Evolution of Hong Kong International Center and Future Development Trends

Beier Lu*

The University of Nottingham Ningbo China, Business School China, Ningbo 315100, China

*biybl15@nottingham.edu.cn

Abstract. In today's global economy, finance plays an increasingly important role and has gradually become the flagship of any country's economic system, or even its cornerstone. Growth and development of Hong Kong as an international financial center are inextricably linked to a highly open and transparent economy and an environment of fair and free competition. An analysis is provided in this paper of the growth and development of Hong Kong as an international financial center, a comparison is made of the similarities and differences that exist between Hong Kong and London, Tokyo, and Singapore, and a conclusion is drawn. Lastly, it makes a prediction regarding the future development of the Hong Kong financial industry. According to this study, Hong Kong's development as an international financial center began before the 1970s and has continued to this day. In comparison with London, Tokyo, and Singapore, Hong Kong's development is distinguished by its background and its use of means. This paper forecasts that Hong Kong's securities market will continue to develop positively in the future and that the financial industry will be transformed and upgraded. Nevertheless, Hong Kong's financial sector may also experience fluctuations.

Keywords: International Financial Center, Hong Kong, Financial Industry, Economic Development

1 Introduction

Reform and opening up have contributed to the development of Hong Kong's modern financial sector. Following the end of the Second World War, Hong Kong's financial industry was subjected to various internal and external shocks. Through continuous research and development, Hong Kong has developed a mature financial system that is free, transparent, and regulated in accordance with international standards. Hong Kong has gained international capital, Financial institution group and customers' support as a result of its competitive financial and economic system and superior geographical location, and has consolidated its position as an international financial center as well as become one of the world's most important financial markets. Hong Kong is the third largest international financial center in the world after New York and London, as well as the most developed international city in the world.

H. Luo et al. (eds.), *Proceedings of 2024 6th International Conference on Economic Management and Cultural Industry (ICEMCI 2024)*, Advances in Economics, Business and Management Research 316,
https://doi.org/10.2991/978-94-6463-642-0_16

This paper explores all aspects of Hong Kong's status as an international financial center, including its development history, its international status, and the risks and challenges Hong Kong faces. The purpose of this paper is to analyze and elaborate on the advantages, disadvantages, opportunities, and threats associated with Hong Kong's status as an international financial center to expand its discussion. To begin with, the second chapter of the article provides a theoretical basis for the analysis of the article by introducing the concept and theory of the international financial center. Furthermore, the third chapter of the article discusses the development of Hong Kong as an international financial center. Following this, the fourth part of the article compares Hong Kong's development with Japan, Singapore, and London. Afterwards, the fifth part of the article forecasts Hong Kong's financial industry's future development trend.

2 Concept and Theory of International Financial Centers

2.1 Concept of International Financial Centers

In human history, the emergence and development of international financial centers has been a major institutional innovation, which has improved the efficiency of the international financial industry on a micro level. Aside from encouraging international financial entities to pursue economic rationality, it also improves the efficiency with which resources are allocated across the entire global economy, because it also produces some positive effects, including improved information and increased synergy [16]. As a cluster of international financial markets, international financial centers are usually referred to as international financial centers. Their activities include trading foreign currencies, gold, short-term loans in foreign currency, long-term foreign currency circulation, and marginal securities issuance internationally. The purpose of these organizations is to facilitate the smooth operation of financial transactions for the purposes of balancing the balance of payments, financing international debts, and settling international debts worldwide, as well as fostering relationships that continue to develop. A financial center is a location that balances the savings and investments of private enterprises, transfers financial capital from savers to investors, and affects settlements and deposits among regions[1]. The role of banks and financial service centers is to act as intermediaries and bridges for the transfer of value and transaction space. Financial centers provide specialized international lending and cross-border settlement services. In general, dynamic financial centers contribute to the growth of host economies by increasing productivity at the national and regional levels, promoting technological advancement, and facilitating multiplier effects.

