

On the “Past and Present” of Hong Kong’s Finance

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ABSTRACT

Finance is vital to a country, and Hong Kong, as a special part of the large economy of China, has unique advantages and development history. And Hong Kong’s growth from a small fishing village to a financial centre has its inevitable factors: historical, geographical and policy advantages. After nearly a century of rapid development, Hong Kong has achieved many proud accomplishments in the following fields: economy, medicine, education, etc. In the process, the cooperation between Hong Kong and the mainland has become increasingly close, and the two sides of the Strait have become excellent “partners”. In recent years, due to the COVID-19 epidemic and the rise of China as a big economy, Hong Kong is facing an unavoidable dilemma. In view of this, the authors suggest that Hong Kong can develop financial technology, enhance financial security, implement green finance, and promote corporate innovation. At the same time, Hong Kong should also strengthen the relationship with the mainland. Generally speaking, under the current circumstances, Hong Kong will continue to exist as an important financial center of China, but Hong Kong should also actively face the challenges of the times and explore new developments directions in the future.

1. Introduction

Finance is the lifeblood of a nation’s economy, and Hong Kong, as the financial and trading centre of China and the world, has always played a unique role in China’s economic development. Its changes and future development are of vital importance to the country. In recent years, along with the rapid development of first-tier and super first-tier cities such as Shanghai and Guangdong, Hong Kong seems to be in a development dilemma, but there is no doubt that its position as a financial center is unshakable. The purpose of this paper is to explore the history of Hong Kong’s financial economy and to offer the authors’ opinions on its future development.

2. From a “Small Fishing Village” to a World Financial Centre

The development of Hong Kong, which began as a

small fishing village in the borderlands of southern China, to its current status as a world financial center, is not only a finished product brought about by time, but also has its inevitable factors of development. This chapter will elaborate the reasons for its development from three aspects: history, geography and politics, and sketch the achievements of Hong Kong since its development at the end of this chapter.

2.1 Corollaries to Development

2.1.1 Historical factors

(1) A brief history of Hong Kong after its opening

In 1840, the Opium War broke out, and from then until 1898, the Qing government ceded Hong Kong Island, the Kowloon Peninsula and the New Territories to Britain on three separate occasions. At the beginning of the cession,

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Hong Kong was generally regarded as a frontier area by the British military and political circles, and was described as “small, barren, unhealthy and valueless”. From then on, Hong Kong was “forced” to become an open port. In 1941, the Governor of Hong Kong surrendered to Japan, and Hong Kong entered a period of “three years and eight months” of Japanese occupation until 1945, when Japan declared its surrender. In the 1950s, due to the previous civil war between the Kuomintang and the Communist Party, a large number of people poured into Hong Kong. At this time, Hong Kong was gradually developing from a port into an industrial city. In 1978, China implemented the policy of reform and opening-up. Hong Kong, as the “window of exchange” between China and the world, brought capital, talents, advanced business ideas and other resources to the development of the mainland. Meanwhile, the investment and construction of factories in the mainland by Hong Kong businessmen has brought benefits to both sides. In 1997, Britain handed over sovereignty over Hong Kong to China, ending 156 years of rule in Hong Kong, and at the same time, the Hong Kong Special Administrative Region was established. In February 2019, the Central Committee of the Communist Party of China and the State Council of the People’s Republic of China issued the <Outline of the Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area>, stating “Strongly support Hong Kong in consolidating and enhancing its status as an international financial, shipping and trade centre and an international aviation

hub, promoting the development of finance, commerce, logistics and professional services in the direction of high-end and high value-added development, and building a more competitive international metropolis.”^[1]

(2) A critical juncture for Hong Kong’s take-off

From the above historical process after the opening of Hong Kong, it is easy to see that Hong Kong’s take-off relied not on its own natural resources, industrial structure and other conditions, but on the globalization of the economy, China’s trade with overseas countries, and China’s support and provision of convenient conditions for Hong Kong’s trade development after the reunification.

