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| RESEARCH ARTICLE

A Study on the Financial Status of Hong Kong in a Complex Social Context

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| ABSTRACT

In the 25 years since Hong Kong's return to Chinese sovereignty, the mainland's economy has risen rapidly, and Hong Kong, China, is no longer a standout. Nonetheless, the Anti-Extradition Law Amendment Bill Movement in 2019 and the COVID pandemic have forced Hong Kong's economy to experience a severe recession, particularly as the continued development of the COVID triggered a global financial crisis and a contraction of the national economy. Hong Kong will experience a more severe macroeconomic recession than the 2009 global financial crisis, with the unemployment rate expected to rise to 5.5% or even higher. Consequently, all sectors of society have voiced concerns about Hong Kong's "uselessness" and "marginalization," casting doubt on the city's role as a global financial center. With its unique advantages, Hong Kong's financial industry has basically completed its repositioning in today's complex social background and seized the opportunities that can promote its own development in a timely manner so that the functions of an international financial center can continue to be played, and the international financial status is safe and stable.

| KEYWORDS

Economic downturn; uselessness; marginalization; advantage; positioning and opportunity; financial status

| ARTICLE INFORMATION

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1. Introduction

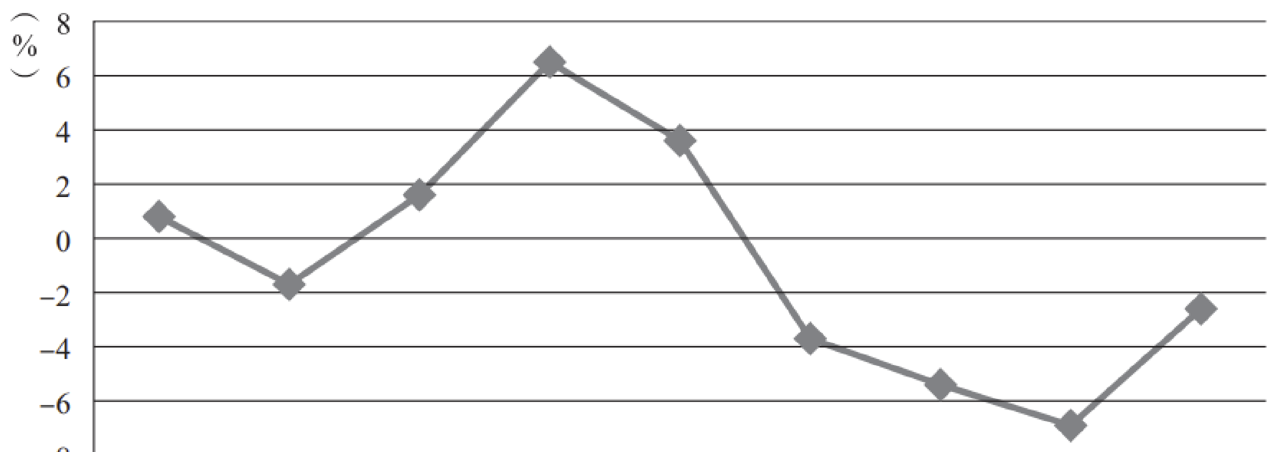
The Anti-Extradition Law Amendment Bill Movement in 2019 and the COVID outbreak in early 2020 posed a significant threat to the world economy, especially Hong Kong's export-oriented economy, negatively influencing its financial market. Recently, Hong Kong's international financial market's competitiveness has been questioned. In fact, after Hong Kong's handover, mainland China increased its financial support for Hong Kong (Wang, 2022). Along with Hong Kong's significance in the country's "14th Five-Year Plan", many prosperous mainland Chinese businesses and people have invested in and gone public in Hong Kong. Hong Kong's status as an international financial hub continues to play a role in its interconnection with the financial system of the mainland, with its stability and security further strengthened.

