



The Impact of Globalization on Hong Kong's Economic Development: Challenges and Opportunities

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Abstract. This paper examines the impact of globalization on the economic development of Hong Kong, focusing on the dual aspects of opportunities and challenges it presents. The research is set against the backdrop of Hong Kong's transformation into a global financial hub, heavily influenced by its integration into the global economy. The study employs a case study approach to analyze how globalization has shaped Hong Kong's economy, emphasizing its reliance on the service sector while neglecting other industries like manufacturing and agriculture. The findings reveal that while globalization has accelerated Hong Kong's growth and established it as a financial center, it has also exacerbated issues such as income inequality, housing affordability, and economic instability due to overdependence on external factors. The paper concludes that for Hong Kong to maintain its economic development and remain competitive globally, it must diversify its economy, enhance government intervention in market regulation, and strengthen cooperation with mainland Chinese cities. These measures are essential to mitigate the adverse effects of globalization and ensure long-term economic stability.

Keywords: City economy, Economic development, City development, Globalization

1 Introduction

By the 21st century, globalization is the overall trend for numerous urban areas in the world. Many cities nowadays are changing significantly because of globalization [1]. At the same time, more and more contemporary cities are on the way to the process of globalization. Globalization has been caused by technological and media developments around the world [1] and it can be briefly defined as the prolonged increase in the movement of funds, assets, technologies, labor, goods and services through a global region [2].

There is a close relationship between globalization and cities' economies. Urban globalization enables cities to gear towards the world and develop at a faster rate. Globalization influences cities through global and local dynamics which in turn leads to macro and micro urban changes, especially in economic aspects [1]. The most important benefits of globalization are facilitating the flow of funds, allowing resources

sharing, enabling free circulation of information and boosting international trading. Under globalization, cities gradually get in touch with different firms, authorities and people from various countries around the world. It is more convenient for different companies and governments to operate and collaborate between cities. Therefore, there are more economic opportunities and better productivity in urban areas. Thus, cities' short- and long-term economic development efficiency can be effectively enhanced. Most cities facing globalization have been developing rapidly in recent decades, therefore their economies have become increasingly prosperous. The emergence of the wealthy global cities is the successful output of globalization. However, behind the powerful appearances of the global cities, different kinds of economic issues caused by the unpredictable factors of globalization are occurring in the cities and they generally have high potential risks. If the problems are not being handled properly, they can have significant negative impacts on society and urban economic development, one famous example is the decline of Detroit. In the early to middle 20th century, Detroit was originally a rich city, and it was well-known for its developed automotive industry. However, since the 1960s, Detroit's car manufacturing industry started to become not competitive enough against other countries such as Japan and Germany under the initial globalization. Facing the circumstances in which it was unable to compete with them, economic recessions occurred in Detroit and its car industry stopped growing and improving. It then experienced automotive decentralization and further led to the rapid decrease in population and the decline of its economy. Detroit's decline was absolutely related to the challenges caused by globalization. It should be recognized that globalization and city economic development are inseparable nowadays.

To figure out the impact of globalization on urban economic development thoroughly, the method of case study analyzing is implied to help understanding the impacts of globalization on city economic development. Hong Kong, a world class city, has been chosen as my case study to investigate how globalization has influenced Hong Kong's economic development and help explain the effects brought by globalization on urban areas.

Hong Kong SAR, China is an international metropolis located in the south-eastern part of Asia, it is a critical member city of Greater Bay Area and a special administration region of China. It is a capitalism city and one of the world's financial centers and an important port of transshipment for China. The economic development history of Hong Kong is intimately related to globalization. In the past, UK colonized Hong Kong so Hong Kong acted as an important agency to help the UK trade with several Asian countries. The sustained rapid economic growth of Hong Kong enabled it to quickly respond with the world's developing trend and accomplished economic transformation. Being a trading and transport center, it took the opportunity to develop the financial industry vigorously to become the most open financial and information center in Asia. As a global financial center, Hong Kong is an alpha city which is highly developed and highly globalized. It is one of the cities which is being affected by globalization the most. The situations in Hong Kong can directly reflect the influences of globalization on its economy and help formulate a clear urban condition image under globalization.