2.2 Conditions for the Construction of an International Financial Center

2.2.1 Theory of Economies of Scale.

The economy of scale theory was developed by Parker. According to Parker, the economy of scale theory of microeconomics was applied to the development of international banking and the analysis of the causes of international financial centers. Economies of scale refer to the economic advantages associated with large-scale economic activities. In particular, the expansion of an enterprise's scale can reduce costs across the board, optimize the allocation of equipment and labor, and enhance the efficiency of production [14]. A multinational bank may also be considered an enterprise, and, in order to reduce costs, it may adopt a strategy of expanding its business scope. The bank will establish branches in different international financial centers in order to spread the costs of banking services to global financial operations as a concrete step in this strategy. As multinational banks become more numerous and larger in a given location, it is possible to create international banking centers[2]. In international financial centers, international banking centers play an important role. Economies of scale theory is applied to the formation of international financial centers primarily by considering the following factors.

Firstly, financial institutions can cooperate with each other. When there are a large number of financial institution groups grouped together in a small area, numerous cooperation projects and business contacts can be established within the banking industry. Since the 1960s, wholesale banking has become the primary source of profits for banks[6]. The large volume and high risk associated with wholesale banking loans necessitate close cooperation between banks. The International Financial Center provides a conducive environment for such collaboration.

Moreover, a diverse labor market can be developed to facilitate the free movement of talent among different sectors. An international financial center requires financial facilities, transportation facilities, and communication facilities, and the joint use of multiple institutions and industrial sectors will maximize the functions of these facilities, improve efficiency, and maximize the efficiency of usage.

The third aspect is close communication and information exchange. As a result of the concentration of the financial institution group, the relationship established with Customers can be promoted in order to meet the continuously changing needs of the market. The benefits of face-to-face communication include the prevention of misunderstandings in communication, the reduction of communication time, the facilitation of mutual communication and the transmission of information, the reduction of unnecessary losses, and the improvement of efficiency.

Fourth, an increase in market liquidity can reduce the risks associated with investments and financial transactions. As a general rule, the larger the financial market, the more liquid the assets in the portfolio. In this way, lenders and borrowers in other regions will introduce supply and demand into the market, resulting in borrowers obtaining more loans at lower interest rates, and lenders having more investment choices and being able to trade on larger securities markets.

Fifth, there is the gathering of high-quality professionals with many years of experience in financial transactions. An international financial center must possess a large number of high-quality financial talents in order to flourish. In order to meet this talent demand, outstanding talents from around the world will continue to migrate to this area in order to pursue higher incomes and faster growth. Meanwhile, the gathering of a large number of financial talent will also enhance the quality of living in the location of the international financial center and cultivate more talents in the field of finance[7].

2.2.2 Location Theory.

The theory of location economy can be used to explain the choice of locations for financial centers from both a supply and demand perspective. Supply factors affecting the financial system are mainly related to production factors and the business environment required to operate the financial system. As an example, there are numerous factors that contribute to the reduction of operating costs and increase profitability, including the availability of well-trained and high-quality financial professionals, the availability of funds in the country or region where the financial center is located, a convenient geographical location, a free and open economic environment, transparent and appropriate supervision, etc. Demand factors that affect the financial system are primarily related to the volume and choice of financial services, the most important of which is customer contact. Having a close geographical proximity to areas with high demand for financial services is also important. The size of the domestic economy, rapid economic growth, and a sound and viable economic system are equally important for reducing operating costs and enhancing incomes.

The location of a financial center should be able to offer the following advantages in order to be able to form and continue to grow. The first advantage is a natural location. The natural location of a financial center refers to the specific location of the financial center. Financial enterprises' location will affect their operating costs and transaction costs, such as transportation costs, communication costs, and exchange rates. As the regional financial center has a convenient and accessible location compared to other cities in the same region, transaction costs, transportation costs, and communication costs, as well as the cost of obtaining business information, will be relatively low[17]. In turn, this will entice the financial institution group located outside the financial center to gather there as a result of the cost advantage. The second advantage is the economic location. An important aspect of the economic location of a regional financial center is the market conditions of the regional financial center, which includes the size and structure of the financial market in the region where the regional financial center is located, as well as a degree of customer discernment which affects the regional financial center's growth potential and competitiveness. Regional financial centers with a large market size are more likely to expand their scale and develop new financial enterprises[7]. Moreover, it contributes to the improvement of the overall level of the financial center in the region. Third, there is the advantage of administrative location. On the one hand, the government has the capacity to gather financial resources into a central city through administrative rights and cultivate regional financial centers. As a rule of thumb, the higher the administrative level of the government, the greater its administrative rights, the stronger the regulatory ability, the better the infrastructure of the region, and the stronger the external economy of scale, the easier it is to establish a financial center. On the other hand, cities with administrative location advantages are generally central cities, which have population gathering and relatively developed industry. Thus, after exercising its functions, the government can provide additional market demand for the development of financial enterprises, which is conducive to the development of financial enterprises, and facilitate the establishment of financial centers.

