

Navigating the Financial Tides: Hong Kong's Evolution as an International Hub in Comparison with Global Counterparts

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Abstract

This paper examines Hong Kong's evolution as an international financial center (IFC) in the face of emerging Asian financial hubs, outlining strategic responses to maintain its status amidst challenges such as the US-China trade war and the COVID-19 pandemic. Through comparative analysis, the study highlights Hong Kong's unique advantages under the "one country, two systems" policy and identifies key areas for future development, including enhancing its offshore RMB market, fostering regional cooperation, and integrating financial technology. The findings suggest a multi-faceted approach to reinforcing Hong Kong's position as a leading financial hub, emphasizing adaptation and innovation in response to global financial dynamics.

Keywords: International financial centre, Hong Kong, Offshore RMB market, financial technology

1. Introduction

The emergence of international financial centers (IFCs) is the result of a complex interplay of historical, economic, and policy factors that collectively enhance a city's attractiveness to financial services firms. This section examines the common determinants that have historically turned cities into powerhouses of global finance.

1.1 Research Background

As a special administrative region of China, Hong Kong plays an important role in the domestic financial market, occupying a dominant position in the domestic financial market, with its large and flexible labor market, sound legal system and the presence of an important international non-financial sector, which together constitute its unique financial ecology. As an international financial center, its dominance is reflected in the fact that Hong Kong not only attracts a large number of talents, but also attracts a large number of financial activities due to the presence of major financial institutions and stock exchange institutions, which in turn attracts other complementary services such as legal, accounting and consulting firms and thus has a huge impact on the country's economy. In addition, Hong Kong has abundant human resources and a flexible labour market, which is highly mobile and flexible, and can adapt to changing market demands. It also ensures the stability and transparency of the market with a sound legal system and regulatory mechanism. At the same time, the city's booming international non-financial sector, such as trade, shipping, or manufacturing, has also contributed to the city's rise as an international financial company. Industries that require advanced financial services, including insurance and commodity trading, often lay the groundwork for the expansion of a more comprehensive range of financial products. It has also won Hong Kong an important position on the global economic stage.

The interconnectedness of these factors creates a cycle of reinforcement that fosters the growth of financial centers. A city's economic strength, coupled with its strategic location, can provide the necessary impetus for IFC's growth. However, each IFC has its own unique path to rise, influenced by its specific regional and

historical context, which will be explored in the following sections of this article.

1.2 Literature Review

Hong Kong's current position as an international financial center, trading center and shipping center is very solid. (Zhiyi Lin, 2023) Efficient shipping routes, air transport links and telecommunications networks contribute to the global influence of financial services companies. High-quality telecommunications and aviation network infrastructure is also essential to support the operations of financial services companies (Darryl S.L. Jarvis, 2011). At the same time, IFC-led market-making processes are changing within the infrastructure of global financial markets, laying the groundwork for the potential future growth of the international role of the renminbi (Jeremy Green & Julian Gruin, 2021). As the gateway for communication between China and the world, Hong Kong's important position in the world has been further consolidated. (Chen et al., 2021) However, in recent years, the market manufacturing process led by international financial centers is changing in the infrastructure of the global financial market (Jeremy Green & Julian Gruin, 2021). With the continuous advancement of the mainland's reform and opening up policy, Hong Kong's original role has been challenged to a certain extent. (Chen et al., 2021) Hong Kong's status as a net target, meanwhile, suggests its FABS firms' ability to acquire foreign rivals is diminishing, suggesting declining global influence in shaping GFN relationships. (Dariusz et al., 2022) Therefore, Hong Kong needs to make changes at this time to consolidate its position and enhance its strength to gain a better foothold in the world. Through literature analysis, we found that most existing literature primarily analyzes Hong Kong's future development patterns from the perspective of its current situation, with few studies examining Hong Kong's future development direction from the perspective of its historical evolution and its position in different historical periods compared to other international financial centers. Therefore, this article will focus on how Hong Kong can consolidate its position through politics, talent education, economy, etc., by comparing its historical evolution and position in different historical periods with other international financial centers, and develop more cooperation with mainland China to become an irreplaceable RMB offshore market.

Problem statement and objectives

As emerging financial centers rise in Asia, Hong Kong's critical role as a financial center in the region is increasingly under challenge. This research aims to explore strategic measures, including enhancing its offshore Renminbi (RMB) market capabilities, fostering regional collaboration, increasing policy support, and integrating financial technology (fintech) innovations, all intended to safeguard and reaffirm Hong Kong's position as a leading financial center.

2. The Similarities and Differences between Hong Kong's Journey to Becoming an International Financial Center and Those in Other Regions

Hong Kong's competitive position as an international financial center stems from its advantages in many aspects, including banking and insurance, capital markets, foreign exchange markets, asset management and the use of financial technology.

