Why Hong Kong matters

Understanding the importance of the city to China and the world

HONG KONG WATCH

Contents

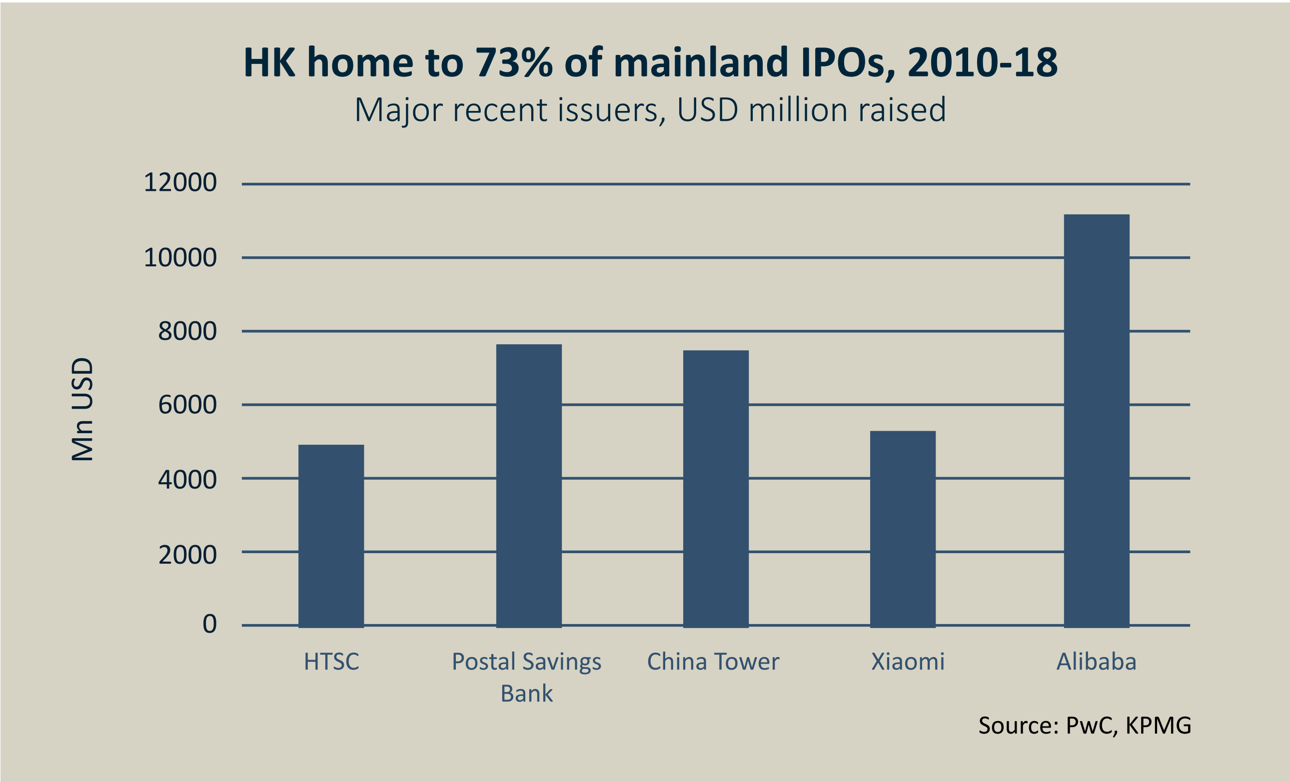
Executive Summary

The protest movement has drawn many prophesies from commentators about the end of Hong Kong, but little robust analysis of the city's ongoing geopolitical importance, and its significance as China's pre-eminent international financial hub has been produced.

Although Hong Kong's economic output is less significant to China than it was in 1997, it still plays a key role both for the mainland and the world as the Asia Pacific region's pre-eminent financial and professional services centre. Chapter 1 considers evidence for this in detail. Key insights include:

Hong Kong is a key source of capital for corporate China

- Hong Kong was home of 73% of the initial public offerings of mainland Chinese companies between 2010 and 2018. Since 1997, Chinese companies have raised $335 billion in Hong Kong.
- The Hong Kong Stock Connect is increasingly the preferred route for Western investors seeking to access the Mainland Chinese market. $95 billion flowed into Mainland Chinese capital markets via Hong Kong between 2016 and September 2019.
- Hong Kong is the largest offshore centre for bond sales by Chinese companies, and the largest recipient of foreign direct investment from China. It has a vital role in trade finance and is the top hub for Renminbi internationalisation
- Hong Kong plays a key role as a private wealth management centre for high-net worth individuals from Mainland China, including many members of the Chinese Communist Party.



Hong Kong is critical to the interests of foreign firms and investors

- The city is a key regional hub for firms seeking to access China and other Asia Pacific markets. 1530 multinationals have their regional headquarters in Hong Kong, an increase of two-thirds since 1997.
- US outbound FDI to Hong Kong came to approximately $82.5 billion at the end of 2018, and there are 1300 US companies in Hong Kong. Hong Kong is the United Kingdom's second largest trading partner in Asia.

Can another Chinese city replace Hong Kong?

Hong Kong has a critical role to play in the region as a financial conduit between China and the West. This statement begs a second question: can these global powers easily replace Hong Kong? The third chapter of the report argues that China cannot easily replace Hong Kong.

Shanghai, Shenzhen and Beijing are growing in importance domestically, but they are nowhere near being able to replace Hong Kong's unique function. Studies show that the relationship between Hong Kong and other financial centres should not be viewed primarily as one of competition, but rather as a collaborative relationship with the different centres carrying different strengths.

7 reasons Hong Kong has the upper hand over other Chinese cities (Chapter 3)

1. Simpler and lower taxes
2. Deregulated economy and lack of capital controls
3. Strongest stock market
4. Unique connections, English is one of the official languages
5. Common law system is more transparent and reliable
6. Freedom information gives Hong Kong the upper hand
7. Hong Kong's separate customs status brings unique access to the US and other markets

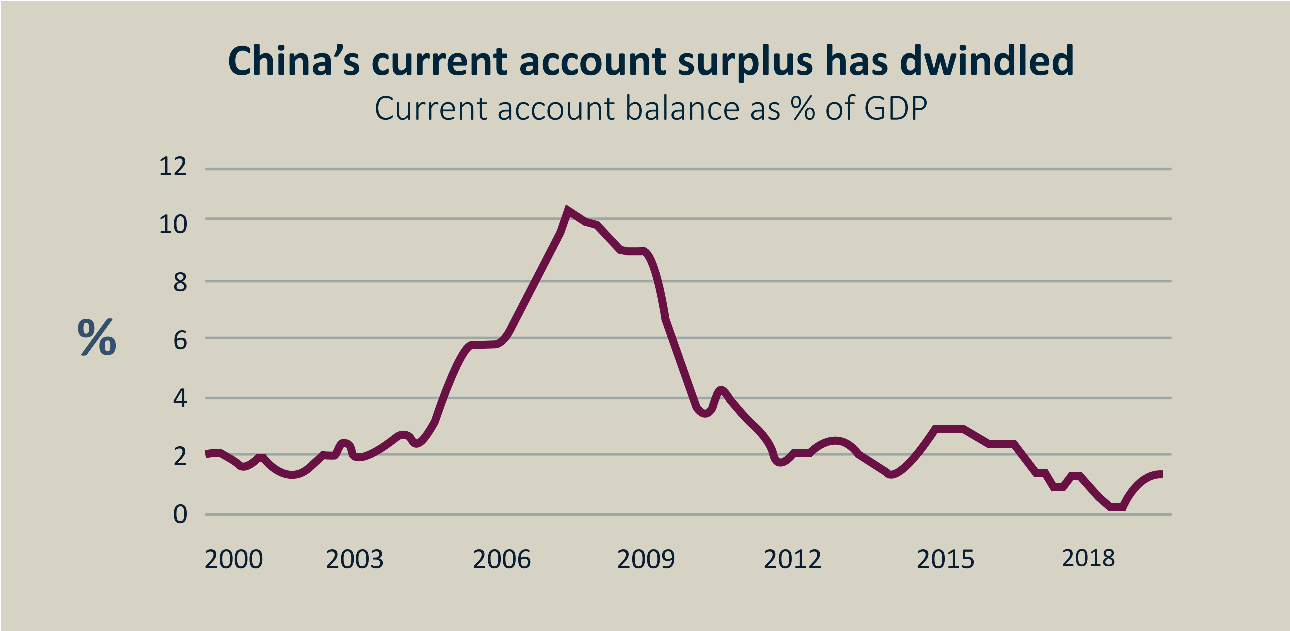
The Chinese government is unable to force international banks to relocate to Shanghai or Beijing. In an interview with a Hong Kong Watch researcher, one financial analyst said***: 'China cannot just move their international financial hub to Shanghai. The international investment banks and investors are the ones who decide where the Asian financial centre is.'***

Could another offshore financial centre replace Hong Kong?

A greater challenge to Hong Kong is Singapore. Banks could move their human capital to Singapore without too much difficulty, although visa restrictions on foreigners generally have been tightening in Singapore. But, while it might be possible, the access that Hong Kong gives to China is unparalleled and Singapore would struggle to immediately act as a replacement. Situated in a different part of the region, without the local knowledge, a weaker stock market, and with less close access to the Chinese government, its state apparatus and businesses, Singapore is at a disadvantage.

Recent geopolitical tensions, particularly the US-China trade war, increase Hong Kong's advantage. The 'decoupling' between the US and China means that the risks for Chinese firms of becoming too dependent on access to capital in New York, or even London, has increased, along with China's desire to have a trusted and controllable financial hub. The result for Hong Kong has been that Alibaba and others have listed in the city despite the protests.

Some analysts think China might go into deficit in future years as the ageing population brings a lower savings ratio. But even with a small surplus, China is more reliant on attracting capital inflows from foreigners than in the past. This will mean that Hong Kong's capacity to raise capital will matter more than ever.



The rule of law and fundamental freedoms are vital to the city's success

As part of the research, we interviewed business leaders and analysed key business sentiment through surveys to understand what it was that attracts people to Hong Kong. Rule of law was consistently cited as a priority. One senior executive of a British bank said: ***'The Rule of Law is the most important reason for Hong Kong's financial centre status'.***

This sentiment is echoed in major business sentiment surveys. Both the American Chamber of Commerce and the Hong Kong government business sentiment survey find that the rule of law, independent judiciary, free information flows and the integrity of the 'one-country, two systems' framework are paramount to businesses choosing Hong Kong.

Rule of law and freedoms under threat

Events of recent years have placed these qualities under threat. In recent years Hong Kong has seen core freedoms being eroded at speed. Booksellers have been abducted, student protestors have been imprisoned, political candidates have been disqualified from running for election and legislators have been barred from the city's legislature. Press freedom, academic freedom and the rule of law are all facing pressures in an atmosphere where Xi Jinping's authoritarian rule increasingly limits freedom.

The rule of law has by and large remained intact, but the increasing interference of Beijing through 'interpretations' of the Basic Law, and then the proposed extradition and mutual legal assistance legislation which sparked the mass protests in 2019 provided ominous signs. The retired Court of Final Appeal Judge, Kemal Bokhary, recently said that Hong Kong's legal system was facing a 'storm of unprecedented ferocity.'

The erosion of freedom and the rule of law in Hong Kong has further implications, as these qualities are widely seen to be a proxy for the city's autonomy under the one-country, two-systems framework. Evidence that the city is insufficiently autonomous places Hong Kong's special treatment by the United States under the US-Hong Kong Policy Act at risk.

In a valedictory op-ed for Bloomberg, Kurt Tong, the former Consul General in Hong Kong wrote: ***'Hong Kong's high degree of autonomy is the necessary ingredient for this success. China's growing encroachments on that autonomy, however, pose a very real threat to the city's special status and future competitiveness.'***

Pressures from the protests on Hong Kong as an international financial centre

The protests, and particularly the authorities' reaction to them, have intensified the pressures on the rule of law, freedom and autonomy. Beijing's response to protests has exposed the limits of Carrie Lam's autonomy, and the limits to their willingness to abide by international human rights norms. The use of the Emergency Regulations Ordinance and the impunity granted to police officers has stretched the rule of law to its limits.

Political instability seems permanent. This has seen Hong Kong downgraded by prominent rating agencies, and leading business leaders raise concerns about the impact of this instability for Hong Kong's long-term image.

Businesses have come under political pressure from both sides, which increases the political risk of domiciling in Hong Kong, again undermining the city's attractiveness.

Conclusion

The report explores what business leaders find valuable in Hong Kong, and the threat that the city's unique characteristics currently face. Repeatedly they point to the rule of law and fundamental freedoms, alongside low tax and deregulation, as being fundamental to the city. It is in nobody's interests for the city to lose its uniqueness. The Hong Kong government, their counterparts in Beijing, and international governments should recognise that the preservation of the rule of law and fundamental freedoms is not only morally right, it is in their interests.

