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Trading as usual? Navigating Hong Kong's Roles in Global Trade Architectures

Yu-wai Vic Li*

Abstract

The successful maintenance of Hong Kong as a great “trading state” in the wake of its colonial era has been well-recounted in the literature. However, the city’s continuing relevance as a key business hub depends on the extent to which the SAR authorities can respond to the challenges, and seize the opportunities, created by a trade governance terrain that has been evolving quickly over the last decade. This paper analyzes how Hong Kong has performed as an actor in global trade governance, discusses the development of regional trade architecture, and offers a prospective assessment of how Hong Kong might calibrate its trade policies and strategies in response to the many political and economic shifts in the global trade system. The paper argues that Hong Kong should adopt a more pro-active outlook that goes beyond its long-standing defensive posture in order to carve out policy spaces over the next few years that might best ensure its economic interests and competitiveness within an uncertain landscape of trade architecture.

Keywords: free trade agreements; global trade regime; Hong Kong; regional trade networks; trade governance; trade regionalism

Introduction

Hong Kong was celebrated as a global trading hub long before the close of its colonial period in 1997. The city’s trade to GDP ratio— a metric assessing the importance of international trade and degree of economic openness of an economy— has been growing steadily since the 1960s. After the handover, international trade became more important to the city’s growth, with the trade to GDP ratio edging up from 233.4% to 351.7% between 1997 and 2020 (the metric peaked at 442.6% in 2013).¹ In 2009, Hong Kong’s trade to GDP ratio surpassed Singapore’s, making it the East Asian economy most permeable to international trade flows.

Despite the economic headwinds and uncertainties of recent years, Hong Kong has retained dual advantages in trade in goods and trade in services. In 2020, Hong Kong was the world’s sixth largest trading entity of merchandize goods and the 21st largest entity of trade in services. These accounted for about 3.2% of goods and 1.2% of commercial services transactions worldwide.² Hong Kong’s remarkable position in global trade is also evidenced by its quickly expanding services trade. Since 2010, the city witnessed a six-fold increase in net service exports, mostly transport and travel services, to major trading partners including China, the European Union (EU), and the US (Census and Statistics Department 2021).³

Notwithstanding these enviable figures, Hong Kong’s positioning and roles within both the global and regional trade systems are notably underappreciated by researchers. This is partly because Hong Kong’s economic miracle has often been attributed to the city’s *laissez faire* and non-interventionist policy rhetoric that was

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¹ Data of individual economies and years available from the World Bank Data Bank at: <https://databank.worldbank.org/home.aspx>.

² More specifically, Hong Kong was the eighth largest import and sixth export hub of goods and was respectively the 22nd and 21st largest economy in services trade imports and exports in 2020. For details, see Trade and Industry Department (TID) (2021) and WTO (No date).

³ In total trade volume’s term, the top five Hong Kong’s trading partners were the Mainland China (52.4%), Taiwan (6.7%), the US (5%), Singapore (4.7%) and South Korea (3.9%) in 2021. The SAR imported the most from the Mainland China (45.8%), Taiwan (10.3%), Singapore (7.8%), South Korea (6.1%) and Japan (5.1%); and exported the most to the Mainland China (39%), Taiwan (11.1%), the US (9.9%), United Kingdom (6.6%) and Switzerland (5.6%). As economic blocs, the ASEAN and EU were respectively the second and fourth largest trading partner of Hong Kong, making up 12.1% and 5.4% of all trade flows of the city. For details, see TID (2022b).

widely believed to underpin the city's domestic and external economic practices (Meyer 2000; 2002). The city, however, has occupied a special niche as a separate customs territory in the global trade governance system well before the handover. This has remained unchanged due to the Basic Law's guarantee on the city's autonomy in global economic affairs, providing a distinctive space for Hong Kong's participation and contributing to the development of the global trade system since the mid-1980s. For example, Hong Kong has consistently supported a "free, open and stable" multilateral trade system and been proud of its reputation for adhering to global trade rules.

While this posture might have served the city's interests well for the first decade after the handover, the sea changes in global and regional trade landscape since the 2010s make a review of Hong Kong's policy positions warranted. There has been a proliferation of free trade agreements (FTAs) among the region's economies, forming a dense regional trade agreement (RTA) web. These plurilateral economy-based trade deals, concluded between individual World Trade Organization (WTO) members, are aimed at liberalizing economic relations among contracting parties and have been seen as a potential undermining of the WTO-centric global trade regime because of the multiplicity of rules that are often inconsistent across FTAs (Nakatomi 2013).

Although Hong Kong has been building its own FTA network, the early SAR administrations (until C. Y. Leung's government) placed an emphasis on market liberalizing gains in negotiations with trade partners and were reluctant to implement proactive approaches that might allow Hong Kong to better advance its own external economic interests and carve out important policy spaces (see Figure 1 for the overview of the city's FTA network). The authorities' aversion to strategic considerations has also become ill-suited to the increasingly politicized market context, where Hong Kong's standing in the global trade regime has been complicated by geopolitical tension between China and the US, the two leading trading partners of the city.

To understand these problems and offer a prospective assessment, this paper first highlights Hong Kong's engagement in the global trade regime, and reviews work pertinent to the city's external relations and the politics surrounding FTAs. This provides a basis from which to analyze Hong Kong's approaches and strategies surrounding its FTA network, as well as the challenges and policy maneuvers occasioned by the great power politics that Hong Kong finds itself in the center of. The paper argues that the SAR authorities should go beyond the existing policy framework in the next few years and boost its capacity to cope with the new uncertainties of global trade politics. Some implications gathered from the surrounding scholarly literature and trade policies will be discussed toward the paper's end.

Hong Kong as the Poster Child of Global Free Trade

Hong Kong's formal participation in the global trade regime began from 1986 when it joined the General Agreements on Trade and Tariff (GATT), the WTO's predecessor, as a separate customs territory. Membership led to the city to becoming a founding party of the WTO in 1995. Its standing as a separate custom territory remained unaffected by the 1997 handover. This was economically vital to the city's trade policies and networks and was symbolic of a high degree of autonomy in external relations as a Chinese Special Administrative Region (SAR).

