



The Positioning and Future Development of Hong Kong International Financial Center

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Abstract. Hong Kong's international financial center has always been a bridge between the mainland and the world. It has experienced the triple blows of social unrest, geopolitical tension and COVID-19. Many people doubt whether the Chinese central government marginalizes Hong Kong. What is the positioning and future development of Hong Kong as an international financial center? This article will discuss the role of Hong Kong as the world's leading financial center after several significant events since 2020. From the perspective of the Chinese Mainland, further, analyze the impact of Hong Kong's situation on China. Through the use of second-hand data, we can show the current financial situation of Hong Kong, analyze the future financial situation of Hong Kong, and then explain whether Hong Kong can continue to maintain its status as a "financial free port".

Keywords: Hong Kong · International Financial Center · Covid-19

1 Introduction

Since the outbreak of the epidemic in 2020, the promulgation of the Hong Kong National Security Law, and other major events, Hong Kong's economic situation has become more complex than ever, which has seriously affected its reputation for leading commercial and socio-economic stability. The uncertainty lies at the heart of unknown and fear. However, after several challenges, the city ranked third in the 31st edition of the semi-annual Global Financial Centres Index, produced by the China Development Institute in Shenzhen and the London think tank Z/Yen Partners. I believe that with the active support of the state, the future will be bright. As Hong Kong's fight against coronavirus continues, the days are shrouded in haze. The Hong Kong Census and Statistics Department announced that in the second quarter of this year, Hong Kong's GDP fell by 1.4% year-on-year, lower than the 3.9% in the first quarter. Due to the recent rebound in the number of confirmed coronavirus diseases in 2019 and the tightening of financial conditions, the recovery momentum in the late quarter has been affected. On the periphery, the weakening of global demand and the continued obstruction of cross-border land freight exchanges between the mainland and Hong Kong have had a serious impact on Hong Kong's exports. The deteriorating global economic outlook will continue to weigh on Hong Kong's export performance for the rest of the year. Supply-side interference and the continued tension in Ukraine have led to high inflation in advanced economies, and

many major central banks have stepped up efforts to tighten monetary policy, which will significantly suppress economic growth. Therefore, some people believe that Hong Kong will begin to lose its status as a relatively “financial-free port” [1].

2 Promulgation of the National Security Law: New Opportunities for Hong Kong

In the early 1990 s, Hong Kong’s GDP was equivalent to one-fifth of that of the entire Chinese Mainland, reaching an unimaginable historical highest ratio. In the first 20 years of China’s reform and opening, it can be said that Hong Kong benefited the most, but after the promulgation of the national security law in 2020 in Hong Kong, it was seriously doubted and questioned by the West. The United States, Britain, and other western countries criticized Hong Kong’s national security act for undermining Hong Kong’s high degree of autonomy. Former US President Donald Trump announced that he had ordered the cancellation of the special trade status of the United States with Hong Kong, the cancellation of the preferential treatment enjoyed by Hong Kong as a separate customs and tourist area outside other regions of China, and the imposition of sanctions on Chinese and Hong Kong officials.

Although Hong Kong may face great challenges in the world, with the implementation of the national security law, this major legislative measure not only enables the Hong Kong Special Administrative Region to achieve from chaos to governance but also promotes a new situation and stable social order in the Hong Kong Special Administrative Region. China has also proposed in the outline of the 14th five-year plan to support Hong Kong to enhance its status as an international financial center and strengthen the global offshore RMB business hub. The functions of the international asset management center and the risk management center will deepen and expand the interconnection between the financial markets of the mainland and Hong Kong and Macao. With the high-quality development of China’s economy, the continuous deepening of opening to the outside world, and the improvement of the internationalization of the RMB, the role and status of the Hong Kong International Financial Center will be further consolidated and strengthened and will further play an important role in China’s construction of a new development pattern. It highlights the irreplaceable role of Hong Kong in the field of cross-border financial investment on the mainland.

Challenges and opportunities coexist. In the face of the changing world situation, with the support of China and driven by the high-quality development of China’s economy, from the perspective of Hong Kong’s conditions, Hong Kong’s opportunities will outweigh its challenges. With the advantages of the “one country, two systems” system and the huge market on the mainland, Hong Kong’s position as an international financial center is as stable as a rock [2].