Recommendations

To the Government of the People's Republic of China

- Prioritise the freedoms and rule of law which allow Hong Kong to be a major international financial centre;
- Encourage the government of Hong Kong to introduce political reforms and universal suffrage in order to tackle the root cause of unrest, and combat political instability;
- Encourage the government of Hong Kong to initiate an independent inquiry into the events of recent months in order to begin reconciliation;

To the Government of Hong Kong

- Uphold rule of law and fundamental freedoms;
- Introduce political reforms, including reforms of public order legislation and the introduction of universal suffrage;
- Establish an independent inquiry into the protests;

To the international business community

- Use research and advocacy capacity to encourage the Chinese government and international governments to recognise the importance of the sustainability of Hong Kong's one-country, two-systems arrangement;

To international governments

- Research the role of Hong Kong in the region to understand the significance of the city's freedoms and rule of law;
- Work collaboratively with like-minded countries to monitor and defend freedom and the rule of law in Hong Kong, as established under the one-country, two-systems principle;
- Work with the Hong Kong SAR government to provide expertise and knowledge required to build sustainable institutions and promote reconciliation.

Acknowledgements

Hong Kong Watch would like to thank the economists and other experts who helped to proof and inform the findings of this report. We are grateful to Calum Muirhead for his role in proofing a number of the chapters.

Introduction

Eight months of protests have left Hong Kong at a sensitive and critical moment. The one-country, two-systems principle is in jeopardy, and the window of opportunity for salvaging it is narrowing by the day.

One of the crucial questions begged by the protests is the significance of Hong Kong. If Beijing decides to crackdown on the city's citizens, what would the implications be? This report examines the significance of Hong Kong as an international financial centre to China and the wider world. We find that Hong Kong plays a critical role for China's finances, China's public image, and the wider world. The implications of the city's collapse as a prominent financial hub would be profound.

When Hong Kong was handed over from Britain to China, the output of the city made up nearly one fifth of China's Gross Domestic Product. By 2019, this figure had reduced to 3% (Economist, 2019). Although largely a result of unprecedented economic growth in Mainland China and not the decline of Hong Kong, these figures have been taken by some analysts (Prasad, 2019; Collier, 2019) as evidence that Hong Kong no longer has an important function to play for China.

This viewpoint is misplaced. Hong Kong's role has changed, its economic output is less significant to China, but it still plays a key role both for the mainland and the world as the Asia Pacific region's pre-eminent offshore financial centre. In the words of economist George Magnus: 'Hong Kong is still China's financial window on the world, and the world's financial window on China.' (Khan and Saito, 2019)

This report is split into four parts. In the first chapter, we consider the evidence of Hong Kong's ongoing importance as China's gateway to international finance. We then turn to examine why the city plays this function in the second chapter, drawing on a combination of public business sentiment surveys and qualitative interviews. The third chapter argues that Hong Kong cannot be easily replaced, either by a mainland city or another offshore centre. The report concludes with a consideration of the current threats to Hong Kong's international financial centre status.

Chapter 1: Evidence of Hong Kong's importance

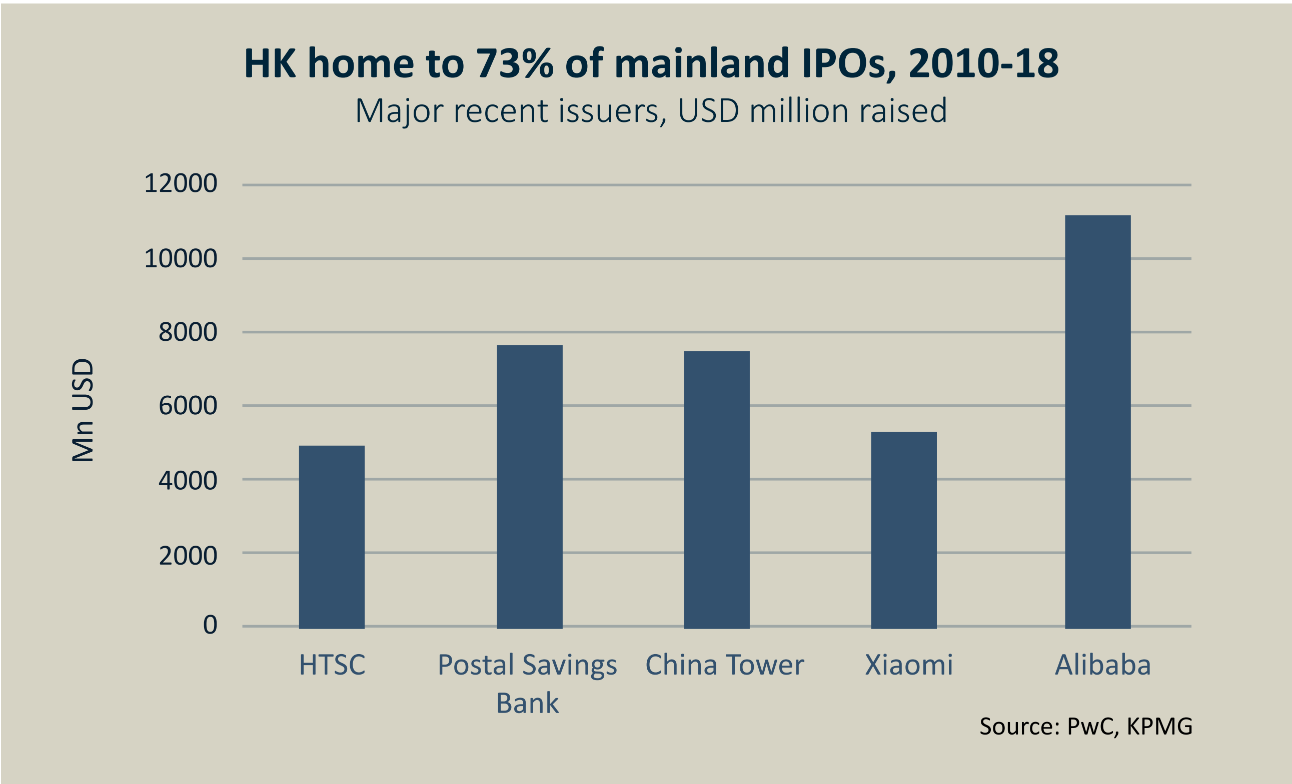
The first chapter of this report considers statistical evidence of Hong Kong's significance by examining the ways that Hong Kong plays a role. The data underlines the current value that Hong Kong has for China, and the wider world. The chapter highlights that Hong Kong is a key source of capital for corporate China, has a crucial role in opening up global markets for Chinese firms, and remains the pre-eminent Asia Pacific hub for international firms. Our analysis focuses specifically on Hong Kong's significance as an international financial centre, although further studies on the city's role as a port or consultancy hub would strengthen the point.

Hong Kong is a key source of capital for corporate China

Chinese firms are currently reliant on Hong Kong as their key source of foreign funding. Hong Kong's equity and debt markets are used to attract foreign funds. The city is home to the largest number of initial public offerings by Chinese mainland firms by a considerable margin. It also provides a gateway through which Western investors can access the mainland stock market, and the city is a key hub for mainland firms when they are seeking to raise foreign currency, particularly US-dollar denominated bonds.

1. The most attractive place for mainland Chinese companies to conduct their initial public offerings and secondary listings

Hong Kong's stock market is now the world's fourth largest. Around 70% of the capital raised on it is for Chinese firms (Economist, 2019). These Chinese firms are reliant on Hong Kong for their public listings: Hong Kong was the home of 73% of mainland Chinese companies' initial public offerings during the period between 2010 and 2018 (Collier, 2019). The mix of firms that choose Hong Kong is striking, ranging from state-owned enterprises like Postal Savings Bank to major private tech firms such as Tencent to commercial giants like Alibaba.



Although the pool of domestic capital has grown, the hard currency available in Hong Kong provides a springboard for Chinese companies looking to invest abroad. The Hong Kong Trade and Development Council reported that in 2018, 1,146 mainland companies were listed in Hong Kong with market capitalisation of $2.6 trillion (HKTDC, 2019).

The statistics show that Hong Kong is by far and away the largest source of capital for Chinese companies seeking outside investment through initial public offerings. Since 1997, Chinese companies have raised $335 billion in Hong Kong. This compares with $84 billion from other sources (Khan and Saito, 2019). Nowhere else combines the knowledge of the Chinese mainland and the international community in quite the same way.

2. A through train for Western investors to the mainland Chinese stock market

'Stock connect' schemes between Hong Kong and Shanghai/Shenzhen open up these mainland stock markets to Western investors. 'Connect' schemes that link the Hong Kong bourse with their mainland Chinese counterparts provide the major gateway for foreigners who wish to buy mainland stocks (Reuters, 2019). Dubbed the 'Through Train' (Asifma, 2014), the Hong Kong-Shanghai/Shenzhen arrangements allow international investors to access China A-shares through Hong Kong despite these being denominated in the renminbi. Investors can access mainland equities via Hong Kong brokers.

Charles Li, the Chief Executive of the Hong Kong Stock Exchange (HKEX) has said that the benefit of the scheme is that it enables both sides to 'be connected with the least amount of changes to their respective existing regulatory systems and market-places.' (HKEX, 2017)

The stock connect scheme is having a significant impact on the ability of foreign investors to access Chinese equities, and for Chinese firms to attract investment. Increasingly investors are choosing to invest in China via the stock connect rather than directly through the qualified foreign institutional investors (QFII) scheme and the renminbi qualified foreign institutional investor (RQFII) scheme. Analysts are saying that the stock connect is making the other schemes increasingly obsolete as it makes it far easier to safely invest (Yu, 2019). The stock connects are one of the key reasons for the increased weighting of Chinese A-Shares in MSCI indexes (Chia, 2018), increasing the desirability of these shares.

For a sense of the amount of money flowing through Hong Kong, the United States-China Economic and Security Review Commission (USCC) cited evidence that $95 billion flowed into Chinese capital markets via Hong Kong between 2016 and September 2019 (USCC, 2019: 509).

3. A deep and liquid dollar-denominated debt market

Hong Kong has a deep and liquid dollar-denominated debt market, which is routinely tapped by Chinese businesses that wish to raise foreign currency by selling US dollar bonds or attract outside investors.

Hong Kong is the largest offshore centre for bond sales by Chinese companies. Around 60 percent of US Dollar denominated bonds issued by Chinese companies were listed in Hong Kong between 2017 and 2019 (Khan and Saito, 2019).

Chinese businesses also tapped Hong Kong's debt market for 33% of their $165.9 billion in offshore U.S. dollar funding in 2018 (Reuters, 2019).

Dollar bonds are used to attract investors since they lower the currency risk for investors or creditors from overseas, as well as increasing their accessibility. These bonds also allow corporations seeking to invest outside of China to raise foreign currency.

The Hong Kong dollar is pegged to the US dollar, and therefore conversion between the two currencies in easy. Hong Kong is thus the ideal base from which Chinese firms can issue these bonds.

Bond Connect

The **Bond Connect program**, launched in July 2017, is a mutual market access scheme which allows overseas investors to invest in the Chinese mainland's interbank bond market using financial institutions on the mainland and in Hong Kong.

Trading volume under the **Bond Connect** program in August 2019 reached 338.6 billion yuan, according to the China Foreign Exchange Trade System (CFETS) (Xinhua, 2019).

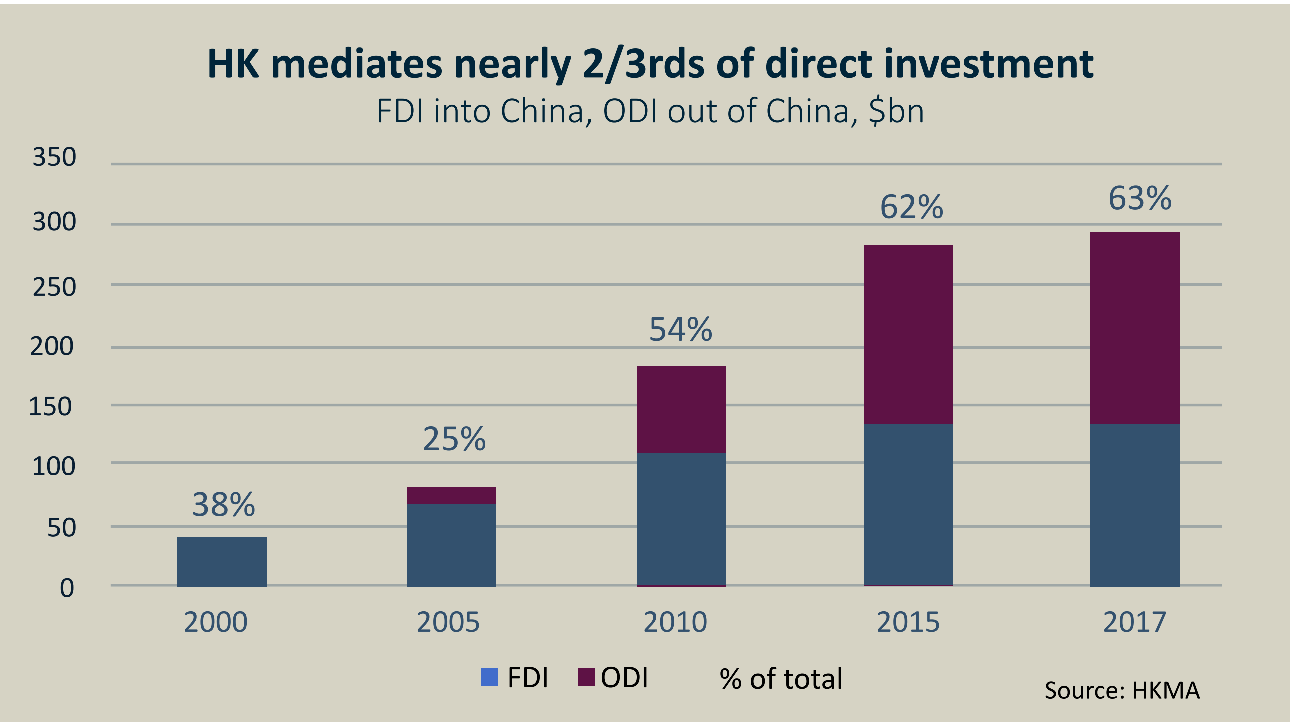
The Bond Connect scheme makes it easier and faster, particularly for smaller investors, to make investments. It requires substantial resources and mainland knowhow to use the RQFII and QFII schemes, and therefore for many firms the Bond Connect is more attractive. Primarily as a result of Bond Connect, foreign holdings increased by 29% in 2017, according to the International Capital markets Association (ICMA) (Mariathasan, 2019).

