

What is the trend after Covid-19? A Political-Economic Analysis of the Pension Systems in Hong Kong and MACAU

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Abstract

The aging trend of the population in Hong Kong and Macau is evident, so the pension system is especially significant. This research paper uses document analysis and a double-case study as the research method. It uses path dependence and critical moments in historical institutionalism theory as the theoretical tools for political economy analysis. The discussion argues that “the social culture shaped by local politics,” “the combination of local economic development and economic structure,” and “influence from social structure” are the three main factors that influence the pension systems in Hong Kong and Macau, and are the fundamental reasons for the differences between the pension systems in Hong Kong and Macau. We also conclude that the outbreak of COVID-19 is causing the evolution of the pension systems in both regions to be converging.

Keywords:

the pension system; historical institutionalism; COVID-19; document analysis; double-case study

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INTRODUCTION

The world is facing rapid aging of the population, and pressures are mounting on welfare states to support increasing numbers of elderly people (Flynn & Schröder, 2021). Governments have adopted the policy logic of creating a social welfare support system for the elderly to reduce the negative impacts of rapid aging. The social welfare support system for the elderly usually consists of two major systems: the pension system and the senior care system.

Hong Kong and Macau share very similar histories, social cultures, and political realities, but they were influenced by different colonial political, economic, and social factors, which are the advance and basis for comparative studies. According to the general view of institutionalist scholars, the pension system, as an institution embedded in the local socio-economic system, is a continuous and progressive dynamic process that is also characterized diachronically. Therefore, the process of the pension system construction is inevitably influenced and constrained by the socio-economic institutional environment. It is suitable to examine the pension systems in Hong Kong and Macau by means of historical comparative research. Although many scholars have reviewed the pension system in Hong Kong and Macao from the perspectives of the industry and social ideology, in the analysis of this paper, we will use the perspective of “market-government-association” relationship to discuss the pension system in Hong Kong and Macau, which is relatively innovative.

For a long time, scholars have discussed pensions in Hong Kong and Macau as part of the social security system, and scholars have tended to discuss the pension system more at the macro or micro level, with few studies thinking at the mid-level (Chan, 2011; Fong et al., 2011; Holliday, 2000; Jacobs, 2000; Sheng, 2011). Although Chen & Guo (2011) compared and analyzed the pension systems of Hong Kong and Macau in terms of fairness, efficiency, adequacy, robustness, and sustainability, and they did not review the development of the pension systems of Hong Kong and Macau from a dynamic perspective and did not identify the factors affecting the development of the pension systems of Hong Kong and Macau. However, this study also brings some ideas to this study. By reviewing the established literature, we can find that a number of scholars (Chow & Chou, 2005; Hon, 2012) have already assessed the retirement protection system by using a three-pillar or five-pillar framework, but the overall study could not reach a dynamic and time-dependent discussion. Of course, there are scholars who have studied the impact of adult children on social security for the elderly in South Korea and Hong Kong societies in a comparative research path (Lee et al., 2018), as well as the differences between Hong Kong and Australia in terms of retirement systems (Strano & Christopher, 2016). Their studies do not take this system as an object of study, so cannot provide some discussion and predictions about the evolution of this system.

Among them, more scholars prefer a static approach and do not take into account the evolution of the pension system. However, Flynn & Schröder (2021)

compared the operation of the pension systems in Hong Kong and the UK from an institutional perspective. In this study, we expect to introduce a temporal dimension (both historical and predictable) in our discussion of the pension systems in Hong Kong and Macau.

This paper explores the following questions. First, what are the main factors influencing and constraining the construction of pension systems in Hong Kong and Macau? Second, what are the path dependencies of Hong Kong and Macau? Third, after being affected by critical events, what is the impact on the development paths of the pension systems in Hong Kong and Macau? Through the discussion of the above-mentioned issue, we can focus more clearly on the general evolutionary trend of the pension system as a social welfare system in Hong Kong and Macau with the influence of COVID-19, which is also the purpose of this paper.

METHODS

As one of the two major approaches of social science research, qualitative research is based on constructivism, critical theory, and its purpose is to explore, describe and explain. It is discovery and process-oriented research with the function of exploring social phenomena, interpreting meanings and digging into the deep structure of society, it is an iterative research process (Aspers & Corte, 2019). Qualitative researchers usually conduct research by interview method, and they often interview relevant people in depth to obtain valuable information.

In order to focus on the questions of research, this research paper adopts a qualitative approach. And, this paper is also an Exploratory Study (Patton, 2002), and after the conclusion of this study, there is still a room for further discussion. Case studies in qualitative research have the advantage of being more internally calibrated and therefore more suitable for exploring cause-and-effect relationships. In addition, this study will include a time dimension for discussion, so that a large amount of formal and informal documentation will be discussed in order to enrich the case study as much as possible.

