



# Humble opinions on the "marginal talk" of Hong Kong's economy

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**Abstract.** Since the reform and opening up, through the continuous exploration and unremitting efforts of the people under the leadership of the Communist Party of China, China has made remarkable achievements in economic development. Under the background of economic globalization, China actively leads and advocates the construction of an open world economy. The financial market flow in the mainland is remarkable and attracts a large amount of international funds into the market. The regional urban pattern of China's economic development has undergone great changes, and the marginalization of local cities has become a normal phenomenon.

As the financial center of Asia, Hong Kong is the largest overseas investment market in mainland China and is very important to China. Through a combination of qualitative and quantitative, this paper analyzes whether the core position of Hong Kong economy will be replaced, combining with the current situation of Hong Kong economy to prove the argument that the demand for mainland financial services and the weakened demand for offshore financial services is a normal phenomenon of social and economic development. As an important financial market in China, Hong Kong's competitive advantages will continue to serve China's economic prosperity and development. This paper provides a comprehensive discussion on the development history, theoretical significance, practical value and influencing factors of Hong Kong international financial center, which has certain reference value for promoting the economic prosperity and stability of Hong Kong, promoting the construction of financial center and the coordinated development of the relationship between financial center.

**Keywords:** Hong Kong economy, mainland economic marginalization

## 1 Introduction

### 1.1 Background of the topic selection

As China deepens its reform and opens up wider and strengthens its economic strength, China's financial centers have risen rapidly. At the same time, whether Hong Kong will be "marginalized", "mainland" problem caused widespread concern, the concern is not

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without basis, the rise of the mainland financial center weakened the Hong Kong international financial center service the function of China's economy, relatively speaking, Hong Kong service function of China's economy, and even may be replaced.

Since the return of Hong Kong, behind the maintained prosperity of the international financial center, the market development has gradually tended to be single, virtualization and other unbalanced development, internationalization fading and other bad trends. Through the analysis of the core elements of finance, combined with the construction and development of the basic types of financial center, evaluation system and regulatory mode, this paper analyzes the possibility of the gradual weakening of the function of Hong Kong international financial center serving the Chinese economy.

## **1.2 The historical traceability, theoretical significance and practical value of the topic selection**

### **1.2.1 Historical tracing of the topic selection.**

After the Second World War, the world entered the stage of peaceful construction and development, and the construction of an international financial center developed rapidly. In the 1970s, the economic activity of the financial centers was very active, and the research on the financial centers was fruitful. They were committed to study how to choose the optimal region and develop the financial centers. China is a major economic country, the world's second largest economy and the world's largest trading power. In the near future, China will also become an economic power. The construction of a financial center is an important link in the future of sustainable and high-quality economic development.

Tracing the history, from the 19th to the 20th century, Hong Kong rose rapidly due to its superior terrain and convenient transportation. After the reform and opening up, Hong Kong, as one of the most dynamic regions in Asia, has a foreign trade port, and became a transit station of trade between China and western countries, inseparable from the economic development of the mainland. Meanwhile, Hong Kong also relies on the great achievements of China's reform and opening up, and the marketization and liberalization. Relatively speaking, the rise of Hong Kong-Shanghai financial center weakens the function of Hong Kong international financial center to serve the Chinese economy, which may even be replaced. <sup>[1]</sup>

In the new era, China's economic development has entered a new normal, and the financial centers on the mainland are developing rapidly. There is heated debate about whether Hong Kong's function as an international financial center will be replaced. Since Hong Kong's return to the motherland, China has implemented the basic principle of "one country, two systems", and according to the Basic Law, Hong Kong maintains its original status as a new system and financial center. <sup>[2]</sup> At the same time of China's economic rise, Hong Kong financial center continues to play its role in serving China's economy without being marginalized, which is an important link for the country to continue to promote reform and opening up in the future. <sup>[3]</sup>

### 1.2.2 Theoretical significance and practical value of the topic selection.

The marginalization of local cities means that in the macro-economic development of local cities, the regional economic development level is lower than that of the mainstream areas, and there are huge differences in the structure. [4] The question of whether the Hong Kong International Financial Center will be "marginalized" was raised, and this phenomenon has aroused widespread concern in the society and the academic and family discussion at home and abroad. This paper combines the economic development stage and historical factors of marginalized Hong Kong, and cites the concept of marginalization, and qualitatively and quantitatively analyzes whether Hong Kong will be marginalized.

### 1.3 Problems faced by the research subjects

In recent years, the financial industry in mainland China has developed rapidly. The rise of the Hong Kong and Shanghai financial center has weakened the function of Hong Kong's international financial center to serve the Chinese economy, and Hong Kong's financial center is also facing the severe test of the adjustment of the financial pattern.