Historically, the 156 years of British colonial life were an opportunity for Hong Kong to become a “free port” for China. At the beginning, the British made Hong Kong a free port with zero tariff to seek more benefits from the Qing government, which laid the foundation for the development of Hong Kong’s finance in the later years; in the early years of the founding of the country, China was in urgent need of all kinds of capital, talents and technology during the economic blockade of China by foreign countries. At the time, Hong Kong served as the “Strait of malacca” between China and the West; after the reform and opening up, China opened up its economy, but not its finance, most notably in terms of currency, China imposed foreign exchange controls to protect financial security. However, for foreign investors who want to enter the Chinese market, it undoubtedly increases the risk of investment and reduces efficiency. At this time, Hong



Figure 1. Statistics of Hong Kong’s GDP situation (to 2020) ^[2]

Kong, as the place where “one country, two systems” was implemented, adopted a free monetary policy. Thus, the existence of Hong Kong became a balance between the mainland and foreign investors, i.e. to ensure a good entry of foreign capital, but also to ensure the financial security of China. From this point onwards, Hong Kong’s financial sector took off rapidly and gradually became one of the “Four Little Dragons of Asia”, showing the world its strength.

2.1.2 Geographical advantages

Hong Kong is located on the coast of southern China, across the river from Shenzhen in the north, and is roughly divided into Hong Kong Island, the Kowloon Peninsula, the New Territories and other islands. Between the Kowloon Peninsula and Hong Kong Island, there is a natural deep-water harbor, Victoria Harbour, which can accommodate many large ocean-going vessels at the same time. In addition, the climate there is warm and the harbour remains unfrozen all year round, allowing ships to enter and leave freely in winter. This makes Hong Kong an excellent port for all kinds of goods and trade.

Apart from its advantages in maritime transport, Hong Kong is also an international aviation hub, connecting more than 220 countries and regions worldwide, with over 1,100 daily flights between Hong Kong and the rest of the world. It is possible to travel from Hong Kong to major Asian cities in a relatively short time, with a flight coverage of 50%. Under the authority of the State, Hong Kong has signed civil aviation agreements with 67 civil aviation partners, including more than 50 countries along the “Belt and Road”, and Hong Kong’s aviation network

covers the whole world [3]. Dong Yu, Executive Vice President of the China Development Planning Institute of Tsinghua University, said, “Enhancing Hong Kong’s status as a national aviation hub actually enhances Hong Kong’s position in the overall national transport infrastructure layout, and it will enable Hong Kong to better integrate with the surrounding aviation layout”.

2.1.3 Superior policy regime

Judging from the history of Hong Kong’s financial take-off, the policies given by the Government and its system have played a great role. When it comes to the “freedom” policy, we have to mention the “one country, two systems” policy implemented by the Chinese Government for Hong Kong, that is, under the premise of one China, the main body of the country adheres to the socialist system, while Hong Kong, Macau and Taiwan maintain their original capitalist systems [5].

This has allowed Hong Kong to have a more liberal monetary policy and a Hong Kong law system informed by common law, creating excellent conditions for financial development in Hong Kong. A liberal monetary policy allows for a greater range of legal capital transactions and a faster and freer exchange of information. The Hong Kong legal system belongs to the common law system, which has relative advantages over the civil law system in financial litigation, arbitration, mediation and dispute resolution. There is a more direct correlation with the international financial system dominated by the United Kingdom and the United States, and it has more international credibility in terms of justice, arbitration and mediation [6].

