



# How Hong Kong Became an International Financial Centre

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**Abstract.** This paper studies the history of Hong Kong becoming an international financial center, analyzes its development status, history and advantages and disadvantages of becoming a global financial center. The study found that the development of Hong Kong's financial markets is influenced by factors such as economic freedom, the Belt and Road policy, and relations with the mainland. Foreign banks in the colonial era, the early development of the insurance industry, and changes in the gold market and monetary system laid the foundation for the prosperity of Hong Kong's financial market. With the transformation of economic structure and the formation of six pillar industries, Hong Kong has gradually become an industrial economy and attracted investment from Chinese capital. However, the development of Hong Kong's financial center also has some disadvantages, such as unbalanced development of financial institutions, insufficient innovation and small hinterland for development. Finally, this paper looks forward to the future development of Hong Kong's finance, pointing out the need to further develop technology finance, expand the overall scale and other measures. Through this study, it is helpful to understand the course of Hong Kong becoming an international financial center, and it is of great significance to further promote the development of Hong Kong's financial market.

**Keywords:** Hong Kong; International financial center; Course; Financial liberalization.

## 1 Introduction

Hong Kong's development as an international financial centre has attracted much attention. Today, Hong Kong's financial market presents a series of developments. First, Hong Kong's economic data are strong and it has a high degree of economic freedom. Secondly, as an important node of the Belt and Road<sup>[1]</sup>, Hong Kong has become an important platform for the offshore RMB market. At the same time, Hong Kong and the mainland are closely linked through financial channels such as the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect. All these factors have helped to enhance Hong Kong's financial status and positively affected the relationship between the Mainland and Hong Kong. Understanding the history of Hong

Kong's financial market is of great significance to a deeper understanding of Hong Kong's development as an international financial centre. In the colonial era, foreign banks such as East Fan Bank, Favorable Bank, Standard Chartered Bank, and HSBC entered Hong Kong one after another, laying the foundation for the development of the financial market. The insurance industry also developed in the early years, and its characteristics gradually emerged before World War II. In addition, the early gold market and the changes in the monetary system, from the bullion trading house to the sterling exchange standard, further promoted the prosperity of the financial market. After World War II, Hong Kong's financial market ushered in a period of prosperity, including the devaluation of fiat currencies, speculation in the gold market, the rise of Hang Seng and other important events. The economic structure of Hong Kong has also undergone transformation, and six pillar industries such as manufacturing and real estate have begun to rise. In addition, the securities market has experienced the "four Hui era", Chinese capital has gradually stepped on the stage, and the four major families in Hong Kong are playing an important role in the development.

Like a long book of history, the history of Hong Kong's financial markets gives us a deep understanding of the changes and importance of each period. For the development of Hong Kong as an international financial centre, understanding its historical process is of great significance<sup>[2]</sup>. The development of Hong Kong's financial market is not only a manifestation of the present, but also a summary of historical accumulation and experience.

## **2 How Hong Kong Became a National Financial Centre**

### **2.1 Colonial Era Foreign Banks**

The colonial era was an important stage for Hong Kong to become an international financial center. Hong Kong has attracted a number of foreign banks, including well-known banks such as East Fan Bank, Favorable Bank, Standard Chartered Bank and HSBC<sup>[3]</sup>. The establishment and development of these banks laid the foundation for the prosperity of Hong Kong's financial market. They provide flexible financial services while attracting significant investment and capital flows into Hong Kong.

### **2.2 Early Development of Insurance Industry**

The insurance industry has also played an important role in promoting the financial development of Hong Kong. Before the Second World War, the insurance industry had certain characteristics, which provided stability and risk protection for the Hong Kong economy. The development of the insurance industry has contributed to the steady growth of Hong Kong's economy and provided long-term financial support and investment opportunities. With the rapid development of the economy, Hong Kong's insurance industry has also begun to develop rapidly. According to the statistics of the Hong Kong British authorities, as of January 31, 1993, there were 230 insurance companies in the Hong Kong insurance market, including 40 life insurance companies, 170 property insurance companies and 20 mixed companies. There are 18,500 employees.

