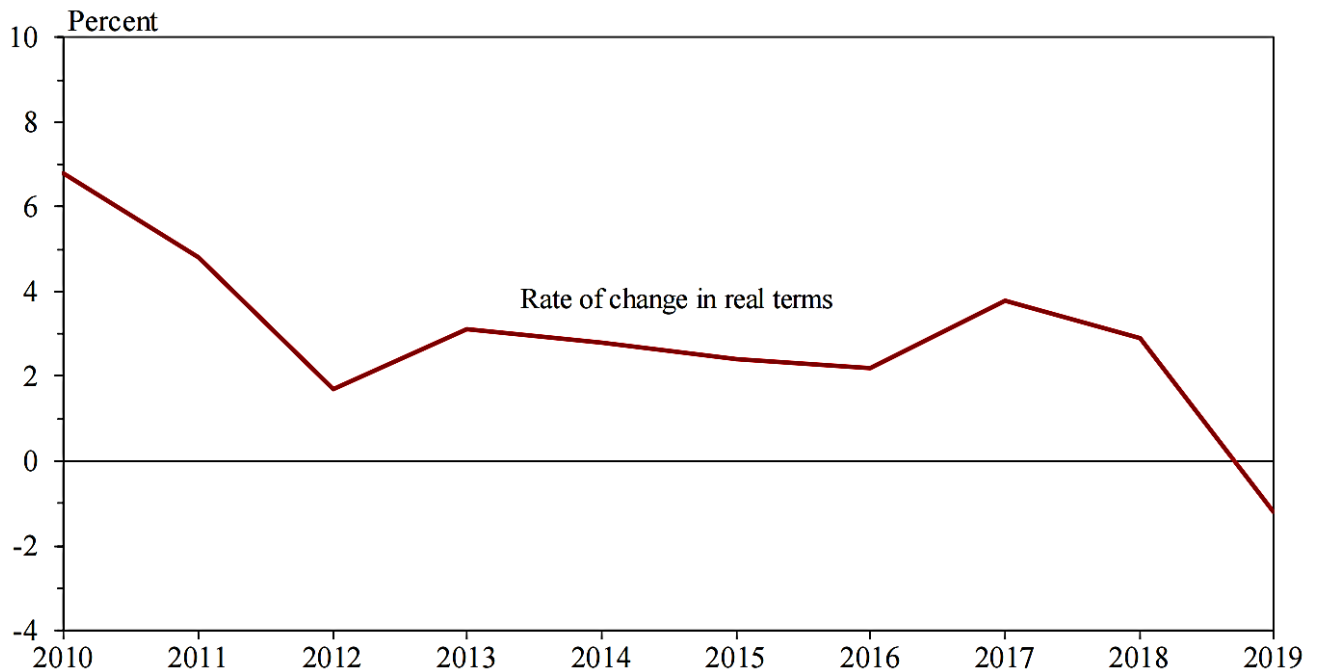


Figure 2.6 – Hong Kong economy GDP change rate

Source: compiled by the author

2.5.2 COVID-19 puts Hong Kong economy under downward pressure

Hong Kong's economy contracted by 1.2 % in 2019, the first negative growth

since 2009. The economy performed weakly in the first half of the year, with an average growth rate of only about 0.5 % yoy. Entering the second half of the year, in addition to the external uncertainties, social incidents and violent demonstrations caused by the anti-amendment bill further dampened economic performance. In the third and fourth quarters, GDP contracted by 2.8 % and 2.9 % year-on-year in real terms, bringing the whole year's economy into a recession. decline.

Although the outbreak of the epidemic, the number of confirmed cases of new coronary pneumonia and deaths in Hong Kong has been lower than that in 2003 during the SARS period. It is related to encouraging companies to allow their employees to work from home and the public's high awareness of epidemic prevention, but the outbreak of the epidemic and related measures will inevitably bring a blow to the Hong Kong economy in the short term.

On the one hand, the correlation between the Hong Kong economy and the Mainland economy has increased significantly compared with the SARS period in 2003: the proportion of Hong Kong's exports of goods to the Mainland increased from 42.6 % in 2003 to 55.4 % in 2019, and Hong Kong's service exports to the Mainland accounted for 55.4 % of the total. The proportion of overall service exports also increased from 27.0 % in 2003 to 40.4 % in 2018; in 2019, the number of tourists from the Mainland reached 43.77 million, accounting for 78.3 % of the total number of tourists, compared with 8.47 million and 54.5 % in 2003. than a substantial increase. From the perspective of the financial sector, in January 2020, the number and market value of mainland companies listed in Hong Kong reached 1,258 and 26.39 trillion respectively, accounting for 51 % and 73 % of the Hong Kong market, compared with 249 (24 %) and 1.68 % in 2003, respectively. Trillion (30 %) increased significantly; of the IPO funds raised in 2019, 256 billion (82 %) came from mainland enterprises, a significant increase from 51.3 billion in 2003; Mainland-related loans of Hong Kong banks reached 4.63 % in 2019 In 2018, the inflow of direct investment from the Mainland to Hong Kong also reached 296.6 billion, a 6.8-fold increase from 2003. In addition to the above data, Hong Kong is also the world's largest offshore RMB center, an important asset management center in Asia, and an international legal arbitration center, with a high proportion of services to the mainland.

On the other hand, the mainland economy is currently being hit by the epidemic, and the economic growth of the mainland will slow down sharply in the first quarter. Epidemic prevention is the primary task. The desire for people exchanges, consumption and investment in the mainland, as well as companies' coming to Hong Kong to launch or expand their business will all bring a bigger blow. In addition, the mainland has a significant impact on the global economy. Therefore, as the mainland economy has

been hit by the epidemic, transportation, logistics and industrial production are facing difficulties in resuming work, and the tariff measures imposed by the United States on most mainland products have not yet been lifted, Hong Kong is the mainland’s primary destination. Financial and service industry centers, as well as major entrepots, will inevitably be affected.

2.5.3 COVID-19 directly affects industries such as tourism, retail and catering in Hong Kong

Over the past decade or so, Hong Kong's economy has benefited from the influx of Mainland tourists, which has provided important support to inbound tourism-related retail trade, accommodation services, catering services and cross-boundary passenger transport services. In the second half of 2019, Hong Kong's tourism-related industries have been affected by social incidents and violent demonstrations triggered by the anti-amendment bill. The number of visitors to Hong Kong from October to December recorded a year-on-year increase of 43.7 %, 55.9 % and 51.5 % respectively. Retail sales recorded a record year-on-year decline of 24.4 %, 23.7 % and 19.4 % respectively. At present, the travel and retail industry has not only not recovered from the negative impact caused by social events, but has been further hit by COVID-19.

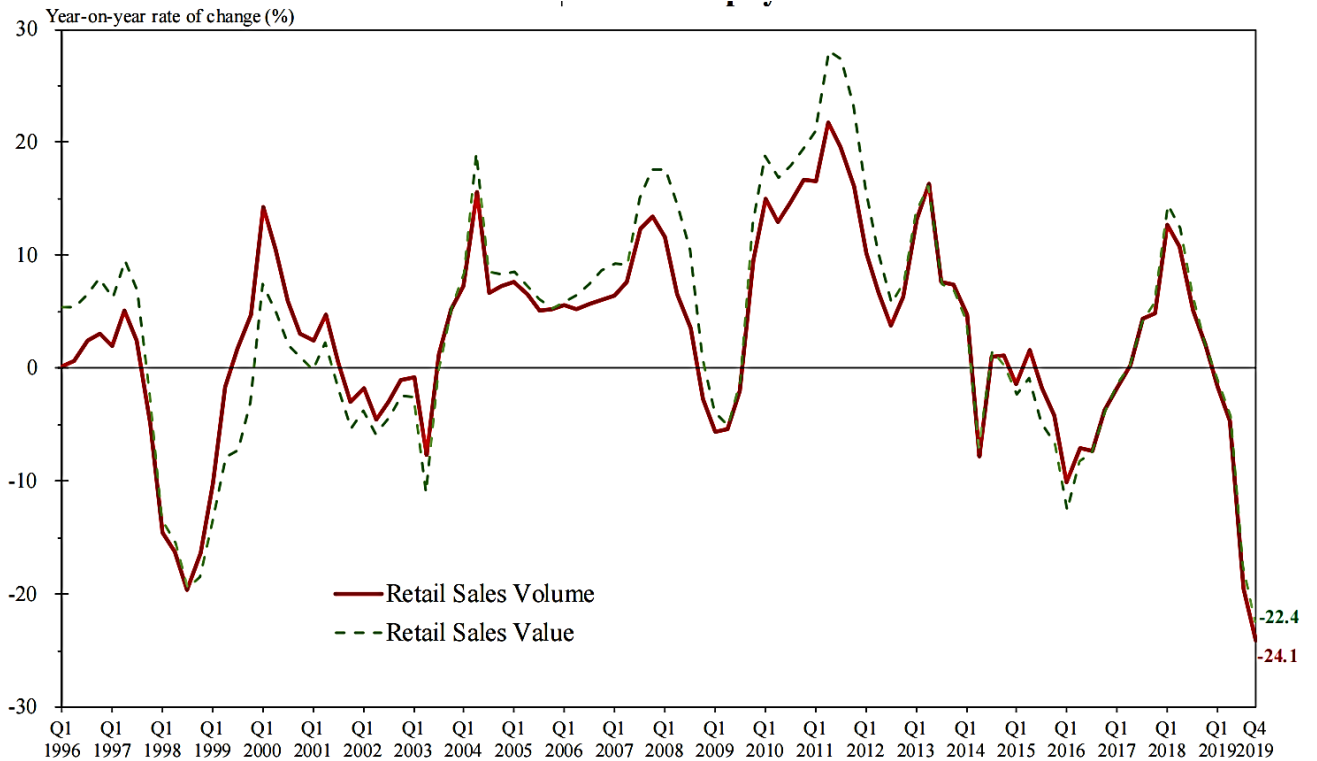


Figure 2.7 – Retail sales in Hong Kong over the years

Source: compiled by the author

In order to prevent and control the spread of COVID-19, the Hong Kong SAR government has introduced a series of measures for entry of foreigners from 2019 to 2022 and quarantined those entering for 14 days, greatly reducing flights to and from mainland China and other regions around the world; More than three-quarters of Hong Kong's visitor arrivals are from the Mainland, but under the severe COVID-19 and restrictions on people-to-people movement in the Mainland, the Hong Kong Tourism Board's visitor arrivals figures for February 2020 show that the year-on-year decline in visitor arrivals to Hong Kong reached 2.3 %. 98 %. According to the industry, the current hotel occupancy rate is only 20 %, and the occupancy rate of individual high-end hotels has dropped to single digits, reflecting that Hong Kong's tourism industry has basically come to a standstill.