2. Trigger for the Economic Downturn in Hong Kong

2.1 The 2019 Anti-Extradition Law Amendment Bill Movement

Unlike prior recessions, the present economic downturn is mostly attributable to the Anti-Extradition Law Amendment Bill Movement, which emerged in June 2019 with the intention of restraining economic activity (Mao). In the end, it devastated the transportation hubs and commercial centers of Kowloon and the New Territories, hurting the tourism and export industries. The severe decrease in mainland consumer and investment demand further hampered economic development in the region, which was already weakened by the significant slowdown in global economic growth and the intensifying China-US economic and trade frictions. In the first six months of 2019, the number of tourists visiting Hong Kong surged by 13.9%, reaching a record-breaking 34.87 million. However, since July, the number of tourists has decreased. Since then, tourism has declined significantly due to the deterioration of the Anti-Extradition Law Amendment Bill Movement. From August to December, the number of tourists fell by 39.1%, 34.2%, 43.7%, 55.9%, and 51.5%, respectively. In the second half of the year, only 21.04 million tourists visited Hong Kong, a decline of 13.5 million from the previous year. Among them, mainland tourists with the greatest purchasing power shrank by 11.15 million, accounting for 82.6% of the overall decrease.

The monthly revenue of the tourism industry has decreased by more than 10 billion Hong Kong dollars due to the large decrease in travelers, and the hotel, catering, retail, and related industries have suffered considerably. Consequently, Hong Kong's domestic demand has slowed. Actual personal consumption expenditures decreased by 3.2% in the second half of 2019, resulting in a 1.2% annual decline. In contrast, it has risen by an average of 4.2% annually over the preceding five years. In 2019, total personal consumption expenditure decreased by 1.1%, marking the first annual decline since 2004. Since the fourth quarter of 2018, gross domestic fixed capital formation has declined for five consecutive quarters and plunged by 15.7% in the second half of 2019. It fell by 12.2% in 2019, far worse than the -3.5% during the global financial crisis of 2009, reaching its lowest level in two decades.



2014	2015	2016	2017	2018	2019.Q1	2019.Q2	2019.Q3	2019.Q4
0.8	−1.7	1.6	6.5	3.6	−3.7	−5.4	−6.9	−2.6

Figure 1. Growth rate of private consumption expenditure in Hong Kong from 2014 to 2019

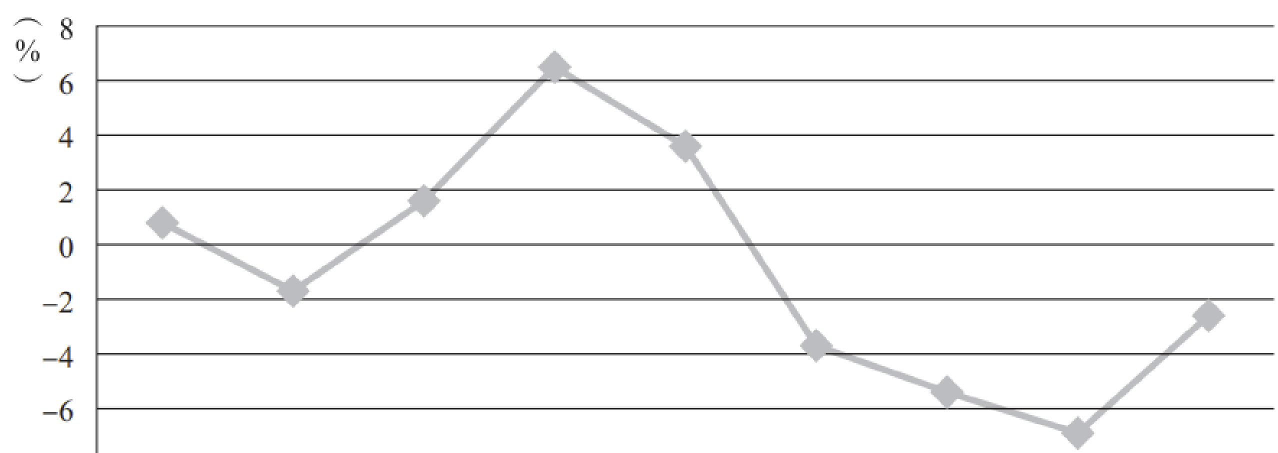


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Figure 2. Growth rate of local investment in Hong Kong from 2014 to 2019

Overall, this movement decreased Hong Kong's GDP growth rate by 5.3 percentage points in the second half of last year and by 2.7 percentage points for the entire year. Compared to the GDP growth of the previous year, Hong Kong's GDP dropped by 4.1

percentage points in 2019. It is evident that the Anti-Extradition Law Amendment Bill Movement is the primary cause of the current economic slowdown.