RESULT AND DISCUSSIONS

Exploring the Pension System in Hong Kong and Macau from the Institutional Dimension: Historical Institutionalism, Critical Juncture, and Trend Forecast

Historical Institutionalism. There are numerous schools of thought in new institutionalism, scholars in the field widely accept the division into historical institutionalism, rational-choice institutionalism, and sociological institutionalism (Hall & Taylor, 1996). Historical institutionalists emphasize long-term trends and utilize concepts such as “institutional change”, “path dependence”, and “critical juncture” and “feedback” (Pierson, 2000; Shih et al., 2012; Thelen, 2005). This thought allows them to better explore some of the mechanisms of political change. Prior institutions existed at the time of the emergence of any given institution. Any institution forms structural

relationships and undergoes structural changes in interaction with a number of factors, including the macro-institutional context, such as the basic institutions of politics, economy, and culture. With the deepening of research on institutional change theory, historical institutionalism has developed a variety of models of institutional change, such as evolutionary change, endogenous change, progressive change, and diversity change (Cartwright, 2021).

Mahoney & Thelen (2009) had summarized the theory of progressive institutional change. They argue that there are four models of progressive institutional change: displacement, layering, drift, and conversion. Of particular interest to this paper, “Layering” refers to the gradual growth of a new institution that replaces the status and function of the original institution, thus changing it. In short, it is the introduction of a new institution overlaid or coexisting with an existing one. Historical institutionalism emphasizes path dependencies that change over time (Bannerman & Haggart, 2014). In order to get out of this lock-in, it is necessary to seek a strong enough external force.

Critical Juncture. The research aim of this study is to examine the formation, evolution, and development trends of pension systems in Hong Kong and Macau at the institutional level with a time dimension. In particular, the development trend of the pension system relies on the understanding of critical junctures.

A critical juncture is a point in time during the process of institutional change when a particular policy decision is made. Once this particular choice is made, it is very difficult to return to the original path of change (Shih et al., 2012). The “critical juncture” arises as a consequence of the interaction of social, economic, political, or extra-territorial factors. From the policy-making perspective, a critical juncture is similar to Kingdom’s policy window in the policy output process.

Historical institutionalism is an important theory for explaining the institutional change, which introduces historical analysis in the framework of institutional research and focuses on the integrated role of time series and environmental elements in institutional change. From this macroscopic perspective, the process of institutional change can be divided into “normal periods”, when the system survives, and “critical junctures”, when the system breaks down. As defined by (Collier & Collier, 2015), a critical juncture is such a period of significant change in which major choices are made that will determine the path of the next stage of historical development. How can we determine whether a certain event may become a critical juncture of the institution in the historical process?

This article supports the conclusions of (Hogan, 2006), research on critical juncture. As shown in Figure 1, only if both the conditions of “Generative Cleavage” and “Significant, Swift, Encompassing Change” are met, does the event satisfy critical juncture. Otherwise, it is only an incremental change. Additionally, this study takes the squeeze on an institution as one of the dimensions to measure the critical juncture. We believe that institutions in society are necessarily changed by political, economic, or other factors that shape them.

Figure 1. The Critical Juncture Grid

Change <i>(Significant, Swift, Encompassing and squeezed)</i>	YES	√ Critical Juncture	×
	NO	×	×
		YES	NO
Generative Cleavage			

Source: Hogan(2006)

Forecast of the Evolution of the Institutional Trend

The “critical junctures” are of significance for institutional change, where important decisions are made during major events that will directly determine the direction and path of institutional development in the next phase (Collier & Collier, 2015). The forecast mentioned here is limited to the forecast of system development trends and the institutional development trends, which are at the macro level. As mentioned earlier, there are many factors that affect the evolution of institutions, and in many cases, they are contingent and cannot be predicted precisely. However, from the perspective of long-term institutional development trends, it is possible to make predictions.

The Evolution of the Pension System in Hong Kong and Macau: Constraints and Adaptations in the Social Environment

The pension system in the modern sense originated in Germany in the late 1880s. With the development of society, the pension system continues to inject an element of equity and gradually becomes an important part of the social security system of each country or region. Hong Kong’s social welfare system in the modern sense began in 1966, while Macau’s social welfare system did not take shape until after the 1980s.

Progressive Change (Layering) and Path Dependence in Hong Kong’s Pension System

After World War II, Britain established a comprehensive social security system from “cradle to grave” and built the first “welfare state”, which became the model of Western welfare states (Briggs, 1961; Korpi & Palme, 1998). However, for a long time, Hong Kong, similarly to other British colonies, was never a “Welfarism” colony. After rapid economic development in the 1960s, Hong Kong faced two critical social problems at the same time: an aging society and a growing divide between the rich and the poor. It is also clear that the social welfare system has an important structural supporting role in retaining political stability and preventing political conflicts. Therefore, the British–Hong Kong government realized the need to establish a social security system, in order to reduce the existing but not yet visible social problems, and thus solidify the governance

of Hong Kong. In other words, the very essence of colonial politics dictated that the Hong Kong–British government would only try to maintain social governance at the lowest possible cost, and protect and sustain the profit and privileges of the British merchants (Midgley & Piachaud, 2011), rather than prioritizing the livelihood of the people in its administration. In summary, the Hong Kong–British government adopted a market-oriented and socialized policy to gradually build up the social security system in Hong Kong, and the pension system is included in it.