3 The Evolution of the International Finance Center in Hong Kong

In spite of Hong Kong's small size and natural resource abundance, the economy is highly dependent upon foreign countries for its economic growth. The Hong Kong economy has undergone two major structural transformations over the past century, and it has continually adapted to changes in the international environment. Hong Kong evolved from a trading center to a manufacturing center in the mid-20th century, and from a manufacturing economy to a service economy dominated by finance in the late 20th century. Economic development has inevitably resulted in Hong Kong's emergence as an international financial center.

3.1 Transition from Trade to Manufacturing (Pre-1970s)

Prior to the 1940s, Hong Kong's export trade was largely supported by exports to China and other countries. The United States launched a war of aggression against Korea in the 1950s and manipulated the United Nations to impose an embargo on China. Due to the serious impact on Hong Kong's re-export trade, the city was forced to shift its focus to the development of the manufacturing industry rather than re-export trade. Hong Kong's private capital, particularly Chinese capital, began to invest in the manufacturing industry during this period. The Chinese mainland brought capital, technology, and human resources to the region. Hong Kong's manufacturing industry was promoted in conjunction with the growing demand for light industrial products on the world market.

HK$ million

Year	Gross domestic product [a]	Per capita GDP (HK$)	Domestic demand [b]	(1) Private consumption expenditure	(2) Government consumption expenditure	(3) Gross domestic fixed capital formation	(4) Changes in inventories
1961	**7,434 (-)** [#]	**2,347**	**8,003**	5,596	619	1,733	55
1962	**8,656 (16.4)**	**2,619**	**9,381**	6,256	654	2,407	64
1963	**10,393 (20.1)**	**3,038**	**11,138**	6,900	746	3,415	77
1964	**11,853 (14.0)**	**3,382**	**12,767**	7,611	847	4,221	88
1965	**13,911 (17.4)**	**3,866**	**14,396**	8,578	949	4,766	103
1966	**14,234 (2.3)**	**3,921**	**14,746**	9,728	1,070	3,841	107
1967	**15,427 (8.4)**	**4,144**	**14,714**	10,403	1,199	2,997	115
1968	**16,475 (6.8)**	**4,332**	**15,594**	11,547	1,300	2,625	122
1969	**19,359 (17.5)**	**5,010**	**17,655**	13,064	1,412	3,036	143
1970	**23,015 (18.9)**	**5,813**	**21,249**	14,904	1,630	4,544	171

Fig. 1. Hong Kong GDP change from 1960 to 1970 (Source: Census and Statistics Department, 1969).

HK$ million

(5) Exports of goods (f.o.b.)			(6)		(7)	(8)			
(5) Total exports	(5a) Domestic exports	(5b) Re-exports	Imports of goods (c.i.f.)	Exports *less* imports of goods	Exports of services	Imports of services	Exports *less* imports of services	Exports *less* imports of goods and services	Year
3,930	2,939	991	5,972	-2,042	2,364	891	1,473	-569	1961
4,387	3,317	1,070	6,659	-2,272	2,533	986	1,547	-725	1962
4,991	3,831	1,160	7,420	-2,429	2,754	1,070	1,684	-745	1963
5,784	4,428	1,356	8,551	-2,767	3,023	1,170	1,853	-914	1964
6,530	5,027	1,503	8,976	-2,446	3,224	1,263	1,961	-485	1965
7,563	5,730	1,833	10,111	-2,548	3,443	1,407	2,036	-512	1966
8,781	6,700	2,081	10,469	-1,688	3,878	1,477	2,401	713	1967
10,570	8,428	2,142	12,498	-1,928	4,543	1,734	2,809	881	1968
13,197	10,518	2,679	14,936	-1,739	5,478	2,035	3,443	1,704	1969
15,238	12,347	2,892	17,635	-2,397	6,530	2,367	4,163	1,766	1970

Fig. 2. Hong Kong's export-import trade in 1960-1970 (Source: Census and Statistics Department, 2000).