Hong Kong has a role in opening up global markets for Chinese firms

Hong Kong is not only a key source of capital for Chinese firms, it has played a critical role in opening-up global markets for them.

1. Hong Kong is the largest recipient of foreign direct investment from China.

54.2 per cent of the total outflow of overseas direct investment (ODI) from mainland China comes to Hong Kong (HKTDC, 2019). This money is then often repatriated as foreign direct investment (FDI) into China, or the funds are sent elsewhere (Huang, 2019a). Overall almost two-thirds of China's direct investment flows are mediated through Hong Kong.



Hong Kong's favourable regulatory environment allows it to play this role. Hong Kong's system is trusted, and investment from Hong Kong is considered more reliable. Hong Kong thereby provides a springboard for mainland businesses for accessing global markets.

Having said this, the figure should not be taken entirely at face value. Hong Kong is also routinely used as a base through which mainland Chinese businessmen or officials circumvent stringent taxes on the mainland (Holland, 2016) and the Panama papers revealed a pattern of billions of dollars leaving China, being funnelled via Hong Kong into offshore shell companies on the British Virgin Islands, only to be reinvested back into China as 'foreign direct investment' (AFP, 2016). The Hong Kong Government Census and Statistics Department reported that the largest source of Inward Direct Investment into Hong Kong is the British Virgin Islands (Census and Statistics Department, 2018a). This financial 'round-tripping' is not directly related to Hong Kong's institutions, but is connected to the city's autonomy and tax regime.

2. Hong Kong is a key hub for trade finance

Trade, and therefore trade finance, is key to the growth of China's economy. The Global Financial Crisis of 2007/2008 was followed by a collapse of world trade, and scholars point to the reduced supply of trade finance following the global liquidity crunch to explain this (Accominotti, Ugolini: 2019; Ahn et al., 2011, Del Prete and Federico 2014).

Hong Kong hosts 77 of the world's top 100 banks and has been a key international trade finance centre since post WWII. The Hong Kong Trade Finance Platform eTradeConnect, drawing on blockchain and artificial intelligence (Weinland, 2018) further increases the city's competitiveness and importance to the China mainland. Furthermore, in late 2017, the Hong Kong Monetary Authority (HKMA) entered into a Memorandum of Understanding with the Monetary Authority of Singapore to develop the Global Trade Connectivity Network, a blockchain-based cross-border interface that links the digital trade finance platforms in the two cities (Huang, 2019b). This is set to increase efficiency and reduce the risks associated with paper-based transactions.

Besides Hong Kong's important role in trade finance generally, Hong Kong's financial expertise and reputation has an important role in the Belt and Road Initiative. With China investing hundreds of billions around the world, Hong Kong's autonomy, reputation, large foreign exchange and securities market have been vital, removing barriers to trade and investment.

3. Hong Kong is the top hub for Renminbi internationalisation.

The Hong Kong Monetary Authority boasts of its place as 'global hub for offshore RMB business' (Huang, 2019a), and it is currently indispensable in President Xi Jinping's plans to improve the convertibility of the currency. Hong Kong has the largest RMB liquidity pool outside China, amounting to RMB 634 billion in June 2019 (Huang 2019a). Over 75 per cent of offshore RMB-denominated payments were cleared in Hong Kong in May 2019 (SWIFT, 2019). However, London in particular has been growing as an offshore centre, pulling ahead of minor centres such as Sydney and Toronto (Szalay, 2019).

The internationalisation of the Renminbi is a strategic ambition for the Chinese government, as internationalisation will reduce transaction costs for trade, while also reducing the power of the dollar. It also lowers borrowing costs. Hong Kong is essential for this strategy to work.

4. Bank lending and borrowing

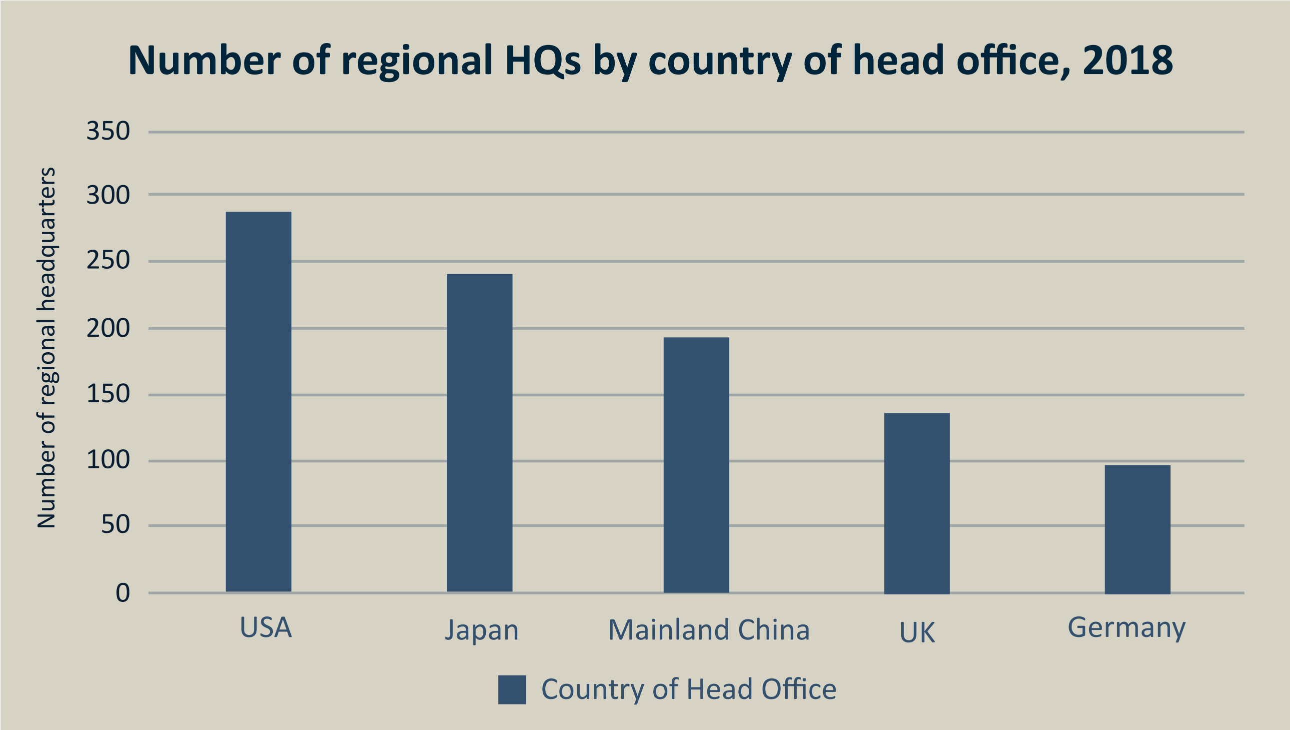
Another measure of Hong Kong's importance to China is the scale of cross-border bank lending and borrowing between Hong Kong and China. The latest figures from the Bank for International Settlements (BIS, 2019) show that banks in Hong Kong accounted for 39% of total international bank cross-border claims on China ($389.6bn out of $989.8bn) and 33% taking only loans and deposits ($231.7bn out of $699.7bn). On the liability side Hong Kong is home to 40% of China's resident and companies claims on the international banking system. These figures capture a whole range of financial activities including straight bank loans, securities holdings, private banking, trade finance, trading and more.

Hong Kong has a role in opening up Chinese and other Asia Pacific markets for foreign firms and investors

Hong Kong does not only serve an important role to mainland Chinese businesses; it remains a critical hub in the Asia Pacific region for international firms – providing the regional headquarters for thousands.

1530 multinationals have their regional headquarters in Hong Kong according to the Hong Kong government (InvestHK, 2019). This is an increase of two-thirds since 1997. In 2018, United States-based companies had the largest number of regional headquarters (290) and regional offices (434) in Hong Kong, followed by Japanese and Mainland Chinese firms (Census and Statistics Department, 2018b).

137 UK companies had their regional headquarters in Hong Kong, and Hong Kong was the top destination for Foreign Direct Investment in Asia from the United Kingdom. Hong Kong is the United Kingdom's second largest trading partner in Asia, second only to Mainland China with exports in 2018 totalling $10.3 billion.

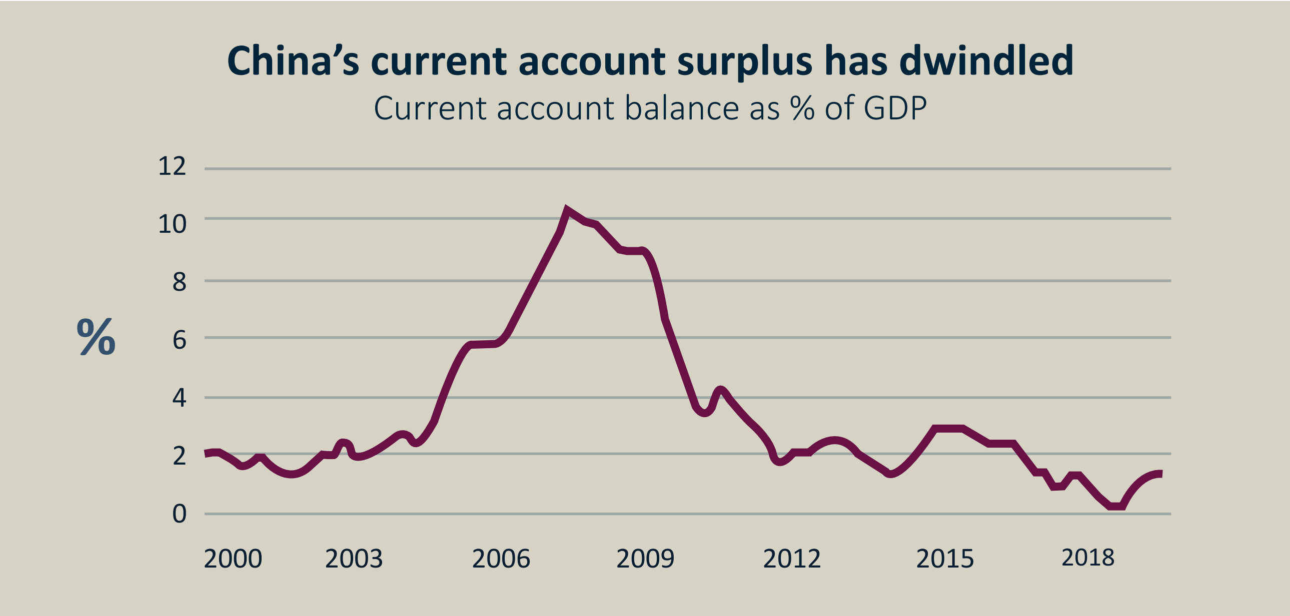


Most of the companies which choose Hong Kong as their base do so because of the access that Hong Kong gives to China and other Asia Pacific markets, and its place as the region's pre-eminent financial centre. In 2018, 60 per cent of the Foreign Direct Investment which flowed into mainland China came via Hong Kong (Economist, 2019; Fong, 2019). Although some of this is a result of the 'round-tripping' described above, most businesses choose to invest via Hong Kong because of the city's unique advantages which will be discussed in greater detail below.

Hong Kong has deep ties with leading Western nations. Consider the United States as an example. US outbound FDI to Hong Kong came to approximately $82.5 billion dollars at the end of 2018, and there are more than 1,300 US companies operating in Hong Kong (USCC, 2019: 514). The open engagement helps to ensure that there were 1.3 million US visitors to Hong Kong and that 85,000 US citizens are Hong Kong residents (USCC, 2019: 514). This level of engagement is unique for a city in China – and reflects the deep bilateral connection that arises as a result of the US-Hong Kong Policy Act (see below).

China's increasing dependence on capital inflows

China's current account surplus reached over 10% of GDP in 2007 but it has since declined to only about 1-2%. Some analysts think China might go into deficit in future years as the ageing population brings a lower savings ratio (Weizen, 2019). But even with a small surplus, China is more reliant on attracting capital inflows from foreigners than in the past because it tends to have a net outflow from residents, despite strict capital controls. Chinese firms want to buy overseas companies for access to technology while individuals want portfolio diversification as well as to safeguard wealth from the unpredictable behaviour of the Chinese Communist Party (CCP).



The large foreign exchange reserves built up in the early 2000s, over US$4 trillion at the peak, fell back in 2015-16 as China moved to prevent the currency sliding too far. They have since stabilised but China's opening to foreign investors in domestic stocks and bonds is partly driven by a desire to encourage capital inflows. Further, if China wants to move to greater convertibility of the renminbi, to challenge the dominance of the US dollar, it will need to relax those capital controls on domestic outflows, making attracting foreign inflows even more important. Hong Kong is likely to be a critical part of this story.