Successive colonial administrations had striven to make Hong Kong an unimpeachable model of how good trade policies could support a territory's position in the global trade system. The SAR administrations inherited this philosophy and maintained two overarching goals of participation in the global trade regime—"to foster progressive global trade liberalization and to strengthen the rules of the multilateral trading system." It was hoped this fundamentally defensive posture would provide sufficient defenses for Hong Kong in the face of arbitrary and discriminatory actions taken by the city's trading partners (WTO 2018).

Hong Kong has maintained a zero-tariff profile for all product categories (except a few controlled items) and has been a very constructive WTO member. The city has close to an impeccable record of compliance with the

organization's rules. The city was the first WTO member to accept the Agreement on Trade Facilitation (TFA), the trade body's first agreement, in 2014. Despite allowance made within the treaty for the phasing in of the associated arrangements, the SAR opted for the swift implementation of every TFA provision upon its launch in 2017.

Hong Kong has also shown considerable enthusiasm for furthering the WTO's rules and standards. The city spearheaded the adoption of WTO's plurilateral frameworks, including the Agreement on Government Procurement that was concluded in 1994 and the Information Technology Agreement agreed in 1996. The city fully adopted both agreements in Summer 1997. Hong Kong has also been a consistent part of a policy coalition advocating new trade rules with like-minded counterparts. For example, the city worked with dozens of other WTO members to develop the Environmental Goods Agreement and Trade in Services Agreement, both under negotiation since the early 2010s (WTO 2018).

In bilateral trade relations, Hong Kong has never been charged by other WTO members with introducing discriminatory practices or breaching trade rules. The city has been a complainant only twice. The first case involved Hong Kong seeking resolution of Turkey's import restrictions on textiles and clothing in 1996 that was smoothly resolved by bilateral consultation. The second and ongoing case, brought to the WTO by Hong Kong in October 2020, concerns the origin marking requirement of the US that tests the SAR administration's capacity to navigate the complex politics underlying global trade. Hong Kong is also quite an "experienced bystander" in the WTO's dispute settlement system. The city has been a "third party" in 22 cases in which it has had a substantial interest, including disputes over the use of export subsidies, dumping practices surrounding textile products, and information technology services that are important to the city's business portfolio.

The city has also been a member of other trade policy dialogue platforms at the regional and global levels. In 1990, Hong Kong joined the Pacific Economic Cooperation Council, a tripartite platform for the governments, businesses, and research communities of the region. Hong Kong was a founding member of the Asia Pacific Economic Cooperation (APEC) in 1991, joining the organization on the same date as Mainland China and Taiwan. Owing to its special standing, Hong Kong joined the OECD's Trade Committee in 1994, plugging the city into a policy circuit with advanced economy partners. Over the intervening years, it has contributed to APEC's capacity building initiatives by bringing to bear its funding and specialized expertise, and has promoted connectivity enhancing initiatives like the Bogor Goals, which aimed to fully liberalize trade in the Asia Pacific region by 2020.

These diverse engagements with the global trade regime have been supported and coordinated by the Trade and Industry Department (TID), known as Trade Department before 2000, with major divisions handling multilateral trade affairs and bilateral relations with specific regions. The agency is supervised by the Commerce and Economic Development Bureau (CEDB), the policy bureau led by politically appointed officials.⁴

Existing Studies and their Incomplete Focus

Despite these engagements with the global trade regime, there has been a paucity of studies taking stock of the city's endeavors. Accounts of the city's global trade have focused on the traders and their transnational networks that were critical to the city's success facilitating intra- and inter-regional trade from the 1960s onwards, a transformation that took place after the 1950s Korean War turning the colony into a manufacturing and export hub beyond its reliance on entrepot trade that accounted for a majority of the pre-war trade flows (Meyer 2000; 2002). Such an emphasis on Hong Kong's positioning in the global market structure is

⁴ In addition to the TID and CEDB being the official policy actors within the SAR government dealing with multilateral and bilateral trade affairs, trade promotion and policy advocacy also involves Trade Development Council, a statutory body created in 1966, and the different chambers of commerce active in Hong Kong.

epitomized by Sassen (2001: 174), who described the city as “a key intersection of different worlds, forever a strategic exchange node.” More recent studies have looked at the city’s transformation into a regional service hub and its role in promoting the industrial upgrading of Southern China (Ramon-Berjano, Zhao and Chan, 2011; Sharif and Tseng 2011).

Political economy analyses have touched on the role played by the city’s government in creating growth space within the global capitalist system. Chiu and Lui (2009) characterized a “trade driven financial development” model underpinning Hong Kong’s rise to the status of a global city from the “semi-periphery” by actively capitalizing on external changes of global market conditions and driving domestic institutional reconfigurations to capture new opportunities. This made Hong Kong a model for the 21st century that accumulate its domestic prosperity and global influence through managing trade (and financial) flows, as opposed to generating growth by capitalizing resource endowment (Rosecrance 1986; 1999). Hong Kong’s embedding into China’s Greater Bay Area was a region-building project that led to a new stage of wider Chinese capitalist development (Meyer 2021).

While acknowledging the role of the Hong Kong’s authorities, these works have failed to fully examine Hong Kong’s engagement in external outreach, and how the city has situated itself in global trade and economic governance. Unlike Mainland cities, which have mostly engaged in informal diplomatic efforts and built external linkages with foreign subnational counterparts in accordance with Beijing’s mandates (Cheun and Tang 2001; Mierzejewski 2020), Hong Kong was granted considerable legal space and autonomy in “external affairs”— everything but foreign and defense matters— under the Basic Law (1992). The law permitted the SAR to conclude agreements with foreign governments in areas pertaining to trade, finance, and monetary affairs. This made Hong Kong the most internationalized Chinese “local state” within the global economy. Hong Kong’s officials could participate in international organizations limited to sovereign state membership as part of Chinese delegations. This explains why Hong Kong’s financial officials often joined their Beijing counterparts at financial governance venues— most notably at G20 meetings and various regulatory bodies.