3 The Impact of the COVID-19 on Hong Kong’s Economy

Hong Kong’s economy contracted by 1.2% in 2019, the first negative growth since 2009. In 2020, GDP fell by the most in 60 years, and the outbreak of the epidemic had a significant impact on Hong Kong’s economy. The following will analyze the impact of COVID-19 on Hong Kong’s economy from economic, social, and cultural perspectives.

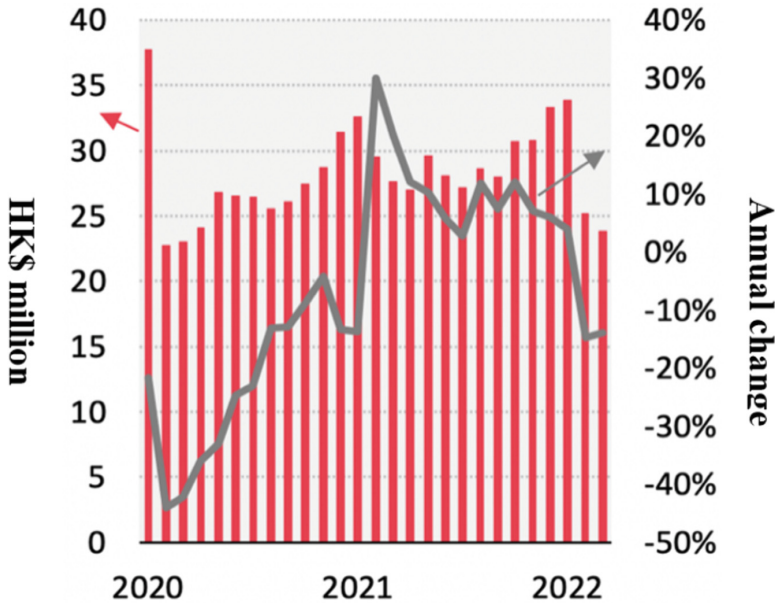


Fig. 1. Retail sales in Hong Kong. Source: Hong Kong Census and Statistics Department, BEA Economic Research Department.

3.1 Strict Social Distance Measures Drag Down Retail Sales

The provisional estimate of the total retail sales value in June 2022 was 27.7 billion yuan, down 1.2% from the same month in 2021. The revised estimate of the total retail sales value in May 2022 was 1.6% lower than that in the same month in 2021. Compared with the same period in 2021, the provisional estimate of the value of total retail sales in the first half of 2022 fell by 2.6% (See Fig. 1). The government will issue consumer vouchers for the first phase of this year from April 7, which is expected to have a positive impact on the retail business. During the Easter holiday, shopping malls saw a slight pick-up in passenger traffic, coupled with the gradual relaxation of social distance measures from April 21, which is expected to boost retail sales in the short term. In the long run, the continued recovery of the retail industry still requires the Hong Kong government to provide clearer guidance on the control of COVID-19 in the future.

3.2 Exports Are Affected by Epidemic Prevention Restrictions in the Mainland

Compared with May 2021, the overall export volume and import volume of goods in Hong Kong fell by 8.1% and 6.4% respectively in May 2022 (See Fig. 2). This is mainly due to the setback of global demand due to the continued geopolitical risks and soaring input costs, as well as the implementation of strict measures in mainland China in response to the new outbreak of the epidemic. In the short term, uncertainties will continue to envelop the export industry. With the sporadic COVID-19 in mainland China and the extension of the crisis in Ukraine further aggravating the bottleneck of the global