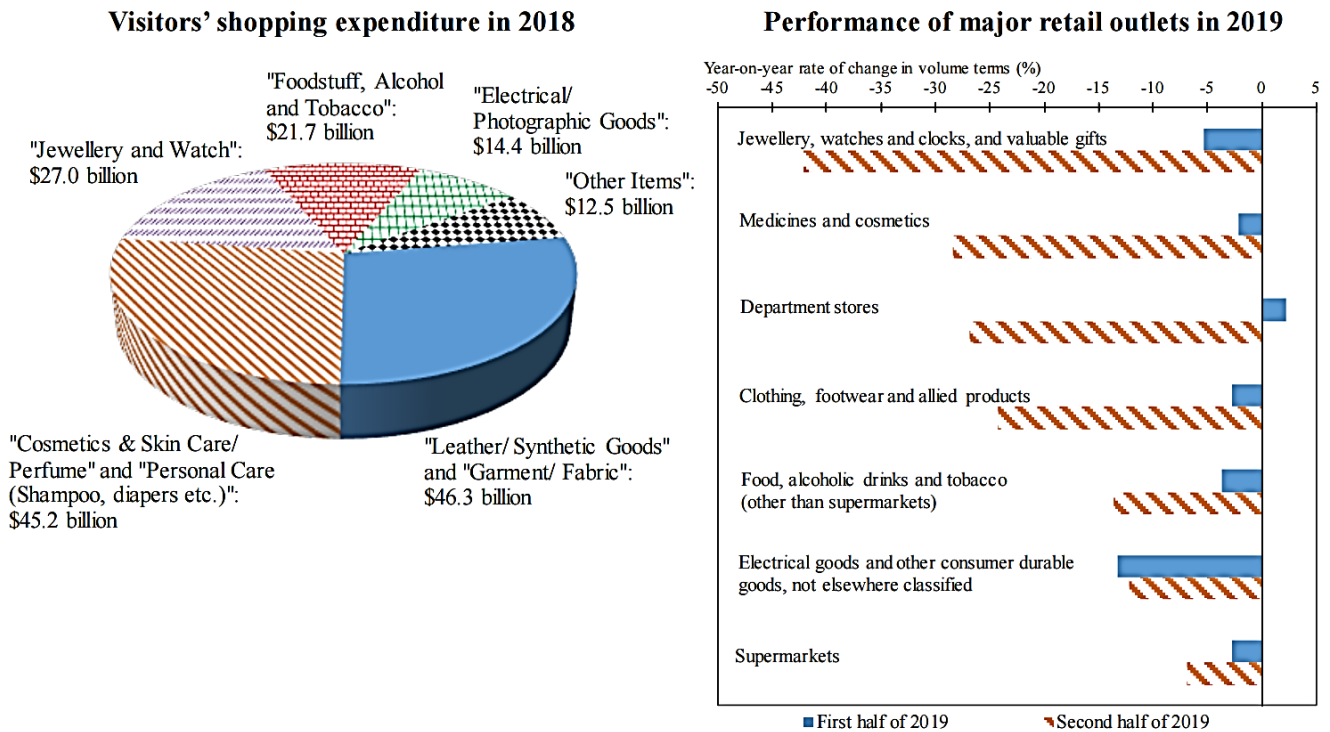


Figure 2.8 – Hong Kong Tourism and Retail Sales

Source: compiled by the author

In terms of retail and catering, the impact is not limited to the sharp drop in the number of tourists visiting Hong Kong. It is also affected by COVID-19, which has caused people to go out less, students have been suspended for a long time, and the government and many enterprises have implemented work-from-home arrangements. The unemployment rate in the retail, accommodation and food service industry rose to 5.2 % from November 2019 to January 2020, a sharp increase of 1.7 % from a year ago. The unemployment rate in related industries is expected to rise rapidly in the first half of

this year, and has not yet reflected the negative impact of the rapid deterioration of COVID-19 since the end of January.

2.6 U.S.-China trade friction hurts Hong Kong economy

2.6.1 Overview of Sino-US trade relations

Since the establishment of diplomatic relations between China and the United States, the economic and trade relations have developed steadily, the interests of the two countries have become more and more extensive, and trade and investment have achieved fruitful results. China is the largest developing country in the world, and the United States is the largest developed country. Sino-US economic and trade relations are of great significance to the stability and development of the two countries and even the world economy. China has benefited a lot from the strong synergy effect, and the United States has also gained extensive economic benefits from the opportunities and achievements brought about by China's development, building a mutually beneficial and win-win relationship with structural synergy and convergence of interests.

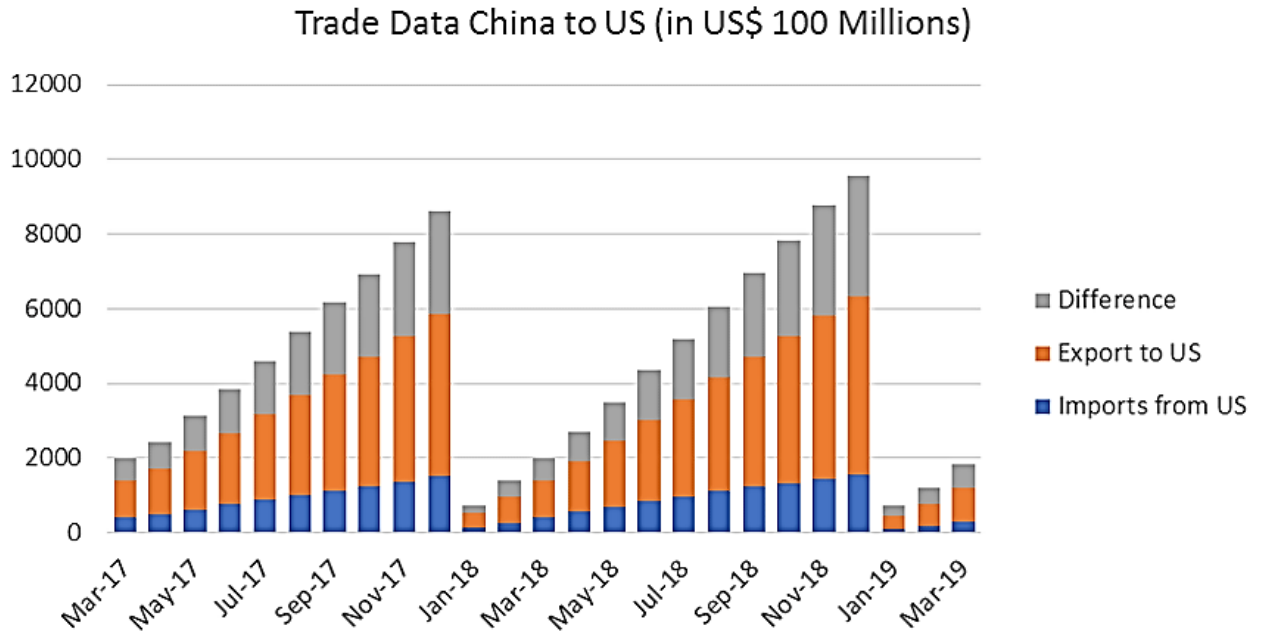


Figure 2.9 – The amount of trade between China and the United States

Source: compiled by the author

According to Chinese statistics, the trade volume of goods between China and the United States in 2017 reached 583.7 billion US dollars, an increase of 233 times compared with the establishment of diplomatic relations between the two countries in

1979, and an increase of 7 times compared with 2001 when China joined the world trade organization. Currently, the United States is China's largest export market and sixth largest source of imports. In 2017, the United States accounted for 19 % of China's exports and provided 8 % of China's imports. China is the fastest-growing export market for U.S. goods and the largest source of U.S. imports. In 2017, 8 % of U.S. exports went to China.

U.S. exports to China are growing much faster than their global average. Since joining the WTO, China has become an important market for US exports, and US exports have grown rapidly. Statistics from the United Nations show that in 2017, the United States exported US\$129.89 billion to China, an increase of 577 % over the US\$19.18 billion in 2001, much higher than the average growth rate of 112 % of US exports as a whole. Import market for U.S. goods. China is the No. 1 export market for U.S. aircraft and soybeans, and the No. 2 export market for U.S. autos, integrated circuit products and cotton. In 2017, China accounted for 57 % of U.S. soybean exports, 25 % of Boeing aircraft, 20 % of automobiles, 14 % of integrated circuits and 17 % of cotton.

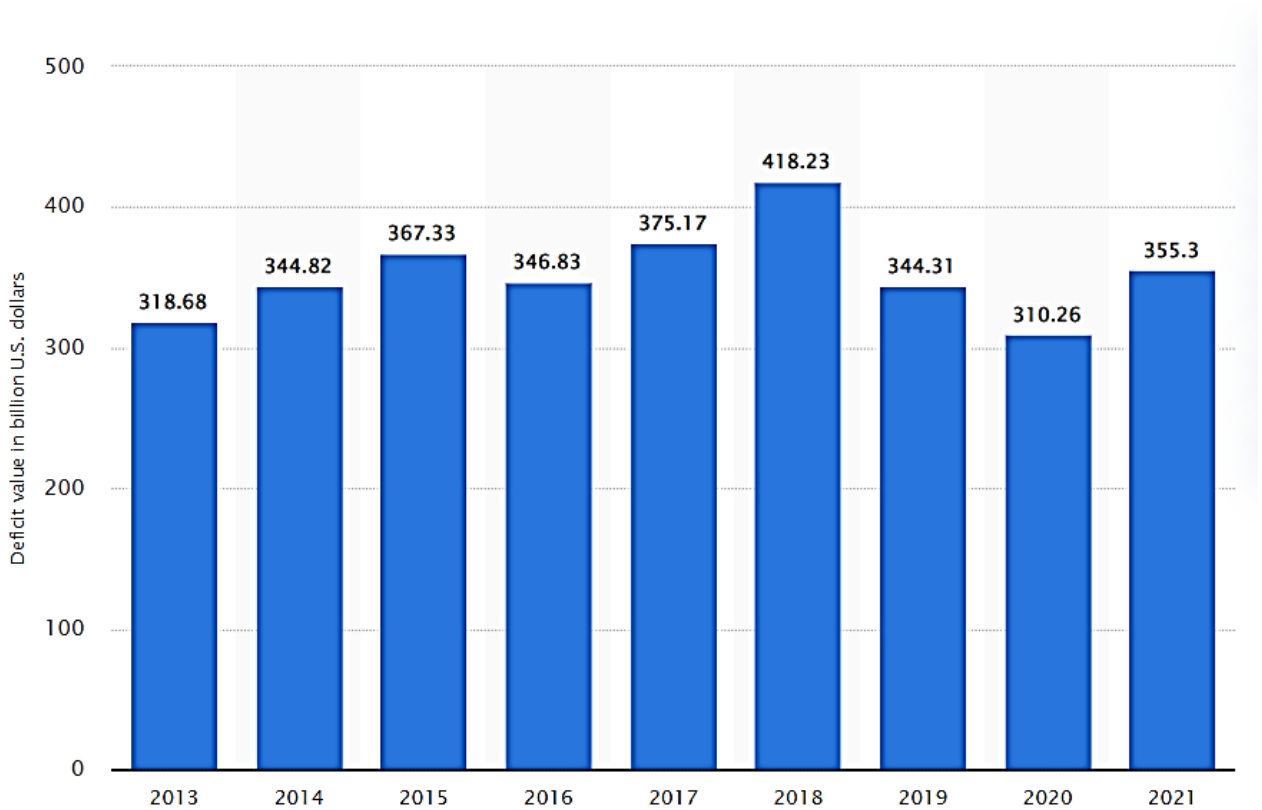


Figure 2.10 – U.S. trade deficit with China, in billion U.S. dollars

Source: compiled by the author

The United States is the main source of China's foreign investment. According to statistics from the Ministry of Commerce, as of the end of 2017, there were about 68,000

US-funded enterprises in China, with an actual investment of over US\$83 billion. With the rapid growth of Chinese enterprises' direct investment in the United States, the United States has become an important destination for Chinese investment. With the growth of China's outbound investment, Chinese companies' direct investment in the United States rose from \$65 million in 2003 to \$16.98 billion in 2016. According to data from the Ministry of Commerce, as of the end of 2017, the stock of China's direct investment in the United States was about US\$67 billion. At the same time, China has also made substantial financial investments in the United States. As of May 2018, China held \$1.18 trillion in U.S. Treasury bills, according to the U.S. Treasury Department.