2.1 Similarities and Differences between Hong Kong, London and New York as International Financial Centers

For centuries, London's financiers have made it their primary center, while those in New York and Tokyo are located in the national metropolises of the two largest economies of the 20th century, using their respective countries' economic power to enter the top bloc. (Clark, 2002; Kindleberger, 1974; Sassen, 1991, 1999; Thrift, 1987)

In the 19th century, Hong Kong was colonized by the British, and in the process of developing into a full-fledged financial center, Hong Kong's financial sector did not have a huge, captive-dominated national economy. But it is developed through different policies. (King, 1987, 1988; Meyer, 2000)

2.1.1 Political System

While London and New York are financial centres that have developed in a relatively stable political environment, Hong Kong has developed under China's "one country, two systems" framework, which stimulates economic growth in line with the development characteristics of the market and the government. That is, the socialist system in Chinese mainland, while the capitalist system was maintained in Hong Kong. The purpose of this policy is to achieve national sovereignty and territorial integrity, while respecting and protecting Hong Kong's special historical, cultural and social institutions.

2.1.2 Monetary Aspects

Hong Kong is home to many financial firms and is China's gateway to global capital markets, with a close relationship between the Hong Kong dollar and the US dollar, a high degree of liquidity, and foreign financial

companies that locate their leading China operations as well as their Asia-Pacific operations. (Lai, 2011, 2012; Zhao et al., 2004, 2011). Since 1983, the Bank of Hong Kong (PBOC) has maintained a fixed exchange rate against the US dollar since the implementation of the monetary policy measures of the Hong Kong dollar-linked exchange rate system. At that time, Hong Kong was facing the risk of a large outflow of funds, which was extremely severe in the social environment at that time, and the new monetary policy also changed the dual exchange rate policy of the official exchange rate and the black market exchange rate that existed in Hong Kong at that time. In order to control exchange rate fluctuations and free itself from black market currency transactions, the Hong Kong government decided to peg it to the US dollar by fixing the exchange rate, making it one of the most stable currencies in the world. London and New York both have their own currencies, the British pound and the US dollar, which are more international, while Hong Kong uses the Hong Kong dollar.

2.1.3 Geolocation

London is located in Europe, New York is located in the Americas, and Hong Kong is located in Asia. The difference in geographical location affects the connection of these cities to other financial centers and economies around the world. This makes them different in terms of financial operations, markets, and investment opportunities in different regions. Hong Kong's open financial policies, sound legal system and efficient regulatory system, as well as its close connection with the Mainland financial market, provide convenient cross-border financial services for Mainland enterprises and investors. At the same time, Hong Kong has made significant progress in fintech innovation, providing investors with more investment opportunities.

2.2 *Similarities and Differences between Hong Kong and Regional Financial Cities in Asia, such as Singapore, Tokyo, Shanghai and Shenzhen, Becoming International Financial Centers*

China's financial sector is advantageous among Asia's largest, fastest-growing economies. The economic roles of major cities within China are distinct yet complementary: Beijing functions as the political and cultural heart as well as a financial hub, Shanghai is recognized for its prowess as a financial and commercial center, and Hong Kong stands out as a premier offshore center. Each city plays a unique role, contributing to the broader economic landscape through its specialized strengths and focus areas. (Lai, 2011, 2012; Zhao et al., 2004, 2011). Important domestic financial firms in Asian economies have also been found in Singapore, Tokyo, Shanghai, Bangkok, etc. (East Asia Analytical Unit, 1995; Meyer, 2000; Zhao et al., 2011).

2.2.1 Market Size and Diversity

Hong Kong's financial sector is distinguished by its substantial scale, providing an extensive array of financial products and services that encompass equities, bonds, foreign currency exchange, commodities, and more. In comparison, financial hubs such as Singapore, Tokyo, Shanghai, and Shenzhen, though smaller in market size and diversity, continue to hold significant importance within the Asian region. The competitive advantage held by entities in their domestic markets does not automatically extend to the complex networks of financiers and consumers in a foreign setting. This discrepancy highlights the challenges of navigating and integrating into the nuanced financial ecosystems of different regions. This dynamic underscores the potential for integrating external actors with the established local and regional networks, thereby facilitating progression to subsequent phases of development. (Guler & Guillen, 2010)

Comparing the enterprise market development in Hong Kong and Singapore, the Hong Kong, China government's investment fund invests more towards cyberport and science parks in order to support the development of the initial enterprises in Hong Kong. What is different, Singapore improves the marketization of the region through the financial industry and a series of innovation plans, investing 50% to 70% of each fintech innovation project, with a maximum of S \$200,000.