Nevertheless, Hong Kong was drawn into the realm of FTAs following its conclusion with the Mainland of the Comprehensive Economic Partnership Agreement (CEPA) of June 2003. Although it was viewed as a “domestic” matter through which Beijing sought to support the crisis-stricken SAR economy, the agreement boosted the administration’s capacity to regulate cross-border traffics and its involvement in policy coordination across multiple levels of Mainland authorities (Cheung 2012). For China, the CEPA with Hong Kong represented a starting point for the building of its own FTA network with major trading partners, including an “early-harvest” deal with Thailand, signed in June 2003, which paved the way for a larger FTA with ASEAN. China has actively sought agreements with individual countries on every continent, and has since agreed 18 FTAs with a dozen others under negotiation as of early 2022.

As other countries, China’s trade talks with foreign economies have been driven by contests between groups concerned about economic security and those favoring liberalization within government ministries and industry. The top leaders have also been instrumental to shaping trade talk agendas and have intervened in processes and outcomes (Jiang 2019). This has resulted in a variation of negotiation processes and outcomes. Talks with ASEAN have been boosted by China’s commitment to leadership and the foreign affairs ministry’s efforts to court support from Southeast Asia nations. Talks with Australia were delayed by a lack of centralized bargaining and coordination problems within Beijing and was revived later on (Ravenhill and Jiang 2009; Jiang 2010). The FTA network China has woven has proven useful to achieving foreign policy goals and promoting the dependence of foreign economies on China. By offering concessions and expanding the coverage of FTA agreements, Beijing has succeeded in fostering the asymmetrical dependence of junior trade partners. This has enabled it to attain political goals and establish leadership in the region (Sampson 2021).

It should be noted that Hong Kong and the Mainland are distinct economies and it could well be said that there has been little protectionism in the city's political economy. Even though Hong Kong has sought to maintain its image as a paragon of global free trade, insights gained from pertinent studies, however, suggest that FTAs are always linked to politics. In fact, as Hong Kong becomes an integral part of China's political economy, it is important to understand how Hong Kong and Beijing interact in trade diplomacy. Hong Kong's expanding FTA network, as the following sections show, has been driven by Beijing's trade policy agendas as well as the city's own initiatives to kickstart negotiations with trading partners. The different SAR administrations have changed policy course, and tried out different strategies in responses to external events and Beijing's agendas that would both serve the city's commercial interests and align with China's priorities.

Late-comer to FTAs

Hong Kong's belated development of its trade agreements was due to the administrations of Tung Chee-hwa and Donald Tsang adopting pro-WTO positions during the early handover years. CEPA, Hong Kong's first trade deal, was viewed exclusively as a cross-border economic matter. It was not until the uneventful sixth Ministerial Conference (MC6) of the Doha Development Round in December 2005 that gradual changes began to be made to the SAR's outlook.

Edging Away from Policy Stasis

Although Hong Kong realized the potential of adopting a more flexible approach to concluding FTAs with trading partners, the city remained committed to the multilateral trade system (TID 2011b). It volunteered to host the MC6 in order to display its support of the WTO-centric system and to demonstrate the city's pivotal role as "Asia's world city."

Accordingly, the Tung government gave exclusive priority to successfully running MC6 with the hope of achieving breakthroughs of the Doha Round trade talks that had begun in 2001. This led to the adoption of a passive posture, with the singular exception of initiating FTA talks with New Zealand in May 2001, which were expected to culminate in the first FTA concluded by the young SAR with a foreign economy. However, the talks were suspended in 2002 due to New Zealand's concerns about the origin markings important for distinguishing exports from Hong Kong and the Mainland (Lei 2010). This, however, provided the Tung administration with some leeway to complete the complex and difficult CEPA negotiations with the Mainland China.

The resulting agreement, concluded in June 2003, ushered Hong Kong into the FTA realm by encompassing trade in goods and services, investment, and trade facilitation. In addition to preferential access for Hong Kong's exports of goods across the border, nearly every service sector of the city, including the logistics, transport, and financial sectors, gained the preferential treatment of domestic firms within China, creating enormous business opportunities for Hong Kong's value-added industries and professionals. The economic virtues aside, CPEA also carried with it significant political implications. As Sampson (2021) puts, the agreement has allowed Beijing to demonstrate the benefits of economic integration and to strengthen the political economic dependence of the junior party (Hong Kong) on Mainland China through a series of sub-agreements and updates following its initial conclusion.

Such political calculus, however, generated little criticism of the agreement in Hong Kong's (let alone pushback) since the Tung administration came to view CEPA as part of Beijing's support for promoting economic recovery following the 2003 SARS outbreak. The successful conclusion of CPEA also strengthened the government's view that the city should strive to attain a quality WTO-plus framework (with coverage on investment, services, and intellectual property) in future FTA negotiations. In other words, while the government was receptive to plurilateral trade agreements, it was seen as vital that FTAs be consistent with WTO rules and demonstrate Hong Kong's staunch commitment to the global regime. This was reflected in Hong Kong's 2004 backing of APEC's long-term proposal to create the Free Trade Area of the Asia Pacific

(FTAAP) ahead of the following year's MC6. The mega-trade deal was expected to introduce coherence to the expanding pool of Asia Pacific bilateral FTAs, which had raised concerns about a "noodle bowl effect" arising from inconsistent trade agreements (Nakatomi 2013; Solis and Wilson 2017).

Although Hong Kong's pro-WTO stance was laudable, it perhaps came at the cost of falling behind in the region's scramble for FTA. In the Asia Pacific area, the number of signed and active agreements doubled from 33 to 67 between 1997 and 2005 and reached 174 in 2021; an average of 3.5 negotiations commencing every year. Singapore, Hong Kong's sibling-like competitor, sealed over two dozen agreements from the 1990s onwards, almost adding a new agreement every year from 2001.⁵

It was not until the collapse of the Doha Round in 2006 that gradual change began to become evident in Hong Kong's posture. Although the city attempted to broker consensus among the members in the MC6 with its "moral high ground" on contentious issues surrounding free trade, notably agricultural subsidies, the optimism of trade officials was quickly washed away as divides between the global north and south resulted in stalemate and the formal suspension of talks in July 2006.