2.2 COVID-19 Outbreak

The spreading speed and extent of COVID-19 vastly surpassed those of SARS in 2003. To prevent disease transmission, mainland China has implemented unprecedented preventative and control measures, closed off residential areas, postponed the resumption of work and school after the Spring Festival, and suspended the operation of numerous entertainment venues and stores. After months of unrelenting efforts, the anti-epidemic work on the mainland has produced astonishing results. However, the COVID virus has spread to more than 180 nations and areas worldwide. The United States, Italy, the United Kingdom, Japan, South Korea, and Germany are among the hardest-hit nations. Hong Kong, which is the most open free economic zone in the world and has close ties to the mainland, likewise bears the brunt of COVID-19's effects(Li, 2021). Therefore, the breakout of the pandemic and China's strict control policies will surely have a short-term negative impact on Hong Kong's economy.

2.2.1 Hong Kong's Tourism and Related Industries have Come to a Standstill

The mainland's "Individual Visit Scheme" has proven beneficial to Hong Kong's economic development since 2003. From 2002 to 2018, the number of mainland tourists visiting Hong Kong increased from 6.83 million to 51.04 million. Each year, hotel accommodations, catering services, and tourists generate business opportunities worth hundreds of billions of Hong Kong dollars, making the tourism industry a cornerstone that can support 225,000 jobs. According to data released by the Hong Kong Tourism Board, the average daily number of visitors to Hong Kong during February and March 2020 has declined dramatically to approximately 3000. Compared to the lowest number of visits to Hong Kong in May during SARS in 2003 (about 10,000 people), the situation was significantly worse, with a 98% year-on-year decline. Simultaneously, the hotel occupancy rate was between 60% and 70%, and the occupancy rate of several luxury hotels has slipped to single digits. In addition, the majority of Hong Kong residents refused to travel abroad. The tourism industry, which contributes to approximately 4.5% of Hong Kong's GDP, has essentially ground to a halt.

2.2.2 The Slump in the Retail and Catering Industry

The rampant pandemic has not only prevented tourists from visiting Hong Kong but has also prompted locals to curtail their travel. The schools have been closed for an extended period, and the government and other ministries have arranged for their employees to work remotely. After the recession of 2019, it has been severely impacted once more. Consequently, many retailers have shuttered their stores or altered their operation hours. By the first quarter of 2020, the retail sales revenue decreased by 36.9%, and the catering sales revenue decreased by 31.2%.

2.2.3 The Impact on Hong Kong's Trade and Logistics Industry

On the supply side, the vast majority of imports and exports are intimately tied to industrial and processing operations on the mainland, particularly in the Pearl River Delta region. Under stringent surveillance for COVID, the mainland has adopted closed-off management in many cities; consequently, most migrant workers who returned home for the Spring Festival have not come back. Even if they go back to their original working city, they must first be quarantined. Consequently, the production of numerous factories has not yet recovered to normal levels. Due to the lack of coordination between upstream and downstream, only a few businesses have restarted operations and production. To enable the "global factory" to begin production as quickly as feasible, firms in the Pearl River Delta have taken steps such as inter-provincial bus transfers, coordination with local governments to develop green logistical routes, and procuring anti-epidemic products in advance. However, local governments prefer to maintain strict control, making it difficult for businesses to completely resume production, particularly small and medium-sized enterprises and private businesses that rely too heavily on migrant workers. On the demand side, the onset of the epidemic has had a significant impact on the consumer and investment markets of many nations. In addition, the volatility of the financial markets has created a negative wealth effect, which puts the global economy at risk of contracting.

3. Distinctive Features of Hong Kong's Financial Market

Since the beginning of 2020, the COVID-19 pandemic has ravaged the globe, severely impacting the global economy. As a small open economy, Hong Kong's economic growth has been severely hampered. However, being one of Hong Kong's four traditional industries, the financial industry has been remarkably unaffected(Gao, 2016). Hong Kong's financial market has historically demonstrated a high level of systemic stability, which benefits from many distinct advantages:

3.1 Solid Industrial Structure

Hong Kong has a long history as a free economic zone, with entrepot trade as its primary economic pillar. Hong Kong's trade, transportation, and other service industries have achieved rapid growth because of the deepening of China's reform and opening and the continuous influx of talent and capital from the mainland, providing a stronger economic foundation for the ongoing success of the finance industry.