2.6.2 The new US government launched the Sino-US trade war

Since the inauguration of US President Donald Trump in 2017, the new administration of the US government has trumpeted "America First". It abandons the basic norms of mutual respect and equal consultation that guide international relations. Instead, it blatantly promotes unilateralism, protectionism and economic hegemonism, makes false accusations against many countries and regions, especially China, and intimidates other countries through economic means such as imposing tariffs.

In early July 2018, the United States imposed a 25 % tariff on \$34 billion of Chinese products, and then expanded to an additional \$16 billion and \$200 billion of goods respectively, and the final total was as high as more than 500 billion, which is equal to the 2017 trade war. In response to tariffs ranging from 10 % to 25 % on total U.S. imports from China the previous year, China slapped tariffs on a total of \$185 billion worth of U.S. goods.

On August 11, 2020, U.S. Customs and Border Protection issued a notice requiring that, after September 25, 2020, goods produced in Hong Kong and exported to the United States must be marked as "China" as their country of origin. Goods that do not meet this rule will face a punitive tariff of 10 % ad valorem at U.S. ports. As a direct result of the notice, Hong Kong's exports to the United States face additional U.S. tariffs on Chinese products amid a trade war between the two superpowers. This could lead to additional tariffs of 7.5 % to 25 % on some Hong Kong products entering the United States.

In 2018, Hong Kong's trade with mainland China accounted for about 55.2 % of Hong Kong's total export value, with a trade value of US\$314.0 billion. In terms of imports, it accounted for about 43.7 % of Hong Kong's total imports, with a trade volume of US\$274.04 billion. Because Mainland China is Hong Kong and China's largest trading partner, Guangdong Province. Due to the dependence of Guangdong's

export trade on US trade, Sino-US trade friction will directly affect Guangdong's import and export trade.

How the US-China trade war has escalated

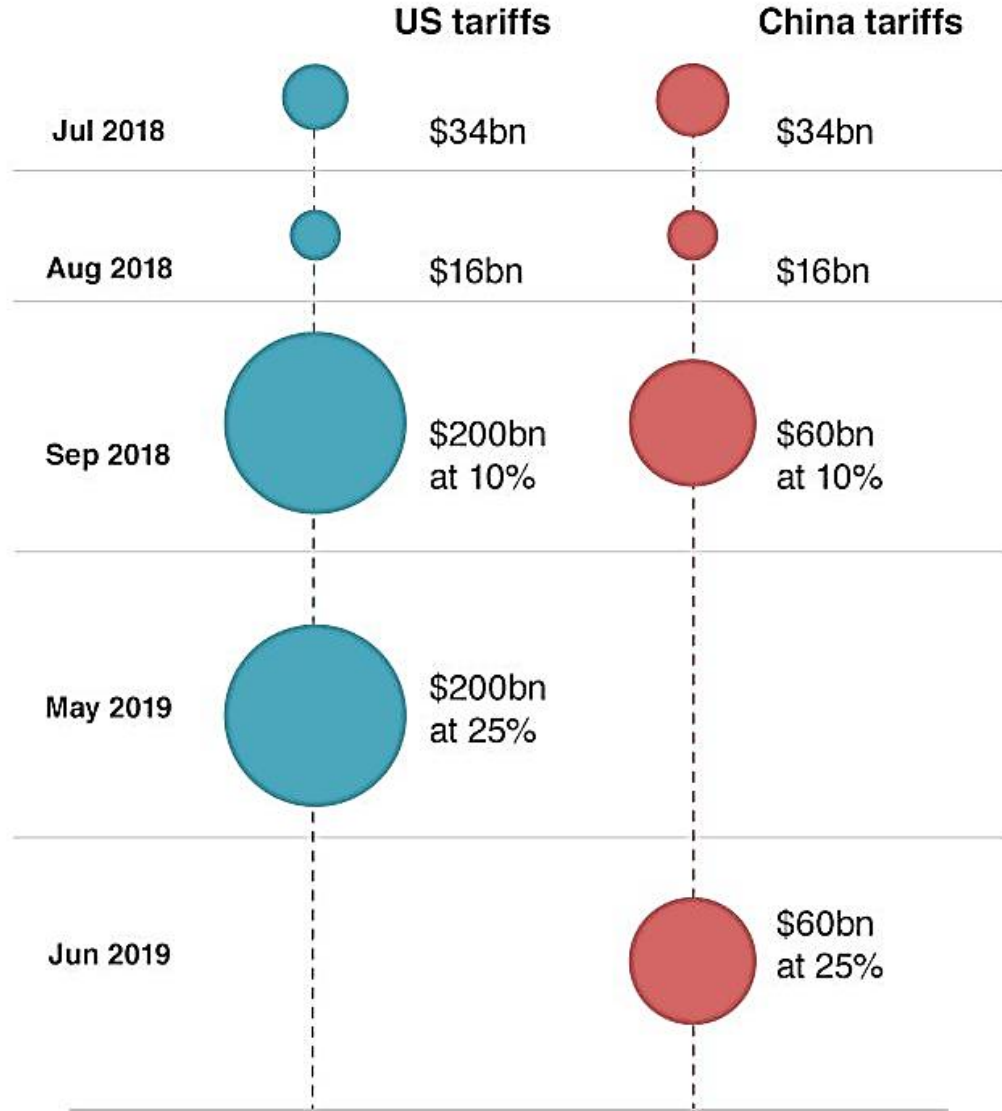


Figure 2.11 –Timeline of US-China trade war

Source: compiled by the author

The imposition of high tariffs by the United States will increase the export pressure of Guangdong enterprises. China's counter-system tariff measures against the United States will also increase the import burden on Guangdong enterprises. In 2018, Guangdong's trade volume with the United States was 87.31 billion yuan, and in 2019, Guangdong's trade volume with the United States was 80.5 billion yuan, a year-on-year decrease of 7.2 %.

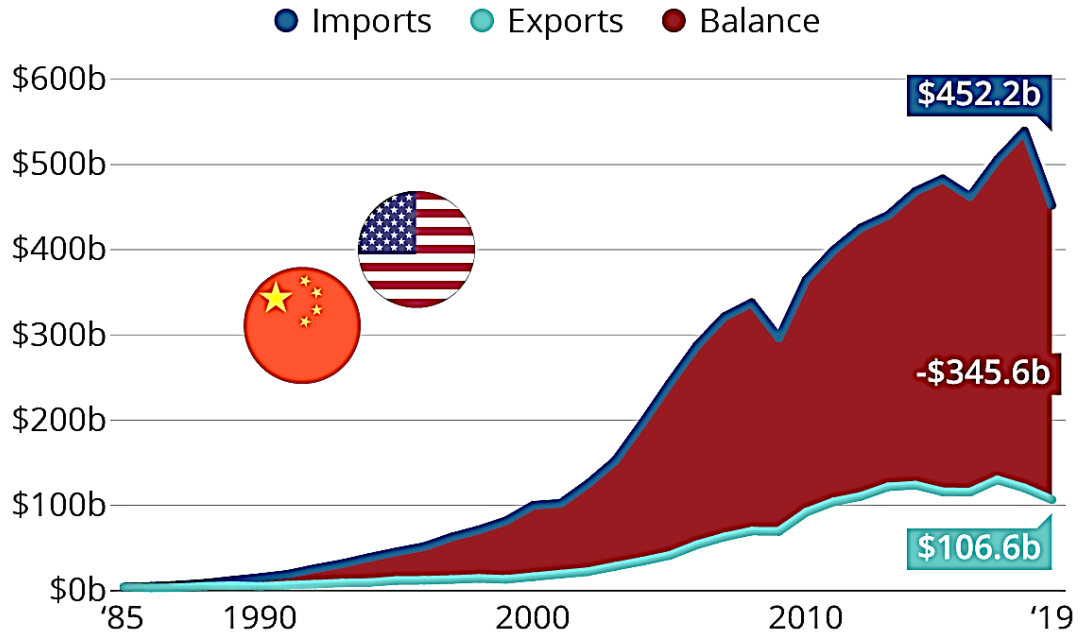


Figure 2.12 –Amount of Sino-US trade

Source: compiled by the author

The U.S. passed the U.S.-Hong Kong Policy Act in 1992, which authorized the U.S. government to continue to treat Hong Kong differently from mainland China in trade after the handover of sovereignty over Hong Kong. According to the Act, the United States' special policy towards Hong Kong mainly has three aspects: first, Hong Kong has an independent tariff status; second, Hong Kong can obtain technology transfer from the United States; third, the US dollar and Hong Kong dollar are freely convertible. On July 29, 2020, the U.S. Department of Commerce officially announced the cancellation of the special and relevant treatment for Hong Kong, which bears the brunt of the many impacts in the economic and trade field.

According to the data of the Hong Kong Special Administrative Region's industrial trade, the United States and Hong Kong are important trading partners, but this partnership is not completely equal. In 2018, the total bilateral merchandise trade between the United States and Hong Kong was about US\$75 billion, of which the HKSAR's overall exports to the US were about US\$45.5 billion, while imports from the US were US\$29.5 billion. In other words, Hong Kong is an important export market for the United States, but the United States is not the main import trading partner of the Hong Kong SAR.

Although the United States has repeatedly imposed sanctions on Hong Kong's economy and trade in Sino-US trade, the direct impact on Hong Kong's local economy is relatively small. The manufacturing scale of the Hong Kong SAR is quite small, there

are not many products made in Hong Kong, and the quantity that can be exported to the United States is very small every year. According to estimates, Hong Kong's domestic exports to the United States account for less than 2 % of the local manufacturing industry, and its value accounts for less than 0.1 % of Hong Kong's total exports.

From an indirect level, the overall development of Hong Kong's economy and trade is still affected by the Sino-US trade war. Because Hong Kong enjoys the status of a customs territory independent of mainland China, many Chinese foreign trade commodities can be re-exported from Hong Kong, and Hong Kong has long assumed the important responsibility of an important re-export port for commodity trade between the United States and mainland China.

According to statistics, more than 90 % of Hong Kong SAR's exports to the United States are re-exports from the Mainland to the United States via Hong Kong. After the Sino-US trade dispute, this part of the commodity is the most affected part. In 2019 alone, entrepot trade from the mainland through Hong Kong to the US fell by 15 %.