The role of Hong Kong in Private Wealth Management

Hong Kong plays a key role as a private wealth management centre for high-net worth individuals from China, including many members of the Chinese Community Party (Moore, 2012). According to the Securities and Futures Commission's statistics (SFC, 2019), Hong Kong's asset and wealth management business amounted to US$3.1 trillion on 31 December 2018. The assets under management by the private banking and private wealth management business amounted to about US$973 billion in 2018.

When this amount is compared with the US$8.1 trillion of overall cross-border transactions reported by Hong Kong banks to the Bank for International Settlements (BIS), it shows the importance of this wealth management business to Hong Kong (Binder, 2019).

The survey also finds that US$553 billion of the US$3.1 trillion in assets are held in trusts. A trust is a legal construct that allows the owner of something, say shares in a company, to give away these shares to the benefit of another person without making her the new owner of the shares. That makes it difficult for outsiders to trace the wealth back to its true owner.

Nearly sixty percent of those holding assets in trusts were either residents of Hong Kong or mainland China.

Meanwhile, Hong Kong saw a fourfold increase in the number of high net worth individuals (HNWIs) living in the city between 2008 and 2017. The wealth of these HNWIs in Hong Kong was about US$1 trillion, recording an annual growth of 16.3% in 2017 (FSDC, 2019).

While most precise numbers on the amount of Mainland Chinese wealth are difficult to come by it is clear that many Mainland Chinese have a strong personal interest in Hong Kong's success as a financial centre.

Chapter Conclusion

Statistics show that Hong Kong continues to play an important role in the region. The city is a critical source of capital for Chinese mainland firms, and it remains a key regional hub for international firms looking to expand into the Asia pacific region as well as a key wealth management hub for rich Mainland Chinese. Hong Kong is not China's economic powerhouse as it once was, but as a hub for financial services it is more important than ever, and with China's increasing dependence on capital inflows, this is only likely to increase. Hong Kong plays a key role in connecting Western firms to Asia Pacific markets, and in providing a springboard for Chinese firms which seek to raise international funds or break into global marketplaces.

Chapter 2: Understanding Hong Kong's success as an international financial centre

In the first chapter, we considered the statistical evidence of the ongoing importance of Hong Kong as an international financial centre. In the next two chapters, the report considers what qualities allow Hong Kong to serve as a global financial centre.

Background: What is an international financial centre?

The extensive academic literature on world cities and financial centres provides insights into understanding what makes an international financial hub (Meyer, 2015; Mahutga and Smith, 2011; Clark, 2002; Knox and Taylor, 1995; Lee and Schmidt-Marwede, 1993; Sassen, 1999; Wójcik, 2011).

The world's largest financial centres house the largest global firms, as well as a range of specialised smaller firms (Meyer, 2015: 199). The concentration of specialised financial expertise and knowledge in one small area, whether Central District in Hong Kong or the City of London, underpins the success of these centres – with economies of scale providing a competitive advantage (Clark, 2002; Clark and Monk, 2013; Faulconbridge, 2004).

International financial centres are also set apart as a result of their connectivity. They need to be easily accessible to both the regional actors they serve and the global economy. It is no coincidence that Heathrow, JFK and the Hong Kong International Airport are three of the world's busiest hub airports.

However, while a dense agglomeration of firms and good connectivity are necessary, they are insufficient to form and consolidate international financial centres. Global capital is footloose, and financial firms consolidate in hubs where the conditions are most conducive to their unique form of business. Alongside connectivity and the density of businesses, a prerequisite for 'world cities', or successful international financial centres, has historically been freedom of movement, free capital flows, the rule of law, political stability, a business-friendly tax environment, and the free flow of information (Nadler, 1995: 283-4; Gipouloux, 2011).

In 2015, the Economist Intelligence Unit and the Bingham Centre for the Rule of Law (EIU, 2015) conducted a survey of 301 Forbes 2000 corporate decision makers. The survey focused on the top considerations for multinationals when making Foreign Direct Investment decisions and found that the top three were 'ease of doing business', a 'stable political environment', and the 'strong rule of law' (EIU, 2015: 6). Other important priorities were access to national or regional markets as well as low levels of corruption and tax incentives.

Freedom of capital matters because one of the primary roles of financial centres is to facilitate deals and transactions. The most successful international financial centres make this process as easy as possible for international actors.

Additionally, freedom of information matters because knowledge is one of the most valuable commodities in the financial services industry. Financial centres are 'knowledge hubs' for both global and regional economies, but without freedom of information, and the ability to receive accurate, up to date news, the ability to forecast finances is severely curtailed. This is particularly the case in regions where other cities are vying for financial predominance.

The rule of law is also critical for international businesses in deciding where to locate. The EIU report (EIU, 2015: 6) shows that multinationals are particularly concerned about corruption levels, the transparency and consistency of decision making, and intellectual property rights.

Finally, political stability will play a role, both in ensuring that a city is a desirable place to live and that there is no risk of sudden regime change that will upend reliable rules.

Why is Hong Kong a successful international financial centre?

Hong Kong has been one of the world's leading financial centres for decades precisely because these qualities have been a priority.

The city's history gave it a head-start. Hong Kong emerged in the 1950s as the British Empire's leading business hub in the Asia Pacific region. As a strategically positioned port, and with well-established businesses with strong connections with London such as HSBC, Jardine-Matheson and Swire, the city flourished and boomed. Leading banks and businesses in the region have well-established Asia headquarters in the city as well as access to its a talented pool of professionals. Hong Kong's financial professionals have decades of experience sitting at the apex between China and the rest of the world, and therefore have expertise and knowledge of markets that give the city a huge comparative advantage.

As a key port city, Hong Kong also has vital transport links (Jarvis, 2011). The Hong Kong International Airport provides important global connectivity. The 2018 world airport traffic rankings mark Hong Kong International Airport as the 8th busiest airport in the world, with nearly 75 million passengers. It is also the largest air cargo centre, handling more than 5 million metric tonnes of freight (Airports Council International, 2019).

However, Hong Kong retains its status for a range of other reasons.

The Hong Kong government has made deregulation and free movement of capital a priority. This is largely as a result of the city's status as a Special Administrative Region of the People's Republic of China. Hong Kong's status as a separate entity at the World Trade Organisation facilitates policies independent of the heavily regulated mainland economy. The Heritage Foundation has, as a result of the Hong Kong government's policy, repeatedly described Hong Kong as the world's 'freest economy.'

All participants in the Hong Kong stock exchange and financial markets have access to transparent and accurate information (Gipouloux, 2011: 244). Again, its autonomy from mainland China facilitates this. Hong Kong is not within the 'Great Firewall of China', and many leading news organisations base their Asia Pacific Headquarters in the territory.

Another advantage for Hong Kong is its common law system, which aside from being both highly respected and reliable also shares synergies with other key financial hubs such as Singapore and London as a result of the common-law link and the presence of international judges. This ensures that contracts are reliable and easier to sign with other key jurisdictions.

The influence of Hong Kong's cultural capital cannot be underestimated, its success is built on a diverse international workforce, many of whom have made Hong Kong their home precisely because it has many of the freedoms they are used to enjoying in Western open societies. The widespread use of English language and the high calibre universities in the city are a further draw.

Finally, the combination of autonomy and the rule of law continues to mean that Hong Kong is treated qualitatively differently to other mainland cities by the United States and other international governments. Through the US Hong Kong Policy Act (HKPA, 1992), the US Congress makes the US-Hong Kong relationship contingent on the city remaining autonomous and the one-country, two-systems principle retaining its integrity. The Act grants Hong Kong special treatment in a range of economic and trade matters, as well as diplomatically. It also allows the city access to sensitive dual-use technology, privileged import quotas, and a non-discriminatory trade agreement (USCC, 2019).

The insights of business leaders

Public business sentiment survey data and qualitative interviews confirm that these are the priorities of international business leaders in Hong Kong. The American Chamber of Commerce's 2018 business sentiment survey concluded that:

> 'Government transparency, rule of law and free flow of information, together with business-friendly policies are the most important factors behind Hong Kong remaining an international business centre, followed very closely by the availability of talent.' (AmCham, 2018)

Their survey emphasises the importance of the 'integrity of the one-country, two-systems framework and the rule of law', and states that more than fifty per cent of business leaders believe these are being eroded. The rule of law is repeatedly cited as fundamentally important.

Hong Kong Government statistics confirm these insights. Their survey of foreign firms (Census and Statistics Department, 2018b), found that:

> 'Among the factors affecting the choice of a location for setting up of regional headquarters, regional offices or local offices in Hong Kong, simple tax system and low tax rate was considered to be the most important factor. Other important factors… included free flow of information; corruption-free government; productivity of staff and rule of law and independent judiciary. In fact, each of the important factors mentioned above was rated respectively by 50% to 67% of the Regional HQs/ Regional Offices/ Local Offices to be favourable factors for Hong Kong.'

Why business leaders like Hong Kong

'Its capitalist, non-interventionist economy, freedom of speech, freedom of movement. We are unquestionably part of China. But we are a type of Special Economic Zone with privileges.' *(Managing Director of an Asian bank)*

'If you can cover housing, Hong Kong is great. Global income is tax free, dividend income is tax free, you are only taxed on what you earn here at a rate of 15%. The average expat is very safe here, there is due process of law, no extortion... Expats are attracted here because there are low taxes, language is no issue, institutions are very important. There is a feeling of freedom which is missed in Singapore, Singapore is a nanny state. The most important factor is low tax and a lack of regulation.'

(Western hedge fund manager)

'Rule of law is the most important reason for Hong Kong's international financial centre status.'

(Managing Director of a British bank)

Similar themes emerged in qualitative interviews conducted by Hong Kong Watch researchers. Hong Kong Watch interviewed two of Hong Kong's property tycoons, three managing directors from international banks, two leading hedge fund managers, one Legislative Council member who represents a pro-business party, one senior economist, one former partner at one of the 'Big 4' accountancy firms, the Chief Executive of a local recruitment firm, a senior business journalist at one of the major Cantonese newspapers, and a former financial analyst at an American bank.

Most of those we spoke with identified the trustworthy nature of the common law system, the sense of safety and security that one has in Hong Kong, and the deregulated business environment as critical to Hong Kong's status as an international financial centre, and for expatriates in choosing Hong Kong as their place of residence. This is illustrated in Table 1 below.

Many also emphasised the ongoing importance of the US-Hong Kong Policy Act. They were clear that the US-Hong Kong Policy Act is essential, not only as a result of the tangible trade benefits it brings, but also for Hong Kong's international reputation. The US-Hong Kong Policy Act is as much necessary for Hong Kong to retain its brand - as autonomous, different, special - as it is for the trade flows. The consensus view is that the retraction of the endorsement by the US would be a significant and potentially critical reputational blow to the city.

One senior executive at an international bank said that:

> 'The impact of the US-Hong Kong Policy Act is not just the legal principles; it is the impact on business confidence and global opinion. This affects whether the world actually thinks you are meaningfully a Special Administrative Region.'

This was echoed by a Managing Director of an international bank who said that:

> 'The Hong Kong Policy Act is the US endorsement of one-country, two-systems. This brings US business involvement. That presence is the main reason that Hong Kong is an international financial hub.'

Similarly, a leading expatriate hedge fund manager underlined the importance of the Act:

> 'Hong Kong is in danger of losing it [special status under the Hong Kong Policy Act]. It is essential. If it lost it, it would be the beginning of the end of Hong Kong. It would hit the economy. If Hong Kong is viewed as an arm of China, that is a problem.'

Table 1: Why business leaders like Hong Kong	
Source	**Priorities for business leaders**
Interview with pro-business Legislative Councillor	One-country, two-systems; capitalist system; rule of law
Interview with property tycoon	Hong Kong Dollar – US dollar currency peg; common law; access to China; low taxes
Interview with senior business journalist	Legal system; clear, transparent guidelines; property rights; simple and low tax rates
Interview with Managing Director of Asian Bank	Capitalist, non-interventionist economy; freedom of speech and movement;
Interview with Hedge-fund manager	Low tax; lack of regulation; safety; rule of law
American Chamber of Commerce Business sentiment survey, 2018	Government transparency; rule of law; free flow of information; business friendly policies; availability of talent; integrity of the 'one-country, two systems' framework
Economist Intelligence Unit and Bingham Centre for the Rule of Law 'Risk and Return Study', 2015	Ease of doing business; a stable political environment; and the strong rule of law; access to national or regional markets; low levels of corruption; and tax incentives.
Hong Kong government survey	Simple and low taxes; free flow of information; corruption-free government; productivity of staff and rule of law and independent judiciary.

Chapter conclusion

Hong Kong's unique status in the eyes of the world has allowed it to be the Asia Pacific region's, and crucially China's, leading international financial centre. This has relied on tangible qualities such as the rule of law, freedom of movement and expression, low taxes, a deregulated economy, and the shared common law system with other financial centres which allows for contracts to be easily drafted. It also relies on intangible assets such as the endorsement and special treatment the city receives by international partners, notably the United States under the US-Hong Kong Policy Act.

Chapter 3: Could Hong Kong be easily replaced?