As shown in Fig. 1, during the period 1960-69, Hong Kong's gross domestic product (GDP) grew by an average of 13.6% per year, while exports grew by an average of 16.5% per year[4]. The manufacturing sector accounted for 28.2% of the gross domestic product in 1971. As shown in Fig. 2, Hong Kong has gradually evolved from an export-oriented trading hub to an export-oriented manufacturing hub[5]. In the course of becoming a manufacturing hub, Hong Kong's financial sector increased its involvement in providing credit and financial assistance. As bank assets increased from HK $6.35 billion to HK $19.79 billion, an average annual growth rate of 15.2% was achieved in the 1960s. Deposits grew by 17.6% per annum, while loans grew by 16.4% per annum. Hong Kong's continued development as an international financial center was facilitated by these figures.

3.2 Establishment as a Regional Financial Center (1970s)

Hong Kong's development as a regional international financial center is generally believed to have begun in 1969. While Hong Kong had just survived the 1965 banking crisis, suspended the issuance of banking licenses for about 13 years, and did not abolish the profits tax on foreign currency deposits, it failed to take advantage of the opportunity to compete with Singapore in developing the US dollar market in Asia. Nevertheless, as the financial industry expanded globally, foreign banks established a foothold in Hong Kong through acquisitions to conduct business in the region. Moreover, Hong Kong is characterized by a significant number of international banks and relatively convenient supervision and taxation, which made it the overseas Financial Institution Group that developed syndicated loans and managed funds as a result of Singapore's small economy and inability to utilize all US dollar deposits.

Hong Kong's economy experienced turbulent times in the 1970s. The economies of Taiwan, Singapore, and South Korea have developed vigorously and have overtaken Hong Kong in terms of exports. Following the 1973 oil crisis, the Western developed countries implemented a quota system on garment imports, which plunged Hong Kong into an unprecedented period of difficulty and turmoil. Hong Kong people, in the face of these serious difficulties, implemented the three major diversification plans of "industrial diversification", "economic diversification", and "market diversification". By implementing these plans, Hong Kong reversed the situation where a single industry dominated the world, rapidly developed industries such as finance, trade, and real estate, and expanded its economic base. A series of liberalization measures were adopted by Hong Kong in the mid-1970s: in July 1972, the pound exchange rate system was abolished, and the Hong Kong dollar was pegged to the US dollar for the first time; in 1974, gold imports were made free; a floating exchange rate system was implemented in November 1974; and the Hong Kong dollar was pegged to the US dollar in 1978. In 1978, the banking license was renewed, foreign banks were treated equally, and a large number of foreign banks were established in Hong Kong one after another; successively, in February 1982 and October 1983, interest taxes on foreign currency deposits and interest taxes on Hong Kong dollar deposits were abolished.

3.3 Shift to a Service-Oriented Economy (1980s)

Due to the global economic recession in the early 1980s, major industrialized countries adopted strict measures to protect their own major industries. In conjunction with the uncertain future of Hong Kong, Hong Kong's product exports faced serious difficulties, leading to a general decline in Hong Kong's economy as well as a sharp decline in investor confidence. Despite reform and opening up of the Chinese mainland, Hong Kong's re-export trade did not take a noticeable turn for the better until 1984, when China and Britain issued the Joint Declaration. Since 1985, the mainland has undergone significant reform and opened up, resulting in a cheaper labor force and land prices than in Hong Kong. There has been a large transfer of manufacturing from Hong Kong to the mainland. Hong Kong's economy evolved to include non-manufacturing industries such as service and financial industries. Hong Kong has become a bridge for the inflow of foreign capital, talent, management, technology and information, as well as a support system for the manufacturing industry on the Chinese mainland. Hong King provides re-export trade, transportation, advertising, financial and insurance services, accounting, and professional services to the mainland Chinese. In this regard, Hong Kong has begun to establish itself as an international financial center.