According to the previous explanation and definition of critical junctures, there are two time-junctions in the evolution of Hong Kong's pension system that is characterized as critical junctures. In 1971, the Hong Kong authorities took over from the private sector the cash assistance scheme for the citizens of Hong Kong, which later evolved into the Comprehensive Social Security Assistance scheme at the core of Hong Kong's pension system. The year 1997 was important for Hong Kong and the people of Hong Kong, with the outbreak of the Asian financial crisis and the reunification of Hong Kong to the P. R. China and the practice of "One country, Two systems". Thus, the development and evolution of Hong Kong's pension system are discussed in three stages.

Emergence (Before 1971). From the opening of Hong Kong to the mid-1960s, social security in Hong Kong was dominated by two forms of private self-help and mutual aid. Of these, only a few agencies or international organizations provided minor financial assistance for the poor. It was not until the 1960s that the Hong Kong–British government began to reevaluate its role in providing social welfare, and in 1965, the White Paper on Aims and Policy for Social Welfare in Hong Kong was published. This was the first social welfare policy White Paper, which also marked the real beginning of social security in Hong Kong. However, social security related to the elderly was not mentioned in the White Paper. The authorities focused only on widowed elders, providing them with a small amount of in-kind assistance on the grounds that "according to traditional Chinese values, support for the elderly is a personal and family responsibility". The following year, G. Williams, as a social security consultant to the Hong Kong–British government, published a report on the feasibility of a survey into social welfare provision and allied topics in Hong Kong. The report recommended that the government must develop a social security program to address short-term crises such as illness and death, as well as long-term problems of old age. This is the first time in the history of the development of old age security in Hong Kong that targeted social security needs for the elderly were raised. In 1967, the authorities set up an inter-departmental working group to study the social security system in Hong Kong and at the same time published a report by the Inter-Departmental Working Party to consider certain aspects of social security. In the report, it was recommended that the authorities should adopt a progressive approach to social security policy, starting with the social assistance aspects of sickness, medical care, infirmity, and survival. Unfortunately, the government did not accept the recommendation. Some scholars believe that this stage of Hong Kong is the residual model of the social welfare system (Tang, 2011).

Enrichment and Institutionalization (1971–1997). Since the 1970s, the Hong Kong–the British government has been under pressure to directly cope with the welfare of the elderly in Hong Kong society. It is becoming common for an increasing number of residents and workers to petition the government directly without going through NGOs or advisory committees (Sawada, 2004). Meanwhile, social security for the elderly gradually became a more prominent social issue as more laborers were released from their families to participate in the market, leading to the weakening of the traditional family care function. More importantly, influenced by the political turmoil in Hong Kong in 1966–1967, there was a shock to the legitimacy of the colonial government, and the authorities had to initiate extensive political and social changes. In 1971, the Hong Kong authorities launched cash-based public assistance, a means-tested public assistance program to provide cash assistance to the elderly, people with no income or low income, and families, thus taking over the responsibility of cash assistance from voluntary agencies and non-profit organizations. This program has since evolved into the Comprehensive Social Security Assistance scheme, which is the source of the institutionalization of pensions in Hong Kong. In the following years, the Hong Kong authorities introduced the Disability Allowance and the Old Age Allowance, which in effect enriched the pension system in Hong Kong. The 1968–1977 period is known as the era of expansion of social policy in Hong Kong. They hoped to remedy the crisis of legitimacy caused by the turmoil of increased public welfare spending as much as possible.

The Hong Kong issue has long been in the structure of Sino-British relations. When official China–United Kingdom signed the Sino-British Joint Declaration in 1984, the Hong Kong authorities were very clear that “Hong Kong is no longer a steak on the table of Great Britain” and would return to China on July 1, 1997. However, the British in Europe and Hong Kong were not in favor of the succession of Hong Kong to P. R. China, so they continuously created artificial obstacles against reunification. Therefore, on the one hand, they are continuously injecting democratic elements into the structure of Hong Kong’s political culture (Chun, 2019). On the other hand, they are also continuing to hollow out the Hong Kong government’s finances. In addition to increasing spending with massive infrastructure program, massive social welfare expenditures are another method. There is the why the Hong Kong authorities changed their negative attitude and actively promoted a series of old-age welfare policies in the early 1990s, after having proposed several old-age retirement schemes to no avail in the 1980s. Of course, the aim of this was also to make a good impression on the residents of Hong Kong.

