

Study on the Construction of Hong Kong International Financial Center Based on SWOT Analysis

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Abstract. Hong Kong International Financial Center, as a world-class financial center. It will have a significant impact on the economy of China and the world. The Hong Kong economy has solved many problems for the society and successfully withstood the Asian financial crisis and the impact of being an international financial center. This paper will analyze and discuss the advantages, disadvantages, opportunities and challenges of the construction of Hong Kong international financial center in the form of SWOT. And put forward suggestions and prospects. It summarizes the advantages brought by Hong Kong in terms of regulations and financial markets to Hong Kong as an international financial center and maintains its position as an international financial center by taking advantage of the characteristics of diversification, moderate regulation and active trading. It also analyzes the disadvantages of the international financial center of Hong Kong in other cases and its inability to realize its dominant position in the market. At the same time, I hope it can provide ideas and enlightenment for those who are interested in this article and finance.

Keywords: Hong Kong, International Finance Center, SWOT analysis.

1. Introduction

As a former colony, Hong Kong has formed a different culture from other international cities after its return to China, blending Chinese and Western cultures. Hong Kong's economy has undergone two transitions, from a transit trade port to an export-oriented industrial base, and then to a comprehensive development of the service industry. After several transitions, the financial industry has become the most important component of Hong Kong's international financial center [1]. As China's import and export trade began to use Hong Kong, Hong Kong became a bridge between China and international communication. Since the 20th century, Hong Kong has had the majority of international banks, and with relatively convenient regulation and taxation, it has become a base for overseas financial institutions to develop syndicated loans and fund management [1]. As one of the world's top four financial centers, Hong Kong International Financial Center has unique advantages and rich experience. In addition, Hong Kong's financial industry has made a lot of achievements in many aspects: by 2022, according to the evaluation of Canadian think tank Fraser Institute, Hong Kong has been named the freest economy in the world for 25 years running. Hong Kong ranks first in trade freedom and regulation, 13th in government size and currency, and 21st in legal system and property rights [2]. In terms of finance, the capital market of Hong Kong increased from less than 1 billion US dollars to 42.87 billion Hong Kong dollars in 2021 due to the growth of China's economy. It has developed into the biggest offshore yuan market in the world, the fourth-largest foreign exchange trading hub, the third-largest Asian bond market, and the biggest fund management hub in Asia. Next, it will analyze the role of Hong Kong international financial Center from different aspects according to the research, and analyze the advantages, disadvantages, opportunities and challenges of Hong Kong international financial Center through SWOT analysis and give relevant suggestions.

2. SWOT Analysis

2.1. Advantage

As China's economy has grown, mainland companies have increasingly chosen to list in Hong Kong, strengthening the city's capital market and boosting the international standing of the local

economy. Moreover, Hong Kong has become the largest offshore RMB market, and the offshore RMB hub has played a positive role in the internationalization process of RMB.