Faced with a new landscape of global trade, the Tsang administration concluded that "in response to new trends in world trade, we will seek to enter into more economic and trade arrangements with our trading partners, so our goods and services can gain access to overseas markets under more favourable condition" (Hong Kong SAR CE 2006). The important question of who exactly might become potential FTA partners remained. The government confessed that Hong Kong's trading partners had little incentive to prioritize trade talks and invest effort as room to benefit substantially was reduced by the zero-tariff regime Hong Kong already maintained (TID 2016b).

Achieving High Quality Framework

The soul-searching lasted until the latter years of Tsang's government when the SAR appeared to develop a strategy to move ahead. Without compromising Hong Kong's reputation for free trade, the administration aimed to reach quality deals with developed economies.

Resumption of trade talks with New Zealand after a prolonged hiatus quickly concluded in December 2009, catalyzed in part by the taking effect of the trade agreement between Beijing and Wellington in late 2008. This was followed by talks with the European Free Trade Association (EFTA), a group that consists of four small European states with strong free trade traditions (Liechtenstein, Iceland, Norway, Switzerland) in 2010. The talks were smoothly concluded two years later. Despite limited tariff savings being expected, given the already very low levels of trade in goods between Hong Kong and the counterparties, it was hoped these two FTAs would introduce market access for Hong Kong's service industries to New Zealand and the EFTA area. Perhaps more importantly, they served to signal the city's free trade reputation to the world by reaching "high quality FTAs" with preferential treatment exceeding that which the contracting parties had enjoyed under the WTO framework (i.e., WTO-plus) (TID 2010; 2011a).

Following the conclusion of the cross-strait Economic Cooperation Framework Agreement, Hong Kong floated the possibility of reaching a CEPA-like trade agreement with Taiwan in 2010. Thanks to favorable cross-strait relations during the Ma Ying-Jeou administration, Hong Kong considered any agreement with Taiwan, the city's second largest trading partner, to be economically significant. John Tsang, the former Financial Secretary, proposed such an arrangement during his Taipei visit (Shen 2016). As a Beijing-trusted Chief Executive (CE), C. Y. Leung also personally urged a conclusion of the agreement in 2013, hoping to align Hong Kong with Beijing's agenda of promoting closer economic engagement with Taiwan and therefore increasing its leverage over the island. However, increasingly tense cross-strait relations and a cooling of Hong Kong-Taiwan

⁵ Data compiled from Asia Regional Integration Center, Asia Development Bank: <https://aric.adb.org/database/fta>.

interactions followed the 2014 Sunflower Movement pushing against the passing of the Cross-strait Service Trade Agreement that in effect, doomed any prospect of a CEPA between Hong Kong and Taiwan (Chiu and Law 2020).

This opportunistic approach of C. Y. Leung was also evident in his administration's decision to directly join the ASEAN-China Free Trade Area (ACFTA), which was concluded in 2005. Although the city would still strive to reach high quality agreements with trading partners, the SAR government hoped to take a short-cut and join the large trade zone without directly negotiating with the Southeast Asian economies (Hong Kong SAR CE 2013). Leung also sought to expand Hong Kong's FTA network to Belt and Road countries by using the inter-governmental and business community networks of the city (Hong Kong SAR CE 2016).

Riding the Dragon

The turn to smart engagement was not just politically expedient for Leung's administration, it became an imperative. This was especially true within a context of a more fragmented regional FTAs landscape after the 2010s. FTAs of varying coverage and standards, and "micro-FTAs"—agreements concluded between easy partners with exemptions for sensitive sectors—as well as wider trade tensions between the US and China, further dimmed the prospect of achieving quality FTAs in all instances as desired by Hong Kong. Specifically, Hong Kong's took advantage of China's FTA diplomacy after the mid-2010s as the country's strategy matured in order to help Beijing attain many diplomatic and economic goals with FTA partners (Jiang 2019; Yu 2020). Three agreements whose negotiations were initiated under the C. Y. Leung administration illustrate Hong Kong's strategy.

The first case concerns ACFTA, which Hong Kong hoped to accede to with the agreement and support of Beijing. ACFTA was the first FTA China concluded with a multilateral grouping (rather than individual economies) and was composed of agreements on trade in goods and services and investment facilitation that would gradually take effect from 2005. After complete implementation by 2011, it would give considerable convenience and advantages to Hong Kong without the trouble of negotiating a separate agreement with ASEAN.

However, ASEAN downplayed the Leung government's fast-track strategy, and counter-proposed the working out of a separate FTA framework with Hong Kong in 2013 (TID 2013). Negotiations commenced in July 2014 and took three years to conclude. Aside from the motivation to conclude an agreement with an entire regional grouping that had become Hong Kong's second largest trading partner in goods and fourth largest in services (in 2017), the Leung's administration also expected the agreement to help reinforce the intermediary role of Hong Kong in the then fledgling Belt and Road Initiative (BRI) that debuted in 2014. An encompassing agreement modelled on ACFTA and CPEA with the ten Southeast Asian nations would complement the bilateral ties between China and ASEAN states, providing preferential access for Hong Kong's services flows to the region (TID 2017).

Such strategic considerations became more apparent in Hong Kong's curious outreaches to minor trading partners in the latter years of Leung's administration. To further align Hong Kong's FTA posture with China's economic diplomacy in the BRI regions, Hong Kong capitalized on Beijing's FTA negotiations with Georgia and Maldives (both traded with miniscule trade volumes with Hong Kong) and tried banking on Beijing's leverage over the two small economies to kickstart and accelerate FTA negotiations.

After the initial proposal of Hong Kong to join the already concluded ACFTA, the SAR instead sought to reach bilateral FTAs with the two smaller economies on its own. This would "minimize the risk of [Hong Kong] being marginalised" and further foster Hong Kong's integration into the global value chain (TID 2016a). Perhaps more importantly, concluding the agreements with Georgia and Maldives—both vital nodes on the BRI's land and maritime routes—would be strategically valuable as negotiations with foreign trade officials

would accumulate “relevant experience and make adjustment, as appropriate, in our [Hong Kong’s] participation in the Mainland’s FTA negotiations in future” and help “expand Hong Kong’s FTA network into the respective region” (TID 2016b).