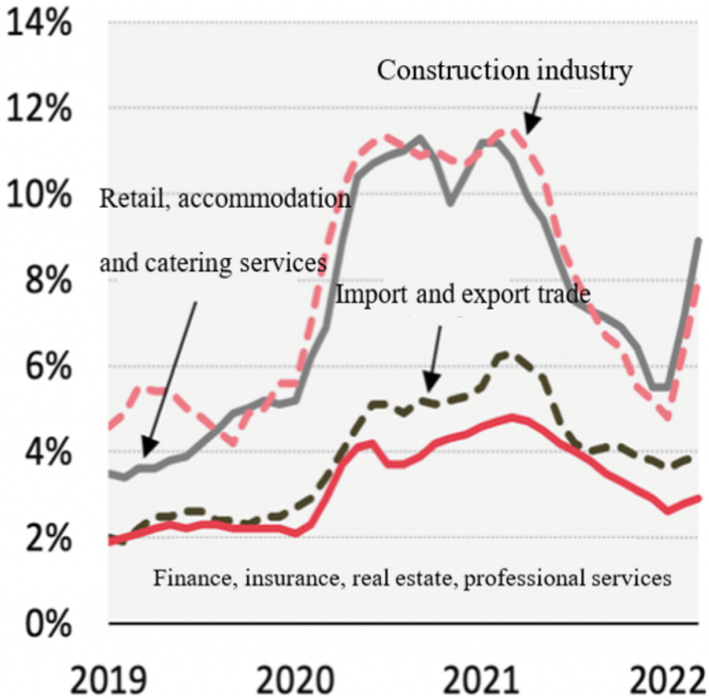


Fig. 2. Unemployment rate in Hong Kong. Source: Hong Kong Census and Statistics Department, BEA Economic Research Department.

supply chain, it remains to be seen how quickly logistics operations can overcome the challenges and restore normal efficiency.

3.3 Unemployment Rate in Hong Kong

Compared with March to May 2002, the unemployment rate and underemployment rate of most major economic sectors fell from April to June 2002, with relatively significant declines in the construction industry, retail, accommodation and catering services, and the arts, and entertainment and recreational activities industry. From April to June, it improved with the general easing of the epidemic and the gradual relaxation of social distance measures. The consumption voucher program and the “2022 employment guarantee” program have helped Hong Kong’s employment rate.

3.4 Volatility Continues to Affect the Stock Market

Since more than half of the stocks listed in Hong Kong are mainland companies, the outbreak of another epidemic in the mainland has cast a shadow on the economic outlook and had a negative impact on the Hang Seng Index. The Hang Seng Index closed at 21089.4 points on April 29, 2022, down 4.1% from the end of March. Hang Seng technology index continued its downward trend, falling 1.9% at the end of April to close

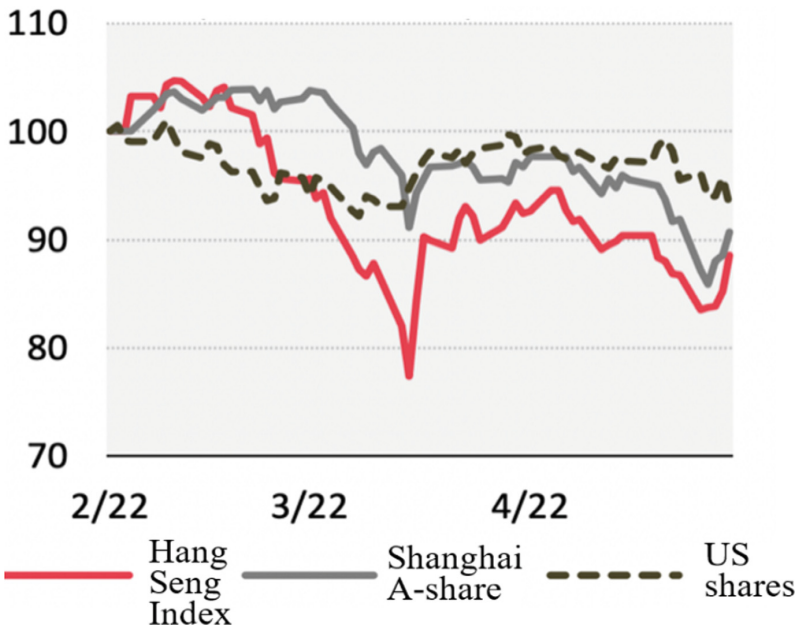


Fig. 3. Stock market index. Source: Bloomberg, BEA Economic Research Department.

at 4471.8 points. In contrast, the Shanghai A-share index fell 6.3% over the same period; The Dow Jones Industrial Average also fell 4.9% (See Fig. 3).

3.5 Residential Property Prices Affected by the Epidemic

In the Hong Kong Housing market, according to the data of the rating and Valuation Department, as of the end of March, the private residential property price index fell to a 15-month low, falling 0.7% month on month, while the rent fell 0.6% month on month (See Fig. 4). However, in response to the improvement of the covid-19 epidemic in Hong Kong and the gradual return of economic activities to normal, the property market is showing signs of recovery. The market atmosphere has improved, more new housing projects have been launched and second-hand housing transactions have increased. However, as the Hong Kong Federal Reserve plans to further raise interest rates in 2022, the Hong Kong real estate market will continue to face pressure.