3.4 Consolidation as a Global Financial Center (Post-1980s)

Hong Kong has further consolidated and promoted its position as an international financial center since the 1980s. In 1996, more than 80% of Hong Kong's manufacturing industry had moved to the Mainland, and Hong Kong was responsible for 56% of the mainland's foreign investment. The financial services sector has taken advantage of the opportunity to develop and become a base of investment and financing for Hong Kong businesses and Chinese enterprises operating in the Mainland. Through Hong Kong's financial platform, overseas investors have also begun to participate in and share the benefits of the mainland's development. The financial center of Hong Kong has evolved from an industry-led region. Based on Jao (1997) calculations, Hong Kong became the second-largest international financial center in the Asia-Pacific region from 1995 to 1996 and remained in seventh and sixth places worldwide[11].

The Asian financial crisis broke out shortly after Hong Kong was handed over in 1997. In spite of the crisis, Hong Kong managed to weather it successfully with the support of the HKMA and the foreign exchange reserves of the central government in excess of US $96.50 billion[9, 18]. Thus, investors' confidence in Hong Kong's financial market has increased significantly, further strengthening Hong Kong's position as an international financial center. In the 21st century, Hong Kong's economic and financial ties with the mainland have continued to grow. The Closer Economic Partnership Agreement (CEPA) between Hong Kong and its regional partners was implemented in 2007, which resulted in closer financial ties and further strengthened Hong Kong's position as a global financial center. In response to the rapid growth of the national economy, especially the development of the manufacturing industry, Hong Kong has been able to meet this demand through its expertise and supporting policy system. Additionally, Hong Kong has become the preferred platform for foreign financing due to the increased globalization of mainland enterprises.

3.5 Summary

The emergence of Hong Kong as an international financial center is not only an inevitable consequence of its historical development, but also an inevitable consequence of its economic development. Firstly, Hong Kong has long been a model of good governance and has minimized its involvement in the market. Secondly, Hong Kong has developed a strong economic and financial foundation by transforming and modernizing its industrial structure. Through the use of favorable external economic and political factors, Hong Kong has successfully transformed and modernized its industrial structure, laid the foundation for real economic development, and gradually accumulated capital. Thirdly, Hong Kong's financial center status has been solidified by establishing a legal framework and improving its rules and regulations. The British Hong Kong government only recognized the importance of the rule of law after a series of banking crises and stock market crashes. British Hong Kong's government has reorganized market structure, resolved weak links within the financial system, strengthened the financial system, and ensured that the international financial center is stable through the adoption of legislative measures and effective enforcement by regulatory authorities.

4 Comparison of Hong Kong's International Financial Center with Other International Financial Centers

This section compares the development history of Hong Kong with three other international financial centers, namely Singapore, Tokyo, and London. The uniqueness of their development and their important role in the global financial landscape are the reasons for choosing them. Understanding the advantages of each development can be facilitated by comparing Hong Kong with them.

4.1 London

In terms of its reputation as an international financial center, London has come a long way. As early as the 1950s, the Soviet Union and Eastern European countries had to look outside the United States for markets where they could hold and use dollars to avoid the risk of American government freezes. During the 1960s, the U.S. government took a number of measures to limit dollar outflows. As a result, a number of American financial institutions moved their operations to London, and some moved their operations abroad to avoid regulation. A reform to liberalize the financial industry was introduced by Mrs. Thatcher in 1986, which abolished the requirement that brokers and dealers cannot interconnect their functions. Foreign financial institution groups may become members of exchanges, the minimum fixed commission limit for securities transactions is abolished, all financial institution groups may participate in securities trading activities, and banks are allowed to provide comprehensive financial services to their clients. As a result of these measures, a number of super financial institution groups have been established in London, which provide a range of financial services, including banking, securities, insurance, and trusts, and have also attracted foreign financial institutions to establish themselves in the city. The British government introduced a series of reforms to streamline financial supervision in the late 1990s, including the simplification of the financial supervision system and the reduction of approvals and regulatory agencies. Essentially, banks, securities companies, and insurance companies are not regulated by separate industries, but by risk. As a result, banks, securities companies, and insurance companies are subject to the same laws and regulations.

As shown in Table 1, in the early days of London's financial center, the power of the "invisible hand" of the market played a crucial role in driving the city forward, thanks to the first industrial revolution and Britain's overseas trade around the globe. With the introduction of financial regulation for the first time in the history of the world, London's position has become increasingly consolidated in cooperation with the government and the market. In the early days of Hong Kong's international financial center, its economic strength was not as strong as that of London, and it could not be described as an economic center. At best, it was an important center for business and trade. Comparing Hong Kong's financial center with London's naturally formed financial center, it is impossible to ignore the government's role in its development, and it has the characteristics of development that is jointly promoted by the government and the market.