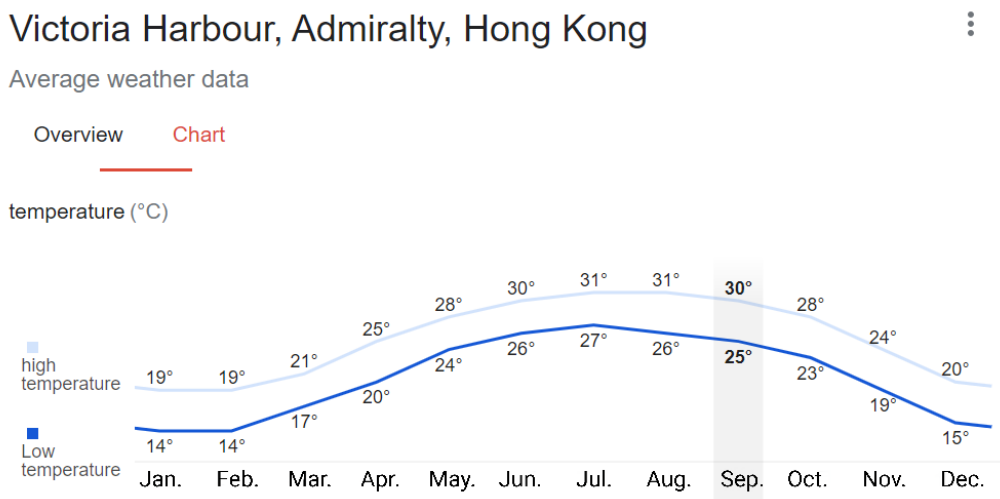
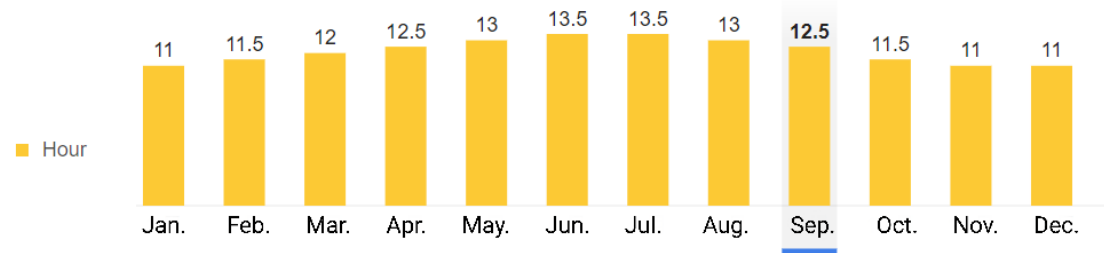


Figure 2. Average of weather data for Victoria Harbour, Hong Kong [4]

Sunshine hours



source: NOAA

Figure 3. Sunshine duration data for Victoria Harbour, Hong Kong^[4]

2.2 Hong Kong's Post-development Achievements

Since Hong Kong's financial take-off, it has made great achievements not only in the financial sector, but also in the medical and education sectors.

Finance: known as the "NY·Lon·Kong" alongside New York and London, it is the world's third largest financial centre and is also known as one of the world's freest economies and most competitive cities. From the late 1960s to the 1990s, Hong Kong, along with South Korea, Taiwan China and Singapore, was named "Four Asian Tigers" during its rapid development; and was ranked 7th in the <2018 Global Competitiveness Report> published by the World Economic Forum; in 2019 Hong Kong was ranked 4th in the world in the Human Development Index. As of 2019, Hong Kong has topped the Economic Freedom Index rankings published by the Heritage Foundation for 24 consecutive years.

Medical care: Thanks to the world's leading medical standard and related supporting facilities, Hong Kong has the world's highest life expectancy; the world's highest cure rate for stomach cancer; the world's highest cure rate for lung cancer; the world's highest cure rate for liver cancer, tied with the United States; and the world's highest survival rate for breast cancer patients and heart transplantation.

Education: Hong Kong universities have long been performing brightly in the more authoritative world university rankings such as QS World University Rankings and Times Higher Education Rankings. For example, in 2020, the QS World University Rankings ranked the University of Hong Kong 25th, the Hong Kong University of Science and Technology 32nd and the Chinese University of Hong Kong 46th, with the rankings of each university rising rather than falling compared to the previous year.

3. The State of Finance Hong Kong

As seen in the previous section, Hong Kong has achieved a lot in many areas. In recent years, the financial state of Hong Kong has changed, while there are many crises and challenges. This chapter will address both the changes in Hong Kong's finance and the challenges that Hong Kong faces.

3.1 The Transformation of Hong Kong and the Mainland

3.1.1 Hong Kong to mainland changes

Increase in the number of Mandarin speakers: while Cantonese remains the most commonly spoken language in Hong Kong, followed by English, the number of Mandarin speakers has increased by 1.16 times over the decade, with the highest percentage of habitual Mandarin speakers in Hong Kong in Central and Western (4.2%), Wan Chai (3.8%) and Yau Tsim Mong (3.7%) respectively, according to the 2016 HKSAR Government Census. The vast majority of Hong Kong's total IPO financing come from Mainland Chinese companies, Hong Kong banks and brokerages recruit financiers from the Mainland and use their Mandarin to facilitate initial public offerings (IPOs) and other financial transactions.