3.6 Changes in Prices

The inflation rate of basic consumer prices further rose slightly to 1.8% in June 2022 (See Fig. 5). The year-on-year increase in prices of energy-related projects accelerated, while the increase in clothing, footwear, and food prices remained significant. The price pressure on other major components is generally under control. Due to the soaring inflation in some major import sources, the external price pressure is expected to continue to be significant. However, as local cost pressures remain slight, overall inflation will remain moderate in the short term.

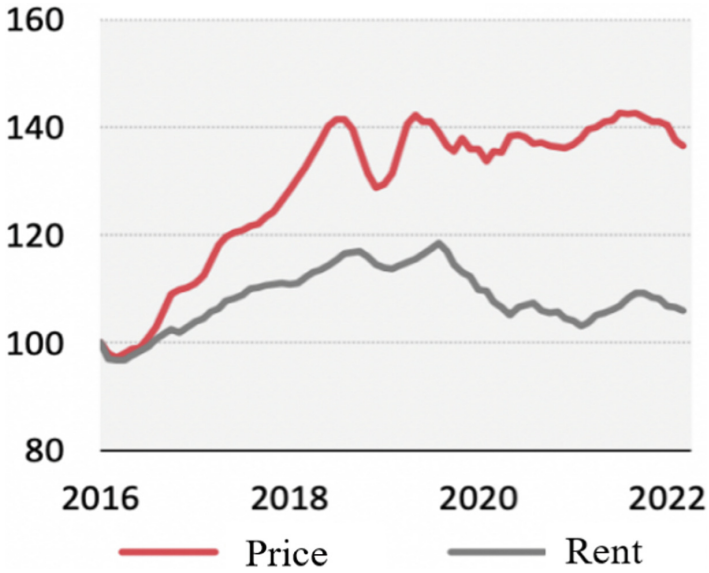


Fig. 4. Residential price and rent index. Source: Hong Kong Rating and Valuation Department, BEA Economic Research Department.

