

An Analysis of Hong Kong's Future Role as Global Financial Hub

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Abstract

This paper looks into the role of Hong Kong as leading financial centre in the world after several significant events happened in 2020. The analysis first demonstrates Hong Kong's current financial situation by utilizing secondary data to show the complexity of international and regulatory actors. Second, it explains the reason why we think Hong Kong can continue its dominance in region and reveals some insights into the changing intercity development between certain city in Mainland China.

Keywords

Hong Kong, Finance, Covid-19, Shenzhen.

1. Introduction

The economic situation in Hong Kong became more complex than ever after the ongoing social movement, which has severely impacted its sterling reputation for business and socio-economic stability that was second to none (Nagy, 2020). And as the battle with coronavirus continues in Hong Kong, days are covered with haze, the uncertainty lies at the heart of unknown and fear. For the first quarter, Hong Kong's GDP fell by more than 8% from the previous quarter, which recorded as the worst decline since 1968. Furthermore, the implementation of the National Security Law in Hong Kong has become a cause of concern within the community as well as from the West. As a result, Some people believe that Hong Kong will begin to lose its status as a comparative "financial free port".

In addition, many cities in mainland China is developing rather fast, like Shenzhen. In this paper, we will discuss Hong Kong's future role from different perspectives in terms of its economic development. We may now enter a research ice-age when it comes to build a better understanding of the relationship between Hong Kong and Mainland China, and more effective policies should be crafted in order to foster a long-term peaceful co-existence (Nagy, 2020).

2. The National Security Law: A Sudden Change of Prospect

Over the past four decades, Hong Kong has thrived in its role as a major gateway to mainland China, which facilitates the success story of global economy. The new law seeks to bring back a stable environment to Hong Kong for business, but it has been radically doubted and questioned by the West. The US President Donald Trump has placed sanctions on certain Hong Kong officials and mainland Chinese, who also reassessed the export control and extradition treaty to Hong Kong. Commissioner of the Ministry of Foreign Affairs of China in the Hong Kong SAR condemned the US for interfering in Hong Kong affairs many times.

There is challenge that Hong Kong may face internationally. In 2020, Singapore becomes the freest place in the world to do business. But Hong Kong as a hinterland of mainland China, it

has made rapid progress in recent decades. It is hard for Singapore to replace the role that Hong Kong once played towards China.

The priority for Hong Kong now is to restore the social order and recover the economy. With the implement of the National Security Law, the ongoing violence has lessened in recent months, and eventually, people’s lives will resume as normal, a peaceful business environment will return. What is more, because of the pandemic, some mainland China students have to cancel their plans to study abroad, and now they choose Hong Kong as their destination. This also makes up for the loss of talent in Hong Kong during the time of social unrest.

Studies indicate that Hong Kong will continue to be dominant IFC in Asia and remain its role as a global leader in international banking. Hong Kong’s economy is integrated with mainland China, for financial institutions and corporations, the networks between IFCs to their business in China enables various financial opportunities in differentiated markets.

There are three IFCs that perform its essential roles within the regional banking strategies of foreign banks. With Shanghai’s distinctive development as a commercial hub, Beijing as a political centre and Hong Kong as an offshore financial hub, those three global cities reinforces the interdependent dynamic networks in the face of globalization. It is of great importance for us to think about other ways to examine the geographies of international cities in relation to Hong Kong’s dominance in Great China and to understand the ever changing intercity relationships between Hong Kong and China’s growing cities.