### **2.3 Changes in Early Gold Market and Monetary System**

Hong Kong's financial market also involves changes in the gold market and monetary system<sup>[5]</sup>. The establishment of the gold and silver trading courts made Hong Kong an important gold trading center, attracting a large number of investors and traders. At the same time, the monetary system of Hong Kong has also changed, gradually transitioning from silver standard to sterling exchange standard, which has provided a solid foundation for the stability and development of Hong Kong's financial market.

### **2.4 The Prosperity of Financial Markets after World War II**

The Second KMT Civil War and the sharp depreciation of the fiat currency led to mainland funds flowing into Hong Kong, further promoting the prosperity of Hong Kong's financial market. Speculation in the gold market and the rise of the Hang Seng Index have also brought great opportunities and challenges to Hong Kong's financial markets. The Banking Ordinance 1948 was the first piece of banking legislation in Hong Kong and played an important role in the establishment and improvement of Hong Kong's financial system<sup>[4]</sup>. In addition, the transformation of Hong Kong's economic structure, the rise of the manufacturing and real estate industries, and the relocation of mainland enterprises to Hong Kong have provided a broad space for the development of Hong Kong's financial market. However, with the diversification of banking functions in Hong Kong, financial security is also facing great challenges.

### **2.5 From Transit Port to Industrial Economy: The Formation of Six Pillar Industries**

Hong Kong started out as a re-export trade, but over time it gradually developed into an industrial economy, especially in the six pillar industries. The toy, textile, garment, electronics, plastic and clock industries are the six pillar industries of Hong Kong, which provide a solid foundation for the diversified development of Hong Kong's economy. The development of these industries has also brought more opportunities and challenges to Hong Kong's financial market<sup>[6]</sup>.

### **2.6 The "Four Hui Era" of the Securities Market and Chinese Capital Came to the Stage**

In the course of Hong Kong's financial development, the securities market plays an important role. During this period, there were four major stock exchanges, namely the Hong Kong Association, the Far East Association, the Gold and Silver Association and the Kowloon Association, which injected vitality into Hong Kong's financial market. At the same time, Chinese capital also began to emerge in the Hong Kong stock market, and made great contributions to the vigorous development of Hong Kong's financial industry.

## 2.7 Hong Kong Four Families

The development of Hong Kong's financial sector is also inseparable from the four families in Hong Kong. The Li Ka-shing family, the Guo Jingjing family, the Yang Huiyan family and the Tam Ying Fei family have an important position and influence in the Hong Kong financial community

# 3 Chapter Advantages and Disadvantages of Hong Kong as a Global Financial Center

## 3.1 Advantages

**Institutional advantages:** Hong Kong has a robust rule of law system, an independent judiciary, a highly developed regulatory body, and a "one country, two systems" system that creates a level playing field and provides a stable and reliable legal environment for investors. Moreover, Hong Kong, as a special administrative region, enjoys a high degree of autonomy in executive and legislative power, which makes Hong Kong favored by international businessmen.

**Capital markets:** The Hong Kong Stock Exchange is one of the largest stock markets in Asia, with a wealth of financing instruments and diversified investment options, and a large amount of trading activity every day. At the same time, the richness and liquidity of the Hong Kong market has also attracted a large number of domestic and foreign enterprises and investors.

**Asset management:** Hong Kong's asset management business is booming<sup>[7]</sup>, with many internationally renowned fund management companies and private banks providing investors with professional asset management and wealth management services.

**Banking system:** Hong Kong's banking system is large and stable, enjoys a good international reputation, has a wealth of financial products and services, and provides a full range of financial support for enterprises and individuals<sup>[8]</sup>.