Hong Kong’s negotiations with the Caucasus state that began in September 2016 were helped by the swiftness of China’s negotiations, which were completed in less than a year (December 2015 to October 2016). The China-Georgia FTA was strategically important to Beijing as the first FTA concluded with a Eurasian state and the first agreement reached since the BRI had debuted (Ministry of Commerce, PRC 2017). To Hong Kong, Beijing’s success also helped offset concerns about the potential economic gains of the FTA, and the city cast the FTA negotiations in more explicitly strategic terms. In fact, the Hong Kong government envisaged that the FTA would only bring very minor tariff savings (HKD2.66 million— according to a 2017 estimate). In the longer term, it was thought the value of market access to Georgia and the provisioning of specialized services between the China and larger Caucasus region would be substantial, however.

With China’s agreement and Hong Kong’s standing, Georgia agreed to accord Hong Kong the WTO-plus arrangement that was expected to benefit professional service sectors and maintain strengths, including finance and telecommunication services. Notably, for the first time, the FTA with Georgia’s waived the country’s right to maintain specific exemptions for most-favored-nation treatments at the request of Hong Kong (TID 2018). The agreement was signed in June 2018 and entered into force in February 2019.

Hong Kong simultaneously expanded its FTA network to the “economic belt” and the city ventured into the underexplored market of the “maritime Silk Road” by leveraging its involvement in the China-Maldives FTA negotiation that commenced in 2015. While all previous engagements had taken place in the Maldives, Hong Kong hosted the fourth round of China-Maldives talk in September 2016, making room for the SAR to initiate its own negotiations with the Indian Ocean economy (Ministry of Commerce, PRC 2016). Following the conclusion of the China-Maldives FTA in December 2017, the first bilateral trade instrument of Maldives, Hong Kong wrapped up talks with the nation in mid-2018. However, these were abruptly put on hold by a new Maldives government that mandated reviews of trade agreements concluded by the previous pro-Beijing president (Miglani and Junayd 2018).

By piggybacking on China’s FTA diplomacy, C. Y. Leung’s Hong Kong administration increased FTA outreach. In addition to the three deals already mentioned, Hong Kong instituted a CEPA with Macao and began negotiations with Australia— the last and latest deal Hong Kong reached in March 2019. Except for the Hong Kong-EFTA FTA negotiations, which Hong Kong commenced before China reached out to the European states, all other FTAs took place after Beijing initiatives.

Inheriting the approach of the Leung government, Carrie Lam’s administration that began in July 2017 has advanced different possibilities that built on Hong Kong’s existing FTA network. The first route sought an expansion of current bilateral FTAs into multilateral arrangements with more contracting parties. The Hong Kong-Chile FTA, for example, was expected to be “upgraded” to a separate agreement with the Pacific Alliance, made up of Chile, Colombia, Mexico, and Peru. The same method shall expand the FTA with EFTA to the EU zone— which, of course, would involve many challenging and protracted negotiations (CEDB 2019).

The second route saw the conclusion of separate bilateral FTAs with individual countries from the larger multilateral grouping. Talks with Thailand commenced in 2021, following the Hong Kong-ASEAN FTA agreed in 2019. This was analogous to China’s negotiations with specific ASEAN economies after CAFTA entered into force in 2005, which included bilateral deals with Singapore and Cambodia signed in 2009 and 2020. In response to the UK’s departure from the EU, the Lam administration also mulled an FTA with Britain in 2018 that would strengthen the trade partnership with the post-Brexit UK. However, the proposal fell down the

agenda due to tense relations between Hong Kong and London after the 2019 social unrest (CEDB 2019; “Closer Collaboration” 2018).

FIGURE 1 HERE (Figure 1. The evolving FTA network of the Hong Kong SAR)

The Ways Ahead

Moving forward, the SAR is facing a trade architecture further damaged by the implementation of mega-regional FTAs spearheaded by China and other regional powers (notably the US and Japan). Rising tension between China and the US has also directly impacted on Hong Kong’s standing in global trade. These situations have drawn the city into difficult political water. Although Hong Kong has been trying to downplay the fallout of great powers competition in economic sphere, the city has become a lever, if not a direct target, of the US’s policy actions in response to Beijing’s rising influence and assertiveness.

The Asia-Pacific Torn Apart

In addition to the focus required to effectively manage negotiations with trading partners, the regional trade landscape of competing mega-regional trade frameworks has presented Hong Kong with both opportunities to join large multilateral FTA and challenges as it navigates the uncertain political waters.

On the one hand, while the Obama administration was reportedly receptive to allowing Hong Kong to accede to the Trans-Pacific Partnership (TPP) after negotiations were concluded in October 2015 (Office of the US Trade Representative 2015), the city was cautious of expressing an intent to join the trade bloc. Citing the complexity of the domestic procedures needed to ratify the agreement amongst signatory states, Leung’s government adopted a “wait and see” approach since it was very uncertain of when the TPP might take effect and whether Beijing would endorse Hong Kong’s move. In retrospect, such concerns have proven valid. The Trump administration withdrew from the TPP, effectively ending the prospect of reaching a quality FTA among like-minded economies around the Pacific (“Hong Kong’s Accession” 2015).

For the same reasons, the SAR maintained the same view of the Comprehensive and Progressive Agreement for Trans-Pacific (CPTPP), led primarily by Japan and Australia. Although it welcomed the CPTTP as a framework that retained the region’s liberalizing momentum, it also cautioned against regulatory burden and the complexity of the framework that distinguished it from typical WTO agreements and FTAs. Hong Kong also shared the concern of Beijing that CPTPP touched on policy areas beyond what was regarded as “core trade issues” (e.g., labor protection) and was deterred from joining the negotiations (CEDB 2019). The city’s potential dialogue with the grouping was further complicated by competing bids by China and Taiwan to join the CPTPP in September 2021. Beijing’s bid was widely viewed as aiming to break the solidarity between the existing CPTPP members, as they would be forced to take sides by supporting either party across the strait (Nakazawa 2021).