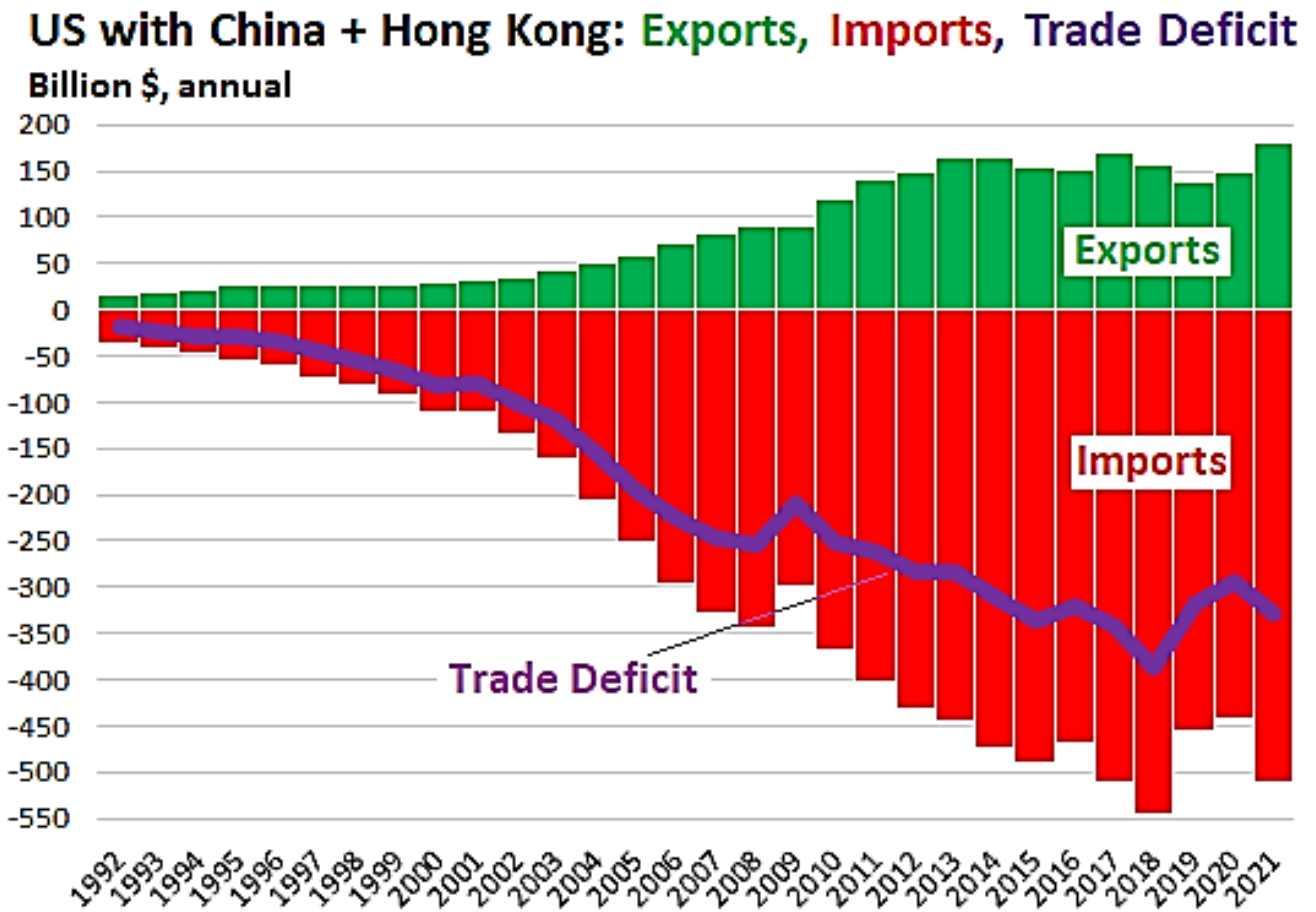


Figure 2.13 – U.S. trade deficit with mainland China and Hong Kong

Source: compiled by the author

On the surface, after the Sino-US trade war, among the import and export trade in Hong Kong, the export trade from mainland China has decreased, but this is undoubtedly a huge blow to the Hong Kong economy, which relies on import and export and entrepot trade. As a region with limited area and its industrial structure relying solely on the tertiary industry, Hong Kong SAR's economic development itself is extremely vulnerable to the impact of the external environment and emergencies. Especially in 2019, the Hong Kong Special Administrative Region faced the dual pressure of internal social unrest and the escalation of external Sino-US trade frictions, and the economy showed a clear downward trend.

According to statistics from the Hong Kong SAR government, in 2019, the Hong Kong economy experienced its first negative growth since 2009. In 2020, under the severe situation of slowing global economic recovery, Hong Kong's economy was once again hit by the impact of COVID-19, and industries related to consumption and tourism were hit hard. The gross domestic product (GDP) fell by 6.1 % year-on-year. The biggest drop on record. At the same time, the mainland-related loans of Hong Kong banks amounted to HK\$4.2 trillion at the end of 2017, accounting for more than 40 % of the total bank loans. Today, the Sino-US trade dispute is escalating, and it is easy to cause risks to the Hong Kong banking system.

2.7 Local social events will still plague Hong Kong's economy

In 2019, Hong Kong's four-month-long anti-Fugitive Offenders Ordinance amendment protests and the Sino-US trade war have made Hong Kong's economic situation grim. The GDP data for the third quarter of 2019 released by the Hong Kong Census and Statistics Department fell by 2.9 % year-on-year, the first quarterly year-on-year decline since the global financial crisis in 2009.

Affected by the global economic slowdown and Sino-US trade friction, Hong Kong's economic growth has been severely impacted by local social events. "The situation has deteriorated sharply." Hong Kong has experienced quarter-on-quarter negative growth for two consecutive quarters, indicating that the Hong Kong economy has entered a "technical recession. As global economic growth is expected to remain soft in the short term, Hong Kong's exports are unlikely to improve significantly. In addition, the impact of local social incidents shows no sign of abating, which will continue to affect private consumption and investment sentiment, resulting in the Hong Kong economy facing a significant long-term impact. Downward pressure.

Since mid-June 2019, the controversy surrounding the revision of the Fugitive Offenders Ordinance in Hong Kong has gradually evolved from relatively peaceful

gatherings and demonstrations to violent and violent clashes between the police and the people. The Hong Kong subway and shops accused of being "pro-China" have become violent protesters. impact target. The local violence has caused the Hong Kong tourism industry to miss the summer vacation and China's "National Day Golden Week holiday", and tourist attractions no longer have the pictures of tourists gathering in the past. Many shops were forced to shut down intermittently due to the demonstrations. Coupled with the decline in people's willingness to go out to spend, the value of retail sales in August 2019 plunged by 23 % year-on-year, the largest monthly decline on record.

Hong Kong's tourism industry employs as many as 270,000 people. From June to September 2019, the economic loss caused by the reduction of tourists has reached HK\$18.3 billion in four months. As the situation worsened, the tourism industry faced a situation in which the number of tourists decreased by about half year-on-year in the first half of October. The business of travel agencies has generally been stagnant since July. In August, the number of tourists from mainland China dropped by more than 40 %. Many travel agencies have no income for more than two months, and many travel agencies are forced to give employees "unpaid holidays".

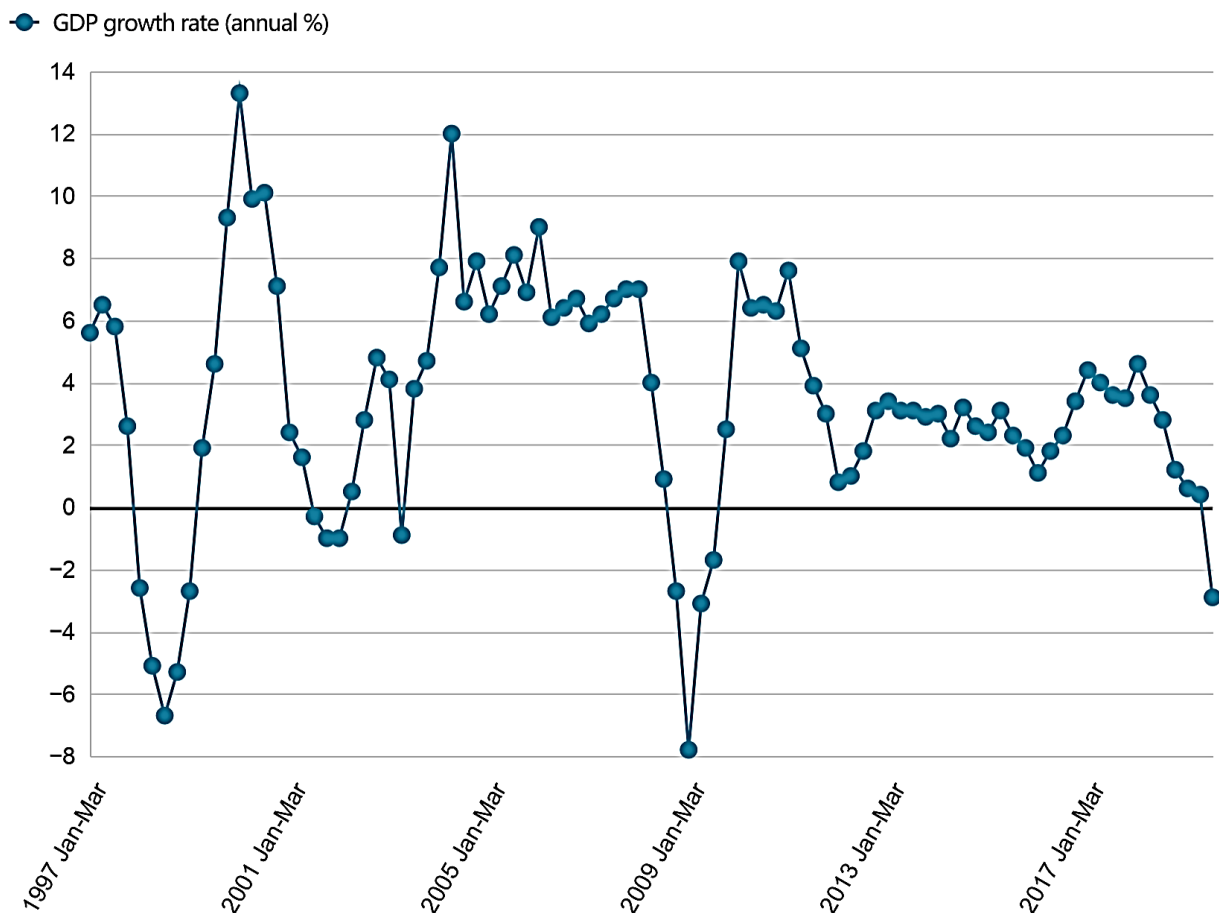


Figure 2.14 – Hong Kong GDP growth rate over the years

Source: compiled by the author

The protests will not cause long-term worries to Hong Kong's economic prospects in the short term, because after the demonstrations, tourists and consumption can recover quickly. Therefore, local social events in Hong Kong will only have a short-term impact on the Hong Kong economy and will not have a long-term impact. At present, social security in Hong Kong has been fully maintained.