Table 1. Comparison of the development of the financial centers of Hong Kong and London.

Similarities	Differences
➢ Government support and regulatory reform ➢ Internationalization and foreign investment attraction ➢ Integration of financial markets	➢ Development path of the financial market ➢ Features and advantages ➢ Financial supervision model

Source: Author's collation

4.2 Tokyo

Tokyo has grown to become the third largest international financial center since the mid-1980s. The main reason for this is Japan's financial reform, which focuses on financial liberalization, marketization, and internationalization, as well as the establishment of the Tokyo Shore financial market in December 1986. The main objective of Japan's financial reform was to gradually liberalize interest rates and financial businesses. In the 1990s, Japan's bubble economy burst and Tokyo's international market position deteriorated. Japan implemented a large-scale big bang financial reform in April 1998, which included the promulgation of a new foreign exchange management law, the Bank of Japan Law, the relaxation of foreign exchange trading restrictions, and the implementation of comprehensive mixed operations in banking, securities, and insurance.

According to Table 2, Hong Kong and Japan have developed differently as international financial centers. The liberalization of the economy and the internationalization of the two countries have greatly enhanced their standing as financial centers. Both countries have actively integrated into the international financial market, attracting global capital and financial institution groups. Additionally, both governments have created an environment that is conducive to the stability and development of the financial markets by formulating policies and improving regulatory frameworks. In spite of this, the two countries have a number of fundamental differences. The two countries have different histories and backgrounds. A long history of fatigue and industrial development has characterized Japan's role as an international power. Its financial center has also contributed to the development of the nation's economy. On the other hand, Hong Kong has been able to develop into an important international financial center in a relatively short period of time due to its unique geographical location and historical advantages. In addition, the Hong Kong and Japanese markets differ in size and structure. Several industries and fields are represented in the Japanese financial market. In contrast, Hong Kong's financial market is relatively concentrated and has obvious advantages in certain areas (such as cross-border financial services).

Table 2. Comparison of the development of the financial centers of Hong Kong and Tokyo.

Similarities	Differences
➢ Economic liberalization and internationalization promote the status of a financial center ➢ International financial markets ➢ Government support and regulatory reform	➢ Differences in history and background ➢ Different ways of dealing with financial market crises ➢ Different market sizes and structures

Source: Author's collation

4.3 Singapore

As shown in Table 3, in many ways, Singapore is similar to Hong Kong, but it is still a direct competitor in Hong Kong's financial market. Singapore has a small and open economy. It implements a free port policy and abides by British legal principles, as well as establishing a highly transparent and international consistent regulatory framework. Hong Kong utilizes the Chinese mainland as its financial hinterland, while Singapore utilizes the South East Asian countries as its financial hinterland. Geographically and in terms of time zone, they differ only in the fact that Hong Kong is closer to the East Asian region and Singapore to the South East Asian region. Although Singapore's relatively balanced economic structure, operating costs, and English standards are better than Hong Kong's, Hong Kong's economic scale and economic freedom are superior to Singapore's. The number of foreign banks in Hong Kong, the overseas assets and liabilities of banks, the market value of the stock market, the amount raised and the turnover, as well as the turnover of the gold market, are all better than Singapore. However, Singapore's commodity futures market, product diversification and active level surpass Hong Kong's in terms of market size, product diversification, and active level.

Table 3. Comparison of the development of the financial centers of Hong Kong and Singapore.

Similarities	Differences
➢ Type of economy (Small economy)	➢ Differences in history and background
➢ Policy and legal system (Free port policy, British legal system)	➢ Different ways of dealing with financial market crises
➢ Government support and regulatory reform	➢ Different market sizes and structures

Source: Author's collation

5 Future Development Trends of Hong Kong's Financial Industry

5.1 The Securities Market Has a Bright Future

According to Kwan (2018), Hong Kong's trade dependency on the mainland is on the rise[12]. Hong Kong's status as an entry point for mainland exports to other parts of the world has been affected by the continued development of the mainland port cluster in recent years, but Hong Kong's dependency on the mainland is growing. For Hong Kong to continue to develop in the future, it should be better integrated into the mainland's economic development. Hong Kong's securities market continues to undergo reform, which in turn attracts mainland technology-based companies to list there. With the continuous improvement of the interconnection mechanism and the two-way effect of "The Holding Foreign Companies Accountable Act", it is expected that Chinese stocks will return to Hong Kong for listing in the near future. With effect from 2019, the Hong