Systematization (After 1997). Thus, the British enacted a large number of policies in various aspects of social welfare before Hong Kong’s return to China, which enriched the Hong Kong pension system and indeed objectively contributed to the progress of social welfare in Hong Kong. The new government of the Hong Kong S.A.R. has to face two major social problems: Hong Kong’s aging population continues to grow (Lee, 2005) and the gap between the rich and the poor is increasing. The social problems

have a direct impact on the Hong Kong S.A.R. governments' construction of the social welfare systems, including the pension system. Hong Kong has long benefited from the positive effects of high economic growth, i.e., full employment and growth in real income. Therefore, Hong Kong residents' need for social welfare is minimized (Lee, 2005). Hong Kong took advantage of the period of reform and opening up in mainland China to relocate a large number of industrial production processes to southern China, where labor costs are lower, gradually shaping the "Front store and Back factory" pattern. This has directly led to a tremendous development of Hong Kong's service industry. However, non-local industrialization has led to a loss of low-skilled jobs, a widening wage gap, and increased structural poverty, which has also led to lower economic growth rates (Cingano, 2014; Siu & Wong, 2004). Hong Kong citizens are also dissatisfied with many aspects of the fields of housing, environment, health care, and education, and the public's concern and demand for social welfare have increased. The new S.A.R. government not only faces serious internal social problems but also needs to overcome external risks, such as the 1997 Asian financial crisis and the SARS epidemic. Therefore, the S.A.R. government must gain the support of the people by optimizing and systematizing its social welfare policies in order to strengthen its legitimacy in governance.

Additionally, external impetus stems from the World Bank's recommendations and improvements to the pension system. Under the influence of the population-aging crisis that gradually emerged in the 1980s, the pension system, which was based on the pay-as-you-go model at that time, faced the dilemma of unsustainable financial balance and difficulty in securing the basic livelihood of the elderly. In this context, the World Bank proposed the "three-pillar" plan pension reform model. Since then, after controversial theories of reflection, the World Bank has proposed the five-pillar plan, which has become an important guide for countries or regions around the world in constructing pension systems.

After the 1997 Asian financial crisis, the Hong Kong economy gradually recovered with the support of Beijing. The S.A.R. government also increased its investment in social welfare for the elderly. Although the MPF system has been controversial in Hong Kong society (Au-Yeung & Chan, 2020), the Hong Kong S.A.R. government has gradually developed a multi-pillar pension system with the Comprehensive Social Security Assistance Scheme and the Mandatory Provident Fund Scheme as the core. The current pension system in Hong Kong is incomplete in terms of the five-pillar framework. The protection provided by pillar zero is far from adequate and lacks the support of pillar one, which is far below Western standards (Jacobs, 2000)

Progressive Change (Layering) and Path Dependence in Macau's Pension System

The origin of Macau's old-age social welfare system can be traced back to the relief services provided to poor citizens by the Public Charity Society. The Portuguese–Macau government in 1938, founds this fact. It was not until the 1980s when the Portuguese–Macau government created the "Social Security Fund" (act no. 84/89/M),

that Macau's social security system was officially established. After reunification, the Macau S.A.R. government gradually established a "two-tier" social security system and actively used the World Bank's five-pillar plan as a reference to continuously improve the Macau social security system, which led to a continuous increase in the happiness index of Macau residents. In 1989, the Macau authorities passed a decree to implement a social security system. This marked the institutionalization of the pension system with the establishment of the social security system and was one of the critical junctures in the evolution and development of the pension system in Macau. The Macau pension system has thus become an essential part of the Macau social security system. Another critical juncture was the liberalization of Macau's gaming industry. Based on this, this study discusses the development of Macau's pension system in the following three stages.

Social Relief Oriented (Before 1989). The local community in Macau has a long history of benevolence. As early as 1569, D. Belchior Carneiro Leitão SJ, the first bishop of the Catholic Diocese of Macau, founded the first charitable organization in Macau, the Church of Mercy. Established in 1892, the Macau Tung Sin Tong Charitable Society provides free material and medical assistance to those in need, including care for the elderly. In the early period, the provision of social welfare in Macau relied mainly on civil society groups, mostly in the form of mutual support among the Chinese community, which assumed the social assistance functions of the Macau government. At that time, the relief of associations mostly provided social relief in the form of assistance or relief goods, which objectively enhanced Macau's social security capacity.

In 1938, the Portuguese–Macau government established the Public Relief Society, which began to intervene in Macau's private charitable services; this meant the beginning of the colonial government's formal involvement in the relief of the poor and later reorganized the Public Relief Society into the Public Relief Branch in 1960, and incorporated it into the government structure. At that time, Macau was plunged into an immediate economic depression and social problems due to the influx and then the mass evacuation of refugees. In the face of this, the Portuguese–Macau governments have had to pay more attention to social welfare issues, including the welfare of the elderly. In 1967, the Portuguese–Macau government established the Social Relief Division (legislative decree no.1755), based on the Public Relief Branch, to provide financial assistance to citizens.

Regularization (1989–2002). From the mid-1960s onwards, the Macau economy entered a period of high growth. This is the main reason that the Portuguese–Macau governments have also increased their investment and management in the field of social security. The Portuguese–Macau governments have successively introduced a series of laws concerning the social welfare system in Macau, which has led to the gradual regularization of the social welfare sector in Macau.