CHAPTER 3

PROSPECTS OF HONG KONG-MAINLAND ECONOMIC COOPERATION AND POTENTIAL PROBLEM SOLVING

3.1 The history of economic cooperation between Hong Kong and the Mainland

3.1.1 The Mainland is Hong Kong's largest trading partner

At the beginning of the founding of the People's Republic of China, it has not been recognized by Western countries politically, and its economy has been in vain due to years of wars and chaos. In addition, the existing port construction is relatively backward, and the development of foreign trade is slow.

Table 3.1 – Statistical table of bilateral trade between Mainland China and Hong Kong

Year	Trade volume between the two places (HK\$ million)	As a percentage of HK's total trade volume (%)	Ranked among HK trading partners	Year	Trade volume between the two places (HK\$ million)	As a percentage of HK's total trade volume (%)	Ranked among HK trading partners
1949	1178	23.2	1	1974	6287	9.8	3
1950	2043	27.2	1	1975	6970	11	3
1951	2467	26.5	1	1976	7908	9.3	3
1952	1350	20.2	1	1977	8288	8.9	3
1953	1397	21.1	1	1978	10845	9.3	3
1954	1083	18.5	1	1979	17048	10.5	3
1955	1080	17.3	1	1980	28195	13.4	3
1956	1174	15.1	1	1981	40478	15.5	2
1957	1254	15.4	1	1982	44733	16.6	2
1958	1553	20.5	1	1983	61227	18.2	2
1959	1148	14	1	1984	95100	21.4	2
1960	1306	13.3	2	1985	120175	25.8	1
1961	1127	11.4	3	1986	140549	25.4	1
1962	1298	11.7	4	1987	205398	27.2	1
1963	1557	12.6	3	1988	288572	29.1	1
1964	2030	14.2	2	1989	343440	30.3	1
1965	2394	15.5	2	1990	394512	30.8	1
1966	2838	16.1	2	1991	501078	32.4	1
1967	2330	12.1	3	1992	628412	33.4	1
1968	2474	10.7	4	1993	740089	34.9	1
1969	2737	9.7	4	1994	854720	35.3	1
1970	2894	8.8	4	1995	987078	34.8	1
1971	3392	9.1	4	1996	1049814	35.8	1
1972	3950	9.6	3	1997	1116117	36.3	1
1973	5905	10.7	3				

Source: compiled by the author

However, by virtue of its geographical advantages and special historical relationship with the mainland, Hong Kong soon became the main trade target of the mainland, and the trade with the mainland increased significantly. From the founding of the People's Republic of China to 1959, the mainland has been Hong Kong's largest trading partner. Around 1950, the proportion of the mainland's total trade in Hong Kong was about 25 %.

Especially in 1978, the mainland implemented the policy of opening to the outside world, which brought the business relationship between the two places into a new milestone. In terms of total trade value, the Mainland became Hong Kong's second largest trading partner in 1981 and jumped to the first place in 1985, with trade between the two places accounting for 25.8 % of Hong Kong's trade volume. From 1979 to 1989, the total value of tangible trade between the two places increased at an average annual rate of 35 %.

In 1989, the total trade volume between the two places reached 343.44 billion yuan. The two places are each other's largest trading partners, accounting for 30 % of each other's total trade volume. and 31 %. In the more than ten years from 1985 to the return of Hong Kong to the motherland in 1997, the mainland has always been Hong Kong's largest trading partner.

3.1.2 The Mainland is an important supplier of imported goods to Hong Kong

The mainland has always been an important source of imported goods for Hong Kong. Even though the two places experienced several special historical events in the early 20 years of the founding of the People's Republic of China, Hong Kong's imports from the mainland have not been greatly affected. The mainland imports mainly food, manufacturing raw materials and semi-finished products, of which more than half are food. In order to protect the living and production needs of compatriots, the Chinese government encourages the delivery of these commodities to Hong Kong. From 1952 to 1978, the value of Hong Kong's imports from the mainland increased from HK\$830 million to HK\$10.55 billion. After the Mainland's reform and opening up, the value of Hong Kong's imports from the Mainland continued to increase. Since 1985, the mainland has replaced the United States as Hong Kong's largest trading partner and Hong Kong's largest source of imports. By 1990, Hong Kong's imports from the mainland accounted for 37 % of Hong Kong's total imports. The structure of imported goods has also changed a lot, from food, raw materials and semi-finished products as the main products, to industrial products dominated.

3.1.3 Mainland products are re-exported to other countries through Hong Kong

As early as the 1870s and 1880s, Hong Kong had established its status as an entrepot and became a famous entrepot trade center in the Far East. After the founding of the People's Republic of China, Hong Kong has become a major transit destination for the mainland's ocean-going trade due to its proximity to Guangzhou and its excellent seaport. Since 1985, the Mainland has been Hong Kong's largest re-export market. In 1991, despite the global economic downturn, the trade volume of the Mainland's re-exports via Hong Kong still increased by 38.2 % over the previous year. According to statistics, in 1996, the value of goods re-exported from the Mainland to other countries via Hong Kong amounted to HK\$684 billion, accounting for 58 % of the value of goods re-exported from the source of Hong Kong's re-export; 35 % of the value of the goods from the mainland; the total trade flow in both directions, in 1996, the value of the goods re-exported through Hong Kong was 1,101.7 billion Hong Kong dollars related to the mainland. Mainland products are re-exported to other countries through Hong Kong, which enhances Hong Kong's status as an entrepot, and also creates huge wealth for Hong Kong's import and export enterprises. According to statistics, in 1994 alone, the entrepot trade from the Mainland via Hong Kong brought a gross profit of nearly HK\$160 billion to Hong Kong's import and export enterprises.

3.1.4 Hong Kong has become the largest source of foreign investment in the Mainland

As a world-renowned economic center, Hong Kong's functions of inward gathering and outward expansion are mainly reflected in investment. Hong Kong has been the largest source of foreign investment in the Mainland since the reform and opening up in Mainland China. In 1984, the investment of Hong Kong businessmen in the Mainland was only a few billion US dollars. In 1988, it exceeded 3 billion US dollars. By the end of 1989, the Hong Kong business community invested in the Mainland to set up enterprises accounted for 70 % of the Mainland's foreign investment, ranking first. According to the National Bureau of Statistics of China, in 1992 alone, Hong Kong companies accounted for 68 % of the total foreign direct investment in mainland China, totaling US\$112.9 billion. From 1978 to 1996, the mainland attracted foreign direct investment. The accumulative total amounted to US\$177.2 billion, of which the total value of Hong Kong's direct investment in the Mainland reached US\$101 billion, accounting for 57 % of the foreign direct investment. On the other hand, mainland investment in Hong Kong continued to increase.

Table 3.2 – Hong Kong and Mainland trade

Year	Hong Kong products are exported to Mainland China	Total exports to Mainland China	Import from Mainland China	Re-export to Mainland China
1950	1461	1461	858	-
1951	1604	1604	863	-
1952	520	520	830	-
1953	540	540	857	-
1954	391	391	692	-
1955	182	182	898	-
1956	136	136	1038	-
1957	123	123	1131	-
1958	156	156	1397	-
1959	9	114	1034	105
1960	13	120	1186	107
1961	8	99	1028	91
1962	8	85	1213	77
1963	8	70	1487	62
1964	13	60	1970	47
1965	18	72	2322	54
1966	15	69	2769	54
1967	6	48	2282	42
1968	9	45	2429	36
1969	7	37	2700	30
1970	30	64	2830	34
1971	19	62	3330	43
1972	21	103	3847	82
1973	49	271	5634	222
1974	99	296	5991	197
1975	28	165	6805	137
1976	24	147	7761	123
1977	31	207	8082	175
1978	81	296	10550	214
1979	603	1918	15130	1315
1980	1605	6247	21948	4642
1981	2924	10968	29510	8044
1982	3806	11798	32935	7992
1983	6223	18406	42821	12183
1984	11283	39348	55753	28064
1985	15189	61213	58963	46023
1986	18022	58916	81633	40894
1987	27871	88041	117357	60170
1988	38043	132938	155634	94895
1989	43272	146764	196676	103492
1990	47470	158378	236134	110908
1991	54404	207722	293356	153318
1992	61959	274064	354348	212105
1993	63367	337928	402161	274561
1994	61009	383844	470876	322835
1995	63555	447599	539480	384043
1996	61620	479372	570442	417752

Source: compiled by the author

By 1991, there were more than 1,500 mainland enterprises operating in Hong Kong, scattered in different industries, ranging from commodity trading to manufacturing, hotels, supermarkets, finance, real estate and basic industries. Facility engineering, etc. By the end of 1996, the mainland had invested a total of US\$42.5 billion in Hong Kong, opened more than 2,000 Chinese-funded enterprises, and became part of the overseas extension of the mainland's manufacturing, financial and other service industries. It also supported the prosperity and stability of Hong Kong's economy and enriched Hong Kong's industry category.

3.2 Current status of economic cooperation between Hong Kong and the Mainland

The economic cooperation between Hong Kong and the Mainland is moving towards a diversified development path year by year. In 1997, Hong Kong returned to the motherland smoothly, the Chinese government resumed the exercise of sovereignty over Hong Kong, and the economic ties and cooperation between Hong Kong and the mainland were further strengthened. The mainland factor continued to be the main force driving Hong Kong's economic growth. After the return, the two places started new cooperation under the new historical conditions, and the traditional economic and trade cooperation relationship has also been upgraded to a new level. A comprehensive and diversified partnership.

3.2.1 Further deepening of cooperation in traditional fields such as trade, finance and investment

Since Hong Kong's return to the motherland 25 years ago, the economic and trade exchanges and cooperation between the Mainland and Hong Kong have been continuously deepened, the level has been continuously improved, and the fields have been continuously expanded. The two places have achieved complementary advantages and common development, and Hong Kong has become an important participant in the economic development of the Mainland as it integrates into the overall development of the country.

Over the past 25 years since the return of the People's Republic of China, the governments of the Mainland and the Hong Kong Special Administrative Region have actively established and improved cooperation mechanisms in the economic and trade field, and promoted the convergence of rules and mechanisms between the two places. The liberalization of trade in goods has been fully realized, the liberalization of trade in services has been basically realized, and rich and pragmatic cooperation has been carried

out in trade and investment facilitation. From 1997 to 2021, the trade volume between the mainland and Hong Kong increased from US\$50.77 billion to US\$360.33 billion, an increase of 6.1 times, with an average annual growth rate of 8.5 %; by the end of 2021, the mainland had absorbed more than US\$1.4 trillion in investment from Hong Kong, accounting for more than US\$1.4 trillion in foreign investment in the mainland. 57.6 % of the total, the stock of non-financial direct investment from the mainland in Hong Kong exceeded US\$800 billion, accounting for 53.2 % of the mainland's outbound non-financial direct investment. Hong Kong's role as an important trade and investment channel has been further enhanced.