For the SAR, the “low-hanging” fruit appeared to be joining the China-led Regional Cooperative Economic Partnership (RCEP) that took effect in early 2022. Well before the deal’s conclusion in November 2020, Hong Kong expressed its intent to become a founding member economy, but its initiative was not well-received due to the reservations of some nations. This forced Hong Kong to rely on the support of members who it maintained FTA connections with, especially China and the ASEAN economies, to be included the first batch of new members after the RCEP was signed. While the SAR has formally applied to join the trade club in February 2022, the accession process is expected to take 2-3 years (Hong Kong SAR CE 2020).

There remained a safe but more distant option for Hong Kong. As a long-term supporter of the FTAAP, an APEC initiative, Beijing considered the proposal to carry both political and economic merit. In 2016, Beijing threw its support behind FTAAP since it would integrate the many bilateral and multilateral deals that were fragmenting the region. In doing so, China could advance its regional economic influence and further

consolidate its leadership role following the RCEP's success (Jiang 2019; Yu 2020). Given Beijing's supportive stance and Hong Kong's long participation in APEC, Hong Kong might play its pro-free trade role and ride on the coattails of China's initiative as the regional framework took shape. The SAR government hoped to rekindle the FTA's momentum by assisting Thailand, APEC's 2022 chair, in facilitating dialogue and taking stock of the expectations of member economies (TID 2016c; TID 2022a).

Sandwiched between US-China tension

Its positioning within mega-regional proposals aside, the SAR has been affected by the political estrangement of trading partners over non-trade issues. This stemmed primarily from rising US and China tension following the 2019 social unrest and thrust Hong Kong into a cauldron of great power competition.

For the first time in the SAR's history, Hong Kong became the direct object of US trade action as the Trump administration refused to recognize exports from the city with a "Made in Hong Kong" label as a part of a larger reaction to Beijing's fisted responses to introduce the national security law in June 2020. From November 2020, Hong Kong exporters were required to label their products as "Made in China." The government considered the new measures as inconsistent with WTO rules surrounding origin requirements and amounted to technical barriers to trade. In the words of Edward Yau, the city's commerce secretary, the US move was "arbitrary, unilateral, unnecessary and unjustifiable" and represented "a deliberate attempt to undermine Hong Kong's separate customs territory" (Hong Kong Economic and Trade Office in Geneva, 2021).

To defend its interests, Hong Kong resorted to the WTO's trade dispute settlement mechanism in order to resolve the dispute with the leading power. The first attempt to bring the case to Geneva in early 2021 was blocked by US officials citing a national security exception. The second attempt was accepted automatically, as per WTO rules. Nonetheless, the "uncharted water" ahead appeared more uncertain given the complexity of legal issues involved and the question of whether Hong Kong could successfully defend its case (Birmingham 2020). As US-China tensions continued to grow, the city's trade policy of separating politics from trade became increasingly untenable and offered little help in managing the changing relationships with trading partners who now viewed Hong Kong through different prisms.

Although the SAR expected the Biden administration to review and overturn the Trump era policy, the Democrat-led US government did not seem any friendlier. A senior US trade official remarked that "the situation with respect to Hong Kong, China, constitutes a threat to the national security [of the US]" (Baschuk 2021). The spillover from the great powers' tensions further complicated Hong Kong's standing in global trade as bipartisan pressure from the US Congress mounted. A US-China Economic and Security Review Commission (2021) report urged the Biden government to review Hong Kong's status as a separate customs territory considering local political developments and connections with Mainland China.

The European Parliament similarly called on the EU to review Hong Kong's WTO seat in early 2022. Though it was not expected to immediately galvanize much substantive action from Brussels, the discussions that linked the city's distinctive standing in the global trade system with the city's political development (and the relations with Mainland China) provoked a strong reaction from the SAR (Birmingham 2022).

The fallout from great power politics, however, does not seem to have been met with enough savvy or energy by Hong Kong. While the city has brought the trade dispute with the US to the WTO, the action was viewed as symbolic and might end up cause more uncertainties as the WTO process progresses. The present situation is reminiscent of an earlier assessment by Tang (1993: 11) that Hong Kong's "deliberate choice to avoid trouble" might end up being self-defeating and "passivity is not necessarily always a virtue."

All Politics is Local

To cope with a trade regime and market terrain that might never be the same, the city will need a strengthening of its capacity, now dispersed within the administration, to manage increasingly complex trade governance. Existing systems might have worked well when the WTO-centric multilateral system was effectively delivering progressive liberalizations in global trade but, as the trade terrain has become markedly different and because wider politics is now directly affecting Hong Kong, the trade-policy related apparatus of the SAR should be reconfigured accordingly.

Though the TID has been coordinating Hong Kong's participation in global trade bodies and FTA negotiations and all implementation works with good effect, its engagement with trading partners has been shaped by the administration's larger policy priorities. The FTA boom under C. Y. Leung's administration was presumably catalyzed by the former CE's vision of Hong Kong as a "super-connector" between China and the BRI countries, and benefited from Beijing's trust in Leung. The CEPA with Mainland China was well-received by Tung Chee-hwa personally before the negotiations even started (Shen and Chan 2020).

However, as an executive body under the cabinet-level CEDB, the TID is under-staffed when compared to Hong Kong's regional peers and does not have sufficient authority to drive the administration's policy directions and outlook. Its role is also overshadowed by the Economic and Trade Offices (ETOs), a network of quasi-diplomatic posts founded before the handover to promote the city's connections and interests with foreign governments and communities. It has expanded from a few early offices in the US and Europe to developing regions. Studies have found that ETO officials have not seen the importance of actively pursuing FTAs as part of their portfolios given the free trade position of the SAR and the lack of overarching strategies for positioning the SAR within wider external relations (Chan 2019).

In response to contemporary trends emerging in global trade, the government tended to set up coordinating units like the Belt and Road Office placed under the CEDB. Such an arrangement of multiple administrative units all concerned with overseeing an evolving policy issue inevitably breeds coordination problems and results in stasis falling behind demands for policy change and innovation, as public administration specialists have repeatedly cautioned (Lam 2005; Scott and Gong, 2021). These point to the importance of the SAR administration better facilitating the city's adaptation to a fast-changing trade landscape and anticipation of the challenges ahead.