In order to enhance the protection of employees in Macau, the Portuguese–Macau Government officially implemented the "Macau Social Security System" in 1989, which institutionalized social security in Macau. Among other factors, its scope of application, benefit items, and their payment standards, forms of contribution, and responsibilities

were clearly defined. Meanwhile, a growing number of governments consider pension institutions as beneficial to serve the aging of the local population (Kasri, et al., 2020). Accordingly, the Macau Social Security Fund (Decree-Law No. 84/89/M) came into operation, and this also signaled the formation of Macau's social security system. Under the social insurance system, both employers and employees contribute to the system, and the government budget allocates funds to the system as a source of income to provide financial assistance to contributors, including the elderly, unemployed, or sick local workers. Furthermore, during this period, the Portuguese–Macau government benefited from the rapid growth of the economy, adjusted the “pension system” for government employees, and introduced the “civil service pension system”. Since 1993, voluntary contributions, self-employed labor contributions, and new benefit programs have been added one after another. During this period, Macau's associations also played an important role. For example, the 20th Congress of the Macau Federation of Trade Unions passed a resolution urging the Macau government to enact a law to protect the welfare of workers, which directly led to the enactment of the first Labor Law of Macau.

Constructing and Completing (After 2002). Due to gaming liberalization after the handover, the Macau S.A.R. government has benefited from large revenues from the gaming industry, which has provided the cornerstone for the continuous improvement of the Macau S.A.R.'s social security system (Ngan, 2002). Law No. 6/99/M on Private Pension Funds was promulgated on February 8, 1999, and was officially implemented in 2003. In 2005, the S.A.R. government began to provide subsidies for senior citizens, which is a reflection of the adequacy of the pension system rather than a form of social assistance. In 2007, the Provident Fund Scheme for Workers in the Public Services (Law No. 8/2006) came into effect. At the same time, the former Civil Service Pension System, in principle, was no longer open to new registrations. In the same year, in order to share the benefits of economic development and combat inflation, the S.A.R. government proposed a universal cash-sharing scheme. In 2011, the Social Security Fund was transferred to the Secretary for Social Affairs and Culture, while Law No. 4/2010, the Social Security System, came into force, revolutionizing the contribution system by introducing a mandatory and discretionary contribution system, extending coverage to the entire population and implementing the first tier of the social security system. Since then, the Macau S.A.R. government has gradually adjusted and improved the amount and operation of the system through legislation and the approval of the Chief Executive.

In addition to continuously improving the first tier of the social security system, this has also improved the adequacy and stability of the Macau pension system. In order to enhance the social security of Macau residents and to complement the existing social security system, after more than ten years of repeated debates, Law No.7/2017 (Non-Mandatory Central Provident Fund System) and by-Law No.33/2017 (Supplementary Provisions on Non-Mandatory Central Provident Fund System), the second tier of the two-tier social security system, came into effect on January 1, 2018. Furthermore, there are various additional aids and subsidy schemes that citizens can apply for.

Table 1. The Current Pension Systems in Hong Kong and Macau

	Hong Kong's Pension System	Macau's Pension System
Pillar 4: Support with family and other non-participating members	Personal savings and Family support	
Pillar 3: Voluntary savings	Private Pension Scheme, Civil Service Pension Scheme (Voluntary Contribution Part)	Non-Mandatory Central Provident Fund System, Private Pension Scheme,
Pillar 2: Mandatory occupational or personal retirement protection plans	Mandatory Provident Fund System, Occupational Retirement Schemes, Civil Service Pension Scheme (Mandatory Contribution Part)	Government Retirement Scheme, Provident Fund Scheme
Pillar 1: Features mandatory, public management, pay-as-you-go, and defined benefit		Central Savings System, Social Security System (Law No. 4/2010)
Zero Pillar: Income Protection for the Elderly	Comprehensive Social Security Assistance Scheme, Portable Comprehensive Social Security Assistance Scheme, Social Security Allowance Scheme (Old Age Allowance, Normal Old Age Living Allowance, Higher Old Age Living Allowance, Guangdong Scheme and Fujian Scheme)	Wealth Partaking Scheme, Financial Assistance, Subsidy for Senior Citizens

Source: Compiled from relevant official documents of the Hong Kong and Macau S.A.R.

After the above three stages of development, the pension system in Macau was also gradually constructed and perfected. The Macau pension system, from its absence to its construction, followed by the perfection of the system, is clearly characterized by a path-dependent, layering pattern of gradual institutional change. Macau has developed a relatively robust pension system for local residents.

The Variables Affecting the Development of Pension Systems in Hong Kong and Macau Based on a Historical Institutionalism Perspective

Social Culture shaped by Local Politics: “*Individualism and Liberalism*” & “*Mutual Support*”

The institution in historical institutionalism theory consists of informal and formal institutions. Local social culture, as an externalized form of informal institution, has the characteristics of being stable and unchangeable in the long term and deeply rooted in society. The local social culture is closely related to the local political and economic development, and political development has a guiding effect on the social culture. Therefore, we believe that social culture is the most essential factor in the development and evolution of pension systems in Hong Kong and Macau, and it is also an important reason for the differences between the two pension systems. Hong Kong and Macau were under the long-term colonial rule of Britain and Portugal, and although they were neighboring each

other, both Confucianism and Lingnan culture influenced the social security systems of Hong Kong (Holroyd, 2003) and Macau and formed different social cultures.