In terms of rules and regulations, on June 30, 2020, Hong Kong passed a law aimed at preventing a few people from interfering with the stability of the Hong Kong Special Administrative Region Government, which created positive conditions for the stable political situation of the Hong Kong Special Administrative Region government and reshaping the legal order [3]. As an international financial center, Hong Kong's financial market is one of the most open in the world. It has a high liquidity in the market, flexible capital flows in and out of the market, and no restrictions on the participation of foreign institutions in the local financial market have attracted a large amount of investment and promoted Hong Kong's economy. This has had a positive impact on Hong Kong's status as an international financial center. First, trade entrepot and financial links formed on the back of mainland China have enabled the formation of China business and China-related business as an international financial center of Hong Kong. The two-way opening-up of China's financial sector has strengthened Hong Kong's status as an international financial center and laid a solid foundation for its development. Second, Hong Kong's advantages in banking, capital market, asset management and other financial market-related fields have made Hong Kong an international financial center with international competitiveness. Third, Hong Kong's institutional advantages, reflected in the free flow of capital, sound legal system, low tax rate and simple tax system [4]. Hong Kong has made full use of its advantages as a free port, effectively attracting a large number of overseas funds to park in Hong Kong and providing unlimited liquidity for its financial market. In addition, with regard to the financial market, Hong Kong adheres to the principle-based supervision, which sets out the principles for the operation of the financial market and allows financial institutions to formulate their own operating rules. This provides a relaxed operating environment for financial institutions. It is also conducive to the innovation and development of the financial industry [5]. Secondly, as an important platform for global venture capital, Hong Kong's financial market attracts funds from all over the world with its characteristics of openness, diversification, moderate regulation and active trading. International investors can conduct equity investment and asset management business in the Greater Bay Area and the Mainland through international financing platforms based in Hong Kong, enabling mainland enterprises to attract overseas funds beyond the traditional bank financing channels. 1,370 mainland Chinese businesses will be listed in Hong Kong by 2022, making up 53.3% of all HKEx listings and 77.7% of the market value of all Hong Kong equities. [2] Hong Kong provides an important channel for international capital to enter the Chinese market. It is of great significance to attract global capital to actively participate in Hong Kong's independent innovation in science and technology, stimulate the vitality of innovation and entrepreneurship, and smooth the global cycle [5]. First, the financial system is strong and has maintained steady growth. This is what keeps Hong Kong as an international financial center. According to the data released by the Hong Kong Monetary Authority, the assets of the banking system in Hong Kong were about HK \$8.7 trillion in July 1997. By April 2022, they had reached HK \$27 trillion, an increase of about 2.1 times. Second, the financial market is developed and has a leading edge in Asia and the world. Hong Kong's highly developed stock market is one of the most active and liquid securities markets in the world. The total market value of Hong Kong stocks in May 2022 was about HK \$3.8 trillion, seven times that of July 1997. In seven of the last 12 years, Hong Kong has led the world in terms of new share offerings raised. Hong Kong's bond market has also developed rapidly in recent years. The total bond issuance in 2021 is about US \$400 billion, more than 19 times that of 1997. Hong Kong's insurance market is very open, with the largest concentration of insurance companies and the highest insurance density in Asia. Its premium income in 2021 was HK \$602.7 billion, and its per capita premium in 2020 ranked first in Asia and second in the world. Third, there are numerous financial talents and supporting professional service institutions. Hong Kong has high-quality institutions of higher education that are in line with international standards, policies to facilitate the entry of talents, and a variety of talent import schemes, which have effectively attracted and gathered a large number of high-quality financial talents. Fourth, the financial infrastructure is complete and advanced. Hong Kong's first-

class financial infrastructure has formed a multi-currency and multi-level platform network, which can meet the financial needs of investors and financiers in any currency and anywhere, effectively reducing the cost of capital and transaction risks [6].