While it might be far-fetched to envision a short-term creation of a separate cabinet-level Hong Kong trade representative office in the same fashion as the US, it is worth considering how other regional economies with initiative-taking trade policy postures structure their resources. Singapore, for example, oversees its international trade policy at the ministerial level. A specialized cluster under the Ministry of Trade and Industry serves as a one-stop resource and workforce hub with specialties in multilateral and bilateral trade negotiations. China similarly places multilateral trade negotiations under the Ministry of Commerce's multiple divisions and has appointed two vice-ministers as the country's trade representatives. Some of the options open to Hong Kong are discussed in the following sections.

Theoretical Implications

The paper carries several implications for the literature of political economy and Hong Kong studies. First, Hong Kong's role in the global trade architecture and the strategies it has pursued to develop its FTA network suggest that the *laissez faire* rhetoric about international trade is simply a mis-representation of the reality, as recent analysts have argued (Peck, Bok and Zhang 2020). Although it is of little doubt that Hong Kong's trade was contributed to by a transnational network of merchants, success would hardly be possible without the city's involvement in the global trade regime and the high reputation it has earned. The advances of the city's trade flows to different regions have been similarly facilitated by the expanding FTA networks, notably in China and Southeast Asia.

In fact, Hong Kong is more than an economic power, it has been an active part of the inter-governmental network of trade officials that promote rule development and standard development (Slaughter 2009), especially in the period the WTO-centric regime still enjoyed high credibility among members. Yet the extent to which Hong Kong has shaped and contributed to both global and regional governance has remained an underappreciated subject among researchers. This paper shows the imperative of recognizing the city's special role in conceiving of the "globality" of the SAR beyond its extensive social and economic linkages. Relatedly, the case of Hong Kong is relevant to the emerging body of work on paradiplomacy—the external outreach of subnational authorities like cities or regions (Schiavon 2019; Tavares 2016).

To be sure, Hong Kong's involvement in global and regional trade regimes and its belated pursuit of FTAs might be exceptional, but the policy space it has enjoyed is not unique. Macao, the other Chinese SAR that is also a WTO member, was granted the same autonomy in external affairs in its Basic Law. Revealing the extent to which the two SARs have diverged in their engagements with the global trade regime and comparing their involvement in China's trade diplomacy might shed light on how sub-national endeavors and national pursuits might supplement each other.

Practical Implications

This paper points to three aspects in which Hong Kong might cope better with the changes to larger global trade contexts. First, the SAR administration should promote better coordination of resources among the various units managing external trade, especially the TID trade professionals and the ETO network that are currently managed by two separate policy bureaus. They should also be resourced better— whether they might be concerned with external trade, global affairs, or international trade law— to help the government manage the challenges ahead. In the longer term, future SAR administrations that take office from July 2022 should pool these diverse functional units into one unit commanding higher authority, and designate a special office with portfolio for trade policy that would serve as the city's trade representative.

With respect to developing FTAs, short of a radical departure from the pro-free trade posture that has earned such a good reputation for Hong Kong, the city should proactively seek to keep abreast of new trends. A low-barrier approach might rely on China's existing FTA networks— either to facilitate negotiations as a separate party or to join existing agreements such as the China-led RCEP. As for the CPTPP, Hong Kong is well-positioned to demonstrate its commitment to the better trade governance expectations of the CPTPP framework and shall therefore seek Beijing's support for applying to the agreement ahead of Mainland China's accession. Beijing might be in favor of this scenario, since it would be seen to support to an icon of free trade and allay skepticism that Beijing's membership bid is designed to undermine the high standards of CPTPP and disrupt the group's unity.

Lastly, while riding the dragon that is China's FTA diplomacy has helped Hong Kong's FTA outreach, there is room for future administrations to play a part in shaping policy formation and deliberation with the Mainland trade authorities. Hong Kong's support of FTAAP, as desired by Beijing, might open a way for the city to be more involved in the formulation of China's global trade policies. To skeptics pointing to Hong Kong's eroding external autonomy, the SAR's activism in global trade landscape and in shaping China's policy course would be the important proof demonstrating how the SAR remains a distinctive subnational player that embeds in the Chinese political economy and stays active in the global economic governance.

Limitations and Future Research

This analysis has reviewed Hong Kong's role in the global trade architecture and the challenges the trading hub faces. Future research could take several directions. First, in-depth study of Hong Kong's engagement in specific trade issues, combined with comparative analyses of other issues surrounding the city's external relations like finance and investment might provide a more generalized understanding of the policy making mechanics within the administration and how it has participated in inter-governmental networks. Second,

whereas this paper has highlighted how different Hong Kong's FTA negotiations have proceeded, informed primarily by information gleaned from open sources, further in-depth investigation of how different negotiation episodes have unfolded and the underlying interplays of domestic parties would yield important insights into trade politics. While there was considerable coverage of the CEPA with China, there is a lack of in-depth information about the negotiations surrounding FTAs with foreign trading partners. Insights into the city's trade network outreach would be analytically important when Hong Kong signs up to some of the mega-regional trade frameworks in the future. Finally, the question of how Hong Kong might situate itself with reference to China's trade diplomacy and what roles it might contribute to also carry policy relevance for the future of Hong Kong and the city's evolving economic statecraft (Norris 2021).

Conclusion

This paper has reviewed the positioning of Hong Kong in the global trade governance architecture and highlighted the multiple challenges the city confronts. As part of this special issue examining Hong Kong's future status as a global business hub, this paper supplements contributions from other analysts and highlights the importance of the SAR authorities coping competently with problems the city faces in the coming years and the associated policy and political considerations.

The evolving postures of Hong Kong toward global trade were not just conditioned by policy traditions, but were catalyzed by an evolving strategic environment and the agendas of the CEs and their governments. Whereas the Tung and Tsang's governments maintained a pro-WTO vision and reacted coolly to the FTA boom of the early 2000s, the stalemate in global trade talks has led to piecemeal attempts to expand the city's trade agreement network. It was not until the C. Y. Leung government, who sought to rely on China's geoeconomic initiative (the BRI), that Hong Kong started several FTA talks with economies that did not just serve to generate trade gains but also political dividends that aligned with the city's strategic outreach.