3. The Impact of Covid-19 on Hong Kong’s Economy

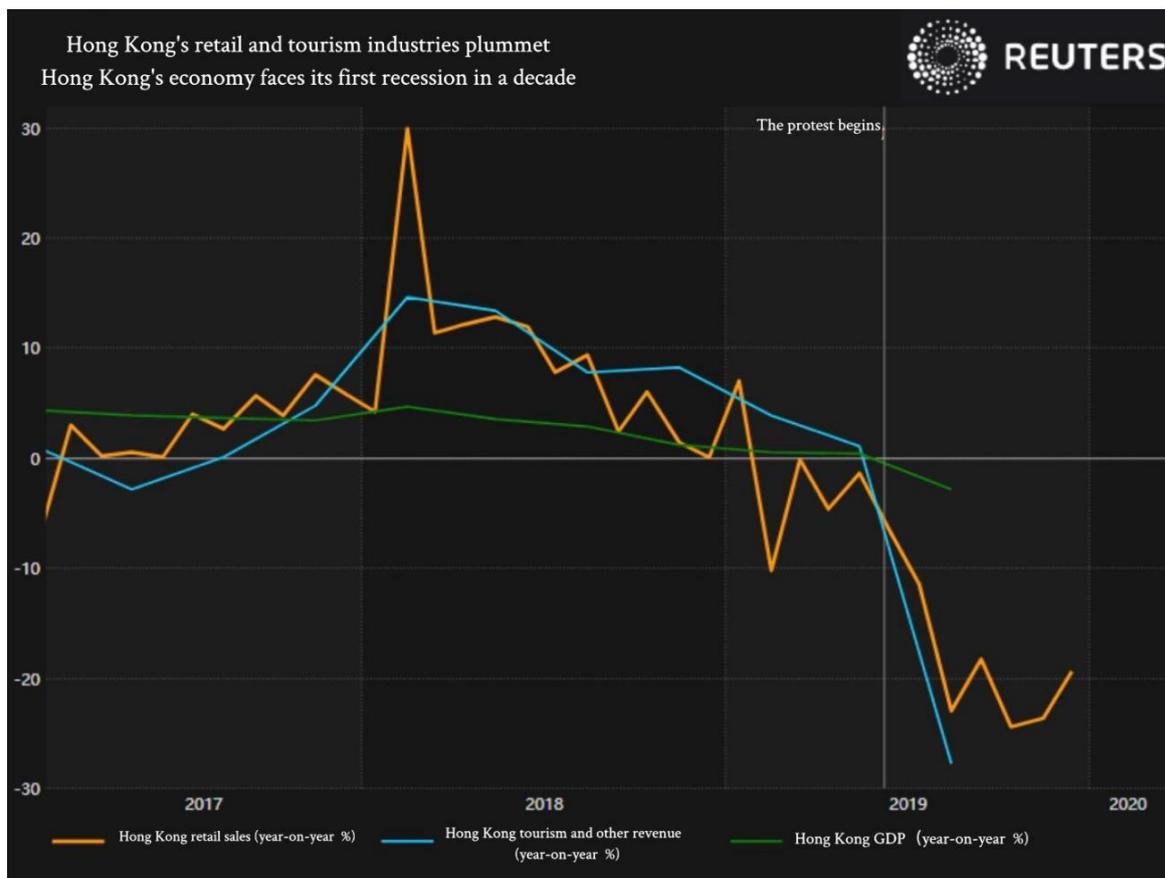


Fig 1. Refinitiv Datastream & Marius Zaharia

Since December 2019, the outbreak of the new epidemic has had a significant impact on Hong Kong's financial economy. The most prominent and most visible is its huge negative impact. For

the next part, we will analyze the impact of covid-19 on Hong Kong's economy from the perspectives of politics, economy, social culture and media.

With the outbreak of covid-19 and its impact on Hong Kong, the Hong Kong government introduced the compulsory quarantine policy, which was implemented on February 8, requiring mainland visitors to be centralized or isolated at home for 14 days after entering Hong Kong. This policy is still in effect. This policy makes it impossible for mainlanders to enter Hong Kong who only hold a seven-day visa. Only Hong Kong residents who have to return to work in Hong Kong can enter the city. As a result, the number of mainlanders coming to Hong Kong for consumption has sharply decreased, which has seriously affected the development of Hong Kong's retail industry and tourism industry.