2 Case Description

The development of Hong Kong from past to present is totally based on the idea of globalization. From the middle 19th century to the late 20th century, Hong Kong was ruled by the UK and acted as a colony of the UK. During this period, Hong Kong played the role as a free port for running and handling many trading affairs and commercial transactions from all over the world, especially with Asian countries, mainly China. The role of Hong Kong is significant, so it attracted much foreign investment. This encouraged Hong Kong to keep developing, soon it became an important free port and in Aisa, also a globalized area that had connection with various places around the world. Since 1950, Hong Kong had finished industrializing and experienced rapid population growth. Its economy boosted in the following period, and it became one of the most well-developed cities in the world, also the trading center and the important shipping hub in Asia at that time. Hong Kong's competitiveness in the manufacturing industry gradually declined in the late 1980s. As China's Open Door Policy started from 1978, Hong Kong takes the advantage of its highly developed economy and favorable geographical location, it then transformed into a service-based economy and established itself as a global financial center and world transport hub.

Hong Kong is externally oriented and its openness to trade and financial flows is the highest in the world [3]. Hong Kong's unique characteristics and strengths soon made it became one of the world's top 3 financial centers, along with London and New York, the three cities were named as 'Nylonkong' in the 2000s, representing their advanced status in the financial industry. In recent decades, Hong Kong's gross domestic product ranking has always been among the highest, until now, Hong Kong's economy is still growing continuously. According to www.statista.com, Hong Kong's gross domestic product in 2023 was around 376.97 billion US dollars, it increased by 3.2 percent compared with last year. The unemployment rate in Hong Kong was also considerable, the percentage is 2.9%, decreased by approximately 32.9% compared with last year.

Apart from being a famous international financial and trading center, Hong Kong also plays a very significant role in supporting China's economic development. In the late 20th century, Hong Kong was China's major investor, but Hong Kong's roles in helping the economic development of mainland China went far beyond investment. Hong Kong promoted the controlled liberalization of the capital market and Chinese currency, worked as the international funding portal for Chinese enterprises, also offered legal and commercial expertise for mainland China [4]. Hong Kong has made a big contribution on the economic development of mainland China, until now, Hong Kong is still cooperating with cities in mainland China such as Shenzhen to jointly enhance economic growth, it can be noticed that Hong Kong is an important and indispensable city in China.

According to the Hong Kong Government, Hong Kong's four pillar industries are financial services, tourism, trade and logistics, and professional and business support services, showing Hong Kong is a typical tertiary sector-based economy. With the help of globalization, Hong Kong can use its geographical advantage to collaborate with London and New York to form a sustained global stock market and fully develop its service industries to operate internationally. Although globalization makes Hong Kong

a well-developed economy, it indirectly causes socio-economic problems such as inequality, housing crises and uncompetitive. If these issues are not treated properly, they can seriously damage Hong Kong's present economic development.