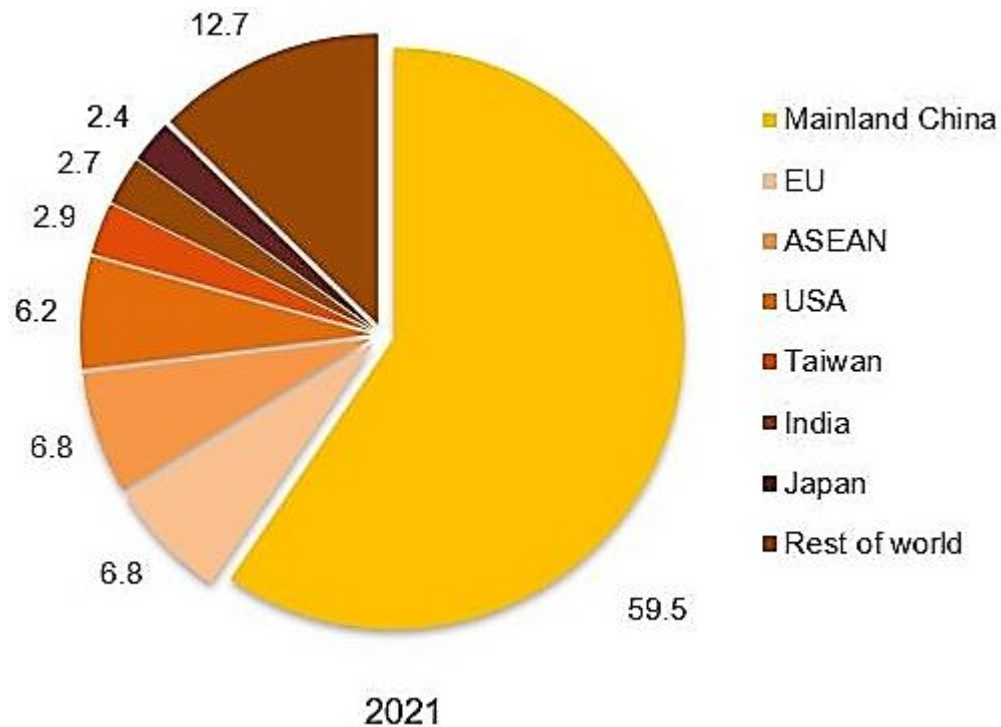
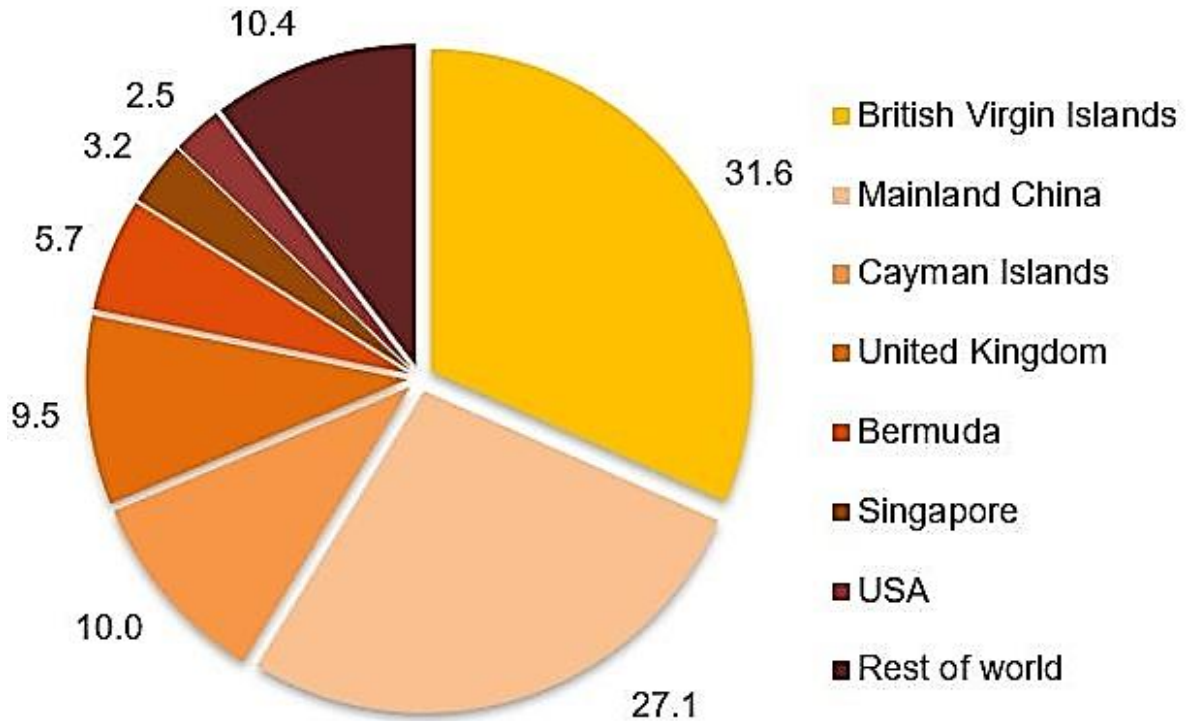


Figure 3.1 –Main commodity export markets, %
Source: compiled by the author

At the same time, the two places actively promote the high-quality construction of the Guangdong-Hong Kong-Macao Greater Bay Area, and implement a series of policies and measures in the commercial field to support the construction of the Greater Bay Area. Vigorously support Hong Kong's participation in the joint construction of the "Belt and Road" and its integration into the overall national development. Since 2013, Hong Kong and mainland enterprises have joined hands to negotiate investment in countries along the "Belt and Road" for seven consecutive years, attracting more than 1,000 local enterprises to participate and promoting more than 70 investment cooperation intentions. In 2021, during the successful Belt and Road Forum held in Hong Kong, the Ministry of Commerce of China and the Hong Kong Special

Administrative Region Government signed the Memorandum of Understanding on Promoting High-Quality Development of Overseas Economic and Trade Cooperation Zones to jointly promote Hong Kong's participation in the construction of the Belt and Road Initiative.



2020

Figure 3.2 –Major investors, %

Source: compiled by the author

In terms of finance, Hong Kong is not only home to foreign banks, but also the world's fifth largest foreign exchange trading center, seventh largest stock trading center, fifth largest financial derivatives trading center, fourth largest gold trading market, and the largest insurance market in the Asia-Pacific region. The second largest fund management center in Asia, these advantages facilitate the financial cooperation between the two places. After nearly 10 years of deliberation, the Hong Kong Growth Enterprise Market was officially launched on November 25, 1999. The Growth Enterprise Market has built a bridge between the Hong Kong financial industry and the high-tech industry in the Mainland, providing advantages between the industries in Hong Kong and the Mainland. It provides a good platform for complementing each other and creating prosperity together. Since then, mainland enterprises have actively listed in Hong Kong. In October 2006, Industrial and Commercial Bank of China successfully achieved simultaneous listing in Hong Kong and Shanghai, and raised more

than US\$15.6 billion in Hong Kong, setting a record for the largest fund-raising in the world. As of April 2022, there were 1,370 mainland companies listed in Hong Kong, accounting for 53.3 % of the total number of companies listed on the Hong Kong Stock Exchange, with a market value of HK\$37.6 trillion, and 77.7 % of the total market value of Hong Kong stocks. The mainland financial market has also gradually opened to Hong Kong. From February 25, 2004, Hong Kong banks can offer four personal RMB businesses, including deposits, exchanges, remittances and credit cards. This policy has led to a continuous increase in RMB deposits in Hong Kong financial institutions. At present, a total of 40 banks in Hong Kong have opened personal RMB business. The Hong Kong Monetary Authority announced that in January 2022, RMB deposits in Hong Kong will be RMB 1,095.9 billion, an increase of 18.2 % month-on-month.

3.2.2 The cooperation between the two places will expand to new fields such as software electronics and information technology

After 1997, both the central government and the SAR government intend to strengthen cooperation between the two places in non-traditional fields, and this policy intention is particularly evident in the formulation of CEPA. Facts have also proved that CEPA has effectively opened the door for cooperation between the two places in new fields such as high-tech, information and electronics. The second phase of the CEPA arrangement opens up a whole new area of the Mainland information technology services market for Hong Kong service providers.

In 2005, the Mainland and Hong Kong strengthened cooperation in four high-tech fields, namely radio frequency identification technology, integrated circuit design, auto parts and traditional Chinese medicine. RFID technology can bring unprecedented data collection capabilities and network construction capabilities to the logistics industry, and can bring about major changes in the logistics industry; while integrated circuits are the main technology of electronic products, and integrated circuit design is the most important in the electronic product manufacturing value chain. a ring.

In order to strengthen exchanges and cooperation between the two sides, the mainland has also invited Hong Kong experts to participate in the formulation of the mainland's medium and long-term scientific and technological development plans and national standards. Under the framework of CEPA, Hong Kong companies have broad prospects for developing the mainland market by setting up branches, joint ventures, or acting as intermediaries between international IT companies and their counterparts in the mainland.

3.3 Solutions to potential problems in the process of economic cooperation between Hong Kong and the Mainland

3.3.1 *The cost of doing business in Hong Kong is too high*

According to a survey conducted by the Hong Kong Trade Development Council, the high cost of doing business in Hong Kong restricts the development of mainland enterprises in Hong Kong.

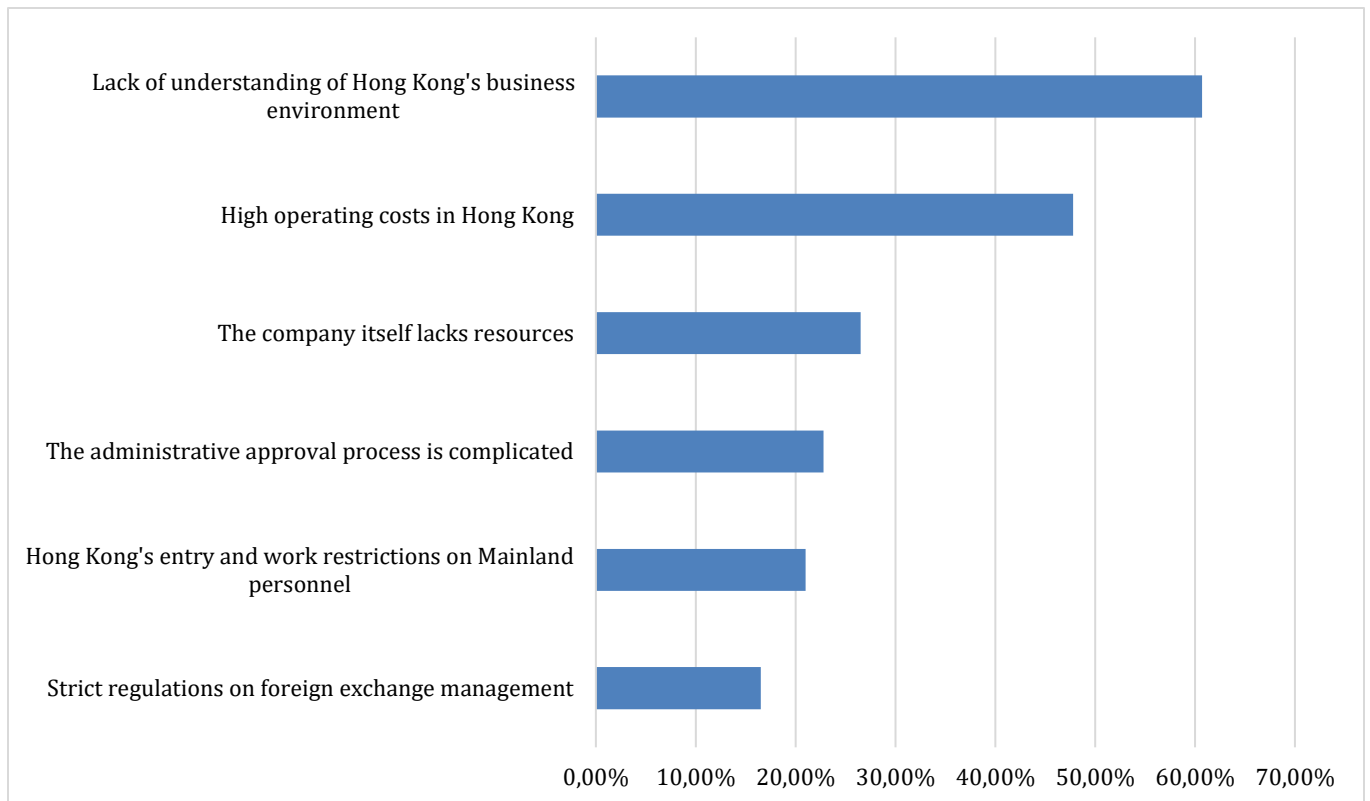


Figure 3.3 – The main obstacles for mainland enterprises to invest in Hong Kong and set up enterprises
Source: compiled by the author