The chart below shows that in the first quarter of 2020, Hong Kong's retail sales fell by 36.9% year-on-year, the largest quarterly decline since records began. The number of visitors coming to Hong Kong dropped to 100000 on January, more than half of that in the same period in 2019. On February, the number of tourists dropped to below 3000 per day.

Due to the downward trend of the economy during this period, many enterprises in Hong Kong had insufficient cash flow. According to the survey data, more than 40% of enterprises are facing the situation of being forced to suspend part or all of their business, and many enterprises are directly facing the threat of going bankrupt. And on account of the fracture of the capital chain, employees are faced with repeated unpaid leave, salary cuts and even layoffs. The following chart shows that the overall unemployment rate rose to a three-year high between November 2019 and January 2020.

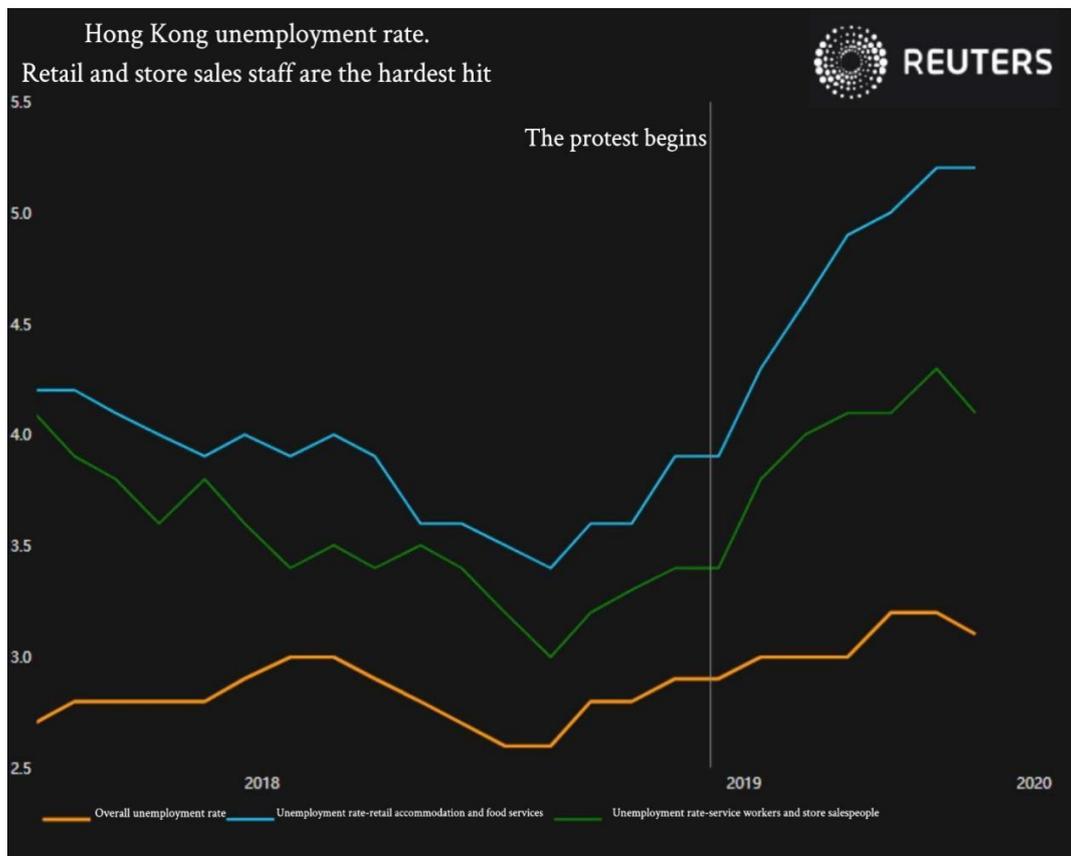


Fig 2. Refinitiv Datastream & Marius Zaharia

In addition, the data shows that the unemployment rate in the first quarter of 2020 has risen sharply to 4.2% from 3.3% in the previous quarter, exceeding the nine-year high. The year-on-year decline in total employment expanded to 3.6%, the largest decline on record.