For more than a century, the United Kingdom has embedded the ideas of liberalism and individualism in local society, and the Hong Kong–the British government has long emphasized the crucial role of the market and the individual in the development of Hong Kong society. It is undeniable that liberalism and individualism are some of the major reasons why Hong Kong has become a critical city for international finance, trade, and shipping (Midgley, 1998; Nip, 2010). For a long time, the positive non-intervention principle of the Hong Kong–the British government has become the golden rule of the government in managing social and economic affairs and has even developed into a moral discourse defining the merits of the government’s public finance and economic policies, as proposed by the government and the business sector. The social security system is embedded in the political and economic institutions, so it is hard not to be influenced by such social culture. As a result, a social welfare ideology dominated by liberal and individualistic values has gradually emerged, and a residual welfare model has been gradually developed through progressive institutional changes (Wu & Chou, 2017).

However, after the reunification, in order to reflect the superiority of “one country, two systems” to strengthen the legitimacy of the S.A.R. government and to reduce the negative impact of the growing wealth gap in Hong Kong society, the S.A.R. government has gradually adjusted its value orientation in the area of social welfare and made improvements to the social security system, including the Comprehensive Social Security Assistance Scheme, and employee and housing benefits (Ngan, 2002). However, due to the long-term shaping of the local social culture and the path dependence of the original pension system, it is difficult to reduce or eliminate the value impact evoked by liberalism and individualism in a short period of time. The Mandatory Provident Fund System and the Comprehensive Social Security Assistance Scheme are the most important components of the current pension system in Hong Kong, both of which have a strong emphasis on market and individual social culture. In recent years, under the influence of local populism and the demand for the development of the Universal Retirement Scheme, Hong Kong’s social welfare model is not heading towards welfare state welfarism, but towards an increasingly perfect residual model of Hong-Kong-style welfarism.

In the same way that Britain rooted liberalism and individualism in Hong Kong, the Portuguese colonization of Macau influenced the local society and culture of Macau. At the beginning of Portuguese domination, the Chinese community was powerless, and the Portuguese sustained an Iberian superiority complex, resulting in the phenomenon of “Portuguese superiority and Chinese low social status” in Macau’s local society. At that time, the majority of the governing class in Macau was of Portuguese descent, and in order to save the cost of governance, the Portuguese did not directly run the affairs of the Chinese community. In addition, the natural differences in language, customs, and religion led to the formation of a special social pattern of “Chinese and foreigners living together and ruling separately”. As a result, there is little integration between the two communities in Macau, even though they interact and have contact with each other.

Therefore, for a long time, the Chinese community has practiced internal mutual aid to compensate for the lack of a social security system implemented by the government, and, over time, a mutual support association culture has developed in local society.

The social culture of mutual support has had two major impacts on the construction and evolution of the social security system in Macau: First, it has contributed to the growth of the strength of the Chinese community in Macau, which has forced the Portuguese and Macau governments to address the social demands raised by the Chinese community. To this day, these associations still have an enormous influence on the political development of Macau. In Macau's social security system, associations still perform a large number of social security service functions. Second, Macau's social security system is gradually moving towards a more supportive and caring system. From the current pension system in Macau, it is clear that the five-pillar scheme is relatively complete and has a clear "government takes overall social security functions" character. After reunification, Macau's social security system has moved towards a hybrid model that blends the East Asian welfare policy model with universal welfare. The Macau S.A.R. government has intensively pursued social security policies, supported by the tax revenues from the dominant industry of gambling. Macau's "welfare leaping" has demonstrated the superiority of the "one country, two systems" regime, but has also raised concerns about the sustainability of Macau's social welfare system.

By the combination of local economic development and economic structure: "*Economic diversification*" & "*Boom by a sole industry*"

Hong Kong society has long practiced individualism and liberalism, pursuing market-oriented economic efficiency as much as possible, and Hong Kong citizens generally accept that the market path can solve most of the problems brought about by social development, while the government should only assume the role of regulating and promoting market development. This "Big market, Small government" economic development pattern has constrained the gradual change in Hong Kong's pension system. From the perspective of SMEs, they do not want the government to expand social security spending and impose a potential tax burden on them, and they are benefited by the people in Hong Kong society becoming less motivated to work and relying on excessive social welfare, which will affect their pursuit of maximum efficiency. In addition, the financial services industry, as a backbone of Hong Kong's economy, is the most important economic lifeline of Hong Kong. The long-term development of the financial services industry, on the one hand, has resulted in a large number of financial products related to retirement in the Hong Kong financial market, for example, insurance products, reverse mortgage plans, silver bonds, Hong Kong dollar fixed-term and blue-chip stocks; on the other hand, it also improves Hong Kong residents' financial knowledge and financial management ability, and even the S.A.R. government has a public sector investor and financial education committee to enhance Hong Kong citizens' financial management knowledge and ability. However, the financial services industry has always been affected by the external environment, which will have an impact on the robustness of Hong Kong's pension system.