Although this has opened spaces to engage with trading partners in new and different ways, Hong Kong has been increasingly torn between the mega-regional proposals championed by China and the US, the city's major trading partners. This has created difficult choices for Hong Kong as the Asia Pacific trading landscape has now become hotly contested terrain of complicated politics and statecraft. The status of Hong Kong as a free trading hub is increasingly called into question as the tension between the Western powers and China mounts. There is no better evidence than the Biden administration's Indo-Pacific Economic Framework (IPEF) debuted in May 2022 to deepen US economic cooperation with like-minded economies and to re-assert the US leadership in the region. With China excluded from the group (for now at least), Hong Kong is certain to face more political challenges arising from the crowded space of trade agreements and caught in the crossfire of leading powers.

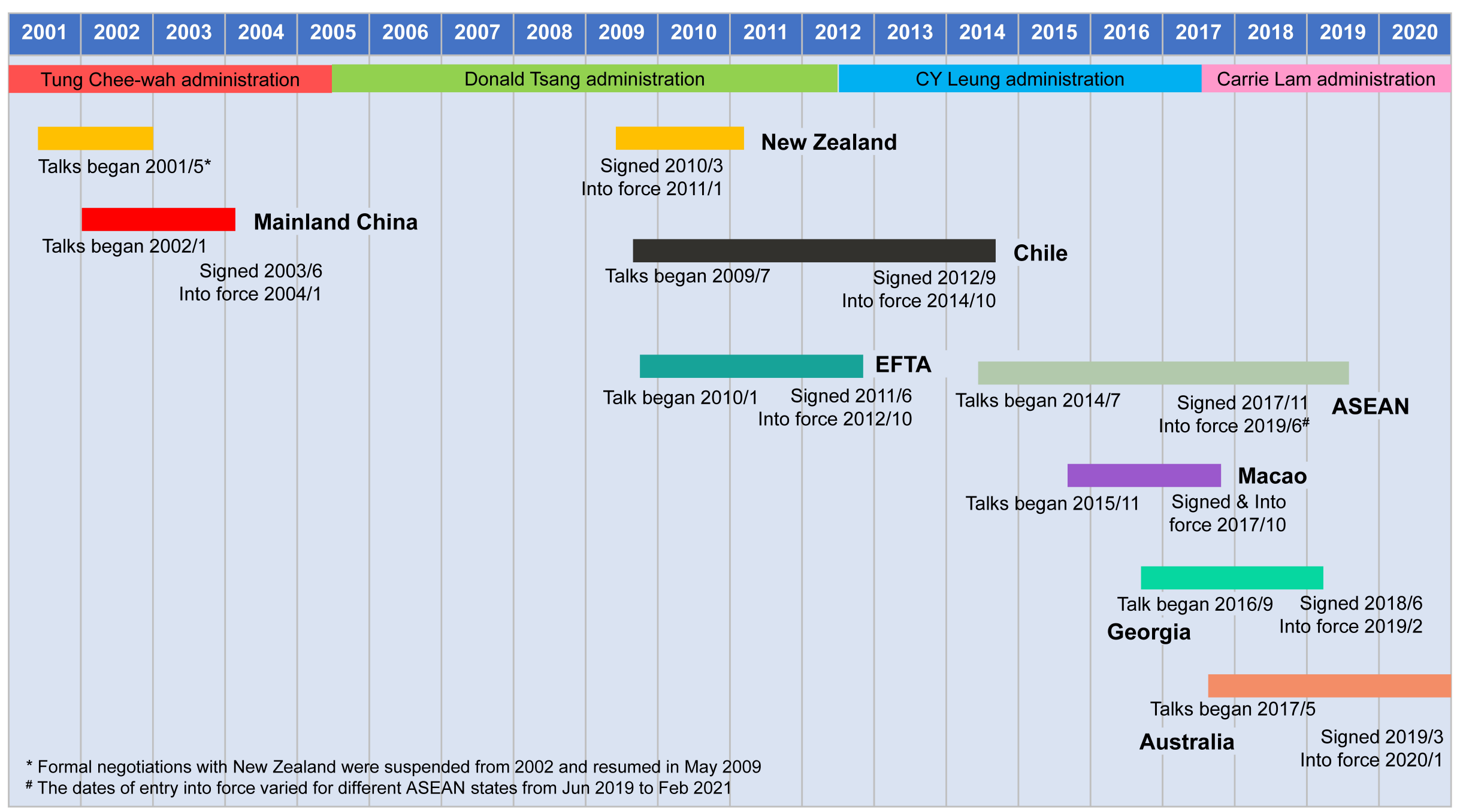
In fact, as China's rise is seen to upend the global trade governance and rulemaking (Hopewell 2020), the extent to which Hong Kong might defend its "neutral" position and pro-trade outlook in the global trade system is an open question. Treading a fine line between plugging into China's trade diplomacy and maintaining Hong Kong's globality will not be easy and will necessitate rethinking and re-orientation of the city's trade policy outlooks. Future administrations should strengthen the city's agencies and activism by realigning its current trade policy bureaucracy and strengthening policy (economic, political, and legal) expertise. This would ultimately help Hong Kong to better manage challenges and seize longer-term opportunities.

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2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020

Tung Chee-wah administration Donald Tsang administration CY Leung administration Carrie Lam administration



Talks began 2001/5*



New Zealand

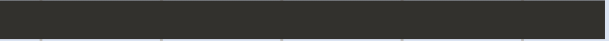
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Into force 2011/1



Mainland China

Talks began 2002/1

Signed 2003/6
Into force 2004/1



Chile

Talks began 2009/7

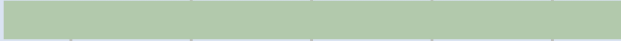
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EFTA

Talk began 2010/1

Signed 2011/6
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ASEAN

Talks began 2014/7

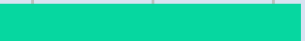
Signed 2017/11
Into force 2019/6#



Macao

Talks began 2015/11

Signed & Into
force 2017/10



Georgia

Talk began 2016/9

Signed 2018/6
Into force 2019/2



Australia

Talks began 2017/5

Signed 2019/3
Into force 2020/1

* Formal negotiations with New Zealand were suspended from 2002 and resumed in May 2009

The dates of entry into force varied for different ASEAN states from Jun 2019 to Feb 2021