The preceding chapter explored why Hong Kong continues to play an important role in the global financial services industry. A further question for policy makers trying to understand the city's comparative importance is whether or not the city could be easily replaced. How unique is Hong Kong? Are there other cities which could take its place as the pre-eminent financial hub in the Asia Pacific region? We argue here that no other Chinese city is close to being able to replicate Hong Kong, and that there are significant barriers to other competitors such as Singapore taking up the mantle.

Hong Kong versus Shanghai: Competition or collaboration?

China has multiple financial hubs, most notably Beijing, Shanghai, and Hong Kong. Commentators often speculate that Shanghai or Beijing could replace Hong Kong. Both have significantly expanded in their size and importance to China in recent years. However, they are not ready or able to replace Hong Kong's unique function yet, nor is the Chinese economy designed in a way which would allow them to do this.

The growth in the importance of Shanghai in recent years reflects the growth of the Chinese domestic market, rather than a decline in the importance of Hong Kong. Although a growing number of foreign firms are setting up offices in Shanghai, the vast majority of financial services companies continue to have their Asia-Pacific headquarters in Hong Kong. The reason for this is related to the diverging histories, systems of governance and judiciary, ease of access to capital, and freedoms. In the words of economist George Magnus (2019): 'China's many free trade zones may now stand tall over HK, but none of them can really compete with what Hong Kong is and does.'

Recent academic studies (Lai, 2012; Meyer, 2015, 2018) have shown that the relationship between Hong Kong and other Chinese financial centres should not be viewed primarily as one of competition, but rather as an interdependent, collaborative relationship.

Each city plays a different role for the Chinese economy. Durham University's Karen Lai characterises the three most prominent cities as serving different functions:

1. Beijing: political-regulatory centre
2. Shanghai: commercial financial centre
3. Hong Kong: global financial centre (offshore)

Her analysis observes that the cities have different strengths, fulfilling different functions.

1. Beijing is the heart of politics and is home to the headquarters of large state-owned enterprises. Foreign firms seeking to influence government policy are attracted to Beijing.

2. Shanghai is the key source of finance for domestic business in China, and foreign firms seeking to fund the domestic operations of private Chinese firms base themselves in Shanghai.

3. Hong Kong serves as the key gateway for Chinese firms seeking entry to global capital markets (Meyer, 2015: 205) and as the Asia Pacific hub for international financial firms. It is the meeting point of 'Chinese and foreign social networks of capital' (Meyer, 2018: 132).

In the words of Lai (2012: 1290):

> 'Although the growing Chinese market has induced many companies to relocate their China headquarters to Beijing or Shanghai (which has shifted some sales and service functions), their Asia-Pacific headquarters, treasury business and dealing desks are still maintained in Hong Kong (or further afield in Singapore). This spatial division of functions is reflected in the regional business structures of all the foreign banks interviewed in Shanghai and demonstrates how both international financial centres perform complementary and interdependent roles in the business operations and strategies of foreign banks in China.'

Even Shanghai, the most plausible replacement for Hong Kong, has considerable barriers to overcome if it is to be a replacement for Hong Kong's role as China's gateway to the world.

There are seven key reasons why it is unlikely to be able to do this.

1. Higher taxation

The level of taxation can be prohibitive in Shanghai. While Hong Kong is a free port, with low tax and simple regulations, Shanghai suffers from the mainland's strict regulatory regime.

Taxes in Shanghai are higher than the taxes in Hong Kong, which is a major incentive for firms and expatriates to choose the Special Administrative Region as their regional headquarters, while operating a local office in Shanghai. There are also a wider range of taxes placed on firms. Hong Kong has a flat 15 per cent income tax rate, compared with 45 per cent for the wealthiest owners in Shanghai.

Hong Kong has no capital gains tax, sales tax or VAT, and a comparatively low corporate income tax rate of 16.5%. Furthermore, taxes are only levied on income made in Hong Kong. This contrasts strongly with the rest of China, and although Shanghai has lower taxes for foreign firms than other cities, it does levy VAT, consumption, income and business taxes (Lehman Brown, 2016).

2. Prohibitive regulations and capital controls

A second problem is that, for international businesses seeking to gain a foothold, the regulations in Shanghai are more complex and erratic, and new businesses often rely on political connections.

Capital controls in mainland China are particularly crippling. New arrivals on the Chinese banking market face very high entry thresholds and restrictive operating licences (Gipouloux, 2011: 253). Also, the Chinese state often intervenes in the financial markets and banking systems and the tight foreign exchange controls restrict the type of financial products firms can sell and the amount of business that foreign firms can do (Lai, 2012: 1290).

By contrast, Hong Kong allows for the free flow of capital and unlimited business opportunities (Herrero and Ng, 2019), which ensures that many businesses establish an office in Shanghai where they can access the clients and then secure deals in Hong Kong. Hong Kong's easy access to both dollars and renminbi (RMB) means that it is able to serve as a hub for RMB internationalisation, as well as be the best place for Chinese businesses to raise US-dollar funding and establish a platform for international expansion.

Karen Lai notes:

> 'These regulatory differences have led to the growth in treasury and offshore financial services in Hong Kong. While Hong Kong is a prominent IFC and centre for corporate headquarters in the wider Asia-Pacific region, it has also developed a distinctive role as an international capital intermediation centre for China since the mid 1990s.' (Lai, 2012: 1290)

3. A weaker stock market

The strength of the stock markets in Shanghai and Hong Kong also sharply diverge (Lai, 2012: 1287). The benefits of Shanghai are its lower fees and shorter listing process, alongside the potential domestic political boon of listing on a mainland stock exchange. By contrast, Hong Kong has a more liquid stock market which makes it easier to raise international cash.

Mainland companies with political connections have an upper hand in Shanghai (Jia, Pownell and Zhao, 2018: 14), while the better performers often choose Hong Kong as a result of its international reputation and reliable registration system. The registration system in Hong Kong is more regular and reliable, 'offering certainty when a firm is ready for an IPO' (Jia, Pownell and Zhao, 2018: 18). By contrast, mainland China requires firms seeking a listing to get approval, which leads to political factors coming into play. This, in turn, can lead to uncertain waiting times for receiving approval, which can sometimes take years, while the Chinese government can also decide to freeze IPOs for months in order to artificially support the market (Jia, Pownell and Zhao, 2018: 18).

Hong Kong's more rigorous listing process gives a boost to the reputation of mainland companies, as the credibility of the city's stock exchange allows these firms to prove that their finances are in good order and that their accounting methods are rigorous. Politically connected state-owned enterprises often choose to list for this reason (Hung, Wong, Zhang: 2012). Furthermore, Hong Kong's registration-based IPO system is more transparent and less reliant on political connections in Beijing (Huang, 2019).

As a result, the Shanghai Stock Exchange attracts small and locally oriented companies, and those in primary and heavy industries; while on the Hong Kong Stock Exchange information and knowledge-intensive industries such as banking, insurance, telecommunications and computer technology flourish (Lai, 2012: 1286). There are also structural reasons that the Shanghai Stock Exchange will struggle to replace the Hong Kong Stock Exchange in the near future.

4. Shanghai is less well-connected

Shanghai also does not have the same connections as Hong Kong (Gipouloux, 2011: 250). The way the two cities are perceived internationally differs sharply. Hong Kong has more networks with the rest of the world than any other place in China, ranking: 'top worldwide in linkages to both London and New York' (Meyer, 2018: 138).

These relationships are key. In an interview with Meyer, the co-owner of a private equity fund of funds highlighted that the location is paramount:

> 'It is unbelievably important [to be in Hong Kong] because one of the reasons that U.S. investors would hire us to help them with Asia is because we are on the ground, our eyes are in Asia on the ground. And that I am socializing in bringing them basic knowledge that they could never have twelve time zones away. So, it is critical. If we did this out of California, nobody would give us any money' (Meyer, 2015: 217).

Hong Kong's advantage lies in the way it sits at the apex between East and West. Like Shanghai, Hong Kong's financiers have an intimate knowledge of the Chinese mainland financial markets, but they also have better connections with other Western hubs and therefore it is easier for their counterparts in the English-speaking world to use Hong Kong as their base.

English is one of Hong Kong's official languages, and it makes an enormous difference to the city's connectivity that most of the local talent pool are bi- or tri-lingual, and therefore able to act as excellent brokers for people from diverse business centres (Magnus, 2019). Like Singapore, Hong Kong's history gives it an advantage over Shanghai in this regard.

5. The rule of law and the common law system in Hong Kong sets it apart

'Hong Kong is still a rule of law territory, famed for the quality of its regulatory oversight' (Magnus, 2019). Trust is key to the success of Hong Kong as an international financial centre. The city provides a place where a deal can be reliably made, and contracts are trustworthy. The rule of law also consolidates the sense of safety that wealthy business leaders have in Hong Kong, knowing that a politicised 'anti-corruption' drive is not going to see them purged or their assets arbitrarily stripped.

The common law system is also shared with other key financial hubs and offshore centres, notably London and Singapore, which helps facilitate contracts across jurisdictions and gives Hong Kong a comparative advantage as a gateway to the world.

The same trust in the system is not found in Shanghai, and thus foreign firms naturally prefer Hong Kong as their regional base.

6. Freedom of information and transparency allow Hong Kong to function as it does

The level of transparency and access to information are far more limited in mainland China where the 'Great Firewall' ensures that many top news-outlets are banned and cannot be accessed without virtual private networks (VPNs).

While financial firms may be able to work around some of these restrictions, mainland Chinese cities are naturally at a disadvantage as a consequence of this information gap. Hong Kong has capitalised historically as a base where financial actors can acquire high quality intelligence about the politics in mainland China and access to information from global markets without having to face the same political pressures to doctor their financial forecasts in order to appease political patrons.

7. Hong Kong's separate customs status sets the city apart

Finally, the city's independent trading status means that it is treated as a separate entity by foreign governments. This has direct benefits, notably those laid out in the US-Hong Kong Policy Act such as freer trade of goods and services including dual-use technology, as well as other preferential treatment in trade.

There is also a reputational boon to having separate status. As long as foreign governments acknowledge that Hong Kong is sufficiently autonomous to warrant separate treatment from the communist party, international firms will have good reason to trust that the city is a safe place to act as a regional base.

Conclusion

Shanghai will struggle to replicate Hong Kong's role as a financing hub at any point in the near future. There are major differences between Shanghai and Hong Kong in areas ranging from currency convertibility to the rule of law, from freedom of information flows through to international status and recognition. As a result, Shanghai is not a simple substitute – Hong Kong is the only city in China which has the higher quality institutions and freedoms to allow it to be a hub for both international business and Chinese firms seeking to raise capital.

Could another offshore financial centre replace Hong Kong?

If any city were to replace Hong Kong, it would likely have to be a different offshore financial centre, or a combination of these financial systems. Singapore, New York, London and other cities could benefit if Hong Kong's political system ceased to be autonomous, and one-country, two systems genuinely unravelled. However, it is unclear if any of these could act as direct replacements for Hong Kong, and it certainly would not benefit China if Hong Kong ceased to be a global financial hub.

The benefits of Singapore

There are reasons that Singapore or other offshore financial hubs could be the major beneficiaries of the collapse of Hong Kong (Fickling, 2019). Money and human capital can move fairly freely between different financial centres and therefore these hubs could conceivably benefit from the deterioration of Hong Kong. With the rise of financial technology (fintech) and globalised finance, financial services industries are increasingly footloose.

Singapore is particularly likely to benefit given its geographical location and it carries multiple benefits that are not shared by other global financial centres. Mandarin and English are both widely spoken, and the city is in the right region and has much of the requisite knowledge required to deal with China. Other regional competitors such as Taipei and Tokyo are not currently in the same league. Furthermore, the growing cultural and geopolitical tension between China and the West is not a factor here. Many firms establish two regional offices in Asia, Singapore and Hong Kong. The personnel and capital in the two hubs are easily transferred from one to another, and therefore Singapore would likely be the most direct beneficiary of a decline in the attractiveness of Hong Kong for global capital.

One financial analyst (interview 13) said:

> 'China cannot just move their international financial hub to Shanghai. The international investment banks and investors are the ones who decide where the Asian financial centre is. The banks, when they started businesses in Asia, established offices in Hong Kong and Singapore. It would be very easy for them to move to Singapore. For the banks, the most important asset is people. It is very easy to transfer human capital to Singapore.'

But Singapore's political culture and stock market brings disadvantages

For the banks and other financial services firms, the political trends may make this type of move increasingly tempting. However, while it might be possible, it is not entirely clear that it is immediately in their interests.

The approach of the Singapore and Hong Kong governments are sharply diverging. Hong Kong built its success through small government, and a deregulated free-wheeling economy. In Singapore, everything is tightly-controlled and the government is more interventionist. Both approaches have their potential benefits, but it is important not to make out that this is a simple like-for-like replacement for businesses and financial firms.

Notably, Singapore's stock market is less than one-tenth of the size of Hong Kong's, and of the 30 companies on the FTSE Straits Times index, all but three count as major shareholders either the government-owned investment fund Temasek Holdings or a British or Asian tycoon (Fickling, 2019). The relative irrelevance of Singapore's equity market is a significant drawback, and means the city is unlikely to be able to be an immediate like-for-like replacement for Hong Kong. Its market capitalisation is smaller than near neighbours Thailand and Indonesia.