Social culture is also one of the reasons. As most people choose to work from home because of the infection of the virus, their lifestyle changed tremendously. This is very unfavorable to the development of catering industry, tourism industry, transportation industry, film industry and many others. Take the catering industry as an example, in the hotels surveyed, less than 20% of the hotels can maintain the normal operation of restaurants, about 14% of the hotels have temporarily closed their restaurants. In addition, the Hong Kong Tourism Board announced on March 16 that the number of visitors coming to Hong Kong in early February was about a year-on-year decrease of more than 96%, and the latest data showed that the number of tourists to coming Hong Kong dropped to 99.6%.

And as the modern technology has been skillfully used in remote office and teaching. It greatly increased the convenience of our lives. However, it seems inevitable that some people may use it to create chaos and social instability. On January 24, Mr. Huang used Facebook to incite medical workers to strike, the news of numerous strike news spreads on the Internet, which created confusion within the community. This has had a very negative impact on the control the epidemic, which is not conducive to the recovery and development of Hong Kong's economy and society.

Although the epidemic has had a negative impact on many Hong Kong's financial sectors, it has also stimulated the development of many industries.

First of all, the pharmaceutical industry is the biggest contributor to this epidemic. As many patients need treatment and the need of anti influenza and pneumonia drugs is big, these pharmaceutical factories are greatly developed. In addition to therapeutic drugs, the demand for disinfectants such as disinfectant water and alcohol has also increased explosively in this epidemic, and related industries will also be developed.

Second, online education and online office industry have also made great progress in this epidemic. In order to reduce the risk of infection, many schools have adopted their new way of teaching and learning at home, many government officials also takes the measures of working from home. This has promoted the development of online industry and online conference software companies, such as Tencent conference and Zoom.

Furthermore, the e-commerce industry has played an important role in this epidemic and has been greatly developed. During the outbreak of epidemic, most people choose to shop online, therefore, many brands increase online sales while maintaining offline sales. For example, Watsons brand has carried out online publicity many times during this period, attracting more than 10,0000 people and setting a record high sales volume.

After the Hong Kong government issued the compulsory quarantine policy for visitors coming to Hong Kong, the medical technology industry in Hong Kong has actively developed electronic bracelets to monitor the location of quarantined person in real time and strengthen supervision. With the cooperation of the government and seven local institutions, the local government has completed the construction of the production line, and its production capacity has reached more than 3000. As of June 1, more than 130000 people have worn the electronic bracelet. It has greatly promoted the development of these industries.

Although Covid-19 has had a big impact on Hong Kong's economy to some extent, it has also promoted Hong Kong's economic development differently in other aspects. The pandemic is global, many countries are suffering, not just in the city of Hong Kong. Hong Kong has been through a lot, it is very one-sided and irrational to infer that the status of Hong Kong as a financial free port will no longer exists just based on its economic performance during the special period of Covid-19.

4. Hong Kong's Neighboring City: Shenzhen

Shenzhen is now 15 minutes away from the mainland by high-speed train. Compared with 40 years ago, Shenzhen was still a farmland. Through rapid development in recent decades, Shenzhen has now become the home of high-end technology companies such as Huawei and Tencent. In August 2019, Beijing announced reforms to promote the promotion of Shenzhen's economic status and plans to build a pilot demonstration zone of socialism with Chinese characteristics in Shenzhen. As for these reasons, people argue that Shenzhen will replace Hong Kong.