3 Analyses on the Problems

3.1 Industry Structure

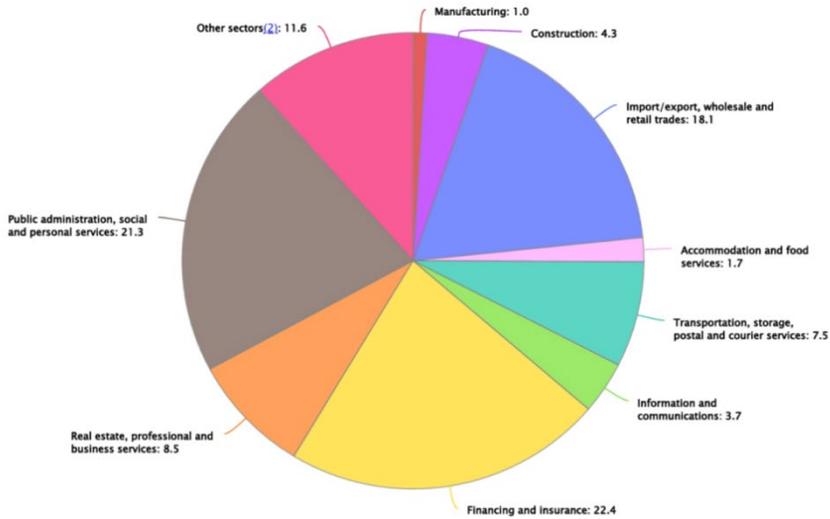


Figure 1. Percentage contribution of major economic activities to Gross Domestic Product, 2022 [4].

Hong Kong gets benefits from globalization to become the financial center, most major industries in Hong Kong, such as financial services, tourism and trade, are service industries and belong to the tertiary sector of the economy. After Hong Kong became the global financial center, it focused too much on service sectors and ignored the development of agriculture and manufacturing industries, resulting in the vibrant service industries and a lack of development in other industries. As we can see from figure 1, tertiary industry's activities and service events such as financing and insurance, personal and social services, export/import, wholesale and retail trade took most of the proportion in the contribution to Hong Kong's gross domestic product in 2022, while manufacturing activities only contributed about 1% of Hong Kong's gross domestic product in that year. Financial, real estate and commercial interests are greatly interweaved and are hard to be distinguished in the Hong Kong context [5]. We can recognize that Hong Kong is overdependence on the service industries, especially the financial sector, while other industries are generally being poorly developed, its manufacturing industries are shrinking, the future development path for Hong Kong is quite narrow. Financial industry's nature of instability will extend to other economic sectors when it becomes the dominant sector in the economy [5]. This means Hong Kong's

future development is going to be relatively unpredictable and unstable and maybe cannot duly cope with the world movements and contingencies happening all around the world, which causes different Socie-economic troubles and makes Hong Kong easily affected by the external environment, resulting in various problems in different categories in the economy.

3.2 Socie-economic Issues

As mentioned in the last paragraph, globalization can indirectly lead to different problems in economic and social aspects. Financialization can deteriorate income inequality and result in wage stagnation [6]. Hong Kong is a highly financialized city, and it has one of the most serious income inequality problems in the world. From figure 2, the Gini Index of Hong Kong has been rising steadily in the past few decades, representing the worsening situation of income inequality. The index increased from 0.451 in 1981, exceeded the 0.5 mark in 1996 and rose to 0.539 in 2016, it's the largest inequality among all developed economies [7]. The gap between the rich and the poor is widening. Hong Kong is not a welfare city, and its society is largely market-driven [8]. Because Hong Kong put much attention on the service sector, people working in the service industries are paid more and better off than people participating in other sectors. Many people in Hong Kong cannot meet the requirements for working in the service industries, so many of them usually are facing the situation of poverty and obviously, it is difficult for them to improve their own situation. The upward trend of Hong Kong's Gini Index shows that the occupational polarization due to economic restructuring causes the income polarization in Hong Kong [7]. Hong Kong's Income inequality problem sometimes leads to social disputes and can badly interrupt the economic activities, further affecting the overall economy.