2.2. Disadvantage

Hong Kong as an international financial center has many disadvantages. As one of the cities in China, Hong Kong relies on the economy of mainland China for its economic activities and market resources and differs greatly from that of Mainland China in its financial operation, regulatory framework and legal system. Therefore, there are duality and accumulated potential risks. Second, while Hong Kong's financial markets are among the best in the world, the big financial institutions that dominate the territory are foreigners. Until 2022, there will not be a truly large international financial institution headquartered in Hong Kong, the market dominance cannot be fully realized for myself [2]. Therefore, the financial market in Hong Kong is highly volatile. When the financial crisis comes, the stability of the financial system will be affected due to the lack of support from large local financial institutions. At the same time, the large number of immigrants has brought a series of economic problems to Hong Kong. Hong Kong's migrants from the mainland include one million one-way migrants, in which low - and medium-skilled workers are shunted away from local low - and medium-skilled jobs and share preferential social welfare resources. High-end migrants -- people from mainland backgrounds who work in finance or related industries in central -- are snapping up jobs in core industries. The differences in culture, politics and values brought by immigrants are easy to cause conflicts, which are mainly reflected in the localism ethnic consciousness of Hong Kong people [7]. Local people believe that a large number of mainlanders will affect and dilute Hong Kong's inherent core values and way of life, which will bring great insecurity to local people. Hong Kong's economy steadily become the most unequal in the world under the free market and small government system of active non-intervention. Young people in Hong Kong are unable to benefit from the success of the city because of the growing divide between the middle and lower classes and the upper-class elites. Hong Kong's economy has long lacked government guidance, and the British government of Hong Kong and the SAR government allowed the monopoly of real estate syndicates, which not only resulted in the monopoly of real estate rarely seen in the world, but also led to the current deformed economic structure of Hong Kong, forming the market state of "real estate hegemony" [7]. Market monopolies stifle Hong Kong's economic vitality and inhibit the entry of new industries and technologies into the Hong Kong market. The concentrated flow of economic interests to monopolies has led to the failure of the Hong Kong market to nourish new economic industries and structures. As a result, Hong Kong's internal economic growth is low, there is a lack of innovation, new enterprises and industries cannot enter, and the social structure is rigid. For the development of high technology, the activities of innovation and entrepreneurship are regarded as not economically rational by the Hong Kong business elite. The capital investment in Hong Kong strives to be short and fast, and the business model and operation are locked on the basis of short-term returns or cheap costs. More importantly, the comprehensive monopoly of capital in the market makes the fruits of Hong Kong's economic growth concentrated into the hands of monopoly groups, rather than the general public. The interests between labor and capital are not equally shared, and the prosperous economy of Hong Kong created by monopoly is at the cost of the public. The inequality of capital is the extreme inequality 66, which further leads to Hong Kong people's serious distrust of the Hong Kong government elite [7]. Due to the linked exchange rate mechanism, it will face the financial risk of radical withdrawal of foreign banks under the credit crunch. In 2022, the US Federal Reserve began to raise interest rates, increasing the amplitude and frequency of interest rate increases, resulting in great pressure on Hong Kong, which fell below 100 billion yuan by the end of 2022. When there is an extreme situation of large inflow and outflow of international funds in Hong Kong, Hong Kong's financial instability will be further aggravated. Compared with the stock market, the development of Hong Kong bond market is relatively slow. On the one hand, under the current Hong Kong dollar linked exchange rate system, local large enterprises prefer to raise funds in the US dollar bond market.

On the other hand, the Hong Kong Special Administrative Region government has a perennial fiscal surplus and rarely needs to issue public bonds, so it is difficult to form a risk-free pricing benchmark in the bond market [8]. Hong Kong then developed into a financial center, but the number of jobs available in the financial sector was too small for the best educated to benefit the masses.

2.3. Challenge

Among them, Hong Kong international financial center also faces some challenges. With years of economic growth, Hong Kong's economy has become more dependent on traditional industries, resulting in the phenomenon of industrial hollowing out. At present, there is still a shortage of new enterprises, resulting in a serious internal class divide [9]. Hong Kong's high housing prices also lead to social instability in Hong Kong. However, with the continuous development of mainland China, Hong Kong's economic growth rate does not exist great advantages. The worldwide economy has been in a state of paralysis since the COVID-19 breakout in 2019, and the disruption of industrial and trade chains has led to the disruption of the financial chain, increasing the possibility of the outbreak of a crisis in the global financial market. The COVID-19 epidemic has had a huge impact on Hong Kong, with its real economy facing a downturn and its import and export business negatively affected. Similarly, some companies in Hong Kong face challenges such as company closures and job losses. In 2021, social riots in Hong Kong caused by the anti-constitutional amendment event affected the stability of Hong Kong. Affected by the above adverse factors, Hong Kong's economy has shown a negative growth trend, and Hong Kong's standing as a global financial hub has come under scrutiny. Nonetheless, the United States implemented a programmed of quantitative easing in response to the financial crisis, which resulted in the depreciation of the US dollar. Therefore, the financial system of Hong Kong faced great challenges due to the depreciation of the US dollar. With the outbreak of the Russia-Ukraine conflict in 2022, the global market has experienced great shocks. Some stock markets, such as Internet companies and automobile companies, have fallen, while the stock prices of oil, gas and gold have risen sharply, which has affected the living costs of Hong Kong residents. By 2023, China's Shanghai International financial Center will be second only to Hong Kong, and many of Hong Kong's former advantages are no longer prominent enough. China's support for the development of international financial centers in Shanghai, Beijing and Shenzhen also poses a threat to Hong Kong. Although Hong Kong's status as an international financial center still exists, without reform and innovation, Hong Kong's advantages will no longer exist.