(1) Employment situation: According to Hong Kong Ta Kung Pao, more and more Hong Kong university students are looking at and thinking about the opportunities of moving to the Mainland. Moreover, with the rapid economic development of China and the improvement of people's living standards, salaries in the Mainland have also increased substantially and the salary gap with Hong Kong is gradually narrowing.

(2) Awareness of the Mainland: "East View" is a daily information programme launched in Hong Kong in 2011, it will cover news about the Mainland and will

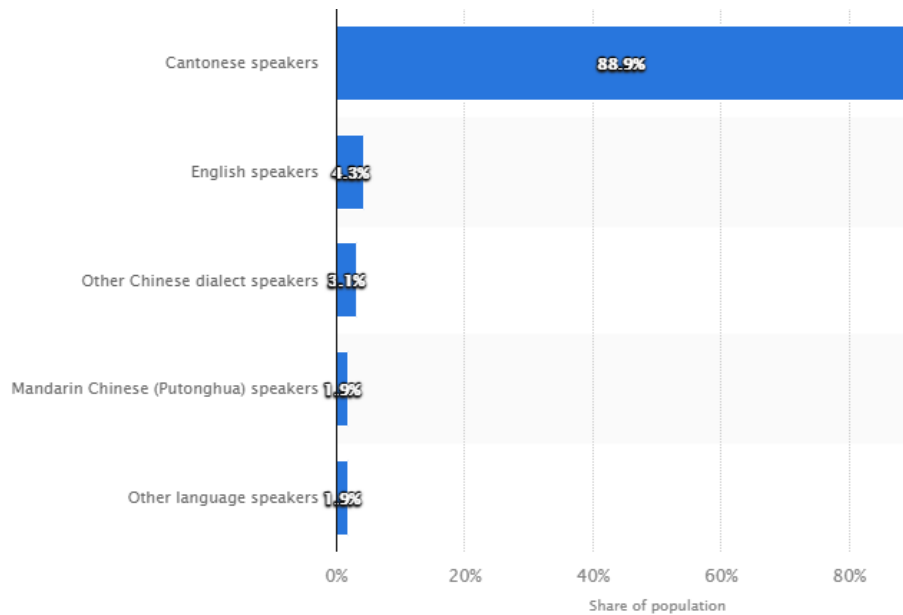


Figure 4. Breakdown of population in Hong Kong 2016, by language^[7]

give comments. More Hong Kong people can learn about important events and policies happening in the Mainland in real time through the programme.

3.1.2 Mainland to Hong Kong changes

The ripple effect of the trade war between the United States and China on the Hong Kong economy is minimal. Many companies listed in the United States withdrew and chose to list again in Hong Kong, returning to the embrace of the motherland, which, for the companies themselves, can enjoy the relevant domestic policies; for China's economic development, it has played a catalytic role, and Hong Kong has closer economic ties with the interior. In addition, mainland enterprises will list in Hong Kong first, and then in other countries, because some countries have tax exemptions for Hong Kong.

The establishment of the Hong Kong-Zhuhai-Macao Bridge has played an important role in the development of the Guangdong-Hong Kong-Macao Greater Bay Area, facilitating communication and enhancing cooperation. It is conducive to enhancing the economic status of the Pearl River Delta region and driving the development of the surrounding cities, and there are no longer geographical limitations in the movement of people and materials between Hong Kong and the Mainland. The bridge is not only a milestone in the history of Chinese architecture, but also a strong link between Hong Kong, Macao and the Mainland.