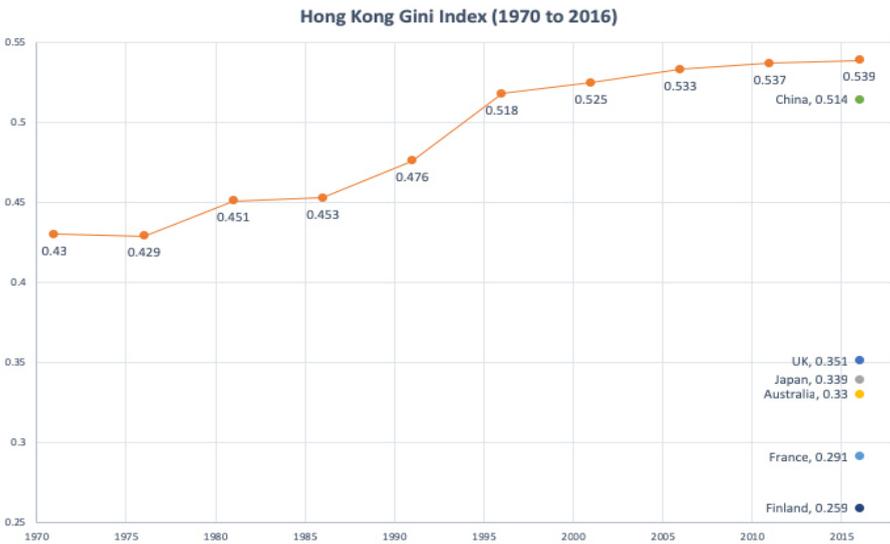


Figure 2, Hong Kong Gini Coefficient (1970-2016). Source: HKFoodWorks [9]

Apart from income inequality, globalization is also one of the main causes of the high prices of goods and property in Hong Kong. The property prices and rents are pushed up by financial market fluctuations and capital inflows, the housing market in Hong Kong has been ranked as the least affordable one in the world for over a decade [9]. On the other hand, the agriculture and manufacturing in Hong Kong are weak due to the government's insufficient support. This makes Hong Kong to rely heavily on the imported goods as it only has little amount of domestically produced goods. Under this situation, there is great demand for imported goods, so their prices become relatively expensive. The exorbitant housing and goods prices largely increase the living costs for Hong Kong's residents, the poor suffered the most. If not take actions and improve in time, the Socio-economic issues will get worse. Some conflicts may occur and further negatively affect Hong Kong's economic conditions.

3.3 Policies and Governance

Although the Hong Kong Government has already launched several regulations and policies to cope with the existing economic problems, there are still deficiencies. The Hong Kong Government established free economy, it is market-led, the government only needs to regulate and promote the market and try to not impact the development of the free market or replace the private sector [8]. In Hong Kong, most financial policies are related to stock market and the property market, they are the major markets where lots of important economic activities take place, and they occupy a large proportion of Hong Kong's GDP. Government's low intervention on the economic activities and the lack of real economy support in Hong Kong can cause uncertain economic fluctuations and market failures such as bubble economy. It is very easy for market bubbles to burst when the size of economy is small and there are too many investments and too little restrictions. More important, the significant social problems in Hong Kong such as income inequality, ageing population and low fertility rate are getting worse year by year and they must need to be settled properly with targeted policies and regulations to prevent them from worsening Hong Kong's economic situation.

3.4 Impacts of the External Environment

As mentioned above, Hong Kong believes in free economy and the government is not directly involved into its free market. Hong Kong's status as an international financial center and its small scale of economy makes it highly susceptible to the external environment. To attract more investments and trade and make it easier for Hong Kong to be a global financial center, the government introduces no tariffs, allow free flow of information and funds, but these actions also magnify its vulnerability to the external environment. For example, Hong Kong's stock market is influenced by huge amounts of fund flows and many firms' decisions from all over the world, there may be unpredictable rises and falls in the stock market if the external condition changes frequently. Hong Kong's unstable economic circumstances are undesirable because it makes the unemployment rate remains relatively high and increases social pressure. Also because of the non-direct involvement of the government in the free market, market bubbles can

be easily formed when facing speculation in the free market without enough limitations. Nasty market bubble bursts can damage the economy seriously and significantly affect other regions and economies; the 1997 Asian Financial Crisis is a typical example. On the other hand, there are many emerging cities that are developing at a very fast speed nowadays, especially in China, and they become more and more competitive in various categories. Hong Kong's competitiveness may be conspicuously impacted, affecting its overall economy.