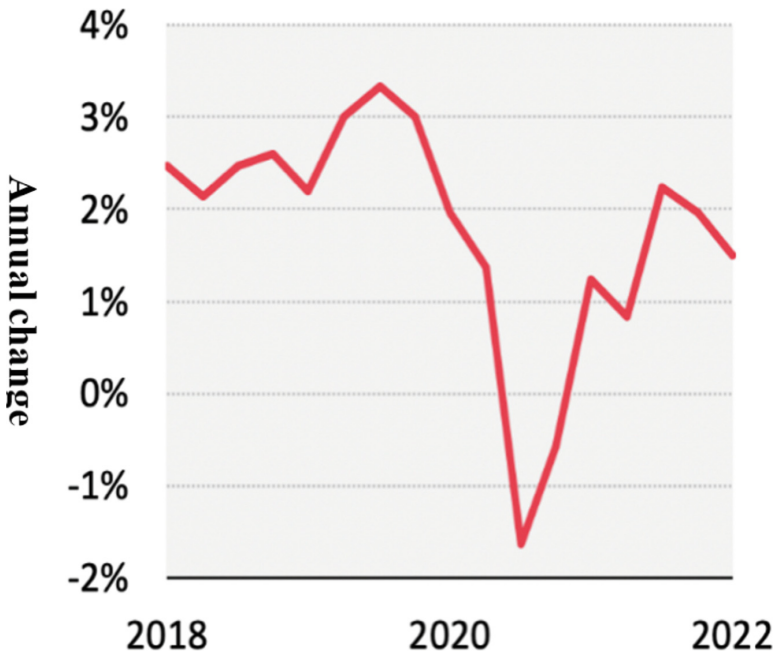
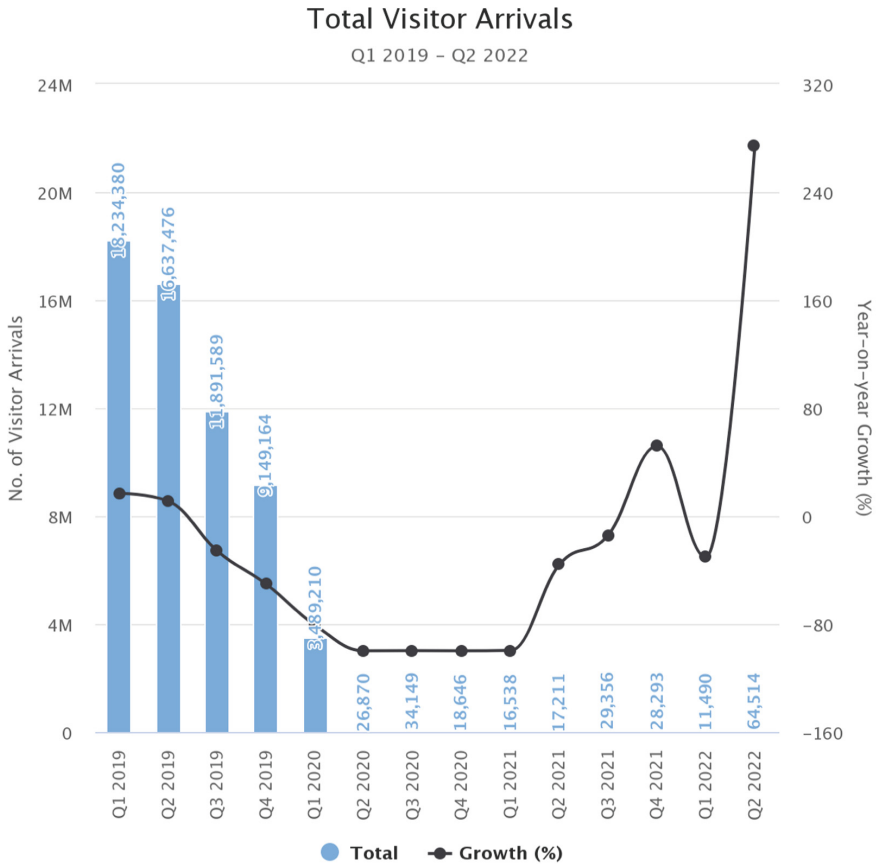


Fig. 5. Hong Kong quarterly inflation rate. Source: Hong Kong Census and Statistics Department, BEA Economic Research Department.



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Fig. 6. Hong Kong Total Visitor Arrivals (Q1 2019-Q2 2022). Source: Hong Kong Tourism Board

3.7 The Number of Tourists Decreased Significantly During the Epidemic

With the outbreak of COVID-19 and its impact on Hong Kong, retail sales in Hong Kong fell by 36.9% year-on-year in the first quarter of 2020, the largest quarterly decline since records were set. Coupled with the implementation of strict quarantine measures, tourists mainly came to Hong Kong to visit relatives or for other necessary reasons, and real tourists have fallen to almost zero. In 2021, the number of visitors to Hong Kong was about 91000, a sharp drop of 97.4% (See Fig. 6). The Hong Kong Tourism Board released the figures that nearly 70% of the tourists visiting Hong Kong in June 2022 arrived in Hong Kong from overseas. Before returning to mainland cities, they will use Hong Kong as a transit station for the night. The main reasons for choosing Hong Kong as a stopover are not only the convenient communication between Hong Kong and the mainland but also the convenient communication, affordable air ticket prices, on-the-way shopping, etc.

4 The future Development of Hong Kong International Financial Center

Hong Kong has unique advantages and attractive prospects. As long as Hong Kong seizes the new opportunities brought by a series of major national measures, under the “one country, two systems” and the Guangdong Hong Kong Macao Bay area, Hong Kong’s competitive advantages will continue to consolidate, its economy and society will be prosperous and stable, and all undertakings will make progress.

4.1 Hong Kong is Fully Integrated into the Overall Situation of National Development, into the Great Bay Area of Guangdong, Hong Kong, and Macao

In February 2019, the outline of the development plan for Guangdong Hong Kong Macao Great Bay area was released, which is the first time that Hong Kong has been included in the overall national development strategic plan. The central government has positioned Hong Kong as an “international finance, shipping, trade center, and international aviation hub”, as well as a global offshore RMB business hub, an international asset management center and risk management center, and an international legal and dispute resolution service center in the Asia Pacific region. Expand space for the development of Hong Kong and Macao, so that Guangdong, Hong Kong and Macao can better achieve “mutual achievements”. In this context, in October 2021, Hong Kong proposed to jointly build “two cities and three circles” with Shenzhen.

