

Reflection on the Status of Hong Kong as an International Financial Center against the Background of Record Negative Economic Growth

Chen Zhang¹, Lingke Wang^{2,*}, Yiming Ma³

¹*Faculty of Business and Economics, the University of Melbourne, Melbourne 3010, Australia*

²*College of Business and Public Management, Wenzhou-Kean University, Wenzhou 325060, China*

³*School of the Atmospheric Sciences, Nanjing University, Nanjing 210023, China*

*Corresponding author: 1098203@wku.edu.cn

Keywords: Hong Kong's Status, International Financial Center, Financial Free Port, Financial Technology

Abstract: Recently, due to the influence of various unfavorable factors and the decline in total GDP for two consecutive quarters, there have been remarks that Hong Kong's status as a financial free port and an international financial center no longer exists. This article starts with the history of Hong Kong's financial industry development, discusses in depth the multiple challenges and opportunities that Hong Kong faces now, and finally clarifies the future development direction. The article believes that Hong Kong is now in a critical period of both challenges and opportunities. Despite the depreciation of the U.S. dollar, the China-U.S. trade war, the anti-amendment incident, the COVID-19 pandemic, as well as the challenge for the rise of mainland financial centers, Hong Kong's development can usher in a good situation if it seizes the strategic opportunities, such as the "Belt and Road" policy, actively develops the RMB offshore financial market, and strengthens mutually beneficial cooperation with emerging financial centers in the mainland while striving to develop financial technology to promote industrial transformation. Hong Kong will not be "marginalized" and its unique financial status will not be replaced.

1. Introduction

Hong Kong is a Special Administrative Region of the People's Republic of China, which comprises Hong Kong Island, Kowloon and the New Territories as well as 262 surrounding islands. It locates in the east of the Pearl River Estuary and the north of Guangdong, and faces the South China Sea. With a long history of financial industry, Hong Kong has implemented the policy of "free port" since 19th century, and maintained its status as an international financial center for a long period of time.

Recent years, the US adopted the policy of "quantitative easing" in order to resist the financial crisis, which led to the depreciation of the US dollar. This posed great challenge to Hong Kong financial system, which was centered on the US dollar. Hong Kong's financial industry has also been negatively affected by the prolonged tug of war between China and the US. Last year, social riots

broke out in Hong Kong after the anti-amendment incident, which seriously affected Hong Kong's local stability and damaged Hong Kong's international image. The outbreak of COVID-19 had a huge impact on global economy, including Hong Kong. At the same time, the policy support for the financial center's construction in China's mainland, such as Shenzhen and Shanghai, further poses threats to Hong Kong's financial status as well. On the other hand, opportunities coexist with challenges. With the implementation of the Belt and Road Initiative, and the promulgation of the National Security Law, Hong Kong's development has been provided with new opportunities. In addition, the construction of the Guangdong-Hong Kong-Macao Greater Bay Area and the establishment of the Hainan Free Trade Port also enable Hong Kong develop together with the mainland's emerging centers.

For China, Hong Kong is a transit point for international trade on the mainland. Internationally, Hong Kong is a financial center, which serves as a bridge connecting world trade and ensures the uninterrupted operation of international financial transactions. Therefore, Hong Kong's status is of great importance to both China and the world. Currently, Hong Kong's economy has occurred record negative growth due to a combination of negative factors, which raises doubts about its status as a "financial free port" and international financial center. This paper makes a detailed analysis of the challenges and opportunities for Hong Kong and discusses the future direction of Hong Kong's development, which is helpful to understand the guidance of national policies for Hong Kong's future advancement, promote the development of Hong Kong's own advantages, and strengthen its cooperative relationship with the mainland. Meanwhile, it also provides reference suggestions for follow-up studies.

2. The Development of Hong Kong's Financial Industry

City	Rank	Score	Change
New York	1	770	
London	2	766	
Shanghai	3	748	1
Tokyo	4	747	-1
Hong Kong	5	743	1
Singapore	6	742	-1
Beijing	7	741	
San Francisco	8	738	
Shenzhen	9	732	2
Zurich	10	724	4

Figure. 1 Rank of Financial Centers Index

Hong Kong's geographical position is advantageous. At the time of being defeated in the Opium War, Hong Kong became a British colony. Meanwhile, Britain took Hong Kong as its trade center in the east and vigorously developed Hong Kong's international trade, finance, service and other industries. On this basis, the implementation of the "free trade" policy led to the rapid development of Hong Kong's economy. After the Second World War, Hong Kong grasped the opportunities and successfully became one of the "Four Asian tigers" after several industrial reconstruction and transformation, and established its status as an international financial center. [1] Since the return of Hong Kong to the motherland, the Chinese government has given it enormous economic and policy support to strengthen its trade exchange between the mainland. Hong Kong has been served as a

gateway of communication between China and the world, and its important position in the world has been further consolidated. According to the Financial Centers Index, Hong Kong's financial position has been relatively stable in recent years.

Hong Kong has adhered to the concept of "free economic regulation" for a long period of time. From the initial policy vacuum to the later enactment of regulations to strengthen market supervision, Hong Kong has tried to maintain minimum intervention in the market so that market can develop freely and efficiently. [2] At the same time, Hong Kong's several industrial reconstruction and transformation have grasped favorable conditions of external economic and political environment, kept pace with time, and laid an economic foundation for its future development as an international financial center. In addition, after several heavy blows in the financial industry, Hong Kong has gradually improved its legal supervision as well as control of the market, and maintained market order and stability with regulations, enabling Hong Kong to develop rapidly in a stable financial system.