3.2 A More Comprehensive System and an Open Market
Hong Kong is acknowledged as one of the global cities with the highest degree of marketization and the rule of law. This creates a fair and equitable business climate for the growth of the financial industry, thereby luring a huge number of financial institutions to establish branches in Hong Kong.

3.3 Complete Financial Talent Training Strategy
The Hong Kong Special Administrative Region (SAR) government has devised professional and systematic methods to promote the training of financial talents, which has attracted a substantial number of exceptional talents and protected the vitality of financial development. This measure can continuously cultivate and provide high-quality, fresh forces for the financial industry's development.

3.4 Connecting Domestic and Foreign Markets
Backed by the mainland, Hong Kong is connected to the world's second-largest economy and the world's largest banking industry, the second largest bond market, the second largest stock market, and Asia's largest international asset management market, which still has capital controls. In addition, Hong Kong has always kept close contact with financial hubs such as London, New York, and Singapore in terms of financial infrastructure, market system, legal system, etc. This dual positioning is also not available in other international financial centers.

3.5 A Lower Tax Rate
Hong Kong is one of the economies with the lowest tax rates in the world due to its adoption of free economic zone and low tax preferential policies, particularly the more advantageous low tax preferential policies applied by financial institutions and financial practitioners.

3.6 The Common Law System
Hong Kong is more directly connected to the international financial system dominated by the United Kingdom and the United States since its legal system is Anglo-American. This will increase the credibility of international justice, arbitration, and mediation on a global scale. Comparatively, the common law system is superior to the civil law system in the areas of financial litigation, arbitration, mediation, and dispute resolution.

3.7 Stronger Economic Correlation with the Mainland and Lower Dependence on the Local Area
On the Hong Kong stock exchange, the share price and trading volume of Chinese-funded enterprises exceed 80%, which essentially represents the performance of the Chinese domestic economy. 45% of the bank credit in Hong Kong is tied to mainland enterprises. Due to the timely implementation of disease preventive and control measures by the Chinese government, China maintained positive GDP growth in 2020. In general, the Hong Kong market has demonstrated a high level of system stability because of China's long-standing macroeconomic growth.

Compared to financial centers on the mainland, such as Shanghai, Hong Kong's present financial industry has clear advantages and competitiveness: its financial industry is highly internationalized and influential internationally. Financial regulation and industry development have always been in line with the global market. The service level and supporting environment are more comprehensive, with extensive financial market facilities, sound international tax legislation, accounting systems, and a low-rate, currency-conversion-free system. It is also equipped with accounting and auditing professionals. International business, transparency, the legal system, and the financial supervision system, among other factors, have demonstrated distinct characteristics and benefits. What is more, Hong Kong's financial market is more developed. Although Shanghai has exceeded Hong Kong in terms of the size of its securities market, there are still distinctions in the market's composition. Shanghai has more individual investors, indicating the securities market may be highly volatile; in terms of transaction prices, financial bonds account for a relatively large proportion, but most traders are commercial banks, indicating the unique nature of the indirect financial system dominated by commercial banks; derivative product types and quantities are relatively small, and there is insufficient growth space for the Internet market.

In conclusion, Hong Kong's worldwide financial prominence is irreplaceable.

4 The New Positioning of Hong Kong in the New Development Pattern
In 2018, the State Council set the tone for the expansion of the opening-up policy, which includes the opening of the financial sector as a priority. At the Boao Forum in April 2018, over 10 concrete steps were revealed to strengthen the financial industry's opening and collaboration. At the recent Fifth Plenary Session of the 19th Central Committee of the Communist Party of China, the central government formulated a comprehensive plan for the establishment of a new economic situation characterized by the

dominance of domestic circulation and the co-development of domestic-international dual circulation(Hu, 2021). The new economic standing has strategic directing value.