3.2 Hong Kong Finance under the Challenges

Since the beginning of the 21st century, the “dark horses” of Chinese mainland cities have emerged frequently, of which Shanghai and Guangzhou can be considered typical representatives. Shanghai has always been the financial and economic center of China, and its GDP growth rate has become faster since 2007. In the first half of 2021, Shanghai achieved a regional GDP of 20,102.53 billion yuan, an increase of 12.7% in comparable prices compared with the same period last year, with an average growth of 4.8% in two years^[8]. Meanwhile, Guangdong's GDP in the first half of 2021 was 5,722.631 billion yuan, up 13.0 percent from a year earlier, with a two-year average growth of 5.0 percent^[9]. While more and more mainland cities are appearing on the international stage and exerting more influence, Hong Kong is facing not only a small loss of focus in the public eye, but also a sluggish economy brought about by the epidemic outbreak since early 2020. In the first quarter of 2020, Hong Kong's regional GDP fell by 8.9% year-on-year, private consumption fell by 10.1% and investment dropped by 14.3%; in the second quarter GDP declined by more than 6% as well^[10]. At this point, some bad voices began to emerge in the community, saying that Hong Kong was in a “crisis on the edge” and was gradually withdrawing from the stage of the world's financial center. The followings are some of our views on where Hong Kong's financial development should go.

4. Proposals for the Future Development of Finance in Hong Kong

4.1 “Supporting Hong Kong’s Development as an International Centre for Innovation and Technology” (14th Five-Year Plan) ^[11] - Development of Financial Technology (Fintech)

Nowadays, all industries are permeated with technology, and the financial industry should also integrate technology to improve the productivity of financial products and use big data to better analyze in order to make optimal choices. Technology is particularly important during the COVID-19 epidemic, for example, Bank of China Hong Kong, Alibaba, Tencent, and Ping An of China have virtual banking licenses issued by the Hong Kong Monetary Authority ^[12], and these companies can use virtual banking to enter into financial business transactions to hedge some financial losses. Hong Kong’s financial industry itself is already very developed, and if it wants to move on and consolidate its position as an international financial center, it needs the support of technology to break the limites of time and space, to keep in touch with the inland more conveniently and effectively, and to expand the scope of financial business in the inland and even globally.

4.2 “Strengthening Hong Kong’s Risk Management Centre Function” (14th Five-Year Plan) ^[11] - Safeguarding Financial Security

With a strong foundation and technology in place, there needs to be a shield to keep the building of finance safe as it is built increasingly higher. It can be strengthened in the following two ways:

(1) The security of the circulation of money. In simple terms, finance is the circulation of money. Whether tangible or intangible (such as stocks and bonds), money is the most basic and important transaction tool of the financial industry. As Hong Kong holds two-thirds of the foreign exchange reserves of the Mainland, ensuring the security of foreign currency circulation is very important to the development of international trade. In addition, Hong Kong is a financial hub, and the provision of RMB to the outside world in a secure environment is conducive to promoting the process of RMB internationalization.

(2) The security of financial market transactions. For example, there are risks in investment and financing, there are risks in listing companies, and there may be a crisis of confidence between buyers and sellers. For important financial links like these, laws and regulations need to be upheld, illegal transactions need to be severely punished,

grey area transactions need to be combated, and relevant laws and regulations also need to be improved. Only when the safety of the financial transaction market is ensured will participants be able to engage in the financial industry with ease mind and courage, thus enabling the financial industry in Hong Kong to usher in new development opportunities.

4.3 Implementing a Green Finance Strategy

The long-term plan for enterprise development is to implement the sustainable development strategy, in which green finance is an important part. On 24 February 2021, the 2021-2022 Hong Kong Budget stated that “the [Green and Sustainable Finance Funding Scheme] will be launched to fund debt issuance and external evaluation services” ^[13] and that enterprises should follow the policy development and enjoy the policy benefits.

In addition, before implementing financial projects, the impact on the environment should be estimated, so as to minimize the damage to the environment with less impact on the revenue, and the environmental management strategy should be considered while preparing financial projects. Nowadays, most countries around the world are committed to carbon neutrality, and China is also aiming to achieve carbon peak by 2030 and carbon neutrality by 2060, so it is reasonable for companies to follow the development of the country and take carbon emissions into account in their projects.

4.4 Innovation: A Meeting of Minds between Companies

Innovation is a constant theme of development, and everything in the world is changing all the time, from the country’s economic output, GDP, and infrastructure development of cities to the happiness index of the people and the transformation of their minds. Therefore, whether it is finance or any other industry, its purpose is ultimately to serve the people, so it is also necessary to innovate according to the changing situation to meet the various and developing needs of the people.