Hong Kong's financial market is highly open but its economic scale is small and lacks the support of the real economy. It tends to rely on high-risk and speculative financial derivatives. [5] Hong Kong's finance has shown a trend of "industrial hollowing out" and is easily affected by external financial capital. In the financial crisis in 2008, the annual economic growth rate of Hong Kong was only 2.5%, which was seriously frustrated compared with the mainland economy. The economic growth rate dropped sharply. In the first quarter, the regional GDP fell to -7.8%. In the face of external competition, Hong Kong's financial living space was squeezed, which shows that the financial industry in Hong Kong has a certain degree of vulnerability.

## 2 The economic foundation of financial centers

The basic theories of economics such as industrial agglomeration theory directly influence the research of financial center. At the end of the 19th century, the research on the industrial aggregation problem began to develop gradually. In 1890, Marshall "economic theory" proposed "internal economy", "external economy" two important concepts, since emerged a large number of influential industry gathering theory, such as webb location agglomeration, Schumpeter's innovation of industrial agglomeration, E · M, John Hoover's industrial agglomeration best scale theory, porter enterprise competitive advantage and diamond model, etc.

The theory of industrial agglomeration means that in the process of social and economic development, the interrelated upstream and downstream industries and service industries gather. With the city as the center, the market, policy and human resources work together to promote the flow of production factors, so as to promote the development of the whole regional economy. Industrial agglomeration effect can not only save

transportation costs and labor costs, promote technology exchange, innovation and promotion among enterprises, accelerate the speed of information dissemination and market response, and obtain scale benefits.

Industrial agglomeration is an important basis for the development of regional economics theory. Weber's location theory mainly studies how to choose the optimal location for economic activities. Considering the geographical distribution of the raw material supply area, the distribution of product consumption market, and the economic location distribution of most of the labor force, the geographical location factors are closely related to the formation and development of international financial centers, such as the deepwater port with convenient transportation and the financial industry of Hai-kou city. Thanks to its superior geographical position, Hong Kong has active foreign trade ports, and the financial industry is developing rapidly. [6]

The financial center is the agglomeration of various industries. Through the organic combination of various production factors, the benefits of economy of scale can be obtained. The formation of the financial center reflects the principle of economy of scale. In a Study on the Nature and Causes of National Wealth, Adam Smith explained the increase of economies of scale based on the division of labor, industrial management and resource allocation. Marshall, in Principles of Economics, also mentioned the industrial performance of mass production benefits, that is, relying on the full utilization and utilization of resources within a single industry, business efficiency and the joint division of labor of multiple industries to obtain internal and external economies of scale. According to 2020, Tokyo bay area gathered more than a third of Japan's economic size, actual GDP accounted for 35% of Japan's economic volume, gathered in the Tokyo bay of Beijing leaf coastal industrial belt total capacity accounted for about 60.5% of Japan's national capacity, Japanese enterprises through industrial cluster, location synergy competitiveness practice proved the Theory of Regional Scale Economy Development.

### 3 Core elements of the financial center

#### 3.1 Basic types of financial centers

**Table 1.** |GFCI 33 Ranks and Ratings

Center	GFCI 33		GFCI 32		
	Rank	Rating	Rank	Rating	Change in Rank
New York	1	760	1	760	0
London	2	731	2	731	0
Singapore	3	723	3	726	0
Hong Kong	4	722	4	725	0
San Francisco	5	721	5	724	0
Los Angeles	6	719	7	722	▲ 1
Shanghai	7	717	6	723	▼ 1
Chingago	8	716	12	717	▲ 4
Boston	9	715	14	715	▲ 5

Seoul	10	714	11	718	▲	1
Washington DC	11	713	15	714	▲	4
Shenzhen	12	712	9	720	▼	3
Beijing	13	711	8	721	▼	5
Paris	14	710	10	719	▼	4
Sydney	15	709	13	716	▼	2

As is shown in Table 1, the comprehensive competitiveness evaluation report published in the Global Financial Centers Index Report in 2023 divides the basic types of financial centers according to the scope of service:

**Table 2.** |Classification of Financial Centers

Type of financial center	Features of financial center	Typical representative
Global and international financial center	The highest level of financial center, radiation and influence the development of global financial markets	London, New York
Regional and international financial center	The service scope spans two or more judicial regions, but fails to cover the whole world, and has the main influence on a certain regional scope	In Hong Kong and Japan in China, Tokyo, Frankfurt in Germany, Paris in France, Zurich in Switzerland, Singapore, Sydney in Australia and so on
National Financial Center	It mainly serves the development of the domestic financial market, and determines the market size according to the domestic demand	Shanghai in China, Toronto in Canada, Seoul in South Korea, Mumbai in India, Johannesburg in South Africa, etc
Regional Financial Center	Mainly financial services for a region within a country	Shenzhen in China, Edinburgh in the UK, Monteia in Canada, Houston in the US, etc
Professional financial center	He is a global leader in a certain professional field	Private banks and other global operating centers in Zurich, Switzerland

What we can find from Table 2 is that, as one of the most influential financial centers in Asia, Hong Kong covers China's inland and part of the Asia-Pacific economic region. It has a mature and open international financial market and a superior geographical location but lacks characteristic professional fields and corresponding productivity and transformation power. With the development of the mainland's economic system and the internationalization of its financial market, Hong Kong's advantages over the mainland's financial center, such as international advantages and basic research and development, will be gradually weakened. [7]

### 3.2 Evaluation system of the financial center

The evaluation of financial centers requires objectivity and fairness. The establishment of a credible international evaluation model should include two aspects: one is the ready-made statistical data, and the other is the questionnaire survey results of authoritative and well-resource institutions and managers.

As the index of the most authoritative international financial center in the world, its evaluation system covers five indicators: human capital (People), business environment (Business Environment) market development degree (Market Access), infrastructure (Infrastructure), and comprehensive competitiveness (General Competitiveness). G PFI As a globally recognized indicator of the change of competitiveness, it stems from its rapidity, timeliness, objectivity, comprehensive characteristics and extensive international influence.

### 3.3 Regulatory mode of financial centers

In the late 1920s, in the early days of the establishment of Hong Kong's financial market, the regulatory system of Hong Kong's financial market had not been completed, the capital flow was free, and the industry was developing steadily. Under the impact of the financial crisis in the United States, in order to adapt to the economic development of Hong Kong at that time, Hong Kong financial center adopted a self-disciplined regulatory model.

In the 1960s, Hong Kong experienced many banking crises. The Hong Kong government improved the regulatory system and strengthened the restraint and management of the financial industry, in order to realize the stable growth of the financial industry. In essence, the Hong Kong government adopted an attitude of "active non-intervention" in order to meet the needs of market development.

After the 1990s, finance has tended to be an international economic integration. Hong Kong faces risks from other international financial markets, and faces turbulent economic development. The self-regulatory system and the "active non-intervention" regulatory system have hindered the development of Hong Kong's economy. [6] In order to avoid the risks of the financial market, the government needs to coordinate the relationship between the free and open economic environment (Hong Kong's competitive advantage) and the strength of government supervision. It is not only necessary to master the freedom to restrict the development of Hong Kong's market economy, but also to avoid the lack of supervision and the waste of regulatory resources. After a global financial crisis in 1997, the Hong Kong government adopted the supervision mode of "big market, small government", that is, the market plays a leading role in the allocation of resources, and the government gradually strengthens managers and guides and coordinates social and economic activities.

At present, the Hong Kong regulatory system both financial liberalization and regulation, build solid and sound financial regulations, implement effective risk management system, to some extent, maintain the stable and healthy development of the Hong Kong financial market, but Hong Kong currently adopts different regulators manage different institutional function model easy to derivative gray area. Therefore, Hong

Kong's financial regulatory environment and system still face some problems and challenges.

## 4 Research conclusion

The "useless theory" in Hong Kong and that Hong Kong's financial center is gradually replaced by mainland cities in the face of marginalization mainly reflects that Hong Kong's function of serving the Chinese economy has gradually weakened with the increasing economic strength of the mainland, the steady and strong operation of the financial market and the improvement of the level of financial services. Relatively speaking, the Shanghai financial center is in a period of comprehensive construction and development, attracting a part of the original investment from Hong Kong. At the same time, the construction of the three major financial centers in Asia has their own strong competitive advantages,<sup>[8]</sup> and Hong Kong's investment advantage in the international financial market is under pressure. Hong Kong has weakened as a transit station for China's trade with overseas countries. It is found that after the enhancement of mainland financial services, the weakening demand for offshore financial services is a normal phenomenon in the development of human society. Hong Kong financial center in the face of marginalized risk, need the support of countries, actively seize the opportunity of financial center advantage transformation, strengthen economic and trade exchanges and cooperation with the mainland, complementary advantages, in the process of the future economic development to keep a positive outlook attitude, work together to build the beautiful blueprint of China's economic sustainable development.

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