There is a strong complementary relationship between Shenzhen and Hong Kong: Shenzhen’s weaknesses, such as education and health care, are precisely Hong Kong’s strengths; The weakness of Hong Kong, such as the lack of world-class enterprises and innovation entities, is precisely the advantage of Shenzhen - Shenzhen is the city with the largest number of commercial entities and the strongest entrepreneurial atmosphere in China.

4.2 Hong Kong is Becoming an Important Supporting Point for China’s Economic Transformation

The status of the Hong Kong stock exchange is very special. With the deepening of the concept of national security and data security, several large Internet platform companies listed overseas with the nature of new infrastructure are successively listed in Hong Kong for the second time and may even be listed only in Hong Kong in the future. In the past, this position was owned by the New York Stock Exchange and Nasdaq market and will gradually be concentrated and transferred to the Hong Kong Stock Exchange in the future.

By April 2022, 1370, mainland enterprises had been listed in Hong Kong, accounting for 53.3% of the total number of enterprises listed on the Hong Kong stock exchange, with a market value of HK \$37.6 trillion, accounting for 77.7% of the total market value of Hong Kong stocks. The Hong Kong Stock Exchange raised US \$42.297 billion in initial public offerings (IPOs) in 2021, ranking fourth in the world, of which newly listed mainland enterprises raised 98% of the total.

Hong Kong has also become the “world’s largest offshore RMB business hub”. By the beginning of 2022, the balance of RMB customer deposits and certificates of deposit in Hong Kong was 1113.5-billion-yuan, accounting for about 60% of the global offshore RMB deposits, and handling about 76% of the global offshore RMB settlement business.

4.3 Hong Kong’s Position in the Global Financial Landscape is Becoming More Unique and Irreplaceable

Hong Kong is a larger financial center than Singapore. Whether it is the trading volume of the stock market, foreign exchange market, or bonds, taking the end of 2021 as an example, the market value of Hong Kong stock is 9 times that of Singapore, and the trading volume of Hong Kong stock market in 2021 is 22 times that of Singapore stock market.

If international capital wants to invest in China, most of them will choose Hong Kong. As a result, Hong Kong has become China’s largest importer of international capital. In recent years, Shenzhen Stock connect, Shanghai Stock, connect and bond connect have been opened between Hong Kong and the mainland, through which international capital can invest in the mainland.

In October 2021, the Hong Kong Stock Exchange launched the “MSCI China A50 interconnection index futures contract”, which gave Hong Kong the “tool to manage investment risks offshore” for Chinese and foreign investors, and made the function of Hong Kong International Financial Center more complete.

Since the implementation of the national security law of Hong Kong, the amount of new shares raised in Hong Kong has exceeded 650billion Hong Kong dollars, an increase of more than 30% over the same period before the implementation; The average daily turnover of Hong Kong stocks exceeded HK \$150 billion, nearly 60% higher than that in the 12 months before the implementation. The total value of Hong Kong’s asset and wealth management business reached HK \$34.9 trillion by the end of 2020, an increase of 20% over the previous year. The total deposits of Hong Kong banks recently reached HK \$15.3 trillion, an increase of more than 10% over the previous implementation.

In the 2022 annual report on world competitiveness, Hong Kong’s global competitiveness rose from seventh place last year to fifth place, and it is still one of the most competitive economies in the world [3].

5 Conclusion

To sum up, Hong Kong today has achieved a major transition from chaos to governance and is in a critical period from governance to prosperity. The development of the country and the rejuvenation of the nation have injected new vitality into the development of Hong Kong’s financial industry, provided a broader stage for Hong Kong, and promoted the consolidation and upgrading of Hong Kong’s status as an international financial center. We also know from the above analysis that Hong Kong’s current status as an international financial center, trade center, and shipping center is very stable. Therefore, as long as Hong Kong continues to play its unique advantages, strengthens its role as a bridge to the mainland and international markets, and actively integrates into the overall

situation of national development, Hong Kong will surely be able to stabilize its status as an international financial center. We believe that the future of Hong Kong will be better and more brilliant in the next 25 years.

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