As we all know, competitive relationship is the norm among enterprises, especially enterprises producing similar products usually compete for the market and consumers. Although benign competition can make enterprises progress to a certain extent, in my humble opinion, only cooperation can achieve a win-win situation. As Liu Yuezhong has said “We should deeply analyze the economic forms, new directions, new trends and new policies at home and abroad, and build a platform for mutual exchange and cooperation among enterprises”.

An enterprise's product and project production should have a considerable promotion scale, ranging from half a year to one year. After completion, the market should be tracked. The process should preferably last until the end of the product life cycle. If it is a high-quality product, the enterprise will operate for a long time to earn the cost consumed before. In terms of manpower, material resources and time, after polishing, the enterprise model will gradually move closer to the production of high-quality products, but in the long run, it will inevitably solidify the products. Therefore, in addition to injecting new blood, enterprises can also learn from each other with their peers, or even work together to develop cooperative projects. Similar to exchange students in universities, enterprises can often hold some exchange summits to share the production process of successful products or the experience of failed products, so that peers can be corrected without loss.

4.5 Strengthening Ties between the Mainland and Hong Kong

Since the beginning of Hong Kong's financial development, the manufacturing industry in the Mainland has provided it with a large amount of resources. Since 1978, when China implemented its reform and opening up, a large number of enterprises have raised funds in Hong Kong, providing a considerable amount of capital for the financial development of Hong Kong. At the same time, after nearly 50 years of development, Hong Kong's financial market has accumulated a lot of experience, its financial system as well as its regulatory system has been gradually improved, and its risk resilience has been enhanced^[14]. As a financial bridge between the mainland and the international arena, it is of great significance to the development of China's financial system. Ties between the mainland and Hong Kong have always been close, under the current international situation, Hong Kong should "lean on the mainland", actively establish financial exchanges with the mainland, make reasonable use of the "preferential policies" given by the mainland, and bring more benefits to China's finance. We should act as a "bridge" and a "communication portal", so as to achieve a "win-win" situation.

4.6 Enhancing the Mobility of Talents between the Mainland and Hong Kong

In the financial industry, great people are indispensable. Fresh graduates should be the preferred recruitment object, because they are easier to cultivate loyalty to the company and long-term work, and have great

development potential. Moreover, the current job market for inland university students is tight, with few employment opportunities for young people and a high employment threshold. This is an opportunity that cannot be missed for Hong Kong to strengthen its ties with the Mainland. Therefore, local universities in Hong Kong can expand the recruitment of mainland students and broaden the scope of talent selection, so that more people can have the opportunity to study in Hong Kong, experience the developed financial system in Hong Kong, provide a platform for internship, encourage young people to take up employment and start up businesses, and continuously add vitality and inject new blood into the financial industry.

5. Conclusions

Hong Kong has experienced the desolation, the darkness of colonial rule, the financial storm and SARS, but Hong Kong has not been crushed. Instead, it has continued to rise by taking advantage of its historical, geographical and policy advantages, and it has successfully transformed itself from a small fishing village into a metropolis. Today, Hong Kong is full of tall buildings, one of the three major international financial centers in the world, and has left NY·Lon·Kong in the Oxford dictionary; it has also made great achievements in health care, education and so on. More than 20 years after Hong Kong's return to the motherland, the mainland has continued to give policy support, and Hong Kong has seized the opportunity to become a financial hub, an international aviation hub, and an indispensable player in the process of opening up China's international markets and internationalizing the RMB. What is more valuable is that while developing its economy, Hong Kong has not lost its awareness of ecological protection, but has pursued sustainable development. Of course, Hong Kong will face obstacles and challenges in its development. This requires Hong Kong to be more closely connected with the mainland, follow the steps of policies, move in the general direction, and continue to contribute to China's development; In addition, while relying on the mainland, we should take great strides to go global, assess the situation, follow the trend of the times, and continue to innovate and develop; Hong Kong can make use of the existing resources of the mainland and the international market, give consideration to both inside and outside, and develop in both directions, so as to make the financial industry the icing on the icing, and other industries to scale new heights, so that Hong Kong will become a more influential international metropolis. In a word, Hong Kong will remain the backbone of China's future economic development.

Author Contributions

The two authors have the same degree of contribution and are the co-first author.

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