**Professional talents:** Hong Kong has a team of high-quality financial talents, including financial professionals, risk management experts and financial technicians, and Hong Kong's education system and training institutions have cultivated many high-quality professional talents, which provides strong support for the development of the financial center. In addition, Hong Kong's highly qualified workforce and strong multilingual capability also attract talents from all over the world, enriching human resources.

## 3.2 Disadvantages

1. Unbalanced development of financial institutions<sup>[9]</sup>: In the financial industry of Hong Kong, large banks and international financial institutions occupy a dominant position, while small financial institutions and local banks are relatively underdeveloped, with small market size and few choice products, etc., which may lead to unbalanced financial services.

2. Lack of innovation and technology finance: Compared with some international financial centers, Hong Kong's development in technology finance and financial technology innovation is relatively slow. Both the layout and business layout need to increase innovation efforts to enhance the competitiveness of science and technology finance.

3. Small hinterland for development: Hong Kong has a relatively limited land area and limited development space, which may impose certain constraints on the scale and development of the financial industry.

4. Not big enough overall: Compared with some of the world's top financial centers<sup>[10]</sup>, Hong Kong's overall financial sector is relatively small, with a population of just over 7 million, which may limit its influence and competitiveness in the global financial sector.

As a global financial center, Hong Kong has important advantages, including location advantages, institutional advantages, capital markets, asset management, banking system and professional talents. However, it also faces disadvantages such as unbalanced development of financial institutions, lack of innovation, small hinterland for development and insufficient overall scale. In order to maintain and enhance Hong Kong's status as an international financial centre, it should actively develop innovative financial services, strengthen the development of local financial institutions, and further strengthen co-operation and exchanges with the Mainland and international financial centres. At the same time, it is necessary to cultivate more high-quality financial talents and improve the level of financial technology to adapt to the rapid changes and development of the global financial industry.

## 4 The Future Development of Finance in Hong Kong

The future development of Hong Kong finance faces a series of challenges and opportunities. As a bridge connecting China and the world, Hong Kong can become an investment center and financing platform for countries along the Belt and Road, and it should strengthen its deep integration with the mainland to find new impetus for development. In addition, the continuous improvement of Hong Kong's offshore RMB market and financial cooperation mechanisms such as the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect also provide opportunities for the future development of Hong Kong's finance.

Hong Kong's financial industry has great potential and opportunities in technological innovation, and promoting the development of financial technology in Hong Kong can build Hong Kong's international competitive edge. With the rapid development of financial technology, traditional financial models are being subverted and reshaped. In this context, Hong Kong can promote the innovation and application of financial technology by introducing and nurturing innovative enterprises and financial technology companies, enhance the efficiency and competitiveness of the financial industry, and build a "test field" of financial technology. Hong Kong can also make full use of its financial infrastructure and legal system to shape a secure and stable fintech ecosystem.

The future development of Hong Kong's financial industry also needs to strengthen the training and introduction of professional talents. The development of the financial industry cannot be separated from outstanding financial practitioners, and as an international financial centre, Hong Kong needs professionals with cross-border financial knowledge and skills. Therefore, strengthening financial education and training to attract and retain high-quality financial talents has become an important task for the future development of Hong Kong's financial industry.

Hong Kong's financial future also faces some challenges. How to maintain its own advantages and status in the competition has become an important topic for the future development of Hong Kong finance. There are still some institutional problems and deficiencies in the development of Hong Kong's financial industry, including the improvement of financial regulation and the promotion of financial innovation, which need to be further improved and perfected.

The future development of Hong Kong's financial sector faces both opportunities and challenges<sup>[11]</sup>. Driven by the intensification of global financial competition and the wave of scientific and technological innovation, Hong Kong can achieve sustainable development of its financial industry and consolidate its position as an international financial center by deepening financial cooperation with the Mainland, strengthening financial technology innovation and introducing outstanding talents. However, to achieve this goal, the government, financial institutions and market players need to work together, strengthen cooperation, promote the reform and upgrading of the financial system, and continuously enhance the core competitiveness of Hong Kong's financial industry.

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