Historically, Hong Kong's financial institutions mostly assisted mainland enterprises in raising capital. Today, apart from their role in fund-raising, they can also help mainland funds "flow out". Hong Kong is making full use of its distinctive advantages as China's domestic international gateway and global financial center to adapt to the special demands of mainland market openness to the globe. This city has fulfilled its "transformer" function between the mainland and international markets through inventive ways, actively researching new ways and new methods that are more suitable for the mainland market's complete opening to the world. In terms of business transformation, Chinese-funded financial institutions in Hong Kong have positioned themselves and implemented strategies in accordance with the industrial environment, achieving globalization of their operation, organization, and capabilities gradually(Ba, 2020). Under the "inter-connectivity" method of financial opening, China will be able to create an effective channel for mainland enterprises to integrate into the global economic structure, as well as effectively promote the global use of RMB and the opening of China's domestic market without surrendering control. We will further expand the local stock and bond markets, "importing" foreign capital more effectively and increasing the level of internationalization of RMB assets. In recent years, the globalization of the RMB in Hong Kong, mainland China, and Macau, as well as the interconnection and cooperation of markets, such as "Shanghai-Hong Kong Stock Connect", "Shenzhen-Hong Kong Stock Connect", and "Bond Connect", have bolstered its strategic position as an international financial center. In the future, Hong Kong will continue to serve as a major "bridgehead" in China's reform and opening, give full play to the important pivot and hub functions of the Belt and Road initiative, focus on connecting the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, and actively integrate into the world and serve the development strategy, thereby accelerating the globalization of the Chinese economy(Cong, 2018).

After repositioning itself, Hong Kong's financial sector works as a leader for domestic companies seeking to "go global" and "bring in" foreign investment. Therefore, it appears that claims that Hong Kong is "useless" and its financial and economic standing is "marginalized" are prejudiced.

5. New Opportunities for Hong Kong's Financial Market Under the National Strategy

At present, Hong Kong is actively becoming a "participant" in the domestic cycle and a "facilitator" of the domestic-international dual cycle. The plan will create numerous new growth prospects for Hong Kong's financial sector.

5.1 Be a "Bridgehead."

With supportive policies, foreign financial institutions and overseas capital will enter China's financial industry in greater numbers in the future. Hong Kong is a vital link between mainland China and international markets. With the ongoing expansion and opening of the financial industry in mainland China, the difficulty of accessing the mainland market will be greatly decreased, and a larger market space and development platform will be made available for its business growth(Xie, 2013). It will improve Hong Kong's reputation as a global financial center. Foreign financial institutions based in Hong Kong that utilized Hong Kong as a "bridgehead" to conduct domestic business in the past have gathered a great deal of successful experience and will have more benefits in the future when entering China's domestic financial services market.

5.2 Make a Good "Contact."

The more open mainland China becomes, the better it is for Hong Kong and Macao, particularly in the financial services sector. Hong Kong and Macao have exceptional resource advantages and occupy an important position in the global value chain. Greater complementarity exists between mainland China, Hong Kong, and Macau in the sector of financial services than rivalry. In the future, as national development strategies such as the "Belt and Road" initiative, the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, and the interconnection of capital markets are implemented in greater depth, Hong Kong's significance as a "super-contact" will become increasingly apparent, thereby fostering its development. Maintaining conventional advantages and expanding innovative advantages provide a significant opportunity for progress.

5.3 Be a Good "Leader."

In the long term, the rise of global financial markets will be extremely helpful to the expansion of Chinese-funded financial institutions in Hong Kong. If they are well-positioned as "leaders", they will be able to utilize regional resources to develop the Belt and Road Initiative and the Greater Guangdong-Hong Kong-Macao Bay Area. The globalization of the RMB economy, the market economy, and the accelerated promotion of policy dividends will further explore the domestic business, expand global business, promote the integration of Hong Kong and the mainland, China's economy, and the global market, and create a win-win situation.

Contrary to the "uselessness" of Hong Kong, the financial market in Hong Kong is destined to have a broader space for development. At the same time, under the guidance of national policies, Hong Kong financial institutions have many important opportunities to further the growth of their own mainland and global finance.

6. Conclusion

In conclusion, Hong Kong, China, possesses unique advantages in terms of its geographical location, market system, and human resource reserves. It will have a prominent position in the global capital market and play an indispensable role in the reform and opening-up of the investment field in mainland China. In addition, the interconnection between China and the mainland capital market will be strengthened. Simultaneously, with the acceleration of China's reform and opening-up process, Hong Kong's role will shift from "introducing relevant funds for the mainland" to an international wealth management center, a leading offshore risk management center, and an international asset pricing center in the mainland. Hong Kong should also continue to play an important role as a "super-connector" and actively participate in key national economic development strategies, such as the globalization of the RMB, the implementation of the Belt and Road initiative, and the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, to assist China in opening its economy to the world. Hong Kong's financial industry is also continuously deepening reform and innovation. Actively supporting the growth of the real economy will continue to be of exceptional importance.

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