And Singapore does not have the same access to China

By contrast Hong Kong's stock market is one of the world's leading, and mainland companies make up 73% of market capitalisation. This points to another significant point - Hong Kong's importance is connected to the unparalleled access the city gives to mainland China. Situated in a different part of the region, without the local knowledge, and with less close access to the Chinese government, its state apparatus and businesses, Singapore is at a disadvantage. Wealthy Chinese are choosing Hong Kong for their private banking, and the city dominates cross-border lending to China. The eyes of Hong Kong's financiers look north, and it would not be simple or convenient to replace the city.

While China decides to prioritise Hong Kong, there will be little incentive to relocate the regional financial centre. This leads to the question of whether the Chinese government might decide to circumvent Hong Kong if things continue to deteriorate, seeking funding elsewhere.

Might China look elsewhere for finance?

In recent years, China has started tentatively looking outside Hong Kong for finance. The number of initial public offerings (IPOs) by Chinese companies in other offshore centres is growing, and it is conceivable that this could grow further. Furthermore, the rise of global 'roadshows' of different financial centres by companies selling US-dollar denominated bonds means that one location is comparatively less important than it used to be (Collier, 2019).

However, more than 70 per cent of offshore IPOs by Chinese companies took place in Hong Kong, and the city remains a key site for bonds. There are a range of reasons for this: foremost among them are convenience, language and geography. The language and cultural affinities between Hong Kong's financial actors and those of mainland China make work on these issues more routine. Hong Kong has historically been a key hub for this type of initial public offering, and the expertise the city has cannot be found elsewhere.

Similarly, the recent announcement of the London-Shanghai Stock Connect is unlikely to displace Hong Kong's position as the best place to invest in the mainland stock market: administrative restrictions and divisions between the two governments mean that the scheme is limited to trading in depository receipts rather than direct trade in company shares in contrast to the more comprehensive Hong Kong Stock Connect (Hancock and Kynge, 2019). The Chinese Communist Party also recently suspended the operation of the London - Shanghai Stock Connect, which has only a single company listed under the scheme.

Recent geopolitical tensions, particularly the US-China trade war, further increase the desirability for China to have a relatively controllable offshore financial centre. There is already evidence that the 'decoupling' between the US and China is having an impact. Chinese venture capital investment into the US fell by almost half in the first nine months of 2019 as a result of heightened US scrutiny (Ruehl, Kynge and Kruppa, 2019), US divestments have soared as Chinese firms have become net sellers of US assets (Weinland, 2019), and Chinese companies are struggling to raise funding abroad as US exchanges and regulators are tightening their rules (Lucas, 2019). The European Union's posture of 'strategic rivalry' towards China is also significant and likely to have a major effect in the coming years.

The result for Hong Kong has been that major firms from China have chosen to list in Hong Kong despite the protests (Lockett, 2019). These include ByteDance and Alibaba – a sign that the city remains central to the Chinese government's plans and essential for Chinese businesses.

Looking ahead, it seems both unlikely and unwise for China to make themselves more reliant on Western financial hubs. For example, shifting to other exchanges for stock listings may be a problem if the United States starts to remove Chinese firms from domestic markets (Collier, 2019).

Meanwhile, Singapore, commonly touted as an easy replacement, is less politically reliable (from a mainland point of view) and its stock market currently fails to carry the capacity to cover the needs of Chinese firms.

Chapter conclusion

Hong Kong gives China control over their access to foreign capital, and one-country, two-systems benefits corporate China. It is unclear whether any other city really can replace Hong Kong as China's gateway to global capital and serve the city's function to Beijing.

Chapter 4: Threats to Hong Kong's status

There are four key ways that Hong Kong's status as a top international financial hub is under threat.

1. The erosion of freedom and the rule of law

Hong Kong's freedoms and rule of law have been undermined and threatened over a number of years, placing the integrity of the one-country, two-systems principle in jeopardy and thereby the city's status as an international financial centre.

In recent years, Hong Kong has experienced an unprecedented crackdown on its freedoms (Rogers, 2018). Booksellers have been abducted, student protestors have been imprisoned, political candidates have been disqualified from running for election and legislators have been barred from the city's legislature. Press freedom, academic freedom and the rule of law are all facing pressures in an atmosphere where Xi Jinping's authoritarian rule increasingly limits freedom.

As with elsewhere in China, the initial turning point was the rise of Xi Jinping. There has been a qualitative change in the Chinese government's policies in Hong Kong since President Xi came to power. The more 'laissez-faire' approach of his predecessors has been replaced with an increasingly authoritarian mindset: one which prioritises control above all else – even the economic prosperity and institutions which Hong Kong's reputation has been built on.

Since the 2014 Umbrella Movement, protestors have faced political prosecution (Hong Kong Watch, 2019), a political party was banned, democratically elected lawmakers were barred from the legislature and candidates have been politically screened (Hong Kong Watch, 2018).

The disqualification of lawmakers and candidates has only been possible because of Beijing's interference in Hong Kong's law courts. Although judges remain more or less independent, and the rule of law is by-and-large intact, Beijing is increasingly interfering in cases where it wants to rig the outcome. In this instance, it has effectively issued an amendment to Hong Kong's constitution to ensure that candidates are successfully politically screened. Although the CCP do technically have the right to 'interpret' the constitution, they do not, under Hong Kong's Basic Law, have the right to amend local laws. In order to disqualify candidates, they have effectively amended local laws: and therefore, committed a violation of human rights and the 'high degree of autonomy' guaranteed for Hong Kong in the constitution.

The cumulative impact of these actions by the Hong Kong government has undermined confidence in Hong Kong as an international financial centre by casting doubt on the integrity of the city's institutions. Matters have been made considerably worse by the extradition bill saga. Carrie Lam's proposals, which would have allowed the extradition of Hong Kong citizens from Hong Kong to mainland China, were widely viewed as potentially putting the rule of law in jeopardy. Lawyers, activists and business leaders expressed concerns that the bill would break down the firewall between the two systems. It provided insufficient human rights safeguards and failed to give the Hong Kong judiciary sufficient powers to stop politicised extradition.

The International Chamber of Commerce, the American Chamber of Commerce and some European chambers queued up to protest against the bill on the basis that the erosion of the rule of law and fundamental freedoms implied by proposals to allow Hong Kong to extradite people to mainland China would reduce the attractiveness of the city as an international financial hub (Patterson, 2019).

The actions of the Hong Kong government during the protest movement have further exacerbated concerns about the rule of law and fundamental freedoms. The Hong Kong Police Force increasingly act with impunity, flouting conventions and using excessive force without regard for the law. An Amnesty International report in September (Amnesty, 2019) found evidence of the Hong Kong Police Force 'deploying reckless and indiscriminate tactics, including while arresting people at protests, as well as exclusive evidence of torture and other ill-treatment in detention.' With the employees of major international banks attending protests about police brutality, these concerns around the rule of law are widespread (Gunia, 2019a).

In November 2019, the Legislative Affairs Commission of the Standing Committee of the Chinese National People's Congress issued a statement which said that the 'the consistency of Hong Kong's laws with the Basic Law can only be judged and decided by the NPCSC: 'No other authority has the right to make judgements and decisions.'' If translated into policy, this would undermine the role and independence of Hong Kong's courts and signal the end of the rule of law in the city as we know it. Sir Malcolm Rifkind, the former UK Foreign Secretary, said in an op-ed: 'The statement is a naked power grab by the central government from the Hong Kong judiciary, and is clearly in breach of both existing Hong Kong case law and the terms of the Sino-British Joint Declaration. Stripping the courts of their powers of final adjudication would have major ramifications for the city as an international financial hub, because of the implications it has for Hong Kong's rule of law and the city's autonomy' (Rifkind, 2019).

Business leaders are clear that the rule of law and fundamental freedoms are core reasons for the attractiveness of Hong Kong's system. The erosion of these in recent years thereby poses a significant threat.

2. The erosion of Hong Kong's autonomy: US Hong Kong Policy Act

The erosion of freedom and the rule of law in Hong Kong has further implications, as these qualities are widely seen to be a proxy for the city's autonomy under the one-country, two-systems framework. The erosion of rights is frequently a result of Chinese mainland interference, which itself is in breach of the handover agreement. Evidence that the city is insufficiently autonomous places Hong Kong's special treatment by the United States under the US-Hong Kong Policy Act at risk.

Public statements by the US government, as well as congressional bodies, focus specifically on the city's autonomy being the most important feature of the one-country, two-systems arrangement. In a valedictory op-ed for Bloomberg, Kurt Tong, the US Consul General in Hong Kong wrote:

'Hong Kong's high degree of autonomy is the necessary ingredient for this success. China's growing encroachments on that autonomy, however, pose a very real threat to the city's special status and future competitiveness.' (Tong, 2019)

The strategic importance of Hong Kong's autonomy has grown as the trade war between China and the U.S. has escalated (Fong, 2019; Ho-fung, 2019). With China regarded on Capitol Hill as a strategic rival, Hong Kong is only given privileged treatment as a result of its autonomy from the mainland government.

There are a range of reasons for this. First, Hong Kong's separate customs territory status allows it to receive imports of technology which are currently unavailable to mainland China. The export of sensitive U.S. dual-use technology to Hong Kong is predicated on the understanding that it will not eventually be stripped down and converted into military technology on the mainland. If Hong Kong lacked sufficient autonomy to guard against this, and the city became a backdoor for China to dodge U.S. export controls, then there are groups on Capitol Hill who will perceive this to be directly counter to the interests of the United States and warrant the suspension of aspects of the U.S.-Hong Kong Policy Act (e.g. USCC, 2018: 383). There are concerning examples of China setting up companies in Hong Kong to import controlled items which are then transferred to mainland China, North Korea or Iran (Ho-fung, 2019; Wysong, 2014). Hong Kong firms feature heavily on the US ‘unverified list’ as a result.

It is a similar story for customs controls. The Hong Kong government currently has a close trading relationship with the United States and receives preferential customs treatment. If it was judged that Hong Kong is no longer autonomous and beholden to the mainland, the city could potentially become a conduit for the avoidance of tariffs or restrictions on technology exports. This would directly counter U.S. interests, and could lead to the suspension of aspects of the U.S. Hong Kong Policy Act.

Hong Kong’s special treatment by the United States is one of the key reasons that the city retains its status as an international financial centre. As described above, the U.S.-Hong Kong Policy Act not only brings tangible benefits, but also provides intangible reputational gains for Hong Kong. There are doubts about whether this status quo is sustainable in the long-term, however, it is vital that the city’s autonomy remains a priority.

3. Political instability

Eight months into the protests, and the political instability caused by the incompatible and inflexible position of the Hong Kong government vis-à-vis the protestors and the majority of the Hong Kong public have left the political situation on a knife-edge.

The expatriate business leaders we interviewed stated that stability and a sense of security were key in their decision to be domiciled in Hong Kong. Although short-term protests do not influence this, if the Hong Kong government and protestors fail to come to a sensible compromise, it is possible the instability could spark capital flight as investors flee. It may also spark ‘talent flight’ where expats and wealthy Hong Kongers with dual citizenship decide they have had enough and leave.

An American Chamber of Commerce survey in October 2019 highlighted this as an area of concern, with over half of the companies surveyed saying they were making contingency plans while struggling to hire people overseas (AmCham, 2019).

4. Pressure on businesses from the Chinese Communist Party

The reaction of the Chinese Communist Party to the extradition protests has further undermined Hong Kong’s reputation as an economic hub as a result of the direct pressure placed on businesses. Firms are being expected to toe the Communist Party line or else face serious consequences. This has led to serious and costly reactions from the Hong Kong public and sometimes the wider world.

Four case studies help illustrate this.

1. Cathay Pacific

Many Cathay Pacific employees were involved in protests in Hong Kong. Their senior management refused to stop staff from joining protests when under pressure initially from the mainland which drew the ire of Beijing.

A boycott campaign in the mainland put the organisation under significant pressure. The Chinese Government threatened to block Cathay from using Chinese air space if they refused to comply with onerous political regulations and ensure that their staff were not supportive of the protests, which would have made their business unviable.

As a result, large numbers of staff have been sacked, some merely for pro-protest social media posts. These include the chair of the flight attendants' union, who was sacked for sharing protest-related Facebook posts (Branigan, 2019).

In Hong Kong, the reaction to this has been intense, with calls from locals to boycott Cathay Pacific. Caught between the Chinese government and the protestors, Cathay have seen their business seriously suffer (Butler, 2019).

2. NBA

When Daryl Morey, the General Manager of the Houston Rockets, tweeted a picture with the words 'Fight for freedom, stand with Hong Kong', the reaction in China was fierce. Chinese mainland netizens reacted swiftly and strongly, calling for a boycott of the Houston Rockets, and the Chinese Basketball Association condemned the tweet. Chinese broadcasters and streaming platforms weighed in, saying they would no longer broadcast Rockets games.

Following the strong reaction, the NBA denounced the tweet and forced Mr Morey to apologise in a bid to placate their Chinese critics (BBC, 2019a). This instantly drew a very strong reaction from fans in the United States who saw this as corporate capitulation to Chinese bullying. The NBA found themselves in a public relations storm and issued another statement which this time focused on freedom of expression. The result of this was that neither side was happy, as the Chinese government and the US public considered the second statement to be insufficient, albeit for diametrically opposed reasons (Block, 2019). The incident was a public relations disaster, which exposed the increasingly fraught environment for businesses with large interests in China and Western nations.

