

2020

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Recommended Citation

Li, Jing; Sangal, Sarina; and Shao, Ling (2020) "Assessing the Economic Impact of Sovereignty Transfer Over Hong Kong: A Synthetic Control Approach," *The Journal of Economics and Politics*: Vol. 25 : Iss. 2 , Article 3.

Available at: <https://collected.jcu.edu/jep/vol25/iss2/3>

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Assessing the Economic Impact of Sovereignty Transfer Over Hong Kong:
A Synthetic Control Approach

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Abstract

This paper aims to quantify the effect of sovereignty transfer on Hong Kong's economy. It compares the trajectory of Hong Kong's purchasing power parity (PPP) adjusted GDP per capita before and after the 1997 handover with the trajectory of a weighted combination of similar economies, including Japan, Singapore, South Korea and Taiwan. Using weights endogenously determined by data, we construct a synthetic Hong Kong to provide the counterfactual of what would have happened to Hong Kong's economy in the absence of transfer of sovereignty. By combining multiple economies as control, the synthetic approach is more robust than simply comparing Hong Kong to another similar economy before and after the 1997 handover. It also provides an interval estimate of possible treatment effects. We find that Hong Kong's economy is negatively affected by the handover. The gap between actual and synthetic Hong Kong in PPP adjusted GDP per capita from 1997 to 2001 is on average 7% of the 1996 level if Japan receives the greatest weight. The average negative effect becomes 9% if Singapore receives the greatest weight. The paper concludes by discussing possible confounding factors in the results, such as isolating the impact of the 1997 Asian Financial Crisis from the sovereignty transfer on Hong Kong's economy.

Link to complete paper:

<https://www.fsb.miamioh.edu/lij14/index.html>