Kong Stock Exchange has introduced new policies that include changes in IPO conditions, relaxation of restrictions on companies with the same shares but different rights, and the ability to list a second time[13]. In addition, the Hang Seng Index has included listed companies with the same shares but with different rights in its stock selection process, and in 2020 it will include Internet technology companies such as Alibaba and Xiaomi Group. As a result of this trend, Hong Kong is expected to continue to attract a series of technology-based and innovation-driven companies to list. Meanwhile, the HFCA bill passed by the US Senate in May 2020 has increased the pressure placed on Chinese stocks listed in the United States to delist, which will encourage more Chinese companies to utilize Hong Kong for overseas financing and return to Hong Kong for listing.

5.2 Transformation and Upgrading of the Financial Industry

Several key cities, including Hong Kong, Macao, Guangzhou, and Shenzhen, will become central cities under the Greater Bay Area Development Plan released in 2019. Hong Kong will become an international financial, shipping, trade, and aviation hub[15]. Once again, the 13th National People's Congress' Fourth Session has supported Hong Kong's efforts to strengthen its position as an international financial center and to enhance the functions of a global offshore CNY business center, an international asset management center, and a risk management center. Additionally, the Hong Kong and Macao Financial Support for Overseas and Local Development Exhibition, released in May 2020, clearly indicates Hong Kong's financial position[8]. Among them, Hong Kong should take full advantage of its leading position in the financial sector and consolidate its role as an international asset management and risk management center. Ensure that Hong Kong is recognized as a global offshore CNY center and assist in the development of additional risk management services, including offshore CNY services and commodities[8]. Maintain Hong Kong's leading position as an offshore financial center and support the development of offshore currencies, commodities, and other tools for financial management. Enhance cross-border flows and exchanges of CNY in the Guangdong-Hong Kong-Macao Greater Bay Area and gradually increase their scale and scope [10]. As Hong Kong develops in the future, it will have the opportunity to further consolidate resources and promote the transformation and upgrading of the financial sector.

In terms of economic and financial relations, Hong Kong and the Chinese mainland are closely linked. The success of Hong Kong as an international financial center can be attributed mainly to the principle "one country, two systems" as well as its long-term stability. Because of Hong Kong's mature and flexible system, international capital is able to enter the Chinese mainland market, and Chinese mainland capital is able to travel to the world by means of the Hong Kong Special Administrative Region's open window. Due to the conditions described above, Hong Kong may develop from a financial center on the Chinese mainland to three new centers: a global asset center on the Chinese mainland, a global asset management center on the Chinese mainland, and an offshore risk management center.

5.3 Hong Kong's Financial Market is Highly Volatile

Hong Kong is one of the cities with the highest concentration of banks in the world, but most of the large financial institution groups that dominate the market in Hong Kong are foreign companies. Prior to the reunification, HSBC relocated its headquarters from Hong Kong to London. There has been no truly international financial institution group with its headquarters in Hong Kong up to this point. Hong Kong has experienced rapid growth in the Chinese banking, securities, and insurance industries over the past few years. As of the end of 2021, Chinese banks accounted for more than one-third of Hong Kong's overall banking industry, and Chinese insurance companies represented about one-fifth of Hong Kong's effective long-term business insurance premium income[3]. Over the past few years, Chinese investment banks have surpassed well-known Western investment banks in underwriting Hong Kong IPOs. Despite this, Hong Kong has not yet developed into a large financial institution from within its own economy, and its market dominance has not yet reached the point of being completely controlled by its own market. Therefore, Hong Kong's financial market is relatively volatile, especially during financial crises, as it lacks the support of a large financial institution group, which to some extent contributes to the instability of the market.