The development of productivity and production relations determines the basic

appearance of the emergence and development of social security, while the financial strength of the government determines the level and coverage of the social welfare system. Before the reunification, Macau faced social problems such as deteriorating law and order, poor business environments, high unemployment rate, and stagnant economic development, which seriously affected the stable development of Macau society and investors' confidence. Macau was also hit hard by the SARS epidemic soon after its reunification, and it was only after Beijing started to implement the Individual Visit Scheme and gaming liberalization that Macau's economy gradually recovered. With the growth of fiscal surplus, the S.A.R. government's spending on social security also increased, allowing Macau to improve its pension system. According to the official year-round statistics of Macau, gaming-related taxes account for 80% of government revenue and provide the livelihood of more than three-quarters of Macau's population. Although the S.A.R. government is aware of the need for moderate economic diversification, it is difficult to change the situation that the gaming industry is in, i.e., "boom by a sole industry". Therefore, the continuous improvement of the social security system and social welfare level in Macau is based on the rapid development of the gaming industry. However, the gaming industry is highly influenced by external factors, such as the SARS epidemic in 2003, the anti-corruption in the mainland in 2015 (Li & Sheng, 2018) and the COVID-19 epidemic in 2021, which have all caused a significant decline in gaming tax revenue. The two characteristics of Macau's economy, the single industrial structure and the volatility of the gaming industry mean that Macau's finances do not have a solid foundation, which also indicates that the development of Macau's social security system and the development of the gaming industry are highly correlated. In other words, when the gaming industry, which is the backbone of the economy, fluctuates, it will affect the sustainability and adequacy of the established social security system.

Influence from social structure: “Big market, Small government, and Weak association” & “Strong association, Small government, and Weak market”

Hong Kong society highly recognizes individualism and liberalism, and the people of Hong Kong generally accept the principle of “maximizing the function of the market”, which they believe is powerful and can solve most of the problems brought about by social development. Therefore, the government should interfere as little as possible with the operation of the market itself. Due to the development of a liberal market economy that has made Hong Kong an immigrant society, and the influence of the British colonial rule on the Chinese factor, even though there are many associations in Hong Kong, commercial interest groups are still the main force influencing policymaking. In other words, even if the public proposed their demands through community channels, the force of policy support is not very strong. In this way, Hong Kong society has developed a social structure of “big market, small government, and weak associations”. Hong Kong has developed along the path of high marketization and has formed a path dependency, and policymaking, legislation, and government administration are all deeply influenced by this. The current pension system in Hong Kong is also shaped by

this background, with the characteristics of “emphasizing market functions, highlighting individual choices, and weakening the role of the government”. It is true that, through the market route, individual creativity can be greatly stimulated, and some of the cost of governance is shared. However, the uncertainty of the market always causes instability, which is contrary to the robustness of pensions. In addition, over-emphasis on market functions will have negative effects on social structure and social governance: first, it will weaken the government’s functions and limit the space for other social governance actors to speak, which will mean that social development will continue to be restricted by the market; second, over-reliance on the market will increase the gap between the rich and the poor and solidify social classes, which will cause long-term social worries; third, emphasizing the role of market factors in the social structure is basically emphasizing the maximization of private interests, which contradicts the value of universal public policies.

Macau is different from Hong Kong in that Macau society has developed a social structure of “strong associations, small government and weak market” in its historical development. In Macau under Portuguese colonization, the Portuguese have long practiced the strategy of “separation of the Chinese and the foreigners”, which led to a long period of separation between the Portuguese and Chinese communities. Therefore, the Portuguese–Macau governments’ long-term “rule by doing nothing” towards the Chinese community has normalized the Chinese community working together to solve problems in their daily lives, and through the social atmosphere of mutual support, Macau has become a community society. As the strength of the associations grew, the government had to incorporate them into the policy network; their ability to participate in politics was strengthened, and the influence of the community on policy formation or formulation was gradually reinforced. After reunification, the importance of associations in the social governance structure of the S.A.R. government increased rather than decreased, and the government responded positively to the social-security-related demands of associations. Especially in the area of social security, the relationship between the S.A.R. government and the associations is a collaborative partnership (Ho & Lam, 2014). The government will work together with social service organizations to respond to the needs of Macau society through various welfare policies and service measures. The market and individual factors are not obvious in the Macau pension system, which is the biggest difference compared to the Hong Kong pension system. It was not until the emergence of private pensions and retirement schemes that a certain amount of market factors was incorporated to address the issue of income replacement rates. It is the “government-led, association-led, market-led” pension system that is the distinctive feature of Macau’s pension system. However, the government’s long-term underwriting of Macau’s social welfare system may lead to the welfare dependency of Macau citizens.