"This policy was announced to intimidate Hong Kong. This is a kind of propaganda designed to scare Hong Kong people," said Willy Lam, a professor at the Chinese University of Hong Kong. Carrie Lam, Hong Kong's chief executive, said: "Hong Kong and Shenzhen have the closest relationship. Since Hong Kong's return, we have established a mechanism for high-level business cooperation between Shenzhen and Hong Kong. We are also very good partners. If Shenzhen has some good policies, I believe it will have a positive effect on Hong Kong, especially in terms of technological innovation, which will greatly help the future economic complementarity. Of course, we must continue to improve our competitiveness."

Hong Kong's status is unique and cannot be replaced. It is true that Shenzhen's GDP did surpass that of Hong Kong for the first time in 2018, due to its fast-growing high-tech industry.

However, Shenzhen is close to Hong Kong, so it has a convenient way to get foreign capital, technology, and talents, which also stimulates the rapid development of Shenzhen's economy. Therefore, the development of Shenzhen cannot be separated from that of Hong Kong. Hong Kong and Shenzhen are intertwined.

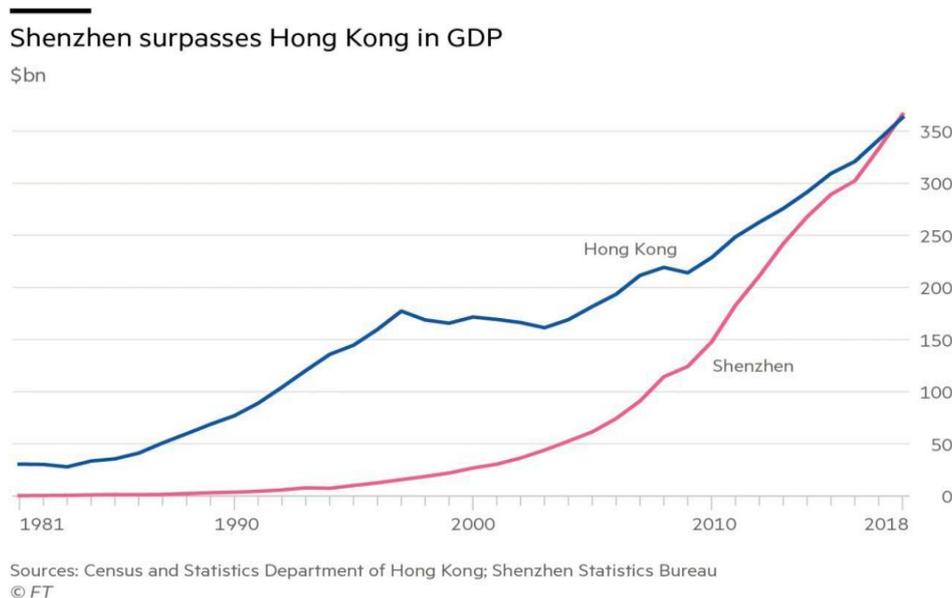


Fig 3. Census and Statistics Department of Hong Kong; Shenzhen Statistics Bureau

Hong Kong is a major financial center in the world, with 200 authorized institutions, including 70 of the world's top 500 Banks. Hong Kong is the largest centre in Asia in terms of funds managed.

According to the index of consulting company Z/Yen, Shenzhen won the highest ranking ever in 2019 but still lags behind Hong Kong. As the link between Mainland China and the world, Hong Kong's status is much higher than that of Shenzhen. Hong Kong's financial positioning is particularly geared towards China. The stock market is the main international listing venue for

Chinese companies, a "gateway" for them to reach international investors. There are more than 1,200 Chinese companies listed in Hong Kong, accounting for 69% of total market capitalization and 76% of turnover.

The Hong Kong Stock Exchange is also home to the main derivatives market for Chinese equities. Hong Kong has the world's largest offshore RMB pool, which settles 70% of international RMB payments.

Hong Kong is the main intermediary between China and the world. Hong Kong attracted 66 percent of China's foreign direct investment in 2017. Hong Kong is a natural entry point for China to seek global expansion. Hong Kong has about 1,500 regional headquarters, 20 of which are attracted by Hong Kong's strategic position, sound legal framework, and outstanding professional and business services.