In traditional industries, Hong Kong, China has more well-known large companies than that in Singapore. But in fintech, it's different. Since 2014, KPMG and H2 Ventures have selected the top 100 global fintech companies based on the annual total funding of the company, the geographical diversity of the company's business, field diversity and other factors. In 2018, six Singaporean companies made the fintech list, with the highest ranked Grab (Singapore ride-hailing service provider) in third. As for Hong Kong, China, only a 23rd-ranked WeLab (an online lending platform company) made the list (Wenjing Zhang, 2019).

For the fintech enterprises in Singapore, the development of ASEAN countries varies greatly, and the demand for inclusive finance is high, so they can quickly carry out business services. Many enterprises engaged in different businesses such as Grab of integrated platform and InstraReM of digital cross-border payment are in the leading position in the ASEAN market. For Hong Kong, China's fintech companies, their business services are concentrated in the mainland market, such as online lending platform WeLend, and TNG, one of Hong Kong,

China to obtain the stored value payment license (Wenjing Zhang, 2019).

2.2.2 Political and Legal Environment

Hong Kong's political and legal environment is relatively stable, with a mature legal system and regulatory bodies. In the process of evolution, Hong Kong has implemented a policy of "one country, two systems", maintained the original capitalist system under the jurisdiction of the People's Republic of China for a long time, and enjoyed a high degree of autonomy in all matters, this unique political position has made Hong Kong have a higher degree of openness and freedom in the financial field, and attract a large number of international financial institutions and investors. In contrast, there may be some differences and challenges in the political and legal environment of financial centers such as Singapore, Tokyo, Shanghai, and Shenzhen. For Singapore, although its legal system is sound, the rapid development of financial markets may also bring about a lag in legal regulation. And as the global political and economic landscape changes, Singapore also needs to deal with external uncertainties and geopolitical risks. For Japan, Japan experienced the bursting of the "bubble crisis", that is, the economic phenomenon that appeared in Japan in the late 80s and early 90s of the last century, which led to a long-term stagnation and recession, and the economy appeared a false boom, mainly reflected in the sharp rise in prices in the stock and real estate markets. However, this period of "prosperity" eventually led to the recession and secular stagnation of 1991. During this period, Japan's GDP growth rate fell sharply, unemployment rose, and the bursting of the economic bubble led to an increase in non-performing loans from banks and a wave of corporate failures, further exacerbating social problems. This has made the Japanese government more cautious in pushing for the opening of financial markets. But excessive protectionist measures could limit the vitality and innovation of financial markets. For Shanghai and Shenzhen, significant progress has been made in the reform and opening up of the financial sector in recent years, but compared with international financial centers, there may be continued efforts in the construction of the rule of law and the supervision of the financial market. How to deal with cross-border financial risks is a problem that needs to be solved.

2.2.3 Geographic Location and Regional Roles

As a global financial hub, Hong Kong extends beyond its domestic boundaries to assume a critical position in supporting international and cross-border financial activities. Its role is crucial within the global financial system, linking various markets and ensuring the smooth transfer of capital internationally. Financial hubs such as Singapore, Tokyo, Shanghai and Shenzhen primarily serve markets in the Asian region.

Compared with the geographical location and region of Hong Kong and Singapore, Singapore has signed a total of 22 cooperation agreements with Asia-Pacific Organization and most European countries and cities, among which countries include Japan, South Korea, Malaysia, Andhra Pradesh, Australia, Hong Kong, China, United Kingdom, France and so on. What can be noted is that India, a developing country, has a stronger need for financial inclusion and a huge potential for development. Its fintech company is based in Singapore, and its business services can not only influence the neighboring countries, but also deeply develop into the ASEAN market, including the vast Indian market.

Hong Kong, China In addition to actively contacting with international community, it also has great advantages in cooperation with the mainland market. The Monetary Authority (HKMA) has signed 10 cooperation agreements with Asia-Pacific Organization, European and American countries and cities; in the Mainland, the HKMA agreed to strengthen the cooperation in 2017 and further strengthen and exploit the potential of the Guangdong-Hong Kong and Macao Bridge.

3. Advantages of Hong Kong's Journey to International Financial Center Status

Hong Kong's unique historical position gives it distinct advantages. This next section will focus on three main advantages.

3.1 Hong Kong Implements the "One Country, Two Systems" and Is Located in the Guangdong-Hong Kong-Macao Bay Area

Since its reunification with China in 1997, Hong Kong has been enjoying a high degree of autonomy and practicing an independent legal and economic system in accordance with the principle of "one country, two systems" (Zhiyi Lin, 2023).