4 Suggestions

The different problems faced by Hong Kong are thorny. Below are several practicable advice offered to help handling the existing issues in Hong Kong:

The Hong Kong Government should take the lead in supporting the development of other industries, mainly the high-tech industry and increase investment in research. Hong Kong's pillar industries are all belonged to the tertiary sector, and they are unstable and prone to being affected by external situations, this is not its conducive for economic development. Hong Kong's poor development in high-tech industry is partly attributable to the lack of transformational business and political leaderships, and the political leaders' ineffectiveness [10]. The Hong Kong Science Park and the Hong Kong Cyberport are the existing high-tech industrial area. However, the government's financial input is not enough to invigorate the industry. If Hong Kong can take the advantage of its position as a global information center and international metropolis to pool technologies and talents to focus on developing other industries such as high-tech, the industries will boom and become Hong Kong's important pillars of the real economy. Under this situation, Hong Kong's economic development can become more stable, and it will promote sustainable city development, which can improve the economy and ensure Hong Kong's good future economic development.

The Hong Kong Government should appropriately intervene in the free market. The government needs to strengthen the management on preventing speculation in stock market and real estate market to avoid forming market bubbles. It also needs to minimize monopolizes and adequately regulate the extremely high property prices to diminish the costs of living for the residents. Without significantly intervening in the market, the government should eliminate the disadvantages and risks in the market as much as possible.

The Hong Kong Government should provide more social welfare, increase the number of public housings supplied and improve the accessibility of education, medical services to decrease the living costs for people and help the poor to live a better life. This can indirectly solve the social problems caused by globalization such as inequality and housing affordability crisis, thus posing positive impacts on Hong Kong's economy.

The Hong Kong Government should strengthen the co-operations with other cities in the Greater Bay area under globalization and the 'one country, two systems' policy. The mainland China follows the idea of communism, but Hong Kong is running on the

capitalism system. Hong Kong can take this advantage and work together with mainland cities to complement one another. Hong Kong has already been working with mainland cities such as Shenzhen since the late 20th century, they are the major cities in the Greater Bay Area. Hong Kong and the other cities have been collaborating on different affairs continuously until now and they thrive on working with one another. Hong Kong ought to utilize the benefits brought by the 'one country, two systems' policy and actively promote cooperation with more mainland cities around the area. Therefore, Hong Kong can have a stronger economic base and receive more information and attract more talented people from different places to support different industries' development and enhance economic growth. Most importantly, Hong Kong's collaboration with mainland cities can increase both the economic development speed for both Hong Kong and mainland China regions, achieving a win-win situation. This is the ideal scenario for both Central Government and Hong Kong Government.

5 Conclusion

This paper describes Hong Kong's situation under globalization, points out the challenges caused by globalization and their impacts on Hong Kong's economy, and raises suggestions about how to deal with the issues. Hong Kong over-relies on the tertiary industries, leading to poor development of other industries. On the other hand, the inequality issue and housing problem are negatively influencing society and indirectly result in adverse effects on the economy. Moreover, owing to the free-market policy and government's non-participation, there are potential risks in the free market, mainly the stock and property markets. Meanwhile, Hong Kong itself can be easily impacted by the changes in the external environment, showing its economy is developing unstably and may not maintain sustainable city economic development. To solve these problems, I suggest the Hong Kong Government to increase social welfare, strengthen co-operations with mainland China cities, take the lead on developing other industries domestically to create real economy industries, and if necessary, properly regulate the free market to prevent market failure. In this time and age, Hong Kong's competitiveness is being challenged continually by the emerging cities. If Hong Kong's economic development still relies heavily on few simple industries, it will soon be surpassed by more and more new global cities and become uncompetitive. The purpose to write this paper is to discuss how globalization has made Hong Kong successful but also brought different challenges for Hong Kong, propose solutions about coping with the existing problems in Hong Kong, and points out the way forward for Hong Kong.

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