According to Forbes, 31 of the world's 500 richest people hail from Hong Kong or Shenzhen, with only two coming from Shenzhen.

Compare the real estate prices in the two cities. We know that the land prices in these two cities are the highest in the world. According to CBRE data, land prices in Hong Kong are the most expensive in the world, with an average house price of US\$1,235,220, while Shenzhen ranks fifth with a price of US\$680,283.

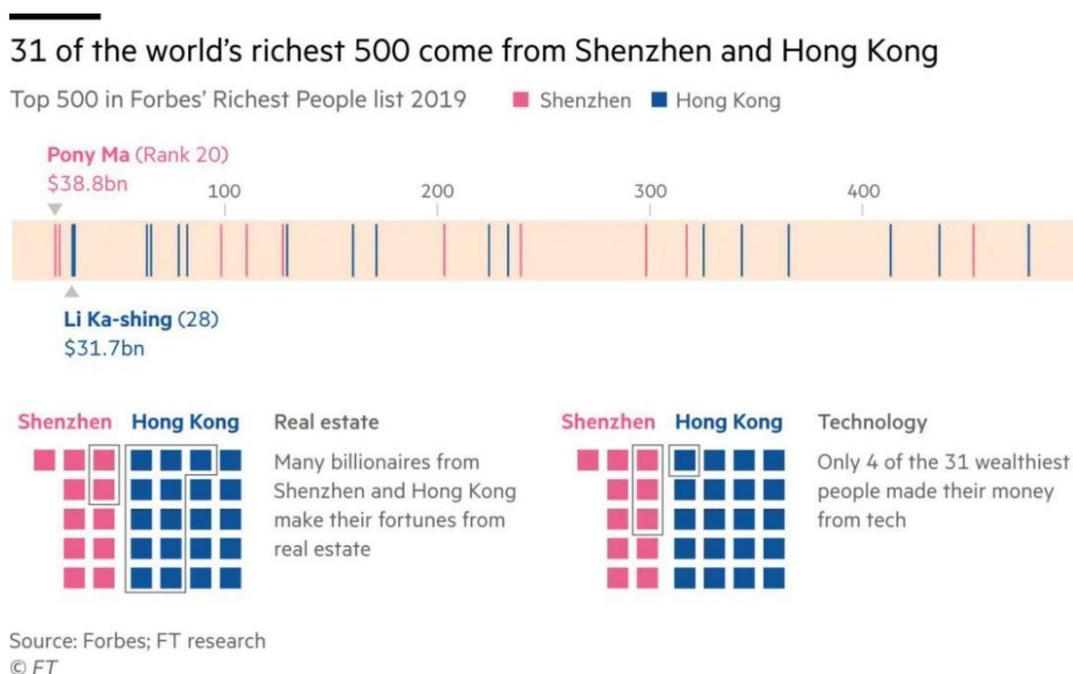


Fig 4. Forbes; FT research

The quality of higher education in Hong Kong is better than in Shenzhen. In The Times Higher Education World University Rankings 2020, Hong Kong has six universities in the top 500, while Shenzhen has only one.

According to data from Shenzhen Airport Group, airlines fly from Shenzhen to 173 destinations, mainly in China. The airport handled more than 49 million passengers in 2018. In the same year, nearly 75 million passengers passed through Hong Kong International Airport and flew to more than 220 destinations around the world.

5. Conclusion

In general, Hong Kong has played and will continue to play an important role for China and the world. In the 1980s and 1990s, Hong Kong's investment in manufacturing, trade, professional

services, and technical guidance helped and maintained China's high growth trajectory. Similarly, Hong Kong allows the world to benefit from China's low-cost manufacturing capabilities and vast new markets. In today's world, Hong Kong provides important high-value-added services that China itself cannot provide, which promotes the relationship between China and the world and is the continuous benefit of both parties. Not only is Hong Kong today not belittled, but it is also more valuable than ever.

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