Within the framework of "One Country," Hong Kong benefits from steadfast support from the national government and secures unimpeded, comprehensive entry to the vast Mainland market. The "Two Systems" aspect enables Hong Kong to uphold its capitalist economy, adhere to the common law framework and judicial autonomy, and preserve a high level of liberty and openness along with a business environment that meets international standards. This setup positions Hong Kong as an unparalleled conduit linking our country with the

global community (CHAN Mo-po, 2022). The "one country, two systems" principle ensures that Hong Kong retains its capitalist economic system and way of life. Hong Kong is acclaimed globally for its exceptional economic liberty, robust legal infrastructure, formidable financial sector, competitive tax regime, and open trade policies. These attributes foster a distinctive economic landscape that magnetizes substantial foreign capital, positioning Hong Kong as a pivotal international hub for economic, commercial, and logistical activities. Hong Kong's unique position acts as a vital bridge and intermediary, enabling and enhancing interactions between the Chinese mainland and the global community. This role is instrumental in fostering economic, trade, and financial exchanges, contributing to the integration of China with the worldwide market.

Hong Kong's distinct status as a crucial link and mediator plays a significant role in facilitating and enriching interactions between the Chinese mainland and the international arena. This strategic role is central to promoting economic, trade, and financial exchanges, thereby playing a key part in integrating China into the global marketplace (Zhiyi Lin, 2023). Situated in Asia's core, Hong Kong enjoys a special proximity to Guangdong Province, the economic center of Mainland China. The launch of the Guangdong-Hong Kong-Macao Greater Bay Area initiative has underscored the strategic significance of Hong Kong's geographical location. This development highlights Hong Kong's pivotal role in regional integration and economic collaboration within this dynamic and economically vibrant region. This initiative focuses on enhancing economic cohesion by facilitating the movement of goods, funds, data, and individuals across the area. In the context of the development of the Guangdong-Hong Kong-Macao Greater Bay Area, we can see from Fig 1 the mammoth development of the logistics and warehousing industry in Hong Kong in recent years. Within this strategic initiative, Hong Kong assumes a pivotal role, further consolidating its status as a premier offshore RMB hub.

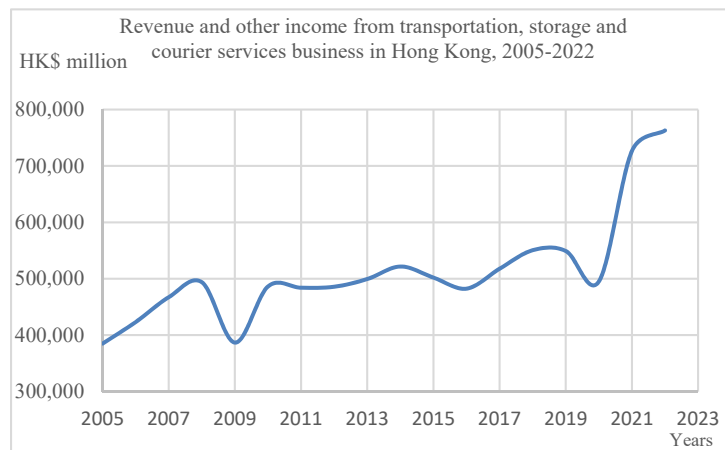


Figure 1. 2005-2022 Revenue and other income from transportation, storage and courier services business in Hong Kong

Source: Census and Statistics Department, HKSAR Government.

3.2 Hong Kong Serves as a Key Offshore RMB Market

The process of RMB transnationalization showcases Hong Kong's special role, as it serves as an initial testing ground for significant policy breakthroughs that shaped the offshore RMB market before being implemented in other offshore RMB centers. As the approach to expand offshore RMB markets to cities like Taipei, Singapore, and London unfolded, aiming at promoting currency transnationalization, this progression of careful policy dialogue and market growth both reflected and reinforced Hong Kong's position as China's gateway to the world's capital. (Jeremy Green & Julian Gruin, 2021)

In 2022, Hong Kong's RMB payment and settlement system calculated daily transaction amounts, reaching 1,606.5 billion yuan, up 31 to five percent from a year earlier, according to the Hong Kong Monetary Authority. In addition, according to the statistics of the Global Banking, Financial and Telecommunications Association, cross-border RMB processing and settlement has reached 80% of the same type of business in the world, which continues and maintains a development advantage in this field.

At present, Hong Kong's two larger financial markets have been formed in Hong Kong, starting with the CNH foreign exchange market, which trades more than \$1 billion per day and trades between two and three times more. Then there's CNH's bond market, which has more than 100 bonds and 10 times more trading volumes.