Hong Kong is small in size and limited in resources. Moreover, as a highly developed city, Hong Kong is a well-known financial and commercial center in the world. Naturally, the cost of rent and wages is much higher than that of mainland cities. Although many mainland enterprises believe that setting up factories in Hong Kong is conducive to expanding their business and developing overseas markets, they do not dare to easily invest in Hong Kong due to cost control considerations. , which is in stark contrast to Hong Kong companies investing in and setting up factories in the mainland, and Hong Kong companies competing to enter the mainland market. At present, the extremely high business cost in Hong Kong is still the main reason why many mainland

enterprises are discouraged from looking to the Hong Kong market and the international market.

3.3.2 Local protectionism and regional segmentation

With the implementation of CEPA and the Pan-Pearl River Delta Agreement, the economies of the Mainland and Hong Kong have gradually integrated, but it is undeniable that the division of administrative regions has invisibly affected the cooperation between the two places. For the sake of prospering the local economy, on the one hand, all provinces and cities in the mainland have actively formulated measures to attract investment from Hong Kong businessmen. Cooperation is in a very delicate state. At the same time, the inconsistency of the rules caused by the division of the region also lost the efficiency of economic cooperation between the two places. Taking the Pan-Pearl River Delta as an example, due to the inconsistency of the customs declaration system in various parts of the Pan-Pearl River Delta, many export commodities produced in the mainland have problems such as inappropriate customs declaration procedures after they arrive in Guangdong Province, and must be returned to the original province for re-declaration. Logistics time is fearlessly extended.

3.3.3 Financial management and control risks

The early opening of the mainland's financial industry to Hong Kong has brought opportunities for financial cooperation between the two places on the one hand, and risks to the mainland's financial market on the other hand. Many large private investment fund companies, mainly merger and acquisition companies from the United States and Europe, have flocked to mainland China. For private investment funds, mainland companies are the most popular investment targets. At present, global hedge funds have assets under management of \$4 trillion, of which about 60 % are based in the United States. China's economy has been growing rapidly for many years and will maintain a strong momentum, and Chinese assets are increasingly favored by international hedge funds. With the deepening of the opening of the mainland financial industry, the mainland market is also exposed to huge financial risks. Considering that the mainland financial market is still immature and has limited automatic adjustment capabilities, these private funds and hedge funds are likely to have a negative impact on the two places. The financial market, especially the mainland financial market, has brought about turbulence, which has posed a huge challenge to the financial regulators of the two places.

3.3.4 Solutions and policy suggestions

In response to the above-mentioned problems, I believe that the two places should focus on strengthening the following aspects in economic cooperation in the future.

1. Improve the international awareness of domestic enterprises and encourage them to go to Hong Kong to develop Hong Kong as an international financial and commercial center, attracting enterprises from all over the world. Many famous enterprises use Hong Kong as the base for developing the Asian market. Settlement and business operations also facilitate business exchanges between enterprises. Hong Kong is the best platform for mainland companies to enter the international market and engage in trade with companies from all over the world. It can be said that Hong Kong is the bridgehead for mainland companies to go out and develop overseas markets. Although the cost of doing business in Hong Kong is higher than that in the mainland, as an international financial and trade center, the opportunities and benefits that enterprises can obtain in Hong Kong are currently beyond the reach of mainland cities. In response to the concerns of mainland enterprises about the cost of doing business, the SAR government should strengthen publicity to make mainland enterprises realize that in addition to the high rents in some commercial centers such as the Central District of Hong Kong Island, there are many businesses in Hong Kong with complete facilities, convenient transportation and relatively reasonable rents. These business districts also enjoy the advantages of Hong Kong's financial and trade service center, but the cost is several times cheaper than that of the Central District. As for labor costs, although the salary level of Hong Kong employees is much higher than that of the mainland, the overall level and work efficiency of Hong Kong employees are also much higher than those of the mainland, which does not substantially increase the cost of enterprises. In fact, with the encouragement and strong support of the mainland government and the Hong Kong government, more and more companies have begun to choose Hong Kong as an "outpost" for export trade, responsible for contacting overseas customers, developing products, following up orders and arranging production inspections etc., Hong Kong is increasingly becoming an ideal platform for connecting the mainland and the world.

2. Strengthen the coordination and communication between the governments of the provinces and municipalities in the Mainland and the governments of the SAR, and coordinate the overall situation from a win-win perspective. The "9+2" regional cooperation has brought business opportunities to the 9 provinces in the Mainland. Considering its own economic interests, resources and commodities cannot flow freely between Hong Kong and mainland provinces. The inconsistency of regulations caused

by the fragmentation of some inland local governments has also resulted in loss of efficiency and increased costs. For example, the governments of Guangdong, Hunan, Jiangxi, Sichuan, Yunnan and Guangxi have successively formulated plans or outlines for the development of the modern logistics industry in each province. scale and waste of resources. In my opinion, the characteristic of regional development in the new era is not simply to give preferential policies, but to break the limitations of market segmentation, local protection and administrative division through the design of the system and the power of the market, and effectively form the flow of people and logistics necessary for regional development. , capital flow and information flow. Coordinating the overall situation, maximizing the efficiency of the economic operation of the entire Pan-Pearl River Delta region, and achieving a win-win situation for all provinces and cities, coordination and communication within the region is very important. Holding high-level joint meetings of various provinces and establishing a unified industrial and commercial association in the region will be a good way to enhance coordination and communication, integrate resources in the region, and can improve economic efficiency and create more and faster wealth.

3. Strengthen the financial supervision of the two places and improve the resilience of the financial system. After the opening of the mainland financial market, in order to prevent the financial markets of the two places from being affected by speculative factors and fluctuating, the financial regulators of the two places should strive to strengthen cooperation and improve the financial services of Hong Kong and the mainland. The overall resilience of the system. On the mainland, financial regulators should pay close attention to high-risk financial products, especially financial and credit derivatives. Since these products are highly speculative, they can easily cause market volatility. In view of the low transaction transparency of such products, regulators should pay more attention to them. Supervision should be strengthened. At the same time, it is necessary to take active measures to deal with potential financial risks, establish a risk early warning mechanism in the financial market, especially the capital market, focus on abnormal situations, increase foreign exchange reserves, and improve the ability to resist risks. In Hong Kong, because capital flows more freely in the financial market, financial institutions should always be vigilant in risk management, especially in the market area where hedge funds are more concentrated. Corresponding regulatory agencies should improve their risk assessment capabilities, strengthen cooperation with international regulatory agencies, and obtain sufficient information to prevent possible impact from financial risks. At present, the foreign exchange reserves of mainland China have exceeded one trillion yuan, and the financial markets of the mainland and Hong Kong are far more resilient than before.

4. Adhere to one country, two systems and strengthen policy guidance on economic cooperation between Hong Kong and the Mainland

Since the return of Hong Kong, it has continuously expanded the areas of cooperation with the Mainland and strived to improve the level of cooperation. The "Outline of the Fourteenth Five-Year Plan for the National Economic and Social Development of the People's Republic of China and the Vision to 2035" promulgated in March 2021 (hereinafter referred to as the "14th Five-Year Plan"), the Hong Kong Special Administrative Region Government has put forward a number of specific proposals after careful consideration. The proposal reflects the central government's firm support for the Hong Kong SAR. China's "14th Five-Year Plan" clearly defines the future development of Hong Kong, which is mainly reflected in three aspects: first, adhere to the principle of "one country, two systems", safeguard national security and maintain Hong Kong's long-term prosperity; second, support Hong Kong in strengthening and enhancing its competitive advantages, This includes continuing to support Hong Kong in maintaining its status as the "Four Traditional Centers" of international finance, transportation, trade and international trade. To provide legal and dispute resolution services in the Asia-Pacific region, and for the first time proposed to support Hong Kong in strengthening, establishing and developing "four emerging centers", namely an international aviation hub, an international innovation and technology center, a regional intellectual property trading center, and an East-West international cultural exchange center; Third, it mentioned support for Hong Kong to better integrate into China's overall development, and emphasized support for the construction of a high-quality Guangdong-Hong Kong-Macao Greater Bay Area. China's 14th Five-Year Plan defines Hong Kong's role and positioning in the country's overall development strategy, providing a clear direction and room for further cooperation between Hong Kong and the mainland. By strengthening cooperation with the Mainland, Hong Kong can leverage its unique advantages in the national development strategy, promote the coordinated development of the Mainland's economy, and contribute to the country's reform and development. At the same time, Hong Kong's economic structure can also be improved and upgraded.

3.4 To fight the epidemic together, Hong Kong and the mainland cooperate with each other

In the first half of 2003, the SARS epidemic ravaged Hong Kong. The impact of the epidemic caused panic in Hong Kong, and the unemployment rate rose rapidly to 8.7 %. The Chinese central government extended a helping hand in a timely manner.

While the mainland is also in urgent need of anti-epidemic medical supplies, the central government has provided Hong Kong with a large number of anti-epidemic medicines and equipment. Since the protective clothing in the mainland is different from that in Hong Kong, the relevant departments require the factories in the mainland to work overtime and rush production according to the requirements of Hong Kong; and for special goggles, masks and other protective equipment that are only produced by specific foreign factories, the relevant central departments immediately organized to purchase from the international market . In order to restore Hong Kong's economic growth, on June 29, 2003, the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed. The opening-up measures and implementation goals of the Mainland residents; the policy of "individual travel" for mainland residents to Hong Kong was also implemented in the same year. On June 18, 2003, the Legislative Council of the Hong Kong Special Administrative Region passed a motion to thank the central government for its support to the Hong Kong Special Administrative Region in the fight against SARS. Mr. Wu Liangxing, who proposed the motion, said that when the mainland is dealing with atypical pneumonia, the demand for supplies is already quite urgent, but it still provides hundreds of millions of medical supplies to Hong Kong, which shows that the central government attaches great importance to Hong Kong.