6 Conclusion

In summary, Hong Kong has maintained its position as the largest international financial center in the Asia-Pacific region and, indeed, the world following more than three decades of rapid growth and development. There are several factors which contribute to Hong Kong's development as a leading international financial center, including its geographical locati0n and social and economic conditions. Furthermore, both external and external factors play an important role in the development of financial institutions. Future growth of Hong Kong's international financial center will be closely tied to the economic growth of the Chinese mainland, and will be based on the Chinese mainland market. It is expected that China's prosperity will encourage Hong Kong to develop into an international financial center and ensure its dominance among other emerging international financial centers in Asia as a result.

References

1. Abbar, N., & Sadqi, A. (2024). The impact of an attractive financial center on private equity fundraising: Evidence from Casablanca Finance City. *International Journal of Accounting, Finance, Auditing, Management and Economics*, *5*(7), 479-493.
2. Alami, I., Alves, C., Bonizzi, B., Kaltenbrunner, A., Koddenbrock, K., Kvangraven, I., & Powell, J. (2023). International financial subordination: a critical research agenda. *Review of International Political Economy*, *30*(4), 1360-1386.
3. Cerutti, E., Casanova, C., & Pradhan, S. K. (2023). Banking across borders: Are Chinese banks different?. *Journal of Banking & Finance*, *154*, 106920.

4. Census and Statistics Department. (1969). *Hong Kong Statistics 1947-1967*. Census and Statistics Department Hong Kong Special Administrative Region. https://www.censtatd.gov.hk/en/data/stat_report/product/B1010003/att/B10100031967AN67E0100.pdf
5. Census and Statistics Department. (2000). *Gross Domestic Product 1961 to 1999*. Census and Statistics Department Hong Kong Special Administrative Region. https://www.censtatd.gov.hk/en/data/stat_report/product/B1030002/att/B10300021999AN99E0100.pdf
6. Drach, A. (2024). An early form of European champions? Banking clubs between European integration and global banking (1960s–1990s). *Business History*, *66*(1), 287-310.
7. Fu, Y., Yang, X., Wang, T., Supriyadi, A., & Cirella, G. T. (2022). Spatial pattern characteristics of the financial service industry: Evidence from Nanjing, China. *Applied Spatial Analysis and Policy*, *15*(3), 595-620.
8. Greater Bay Area Government. (2019). *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area.* Greater Bay Area Government. https://www.bayarea.gov.hk/en/outline/plan.html
9. Hong Kong Monetary Authority. (1998). *Hong Kong Monetary Authority - Hong Kong's latest foreign currency assets figures released*. Hong Kong Monetary Authority. https://www.hkma.gov.hk/eng/news-and-media/press-releases/1998/09/980901/
10. International Monetary Fund. Asia and Pacific Dept. (2023). People's Republic of China—Hong Kong Special Administrative Region: 2023 Article IV consultation discussions-press release; and staff report. *IMF Staff Country Reports*, 2023(186). https://doi.org/10.5089/9798400243905.002.A001
11. Jao, Y. C. (1997). *Hong Kong as an international financial centre: Evolution, prospects and policies*. City University of Hong Kong Press.
12. Kwan, N. (2018). *Hong Kong and the Mainland: An Evolving Interdependency*. HKTDC Research. https://research.hktdc.com/en/article/MzE5NzY4ODQw
13. Lo, E. (2023). *Financial Services Industry in Hong Kong*. HKTDC Research. https://research.hktdc.com/en/article/MzEzOTI4MDY3
14. Prashar, A. (2021). Eco-efficient production for industrial small and medium-sized enterprises through energy optimisation: framework and evaluation. *Production Planning & Control*, *32*(3), 198-212.
15. People's Bank of China. (2020). *Opinions on Financial Support for the Construction of the Guangdong-Hong Kong-Macao Greater Bay Area Yin Fa*. People's Bank of China. http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4023428/index.html
16. Yang, L., & Ni, M. (2022). Is financial development beneficial to improve the efficiency of green development? Evidence from the "Belt and Road" countries. *Energy Economics*, *105*, 105734.
17. Zhao, S. X. (2003). Spatial restructuring of financial centers in mainland China and Hong Kong: a geography of finance perspective. *Urban Affairs Review*, 38(4), 535-571.
18. Zhou, M. X. (2019). *How Hong Kong survived the 1998 financial crisis*. CGTN. https://news.cgtn.com/news/2019-08-14/How-Hong-Kong-survived-the-1998-financial-crisis-J9lwvZrsNq/index.html