Most market makers in Hong Kong are influenced by the right to determine the yield of their RMB products, and almost 100% of the offshore RMB exchange rate and bond yields are determined by Hong Kong. Also driven by the maturity of the RMB market, according to statistics, the daily RMB trading volume of the offshore RMB foreign exchange market in Hong Kong reached us \$5 billion (equivalent to 32 billion yuan) ago. The mature offshore RMB market in Hong Kong ensures the largest RMB foreign exchange trading volume in the world (which accounts for 56% of the world). In addition to the policy support of the HKMA, a number of measures were introduced to maintain the RMB liquidity used by Hong Kong banks, optimizing Hong Kong's RMB capital market and consolidating Hong Kong's position as a global offshore RMB business center. (Zhize Long, 2015)

Beyond advocating policies, Hong Kong boasts global-class financial markets and infrastructures, encompassing a range of financial products, a proficient trading system, and a robust legal regulatory framework. Concurrently, utilizing its role as a global financial hub, Hong Kong engages actively in international and regional financial collaborations, including participation in the Asian Infrastructure Investment Bank (AIIB) and the "One Belt, One Road" initiative. The launch of the Guangdong-Hong Kong-Macao Greater Bay Area initiative has underscored the strategic significance of Hong Kong's geographical location. This development highlights Hong Kong's pivotal role in regional integration and economic collaboration within this dynamic and economically vibrant region. These elements draw international investors and financial entities, creating an advantageous setting for offshore RMB dealings.

4. Current Situation and Limitations of Hong Kong

Under the current complex economic situation, the landscape of global financial centres has changed dramatically. Hong Kong, as a major financial centre in Asia, is also facing certain limitations and challenges. In this section, the current situation and limitations of Hong Kong's financial centre will be analysed.

4.1 Changes in the Global Financial Centre Landscape

An study of the progress and impact of cross-border mergers and acquisitions (M&A) on international financial centres (IFCs) reveals a complex pattern of geographical and strategic shifts in Global Financial Network (GFN), showing a slow rise of IFCs in the Asia-Pacific, decline in Europe, the Middle East, and Africa, and resilience in the Americas.

Conversely, Hong Kong's achievements in cross-border mergers and acquisitions (M&A) activities have been lackluster, evidenced by a decline in both the quantity and total value of its cross-border transactions, indicating its role predominantly as a net target for acquisitions. This trend implies that, despite Hong Kong's continued allure as a business hub, the capacity of its financial and business services (FBS) firms to engage in the acquisition of foreign entities appears to be waning. A noticeable slowdown in the growth rate of Hong Kong's investment assets and liabilities can also be seen from the data in Fig 2. This suggests that Hong Kong's global influence in shaping global financial network linkages is declining. (Dariusz et al., 2022)



Figure 2. 2000-2023 Hong Kong's International Investment Assets and Liabilities

Source. Census and Statistics Department, HKSAR Government.

Hong Kong also faces challenges from emerging financial centres in Mainland China and other Asian countries. By 2023, China's Shanghai International financial Center will be second only to Hong Kong, and many of Hong Kong's former advantages are no longer prominent enough (Xuantong Jin, 2023). The Chinese government is concurrently fostering the growth of multiple financial centers, including Hong Kong, Shanghai, and Shenzhen, thereby diluting Hong Kong's once exclusive role as China's gateway to the global market. The establishment of multiple free trade zones throughout Mainland China, beyond the major financial hubs of Shanghai and

Shenzhen, is gradually diminishing Hong Kong's competitive advantage in trade. This expansion of free trade areas contributes to a more level playing field in the Mainland, challenging Hong Kong's previously unrivaled position in trade facilitation and services. This evolving landscape poses a long-term challenge to Hong Kong's esteemed position as a global financial hub. (Chen et al., 2021)

4.2 Trade War between China and the U.S

As China's international financial centre, Hong Kong's economic development cannot be separated from Mainland China. Since the US government announced in July 2018 the imposition of 25 per cent tariffs on US\$50 billion worth of goods from China, it has triggered the largest trade friction in history. As Hong Kong, as a small open body, relies heavily on external demand for its economic growth, and both Mainland China and the United States are important trading partners of Hong Kong, the trade friction between the United States and China has significantly reduced the external demand for Hong Kong's economy, posing a serious challenge to Hong Kong. (Chen et al., 2021)

This economic downturn could put pressure on Hong Kong's financial markets, such as stock market declines and bond market volatility. However, it should be pointed out that the depth and breadth of Hong Kong's financial market give it a strong ability to resist. During the trade war, although Hong Kong's GDP growth slowed, the added value of its financial sector maintained rapid growth. At the same time, Hong Kong's international asset management business is also expanding, which reflects the recognition of global investors for Hong Kong's financial market. In addition, Hong Kong has long been among the top three in the world according to the International Financial Centers Index (GFCI), which proves its importance in the global financial network.

The US-China trade war, marked by prolonged uncertainty, has significantly impacted Hong Kong, a crucial node for re-export trade between China and the US. The information presented in Figures 3 and 4 unequivocally shows a marked decline in trade volumes within key sectors and in the metrics of trade services following the start of the trade dispute in 2018, reflecting a spectrum of economic contractions. This trend highlights the tangible impact of the trade tensions on Hong Kong's trade performance and economic health.