3. HSBC and other financial services firms

In August 2019, the then-chief executive of HSBC, John Flint, abruptly stepped down after less than 18 months in the role at the request of the chairman, Mark Tucker (Crow, 2019a).

While the bank denied that Chinese pressure had been involved in Flint's departure, the company and Chinese authorities had clashed earlier in the year after HSBC was revealed to have cooperated with US prosecutors in investigating the CFO of Huawei, Meng Wanzhou.

The bank has also been accused by pro-democracy activists in Hong Kong of assisting the Chinese Communist Party in undermining their activities, notably when the bank took out full-page adverts in several Hong Kong newspapers; the Hong Kong Economic Times, Hong Kong Economic Journal, Sing Tao, Wen Wei Pao and Ta Kung Pao, which appeared to condemn the protestors for the 'disruption caused to the communities', and backed the Hong Kong government (BBC, 2019b).

HSBC then angered protestors further in November 2019 when it closed an account owned by Spark Alliance, a non-profit group raising funds for Hong Kong's protest movement (Bloomberg, 2020). This sparked a backlash from protestors who started vandalising ATMs owned by the firm.

HSBC is not alone in making controversial decisions as a result of political pressure. The Chinese state-owned Bank of Communications forced an employee to quit over the protests (Riordan, Lewis, Woodhouse, 2019); UBS put an economist on leave after a comment he made about China prompted outrage in the mainland (Reuters, 2019b); and BNP Paribas came under fire in China after an in-house lawyer posted a pro-protest social media post, and the employee, Jason Ng, left the firm shortly after: it is unclear whether or not he was forced out (Crow, 2019b).

4. American Chamber of Commerce

Two senior members of the American Chamber of Commerce in Hong Kong were denied entry to the Macau Special Administrative Region (SAR) in December 2019 (Gunia, 2019b).

AmCham Hong Kong president Tara Joseph and the organisation's chair, Robert Grieves, were separately refused entry to the territory, although neither were given a reason as to why they were denied. They were also made to sign a statement agreeing not to pursue entry to Macau (Hong Kong Free Press, 2019).

AmCham Macau, which was hosting an annual social event the two were due to attend, said in a statement at the time that they were 'puzzled' as to why Joseph and Grieves were refused entry, adding that they hoped the move was an 'overreaction' to ongoing international events such as the US-China trade dispute and the passing of the Hong Kong Human Rights and Democracy Act by the US Congress.

The politicisation of business

These are only a few examples of firms and business leaders who have faced pressure as a result of the protests: others include Burberry, Starbucks, Apple, Blizzard, or Hong Kong tycoons such as Li Ka-shing who was slammed as being 'King of the Cockroaches' in Chinese media as a result of his failure to condemn protestors sufficiently vigorously. Newspapers are finding that they are facing the squeeze as the Chinese government pressure firms to stop them from advertising with media outlets such as Epoch Times or Apple Daily.

Both sides in the political conflict are willing to use economic leverage, and this leaves businesses vulnerable in a deeply politicised context (Wong, 2020). China are expecting businesses to pick a side, and the potential public relations minefield may reduce the attractiveness of Hong Kong as an international financial centre.

Chapter conclusion

Recent years have seen the one-country, two-systems principle come under unprecedented threat. The protests, and particularly the authorities' reaction to them, have intensified the pressures on the rule of law, freedom and autonomy. If Hong Kong is to retain its status as one of the world's pre-eminent financial hubs, these negative trends must stop. It is vital that the Chinese government and their counterparts in Hong Kong make this a priority.

Conclusion

In the months of protests, there have been many opinion editorials asking if we are seeing the end of Hong Kong and whether China will take action that will signal the end of one-country, two-systems.

This report has laid out the ongoing role of Hong Kong as an international financial centre and the difficulties of replacing the city. Hong Kong may not be as important to China's economy as it once was, but as an international financial centre it retains vitally important to China's ambitions. The city is a key conduit, with its equity and debt markets being used to attract foreign funds. Chinese firms choose the city as their first port of call for initial public offerings. It also provides a gateway through which Western investors can access the mainland stock market, and the city is a key hub for mainland firms when they are seeking to raise foreign currency, particularly US-dollar denominated bonds.

If Hong Kong implodes, China will have to try and replicate all that the city does in Shanghai and other international centres such as Singapore, London and New York. While some of the activities could be moved easily, others would be harder, and some might not happen at all. So, for China's companies, making connections to the global economy would be more expensive and more difficult. And there would be considerable disruption at first. With China more dependent than ever on capital inflows, and US-China decoupling increasing the risk of reliance on other financial centres, China can ill-afford this scenario.

The city has similar significance for Western countries. The unique arrangement provides a reliable Asia Pacific hub for firms, illustrated by the number of firms who choose to base their regional headquarters there. It is not clear that any other city can adequately replace Hong Kong: Its combination of access to mainland China and Western-style common law system and way of life is unique.

The report explored what business leaders find valuable in Hong Kong, and the threat that the city's unique characteristics currently face. Repeatedly they pointed to the rule of law and fundamental freedoms, alongside low tax and deregulation, as being fundamental to the city. The Intellectual Property protections, transparency, fairness and lack of corruption that Hong Kong's common law system historically provided sets the city apart, particularly when it is compared with other Chinese cities. But these special characteristics are being seriously undermined and are strained to breaking point as a result of flaws in the political system and poor governance.

It is in nobody's interests for the city to lose its uniqueness. The Hong Kong government, their counterparts in Beijing, and international governments should recognise that the preservation of the rule of law and fundamental freedoms is not only morally right, it is in their interests. A crackdown on protestors may be the first option in the minds of the mandarins in Beijing, but it would be counter to their long-term interests. Seeking de-escalation and dialogue with the protestors and demonstrating a robust commitment to the preservation of the rule of law and core freedoms is the only sensible pathway forwards.

Reference list

Accominotti, O. and Ugolini, S. 2019. 'The structure of global trade finance: a very long run view'. *VOX CEPR Policy Portal.* Online resource, accessed here: https://voxeu.org/article/structure-global-trade-finance-very-long-run-view

AFP. 2016. 'Panama papers reveal Hong Kong's murky financial underbelly'. Online resource, accessed here: https://www.hongkongfp.com/2016/04/14/panama-papers-reveal-hong-kongs-murky-financial-underbelly/

Ahn, J B, M Amiti, and D E Weinstein (2011), 'Trade Finance and the Great Trade Collapse', *American Economic Review*, 101, 298-302.

Airports Council International. 2019. 'Preliminary world airport traffic rankings released.' Online resource, accessed here: https://aci.aero/news/2019/03/13/preliminary-world-airport-traffic-rankings-released/

American Chamber of Commerce in Hong Kong (AmCham). 2019, October 14. 'Survey highlights increased pessimism over Hong Kong's long-term business prospects.' Online, accessed here: https://www.amcham.org.hk/news/survey-highlights-increased-pessimism-over--hong-kongs-long-term-business-prospects

American Chamber of Commerce in Hong Kong (AmCham). 2018. 'AmCham Hong Kong 2018 Business Sentiment Survey'. Online, accessed here: https://www.amcham.org.hk/uploads/media/default/0001/05/e14b-48f3a4db4978d762aa962cf305978cdea39d.pdf

Amnesty International. 2019, 19 September. 'Hong Kong: Arbitrary arrests, brutal beatings and torture in police detention revealed.' Online, accessed here: https://www.amnesty.org/en/latest/news/2019/09/hong-kong-arbitrary-arrests-brutal-beatings-and-torture-in-police-detention-revealed/

Asifma. 2014. 'The Through Train: Stock Connect's Impact and Future.' Online resource, accessed here: https://www.asifma.org/wp-content/uploads/2018/05/asifma-tr-stock-connect-white-paper.pdf

Bank of International Settlements (BIS). 2019. 'Bank's cross-border positions on residents of China: outstanding at end-June 2019, in millions of US dollars.' Online resource, accessed here: https://stats.bis.org/statx/srs/table/A6.2?c=CN&p=

BBC. 2019a. 'Daryl Morey backtracks after Hong Kong tweet causes Chinese backlash.' Online resource, accessed here: https://www.bbc.co.uk/news/business-49956385

BBC. 2019b. 'Banks condemn Hong Kong violence in newspaper adverts.' Online resource, accessed here: https://www.bbc.co.uk/news/business-49431347

Binder, A. 2019. 'Why China's wealthy elites have so much at stake in Hong Kong.' Washington Post. Online resource, accessed here: https://www.washingtonpost.com/politics/2019/08/21/why-chinas-wealthy-elites-have-so-much-stake-hong-kong/

Block, C. 2019. 'The NBA and LeBron James should take a knee for Hong Kong.' Financial Times. Online resource, accessed here: https://www.ft.com/content/ff594952-f98f-11e9-a354-36acbbb0d9b6

Branigan, T. and Hale, E. 2019. 'Cathay denounced for firing Hong Kong staff after pressure from China.' *The Guardian*. Online resource, accessed here: https://www.theguardian.com/world/2019/aug/28/cathay-pacific-denounced-for-firing-hong-kong-staff-on-china-orders

Butler, S. 2019, 14 November. 'Burberry and Cathay Pacific profits dented by Hong Kong protests'. The Guardian. Online resource, accessed here: https://www.theguardian.com/business/2019/nov/14/burberry-cathay-pacific-profits-hong-kong-protests

Chia, C. 2018. 'China A shares: The journey continues'. *MSCI.* Online resource, accessed here: https://www.msci.com/www/blog-posts/china-a-shares-the-journey/01131908735

Clark, G. 2002. 'London in the European financial services industry: Locational advantage and product complementarities.' *Journal of Economic Geography.* Vol. 2(4), pp. 433–453

Clark, G. and Monk, A. 2013. 'The scope of financial institutions: In-sourcing, outsourcing and off-shoring.' *Journal of Economic Geography.* Vol. 13(2), pp. 279–298.

Collier, A. 2019. 'Hong Kong's not so special status as China's financial centre'. Financial Times. Online resource, accessed here: https://www.ft.com/content/2c4c56bd-1c40-3261-8ba8-f3ce8c83e8d2

Crow, J. 2019a, 19 August. ‘HSBC: Chinese headwinds threaten to blow bank off course.’ *Financial Times.* Online resource, accessed here: https://www.ft.com/content/13e8ad28-beb1-11e9-b350-db00d509634e

Crow, J. 2019b, 26 September. ‘BNP Paribas lawyer leaves bank after supporting HK protests.’ Financial Times. Online resource, accessed here: https://amp.ft.com/content/5fbe4ade-df93-11e9-9743-db5a370481bc

Del Prete, S, and S Federico (2014), ‘Trade and Finance: Is There More than Just ‘Trade Finance’? Evidence from Matched Bank-Firm Data’, Bank of Italy Working Papers 948.

Economist. 2019. ‘Hong Kong remains crucially important to China’. Online resource, accessed here: https://www.economist.com/briefing/2019/08/08/hong-kong-remains-crucially-important-to-mainland-china

Economist Intelligence Unit and the Bingham Centre for the Rule of Law. (Cited as EIU). 2015. Risk and Return: Foreign Direct Investment and the Rule of Law. Online, accessed here: https://www.biicl.org/documents/625_d4_fdi_main_report.pdf?showdocument=1

Faulconbridge, J. 2004. ‘London and Frankfurt in Europe’s evolving financial centre network’. Area. Vol. 36(3), p. 235–244.

Fickling, D. 2019. ‘Hong Kong’s Dimming Light Poses an Urgent Question’. Bloomberg. Online resource, accessed here: https://www.bloomberg.com/graphics/2019-opinion-will-tokyo-taipei-singapore-be-next-hong-kong/index.html

Fong, B. 2019. ‘Hong Kong and the US-China New Cold War’. The Diplomat. Online resource, accessed here: https://thediplomat.com/2019/05/hong-kong-and-the-us-china-new-cold-war/

Gipouloux, F. 2011. ‘Hong Kong, Shanghai or Peking: where will China’s international financial centre be located?’ In Gipoloux, *The Asian Mediterranean*. Cheltenham: Edward Elgar Publishing

Gunia, A. 2019. ‘Lawyers and bankers join radicals at the barricades as Hong Kong’s protests rock the city’s financial district’. TIME. Online resource, accessed here: https://time.com/5727880/hong-kong-bankers-lawyers-protests/

Gunia, A. 2019b. ‘Heads of US business group in Hong Kong denied entry to Macau.’ TIME. Online resource, accessed here: https://time.com/5746280/american-chamber-commercre-denied-entry-macau/

Hancock, T. and Kynge, J. 2019. ‘London-Shanghai stock link hailed as ‘groundbreaking’’. Financial Times. Online resource, accessed here: https://www.ft.com/content/d8db0830-9024-11e9-aea1-2b1d33ac3271

Herroro, A. and Ng, G. 2019. ‘Does Hong Kong still matter to China economically?’. *Brink.* Online resource, accessed here: https://www.brinknews.com/does-hong-kong-still-matter-to-china-economically/

Ho-fung Hung. 2018. ‘Sanction Hong Kong, for its own sake’. *Journal of Political Risk.* Vol. 7 (10). Online resource, accessed here: http://www.jpolrisk.com/sanction-hong-kong-for-its-own-sake/

Holland, T. 2016. ‘How Hong Kong makes it easy for wealthy Chinese to launder billions of dollars’. *Hong Kong Free Press.* Online resource, accessed here: https://www.hongkongfp.com/2016/04/06/how-hong-kong-makes-it-easy-for-wealthy-chinese-to-launder-their-money/