On January 23, 2020, the Department of Health of the Hong Kong SAR Government announced two confirmed cases of new coronary pneumonia for the first time. At the beginning of July, the third wave of the epidemic hit Hong Kong. There were about 3,700 new confirmed cases in Hong Kong, accounting for more than 70 % of the cumulative confirmed cases. The ever-increasing number of confirmed cases has put enormous pressure on the public healthcare system, especially virus testing. The Chief Executive of the Hong Kong Special Administrative Region, Carrie Lam, sought medical support from the central government to improve Hong Kong's nucleic acid testing capabilities. At the request of the Hong Kong SAR government, the Chinese central government quickly deployed a nucleic acid testing support team of 600 people from the mainland, and successively went to Hong Kong in August to work together with the Hong Kong SAR medical team and people from all walks of life to fight against COVID-19. On September 1, Hong Kong launched the New Crown Virus Universal Community Testing Program to provide citizens with free new coronavirus testing. The SAR government has set up 141 community testing centers in various districts in Hong Kong to take samples for citizens. A total of more than 6,000 Hong Kong medical staff voluntarily signed up to participate in community sampling work. Nearly 4,000 government personnel from more than 70 policy bureaux and departments of the SAR government have also invested in supporting community testing centers. In the face of

the severe COVID-19 situation in Hong Kong, as of March 2022, mainland enterprises and groups have rushed to help, and the total value of medical supplies such as testing, protection, disinfection, and medicines that have arrived in Hong Kong from the mainland has reached about 3 billion yuan. Medical staff in Hong Kong and the mainland joined hands to fight the epidemic and quickly controlled confirmed cases to a minimum, providing strong support for the safety of people's lives and economic development in Hong Kong.

3.5 Coordinated economic development between the Hong Kong SAR and the Mainland in the post-epidemic era

3.5.1 Unremitting efforts to prevent and control the epidemic and accelerate vaccination

Although the current global epidemic situation is developing in an increasingly controlled direction, the epidemic situation is still repeated in some areas, and the Hong Kong consumer market is still shrinking. In 2020, the Hong Kong government's response to the COVID-19 epidemic and its plans to protect jobs and people's livelihoods have consumed nearly 400 billion in fiscal reserves. The current epidemic continues, and it is bound to continue to consume fiscal reserves. At the same time, in order to cope with external risks, the SAR government must also have enough in its hands. funds. Against this background, Hong Kong's fiscal reserves are already very limited. It is unrealistic to expect the Hong Kong government to launch a large-scale infrastructure plan in the short term to stimulate the economy. The Hong Kong Special Administrative Region must learn from the valuable experience in the prevention and control of the epidemic in the past two years, make every effort to prevent and control the epidemic, and accelerate the promotion of vaccination. Only in this way can the Hong Kong economy hope to get rid of the epidemic and make a real and substantial change.

3.5.2 Actively integrate into the integrated development pattern of the Greater Bay Area

The regional cooperation mechanism established by the Hong Kong Special Administrative Region Government and the Mainland, including Guangdong-Hong Kong, Shanghai-Hong Kong, Beijing-Hong Kong, Pan-Pearl River, Shenzhen-Hong Kong, Fujian-Hong Kong, Sichuan-Hong Kong, etc., is an all-round, wide-ranging, An

economic and trade strategy for multi-level cooperation. On the one hand, strengthening regional cooperation with the Mainland is an important platform and an important way for Hong Kong to integrate into the overall development of the Mainland. The integration of Hong Kong into the overall development of the country and the strengthening of cooperation with the Mainland are not contradictory to Hong Kong's internationalization, but complement each other and promote each other. Since the reform and opening up of the mainland, Hong Kong has been integrated into the overall development of the mainland on the one hand and seized the opportunities of the mainland's development; on the other hand, it has integrated into the international development pattern and obtained development opportunities in the international industrial structure, capital, financial changes and flows.

At present, integrating into the overall development of the Mainland and the development of the Greater Bay Area is a new choice for Hong Kong in the new era of national development. Of course, Hong Kong cannot ignore its interaction with the world and the resolution of its own deep-seated problems. On the other hand, strengthening regional cooperation with Hong Kong is an important basis for China to implement major development strategies such as the "Belt and Road" initiative, the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, the integration of the Yangtze River Delta, and the coordinated development of Beijing, Tianjin and Hebei. Hong Kong is also a mainland region. An important partner for "bringing in" and "going out". The regional cooperation mechanism between Hong Kong and the Mainland has played an important role in enhancing the scope and capacity of cooperation between the two places and promoting the integration of Hong Kong into the overall development of the country. As for the problems existing in the cooperation mechanism, Hong Kong and the mainland region need to take the initiative to improve it under the national development strategy. With the development of the international situation, national development and the political and economic situation of Hong Kong in the new era, the regional cooperation between Hong Kong and the Mainland under "One Country, Two Systems" requires new thinking, new methods, new platforms and new mechanisms.

3.5.3 Actively implement the regional cooperation mechanism established with the Mainland

With the support of the Central Government of China, since the handover of Hong Kong in 1997, especially since the signing of the "Mainland and Hong Kong Closer Economic Partnership Arrangement" (CEPA) in 2003, Hong Kong and the mainland governments at the provincial and municipal levels have jointly promoted and

established Several regional cooperation mechanisms have been established. As of the end of 2019, the regional cooperation mechanisms established by the Hong Kong SAR Government and the Mainland include: Guangdong-Hong Kong Cooperation Conference Mechanism, Shanghai-Hong Kong Cooperation Conference Mechanism, Pan-Pearl River Delta Regional Cooperation Mechanism, Beijing-Hong Kong Cooperation Conference Mechanism, Shenzhen-Hong Kong Cooperation Conference Mechanism and Sichuan-Hong Kong Cooperation Conference Mechanism. The provinces and cities of the regional cooperation mechanism include Guangdong, Shanghai, Fujian, Jiangxi, Hunan, Guangdong, Guangxi, Hainan, Sichuan, Guizhou, Yunnan and other provinces and the Macao Special Administrative Region, and determine the financial market, financial institutions, financial services and products. , financial talents, financial technology, financial supervision, commodity trade, tourism, talent exchange, education and other important areas to strengthen cooperation.

Strengthening the regional cooperation mechanism with the Mainland provides Hong Kong with more opportunities to participate in national strategies. Beijing, Shanghai, and Shenzhen are the core cities of the Beijing-Tianjin-Hebei region, the integration of the Yangtze River Delta, and the Guangdong-Hong Kong-Macao Greater Bay Area. Guangdong, Fujian, and Sichuan are important development areas in the eastern and central parts of the country. The establishment of the cooperation mechanism has enriched the connotation of the practice of "one country, two systems" in Hong Kong, and is of great benefit to the further integration of Hong Kong into the overall development of the country. By strengthening regional cooperation with the Mainland, on the one hand, Hong Kong's unique advantages will play a role in the country's new development pattern, and on the other hand, by enhancing active interaction with the Mainland region, Hong Kong's development opportunities and space will be expanded.

From the perspective of the international development environment, national development strategy, and Hong Kong's political and economic situation, the central government will still strongly support Hong Kong's wider cooperation with the mainland in the future. Only by strengthening cooperation with the mainland can Hong Kong be better integrated into the overall development of the country. From the perspective of the central government, supporting Hong Kong's integration into the overall national development and regional cooperation between Hong Kong and the mainland are important measures to maintain Hong Kong's prosperity and stability and to give full play to Hong Kong's unique role in the country's reform and opening-up process in the new era. From the perspective of the mainland's regional level, strengthening

cooperation with Hong Kong is conducive to complementing each other's advantages and achieving mutual benefit and win-win results. Especially in bringing in and going out to strengthen cooperation. From the perspective of Hong Kong, strengthening cooperation with the mainland and integrating into the overall development of the country is the key direction of its future policy.

At present, the global epidemic is superimposed on the turbulent international situation, the global economic growth has slowed down, and the Chinese economy has also been impacted. The severe external environment has given more significance to the cooperation in service trade between Hong Kong and the mainland. Hong Kong can further develop its level of openness and high degree of internationalization. Having the advantages of extensive international network resources and talents, the mainland can give full play to the advantages of the vast market space and service provision and delivery capabilities, each draws on its own strengths, exerts their respective comparative advantages, and rapidly improves the level of service trade cooperation, serving the two places. To cope with external environmental shocks and expand new economic growth points, it provides important new driving forces.

According to the "14th Five-Year" development plan, China will accelerate the pace of reform and opening up in connection with the new rules of international trade, especially with the rules of the international free trade system. Hong Kong has many advantages and successful experience in these areas. By learning from Hong Kong's experience, the adaptability of the mainland's international economic and trade rules can be further improved, thereby promoting China's opening up to a higher level and a deeper level. There is still room for improvement in the implementation and effect of the CEPA agreement due to the differences in the systems between the Mainland and Hong Kong. In the future, the two places can adhere to the principle of "needs of the country, strengths of Hong Kong", strengthen cooperation in financial services, trade logistics, professional services, technological innovation and other fields, increase openness and cooperation in finance, commerce and other fields, and realize comprehensive service trade. Liberalization; further promote the opening and cooperation of service trade in the mode of movement of natural persons, further upgrade the economic and trade cooperation rules between the two places, and promote the free flow of goods, services and factors at the three levels, and promote the integrated development of the two places' economies, so that Hong Kong can take advantage of this historical opportunity. China will further consolidate and enhance the competitiveness of an international financial center and a global economic location.

CONCLUSION

This paper provides a theoretical and statistical study of the origins, political history and economic development of Hong Kong in different periods. More than 20 years after Hong Kong's return to the motherland, its economic development has not been smooth, but full of thorns. This is not only because the internal and external environment of Hong Kong's economic development has undergone earth-shaking changes - including Hong Kong's irreplaceable and even "monopoly" role as a "window, bridge, and international channel" for China's comprehensive opening to the world. Before the return of the advanced capitalist countries in the West. The gradual weakening of Hong Kong's special status is also due to the continuous impact of "natural and man-made disasters" on Hong Kong - the Asian financial turmoil, the SARS epidemic, and the global international economic crisis. At the same time, due to the central task assigned by the central government to the government of the Hong Kong Special Administrative Region to "focus on economic development", it has been constantly disturbed by "pan-politicization", especially "pan-politicization". - The politicization of Hong Kong society. Its economic recovery and revitalization have been repeatedly blocked. In the 20 years since the return of Hong Kong, Hong Kong is in the third period of economic transformation, that is, a comprehensive transformation from traditional service-oriented low value-added industries to modern knowledge-based industries with high added value. In this historical process, there have been endless debates on how to redefine the development strategy, development orientation, development direction and development model of Hong Kong's economy.

Under the triple impact of COVID-19, Sino-US trade friction, local violent demonstrations and social incidents, Hong Kong's economy has been hit hard and the economy is facing continuous downward pressure. The blow from COVID-19 and the Sino-US trade friction will continue to affect Hong Kong's economic development for a long time to come.

Hong Kong's economic development must not only adhere to globalization and a free and open trade policy, but also establish close ties with the Mainland and continue to conduct various business exchanges with the rapidly emerging Mainland market, which has become an important foundation for Hong Kong's economic development.

The author puts forward practical suggestions for Hong Kong's economic recovery in the post-epidemic era and economic cooperation with mainland China.

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