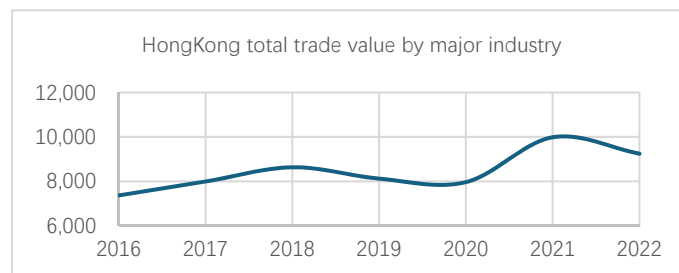


Figure 3. 2016-2022 Hong Kong total trade value by major industry

Source. Census and Statistics Department, HKSAR Government.

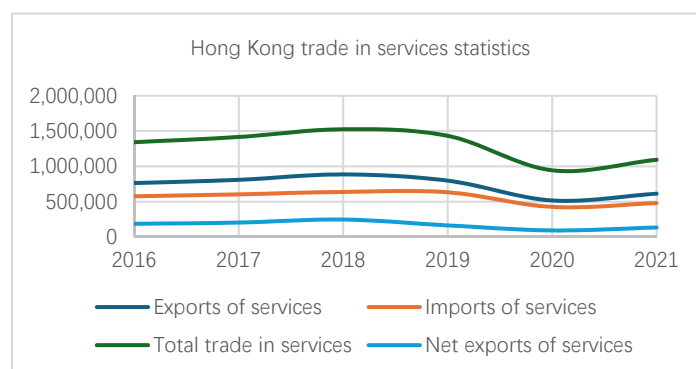


Figure 4. 2016-2021 Hong Kong trade in services statistics

Source: Census and Statistics Department, HKSAR Government

The impact of the China-US economic and trade agreement on Hong Kong's financial market: The signing of the first-phase economic and trade agreement has brought positive factors to Hong Kong's financial market. According to the content of the agreement, the US side will fulfill its relevant commitment to lift additional

tariffs on Chinese products in stages, which means that Hong Kong exporters will be able to enjoy a fairer trade environment, thus contributing to the improvement of their operating conditions and repayment ability. In addition, the agreement also covers intellectual property protection, market access and other areas, which will help promote economic and trade cooperation and exchanges between Hong Kong and the United States, and further promote the development and prosperity of Hong Kong's economy. For Hong Kong financial markets, this is good news and will help boost investor confidence and market activity.

4.3 COVID-19 and Global Economic Uncertainty in the Post-Outbreak Era

The advent of COVID-19 has precipitated profound disturbances across global financial and trade ecosystems, pushing them to the edge of potential collapse. In the sphere of capital markets, a stark erosion of investor confidence has catalyzed pronounced downturns in international capital markets, considerable contractions in worldwide commodity markets, and significant fluctuations in foreign exchange markets. These disruptions underscore the pandemic's extensive impact on economic stability and market dynamics.

Since 2020, the outbreak of COVID-19 has had a huge impact, seriously affected the global economy, and Hong Kong is no exception. Hong Kong's economy fell for the second consecutive year in 2020, with its gross domestic product falling by 5.5 percent compared with 2019, a record drop in history. Overall investment spending has been severely reduced, and tourism has become one of the industries with the biggest economic declines, followed by lower rents for various office buildings and shops, and residential buildings gradually fall into an adjustment trend.

In 2020, Hong Kong's financial situation has also changed, with 161 banks known as the world's top 500 banks, 17 restricted licensed banks and 12 deposit-accepting companies, making the number of banking institutions stable. However, due to the economic downturn caused by the epidemic, the real economy was hit hard, and the demand for bank loans was not high. During the year, the growth of loans slowed from 6.7% in 2019 to 1.2%; the total deposit increased from 2.9% in 2019 to 5.4% in 2020; as the growth of total deposits was faster than the total loan, the overall loan-to-deposit ratio decreased from 75.3% at the end of 2019 to 72.3% in 2020. The total assets of the bank are HK \$25.9 trillion, an increase of HK \$1.4 trillion over 2019. The ratio of overdue and restructured bank loans rose from 0.34% to 0.57% in the same period, while the delinquent ratio of residential mortgage loans and credit card loans remained low, at 0.04% and 0.27%, respectively (Yuji Lee, 2021).