2.4. Policy

Hong Kong has long been free in economic regulation. After the first period of policy vacuum, legislation and regulations have been developed to increase market oversight and decrease market intervention, thus leading to free development of the market. By transforming and transforming industries, in order to build a solid basis for its future development as a financial center, Hong Kong may take advantage of the favorable external economic and political climate. After several blows to the financial industry, Hong Kong's regulation and market control have been gradually improved. Maintaining the stability of market order can promote the development of Hong Kong's financial system [10]. In addition, Hong Kong connects the opening and closing hours of New York and London, two major international financial centers, and ensures the operation of international transactions [10]. Hong Kong still has to balance its financial center expansion, nevertheless, in comparison to London and New York, make up for its weaknesses and attract financial talents. Similarly, safeguarding the security of Hong Kong is the bottom line to enhance the status of Hong Kong as a financial center. The government needs to put safeguarding the financial security of Hong Kong in the first place. The purpose is to strengthen the strength of financial enterprises in Hong Kong, so that they can safeguard the financial market and financial security of Hong Kong. The financial development of Hong Kong needs to be supported by strong financial institutions, which is crucial to the pricing power of the financial market. Strong Chinese and foreign financial institutions will safeguard financial security. Promoting the construction of Chinese financial enterprises in Hong

Kong's science and innovation center and the northern metropolitan area, increasing financial support for Hong Kong's industrialization and development of the real economy, combining the national innovation-driven strategy of financial services with the development of Hong Kong's innovation and technology, effectively serving the transformation and upgrading of Hong Kong's economy and industry, will promote the development of Hong Kong's financial center [2]. Among them, maintaining Hong Kong's existing advantages is also essential. To continue to leverage the unique strengths of Hong Kong's financial talents, to leverage their competitiveness to determine the development of Hong Kong as an international financial center, to continue to attract more talents to stay in Hong Kong and to cultivate more flexible talents. To maintain the unique advantages of Hong Kong's common law system, which is more protective of minority shareholders and has great influence on international trade. To enhance the comprehensive competitiveness of Hong Kong as an international financial center by taking offshore RMB business as a breakthrough. The use of international currencies and the development of international financial centers complement and reinforce each other. The increasing influence of Hong Kong as an international financial center also benefits from the internationalization of the RMB. To build a global risk management center to safeguard Hong Kong's international financial development. Hong Kong should study the feasibility of setting up a service center and Insurance Connect for local insurance companies in the Greater Bay Area, expand insurance linked securities products, enhance the risk tolerance of insurance companies, expand the maritime insurance market, consolidate its position as an international shipping center and speed up the development of a risk management center. To develop green finance to strengthen the weak links of Hong Kong as an international financial center. The HKSAR government intends to regularly issue green bonds and increase the scope of the Government Green Bond Programme. Hong Kong is vigorously promoting the development of green finance, strengthening international and regional cooperation, bringing green finance to a new level, enhancing the development space of Hong Kong's bond market and shoring up the weak links of an international financial center. Technology and finance are catching up and giving new fintech connotations to Hong Kong as an international financial center. Hong Kong has actively built the Business Data Connect (CDI) data platform to improve banking services, accelerated the promotion of cross-border fintech, and established one-stop sandbox networking with mainland research. In the future, Hong Kong will make innovations in the digitalization of the financial sector, promote the application of compliance technology, the evaluation of the application of fintech, and the regulatory guidelines on the application of innovative technology. At the same time, to effectively control fintech-related risks, foster a fintech ecosystem, expand the fintech talent pool, and promote the leading role of fintech in the development of Hong Kong as an international financial center [10].

3. Conclusion

This paper analyzes the strengths and weaknesses, challenges and policies of Hong Kong international Financial Center through SWOT model. In terms of policies, Hong Kong International Center has the advantages of moderate supervision and diversification, which can attract foreign investment and promote Hong Kong's finance. In the disadvantage, Hong Kong international financial center still cannot achieve its own market as the dominant position. At the same time, the hollowing out of the industry has led to serious internal stratification and other challenges. Therefore, Hong Kong International Financial Center should continue to attract talents on the basis of its existing advantages to further enhance its comprehensive strength.

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