Hong Kong Financial Services Development Council (FSDC). 2019. ‘Embracing the breadth of Private Wealth: How deep the pockets can be?’. Online resource, accessed here: https://www.fsdc.org.hk/en/leaders_blog/2019/2

Hong Kong Free Press. 2019. ‘AmChamHK chair and president denied entry to Macau.’ Online resource, accessed here: https://www.hongkongfp.com/2019/12/08/hong-kong-american-chamber-commerce-chair-president-denied-entry-macau

Hong Kong Government Census and Statistics Department. 2018a. *External Direct Investment Statistics of Hong Kong 2017*. Online resource, accessed here: https://www.statistics.gov.hk/pub/B10400032017AN17B0100.pdf

Hong Kong Government Census and Statistics Department. 2018b. ‘Report on 2018 Annual Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong.’ Online resource, accessed here: https://www.statistics.gov.hk/pub/B11100042018AN18B0100.pdf

Hong Kong Stock Exchange (HKEX). 2017, 14 November. ‘Stock-connect continues to grow as cross-border trading scheme marks 3rd anniversary.’ Online resource, accessed here: https://www.hkex.com.hk/News/News-Release/2017/171114news?sc_lang=en

Hong Kong Trade Development Council (HKTDC). 2019. 'Economic and Trade Information on Hong Kong'. Online resource, accessed here: http://hong-kong-economy-research.hktdc.com/business-news/article/Market-Environment/Economic-and-Trade-Information-on-Hong-Kong/etihk/en/1/1X000000/1X09OVUL.htm

Hong Kong Watch. 2019. 'Drop outdated rioting charges and call independent inquiry: New report.' Online resource, accessed here: https://www.hongkongwatch.org/all-posts/2019/7/10/drop-outdated-rioting-charges-and-call-independent-inquiry-new-report

Hong Kong Watch. 2018. 'Political screening in Hong Kong': A report on the disqualification of candidates and lawmakers.' Online resource, accessed here: https://www.hongkongwatch.org/all-posts/2018/3/7/political-screening-in-hong-kong-a-report-on-the-disqualification-of-candidates-and-lawmakers

Huang, T. 2019a. 'Why China still needs Hong Kong.' Peterson Institute for International Economics. Online resource, accessed here: https://www.piie.com/blogs/china-economic-watch/why-china-still-needs-hong-kong

Huang, X. 2019b. 'Hong Kong Defends Its Position As a Leading Financial Center with Public and Private Support.' Brink News. Online resource, accessed here: https://www.brinknews.com/embracing-hong-kongs-transformation-to-a-digital-financial-center

Hung, M., T. J. Wong, and T. Zhang. 2012. 'Political considerations in the decision of Chinese SOEs to list in Hong Kong.' *Journal of Accounting & Economics* Vol. 53 (1/2), pp. 435–449

InvestHK. 2019. 'January 2019 Quarterly Newsletter.' Online resource, accessed here: https://www.investhk.gov.hk/sites/default/files/2019.01-newsletter-en.pdf

Jao, Y. C. 2006. 'Hong Kong as a financial centre of China and the world'. In Ho, L. S. and Ash, R. 'China, Hong Kong and the World Economy'. London: Palgrave

Jarvis, D. S. L. 2011. 'Race for the money: international financial centres in Asia'. Journal of International Relations and Development. Vol. 14 (1), pp. 60-95.

Jia, W. Pownall, G. and Zhao, J. 2018. 'Avoiding China's Capital Market: Evidence from Hong Kong-Listed Red-Chips and P-Chips'. J*ournal of International Accounting Research*. Vol. 17 (2). pp. 13-36.

Khan, N. and Saito, Y. 2019. 'All about the money: Why Hong Kong matters so much to China.' Wall Street Journal. Online resource, accessed here: https://www.wsj.com/articles/all-about-the-money-why-hong-kong-matters-so-much-to-china-11571736607

Lai, K. 2012. 'Differentiated markets: Shanghai, Beijing and Hong Kong in China's Financial Centre Network'. *Urban Studies*. Vol. 49(6), pp.1275-1296

Lee, R. and Schmidt-Marwede, U. 1993. 'Interurban competition? Financial centres and the geography of financial production.' *International Journal of Urban and Regional Research.* Vol. 17(4) pp. 492–515.

Lehman Brown. 2016. 'Understanding Mainland China and Hong Kong's Tax Systems – A Comparison'. Online resource, accessed here: https://www.lehmanbrown.com/insights-newsletter/understandingmainlandchinahongkongstaxsystems-acomparison/

Lockett, H. 2019, October 28. 'Hong Kong listings pick up pace despite political crisis.' Online resource, accessed here: https://www.ft.com/content/3d2e4baa-f93c-11e9-98fd-4d6c20050229

Lockett, H. and Hammond, G. 2019, November 26. 'Alibaba's stock jumps on Hong Kong trading debut.' Financial Times. Online resource, accessed here: https://www.ft.com/content/8f7af224-0f3e-11ea-a7e6-62bf4f9e548a

Lucas, L. 2019, October 1. 'Nowhere to turn for funding as door slams shut on China Inc.' F*inancial Times.* Online resource, accessed here: https://www.ft.com/content/a11414a2-e41e-11e9-b112-9624ec9edc59

Magnus, G. 2019. Hong Kong is going to cost China. *Viewpoints Blog.* Online resource, accessed here: https://georgemagnus.com/hong-kong-is-going-to-cost-china/

Mahutga, M. and Smith, D. 2011. 'Globalization, the structure of the world economy and economic development.' *Social Science Research.* Vol. 40(1), pp. 257–272.
Mariathasan, J. 2019. 'Investment services: Accessing China's bond market.' IPE. Online resource, accessed

here: https://www.ipe.com/investment-services-accessing-chinas-bond-market/10031913.article

Meyer, D. 2018. 'Hong Kong, Shanghai, and Beijing: China's Contenders for Global Financial Leadership.' In Cassis, Y. and Wojcik, D. *International Financial Centres after the Global Financial Crisis and Brexit.* Oxford: Oxford University Press. pp. 126-153.

Meyer, D. 2015. 'The world cities of Hong Kong and Singapore: Network hubs of global finance'. *International Journal of Comparative Sociology*. Vol. 56(3-4), pp. 198-231.

Moore, M. 2012. 'China's incoming president Xi Jinping has family wealth of hundreds of millions'. *Telegraph.* Online resource, accessed here: https://www.telegraph.co.uk/news/worldnews/asia/china/9365099/Chinas-incoming-president-Xi-Jinpings-family-has-wealth-of-hundreds-of-millions.html

Nadler, M. 1995. *The Money Market and its institutions.* New York: Roland Press.

Patterson, J. 2019. 'Business sector's opposition to Hong Kong's extradition bill should have sounded the alarm'. *South China Morning Post.* Online resource, accessed here: https://www.scmp.com/comment/opinion/article/3014982/business-sectors-opposition-hong-kongs-extradition-bill-should-have

Prasad, E. 2019, July 3. 'Why China no longer needs Hong Kong.' *New York Times.* Online resource, accessed here: https://www.nytimes.com/2019/07/03/opinion/hong-kong-protest.html

Reuters. 2009. 'Factbox: Hong Kong versus Shanghai as global financial centres'. Online resource, accessed here: https://www.reuters.com/article/us-hongkong-shanghai-financial-factbox/factbox-hong-kong-vs-shanghai-as-global-financial-centres-idUSTRE5B94T920091210

Reuters. 2019. 'Explainer: How important is Hong Kong to the rest of China?' Online resource, accessed here: https://www.reuters.com/article/us-hongkong-protests-markets-explainer/explainer-how-important-is-hong-kong-to-the-rest-of-china-idUSKCN1VP35H

Reuters. 2019b. 'UBS puts economist on leave in growing pig row.' Online resource, accessed here: https://mobile.reuters.com/article/amp/idUSKCN1TF0C8

Rifkind, M. 2019, 21 November. 'Beijing must respect High Court mask-law ruling in the interests of both Hong Kong and China.' *South China Morning Post.* Online resource, accessed here: https://www.scmp.com/comment/opinion/article/3038628/beijing-must-respect-high-court-mask-law-ruling-interests-both-hong

Riordan, P. Lewis, L. and Woodhouse, A. 2019. 'Chinese bank accused of forcing Hong Kong employee to quit over protests.' *Financial Times.* Online resource, accessed here: https://amp.ft.com/content/6cdbc024-1270-11ea-a7e6-62bf4f9e548a

Rogers, B. 2018. 'Benedict Rogers: A Tightening Grip – Rising Authoritarianism in Hong Kong.' *Hong Kong Watch.* Online resource, accessed here: https://www.hongkongwatch.org/all-posts/2018/11/5/watch-benedict-rogers-a-tightening-grip-rising-authoritarianism-in-hong-kong

Ruehl, M., Kynge, J., and Kruppa, M. 2019, October 2. 'Chinese venture capital investment in US falls to four-year low.' *Financial Times.* Online resource, accessed here: https://www.ft.com/content/440fecb8-e4cd-11e9-b112-9624ec9edc59

Sassen, S. 1999. 'Global financial centers.' *Foreign Affairs.* Vol. 78 (1), pp. 75-87.

Securities and Futures Commission (SFC). 2019. 'Asset and Wealth Management Activities Survey 2018'. Online resource, accessed here: https://www.sfc.hk/web/EN/files/ER/PDF/Asset%20and%20Wealth%20Management%20Activities%20Survey%202018_EN.pdf

Sender, H. 2019, October 28. 'Tiktok owner ByteDance eyes initial public offering in Hong Kong'. Online resource, accessed here: https://www.ft.com/content/7c1f223e-f721-11e9-9ef3-eca8fc8f2d65

SWIFT. 2019, June 5. 'RMB Tracker: Monthly Reporting and Statistics on Renminbi (RMB) Progress towards Becoming an International Currency'. Online resource, accessed here: https://www.swift.com/file/62876/download?token=DVtGXGYS

Szalay, E. 2019. 'London races farther ahead as renminbi trading hub'. *Financial Times.* Online resource, accessed here: https://www.ft.com/content/b228dc80-03ba-11ea-9afa-d9e2401fa7ca

Tong, K. 2019. 'The U.S. should defend Hong Kong'. *Bloomberg.* Online resource, accessed here: https://www.bloomberg.com/opinion/articles/2019-07-22/former-u-s-envoy-says-america-should-defend-hong-kong

UNCTAD. 2019/ Investment Trends Monitor: Global FDI Flows Continue Their Slide in 2018, Jan. Online resource, accessed here: https://unctad.org/en/PublicationsLibrary/diaeiainf2019d1_en.pdf

'United States-Hong Kong Policy Act' (HKPA). 1992. Online resource, accessed here: https://uscode.house.gov/view.xhtml?path=/prelim@title22/chapter66&edition=prelim

US-China Economic and Security Review Commission (USCC). 2019. '2019 Report to Congress'. Online resource, accessed here: https://www.uscc.gov/sites/default/files/2019-11/2019%20Annual%20Report%20to%20Congress.pdf

US-China Economic and Security Review Commission (USCC). 2018. '2018 Report to Congress: Section 4'. Online resource, accessed here: https://www.uscc.gov/sites/default/files/Annual_Report/Chapters/Chapter%203%20Section%204-%20China%20and%20Hong%20Kong_0.pdf

Weinland, D. 2019. 'Chinese groups turn seller to shed $40 billion in global assets'. *Financial Times.* Online resource, accessed here: https://www.ft.com/content/a35b86a4-d772-11e9-8f9b-77216ebe1f17

Weinland, D. 2018. 'Hong Kong launches blockchain-based trade finance'. Financial Times. Online resource, accessed here: https://www.ft.com/content/f2cacb86-85a3-11e8-96dd-fa565ec55929

Weizen, T. 2019. 'China is going to need more foreign money as its trade surplus dries up, Morgan Stanley says.' *CNBC.* Online resource, accessed here: https://www.cnbc.com/2019/02/13/china-economy-morgan-stanley-predicts-chinas-account-deficit-in-2019.html

Wójcik, D. 2011. 'The Global Stock Market: Issuers, Investors, and Intermediaries in an Uneven World.' Oxford: Oxford University Press.

Wong, S. 2020. 'Hong Kong's economy splits into pro- and anti-government camps.' *Nikkei Asian Review.* Online resource, accessed here: https://asia.nikkei.com/Spotlight/Hong-Kong-protests/Hong-Kong-s-economy-splits-into-pro-and-anti-government-camps

Wysong, W. 2014. 'US Export Controls Update: Why Hong Kong Dominates the New Unverified List.' *Corporate Compliance Insights.* Online resource, accessed here: https://www.corporatecomplianceinsights.com/us-export-controls-update-why-hong-kong-dominates-the-new-unverified-list/

Xinhua. 2019, September 7. 'Bond connect sees record-high trading volume in August.' Online resource, accessed here: https://www.chinadailyhk.com/articles/142/96/52/1567841812536.html

Yu, X. 2019. 'China's scrapping of QFII and RQFII caps on foreign investment will have a very limited effect says analysts'. *South China Morning Post.* Online resource, accessed here: https://www.scmp.com/business/banking-finance/article/3029625/chinas-scrapping-qfii-and-rqfii-caps-foreign-investment

HONG KONG
WATCH

www.hongkongwatch.org