COVID-19 The epidemic has had a great impact on Hong Kong. Hong Kong's real economy has encountered a downturn, with the import and export sector experiencing significant adverse impacts. Similarly, some companies in Hong Kong faced challenges such as company closures and unemployment (Xuandong Jin, 2023). Concurrently, restrictions on cross-border logistics and transport, along with the repercussions of production suspensions in multiple countries, have significantly weakened Hong Kong's trade and logistics industry. These constraints have disrupted the seamless flow of goods and services, critically affecting Hong Kong's capacity to maintain its role as a global logistics and trade hub. (Chen et al., 2021)

In addition, tourism accounts for about 4.5 per cent of Hong Kong's GDP. With the near stagnation of the tourism industry, the significant drop in visitors to Hong Kong has led to a varying degree of impact on Hong Kong's tourism, retail and catering industries. (CHAN Mo-po, 2022)

4.4 Economic Diversification Challenges

While Hong Kong's financial sector has seen remarkable growth, the city faces challenges in economic diversification. The high dependence on financial services has made the economy vulnerable to global financial fluctuations. Efforts to diversify into other sectors, such as technology and tourism, have met with varying degrees of success.

4.5 Sociopolitical Tensions

Recent sociopolitical tensions have posed new challenges to Hong Kong's financial market. The delicate balance of "one country, two systems" has been tested, and investor confidence has seen fluctuations. Securing long-term stability and preserving Hong Kong's autonomy are fundamental to its ongoing prosperity as a financial hub. These elements are vital for fostering an environment conducive to financial innovation, attracting international investment, and sustaining the confidence of global financial markets in Hong Kong's economic governance and regulatory framework.

5. Analysis of the Future Development Direction of Hong Kong's Financial Industry

In light of the aforementioned perspective, Hong Kong should strategically leverage its strengths while mitigating its vulnerabilities to attain optimal outcomes. This approach entails harnessing its established global

financial networks, robust legal system, and strategic geographical location, alongside addressing challenges such as economic diversification and enhancing its competitive edge in emerging sectors. By doing so, Hong Kong can reinforce its position as a leading international financial center and drive sustainable economic growth. Therefore, the following four points are summarized.

5.1 Continue to Strengthen Hong Kong's Position as an Offshore RMB Center

The internationalization of the Chinese currency, the Renminbi (RMB), is distinguished by a concerted effort from the state to promote its wider use through a cohesive suite of policies. The synchronization of national goals has granted local governments significant latitude in policy-making, thereby facilitating their efforts to augment and fortify the requisite infrastructure and markets for offshore Renminbi (RMB) dealings. This strategic policy autonomy supports the broader aim of enhancing the international use of the RMB, contributing to the financial integration of China with the global economy (Jeremy Green & Julian Gruin, 2021). In the past few years, the rapid expansion of China's financial sector has created a demand for a strong offshore RMB market, a role that Hong Kong is well-equipped to fulfill owing to its strategic location and comprehensive expertise. Consequently, Hong Kong ought to leverage this chance by utilizing its sophisticated financial infrastructure and solid legal framework to broaden and enhance RMB transactions. This includes pioneering innovations in RMB trade settlement, financing, and the development of new investment products. By doing so, Hong Kong can solidify its position as a key player in the internationalization of the RMB, enhancing its role in global financial markets.

5.2 Enhance Regional Cooperation (Especially Cooperation in the Guangdong-Hong Kong-Macao Greater Bay Area and the "Belt and Road" Initiative)

Hong Kong enjoys substantial geographical benefits, being strategically situated at the epicenter of the Asia-Pacific region. Hong Kong acts as a pivotal conduit between the European Union and Asia-Pacific markets, significantly contributing to the connectivity of the China-ASEAN Free Trade Area as well as the Belt and Road Initiative. Its strategic location highlights its importance as a key player in regional and global trade, enhancing its impact and position in the formulation of worldwide economic patterns. Its independent tariff regime aids in minimizing financial barriers. (Chen et al., 2021) Therefore, Hong Kong can leverage its advantages in financial services, shipping, logistics and information technology to strengthen infrastructure construction and connectivity with other cities in the Greater Bay Area. This includes promoting cooperation in areas such as transportation networks and data communications, reducing trade barriers, etc., and promoting trade and investment facilitation within and outside the Greater Bay Area. Simultaneously, by capitalizing on its vast experience in international trade and harnessing its modern trilingual education system, Hong Kong is ideally equipped to support businesses in the Greater Bay Area in their efforts to access global markets and attract foreign investment. This strategic deployment of Hong Kong's assets and expertise is poised to make a substantial impact on the international presence and economic vigor of the Greater Bay Area, enhancing its integration into the global economy.

5.3 Increased Policy Support

Geography thus remains important, but absent a policy framework that encourages cross-border financial transactions, the opportunities for intermediation of regional and global capital flows are ultimately diminished (Darryl S.L. Jarvis, 2011). Hong Kong ought to refine its legal and regulatory framework, enhance its market oversight, and minimize its market interventions. This approach will ensure a more efficient, transparent, and fair market environment, conducive to fostering confidence among investors and participants in the economic landscape. It should give full play to Hong Kong's advantage as a free trade harbour in Asia.