Political-Economic Analysis Based on Critical Juncture: How Does the COVID-19 Global Epidemic Affect the Pension System in Hong Kong and Macau?

The continued spread of the COVID-19 global epidemic has had a very profound political, economic, and social impact on all regions of the world. It could even trigger

a realignment of the world order due to the success of some countries in preventing the epidemic (Ceylan et al., 2020; Chen, 2020). The outbreak and spread of the epidemic have also had an impact on the social welfare systems constructed by national or regional governments (Béland et al., 2021; Lu et al., 2020; Mok et al., 2021). Despite the increased recognition of Macau's epidemic control, Macau, similarly to Hong Kong, has been affected and impacted by the COVID-19 epidemic at the economic, political, and institutional levels. From the perspective of the pension system, will the outbreak and continuation of the COVID-19 epidemic become a critical juncture in the development and evolution of the pension system in Hong Kong and Macau?

In accordance with (Hogan, 2006), the COVID-19 global epidemic is defined as a critical juncture. The global spread of COVID-19 is no longer only a gradual process, as issues ranging from restrictions on individuals' freedom to travel, the mandatory wearing of masks, vaccine research, and development, vaccine distribution, etc., have created social conflicts throughout the duration of the epidemic. For example, social conflicts have broken out in the United States, Mexico, France, and other countries to protest some of the strong preventive and control measures. Globally, such social conflicts are on the rise. On the other hand, as a critical juncture, the characterized the COVID-19 global epidemic includes significant, swift, encompassing, and generative changes. According to the Center for Systems Science and Engineering (CSSE) at Johns Hopkins University (JHU) statistics, in less than two years, more than 200 million people worldwide have contracted the virus, with more than 4 million deaths due to COVID-19 infections, and no country or region is immune to the enormous impact of the global epidemic. In particular, a massive infectious epidemic is bound to have a significant and long-lasting impact on the local medical, health, and social security systems.

First, from the perspective of the economic environment and government spending, the COVID-19 global epidemic has increased the spending of the government in order to prevent and fight the epidemic (Irawan & Alamsyah, 2021). At the same time, the COVID-19 global epidemic has reduced government revenue due to the inevitable global economic recession. As a result, concerns about the adequacy and sustainability of the local pension system have been raised. Most obviously, because of the wave of unemployment brought about by COVID-19, the number of people claiming government unemployment benefits has increased, which will make government spending will increase (Li & Zeng, 2015). Hong Kong and Macau, as small and microeconomics, are very vulnerable to the impact of the external environment; in particular, Macau's lack of economic resilience due to its single economic structure is very obvious (Sheng & Gu, 2018). Second, the global economic downturn will inevitably have an impact on the part of the pension system that relies on the market mechanism. In particular, the Mandatory Provident Fund System of the Hong Kong pension system, which is overly dependent on the market, has greatly reduced its ability to preserve the value of individual accounts in times of a global recessionary crisis. Third, the COVID-19 global epidemic has increased pension system expenses and caused older workers to permanently withdraw from the labor market and retire, resulting in an increase in the number of beneficiaries of the pension system, as well as the early withdrawal of some pensions to relieve personal financial stress.

The epidemic crisis has exposed the defects of the pension system in Hong Kong and Macau. The Hong Kong pension system relies too heavily on the regulation of the market and is vulnerable to the influence of the external economic environment, which will cause individuals to bear too much market risk and a lack of stability, while for the Macau pension system, the already dense pension system relies on financial support from the government, coupled with the single structure of government revenue. It is highly possible that the adequacy and sustainability of the pension system will be affected.

CONCLUSION

From the perspective of system evolution, the COVID-19 global epidemic, as a critical juncture in the evolution of the pension system in Hong Kong and Macau, will have a profound impact on the evolution of this institution. Meanwhile, the Anti-Extradition Law Amendment Movement, and this social movement increased the divisions in Hong Kong society and caused changes in the local political culture. In addition, the Hong Kong S.A.R. government will review its past social policies and make adjustments, as well as strengthen the social security system in universal welfare. It is on the basis of the epidemic and social movements that the Hong Kong S.A.R. government will inevitably adjust and improve its pension system, in addition to other forms of disaster relief.

Therefore, Hong Kong will enrich the first and second pillars and appropriately reduce the market-dependent pension path, and as market volatility due to the epidemic continues, the Macau government will delay increasing the adjustment of the market-dependent pension system for the protection of public interest.

After the previous political economy analysis, we can conclude. The factors that influence the evolution of pension systems in Hong Kong and Macau are the differences in social values, the differences in economic structures, and the differences in the “market-government-association” relationship, which are also the main reasons for the path dependence of pension systems in Hong Kong and Macau. When COVID-19 is the critical juncture, the governments of Hong Kong and Macau will moderately increase the basic pension expenditure and reduce the market-based means of preserving value. This makes the pension systems of the two regions show the same trend as above. It is not until a new critical juncture appears that the evolutionary trend of the various systems is affected.

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