In addition, the Hong Kong Government needs to accord top priority to the protection of Hong Kong's financial security and provide policies to attract outstanding financial talents from all over the world to stay in Hong Kong, with the aim of strengthening the strength of Hong Kong's financial enterprises and maintaining the development of Hong Kong's financial market. (Xuantong Jin, 2023)

5.4 Embracing Fintech and International Co-Operation

The integration of technological advancements into financial services is reshaping Hong Kong's status as a global financial center, endowing it with innovative fintech features. This transformation underscores Hong Kong's capacity to adjust to evolving market needs and its dedication to preserving its competitive advantage through the adoption of digital innovations within the finance industry. This evolution reflects the territory's adaptability and its capacity to integrate cutting-edge technological advancements with its established financial services, thereby enhancing its competitive edge in the global financial landscape. (Xuantong Jin, 2023). Hong

Kong needs to actively promote cross-border financial technology and innovate in the digitalization of the financial sector. From a detailed perspective, it is imperative to explore the creation of robust networking links with the mainland and establish a Commercial Data Interchange (CDI) data platform. This initiative is designed to bolster banking services through the facilitation of more streamlined data exchange and integration processes. By doing so, it aims to elevate the overall efficiency and responsiveness of financial services, ensuring they are better aligned with market demands and capable of adapting to the rapidly evolving financial landscape. This approach underscores a commitment to leveraging technological advancements to enhance the financial sector's capability to serve its clientele more effectively.

Making Hong Kong a science and technology center in the Greater Bay Area, and realizing the convenient interaction of innovation flow, information flow, talent flow, and capital flow in the region (Chen et al., 2021). Promoting the application of compliance technology, assessment of fintech applications, and regulatory guidelines on innovative technology applications, etc., so as to effectively control fintech-related risks, cultivate the fintech ecosystem, expand the pool of fintech talents, and promote fintech to play a leading role in the development of Hong Kong as an international financial center.

5.5 Emphasizing Sustainable Finance

Looking ahead, Hong Kong could position itself as a leader in sustainable finance. By prioritizing green bonds and other sustainable investment offerings, Hong Kong can address the increasing worldwide appetite for environmentally responsible investment options. This strategic emphasis not only aligns with the global shift towards sustainability but also establishes Hong Kong as a progressive, environmentally aware financial center. This positioning is designed to appeal to a new category of investors who are committed to achieving positive environmental outcomes through their investment decisions.

The growth of wealth in Asia, especially in China, provides a significant opportunity for Hong Kong to expand its wealth management services. Offering bespoke financial services tailored to the new wealthy class can help maintain its competitive edge.

6. Conclusion

Hong Kong's status as an international financial center has not been smooth sailing. In recent years, Hong Kong's status is being challenged due to changes in geopolitics, covid-19 and the international trade environment. Meanwhile, the competition with Singapore to become Asia's international financial center continues. In addition, the development of financial technology has forced Hong Kong to make financial adjustments, which also means that the demand for talents is increasing. How to transform and make effective adjustments is a major issue currently facing Hong Kong. However, Hong Kong's ability to become an international financial center also benefits from some of its unique characteristics, such as its unique geographical location, close ties with China and being the largest offshore RMB market. These are all conducive to its transformation and development.

In conclusion, Hong Kong must leverage its current strengths while adapting to a rapidly changing global financial landscape.

Hong Kong ought to utilizing its sophisticated financial infrastructure broaden and enhance RMB trade settlement, financing, and the development of new investment products, solidify its position as a key player in the internationalization of the RMB, enhancing its role in global financial markets. Hong Kong can leverage its advantages in financial services, shipping, logistics and information technology to strengthen infrastructure construction and connectivity with other cities in the Greater Bay Area. Strengthening regional partnerships, Hong Kong can continue to thrive as an international financial hub. By fostering a stable sociopolitical environment, ensure a more efficient, transparent, and fair market environment, conducive to fostering confidence among investors and participants in the economic landscape. It should give full play to Hong Kong's advantage as a free trade harbour in Asia. Embracing financial technology, Hong Kong elevate the overall efficiency and responsiveness of financial services, integrate cutting-edge technological advancements with its established financial services, ensuring they are better aligned with market demands and capable of adapting to the rapidly evolving financial landscape. Future strategies should incorporate considerations for the shifting landscapes of global trade and finance, especially given the intensifying competition from other financial hubs within Asia and globally. This necessitates a proactive and agile approach to policy-making and strategic planning, ensuring Hong Kong remains adaptable and innovative in bolstering its competitive edge. It underscores the importance of continuously enhancing its financial infrastructure, regulatory environment, and service offerings to meet the changing needs of the global financial community.

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