Hong Kong has cleverly connected the opening and closing time of the two major financial markets of New York and London, ensuring the uninterrupted operation of international financial transactions [3]. However, compared with London and New York, Hong Kong still needs to further balance the development of the financial market, make up the shortcomings of diversified investment platforms, as well as cultivate and introduce financial talents.

3. Challenges

Currently, the development of Hong Kong's financial industry faces several challenges. Its GDP has fallen for two quarters in an unprecedented manner. Under the adverse impact of the depreciation of the US dollar, trade frictions between China and the U.S., anti-amendment cases and COVID-19, the rise of major financial centers on the mainland and the promotion of policies have brought more challenges to Hong Kong's status as an international financial center.



Figure. 2 Year-on-year Chart of Hong Kong's GDP and GNP in the current quarter

3.1 The impact of U.S. dollar depreciation

Since March when the dollar index reaches peak, it has fallen nearly 10%. Dollar index continues to fall, consecutive declines has appeared. Hong Kong implements the linked exchange rate system and its exchange rate changes with the US dollar, which means that the depreciation of the US dollar

is accompanied by the depreciation of the Hong Kong currency. This definitely brings great challenges to Hong Kong's financial industry, which mainly can be divided into following aspects: inflation, investment, import and export.

3.1.1 Inflation

The stability of currency plays a decisive role in the development of a country's economy. Since 1987, in order to give investors enough confidence and maintain its status as an international financial center, the Hong Kong Authority has implemented the linked exchange rate system with the main objective of maintaining the stability of the external exchange rate. Therefore, when the US dollar depreciates, the depreciation of Hong Kong currencies against foreign currencies forces consumption price to rise, thus forming imported inflation [4].

In the short term, inflation makes the traditional industry shrink while the profit of the financial industry increase, but this is a kind of "irrational" prosperity. In the long run, this mechanism will lead to the bubble of the financial industry, resulting in the collapse of the entire economic system and social unrest [5]. Therefore, Hong Kong's inflation caused by the depreciation of the US dollar will be a huge challenge to the development of Hong Kong's financial industry.

3.1.2 Investment

For a long time, Hong Kong has attracted a large number of foreign investors by virtue of its core institutional advantages. If Hong Kong currencies continue to fall with the change of US dollars, foreign investors will worry that the exchange rate will harm their investment profits, thus reducing the speed of investment in Hong Kong. The situation that outflow of funds continuously increases and exceeds the inflow of funds will even occur. In the long run, this will be detrimental to the development of Hong Kong's financial industry.

3.1.3 Import & Export

The negative impact on Hong Kong's import due to the depreciation of US dollar cannot be ignored. At the same time, the rising cost of many imported raw materials makes the price of export products rise correspondingly, which also weakens the favorable conditions for Hong Kong's export under the impact of US dollar depreciation [5]. As can be seen from the chart in Figure 3 below, although the unit price of export commodities in 2020 is lower than 2019, the volume index is generally much lower than 2019. In terms of the volume index of trade, the overall trend presents a continuous negative growth.

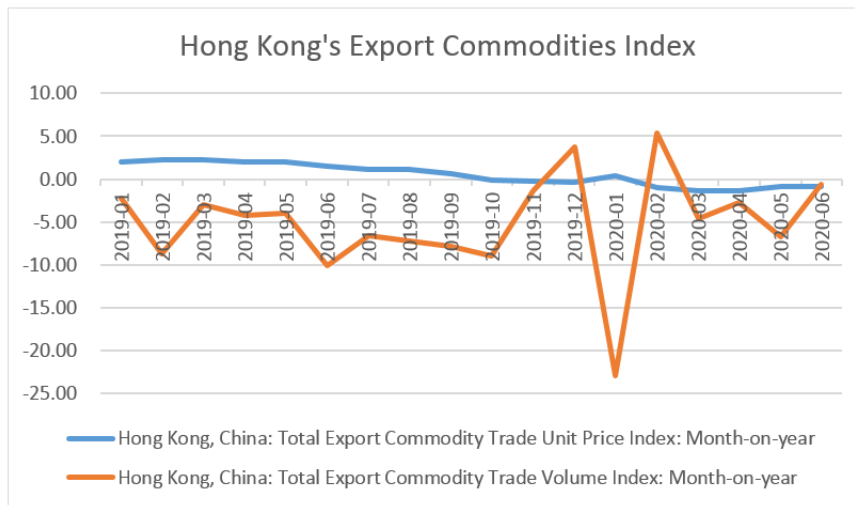


Figure. 3 Hong Kong's Export Commodities Index
Source: Wind Database

3.2 Trade war between China and the U.S.

In July 2018, the Trump administration formally imposed 25 percent tariffs on \$50 billion worth of goods from China and tried to strike China with Japan, Canada and other countries, which caused the biggest trade friction in economic history to date. Trade friction between China and the United States is characterized by long-term and complexity. As a small and open economy entity, Hong Kong's economic growth is largely dependent on external demand. Trade, one of the four fundamental industries, has created more than 20% of Hong Kong's GDP [6]. As shown in Figure 4, Hong Kong's exports of goods and services have shown a downward trend in recent years. In addition, as shown in Figure 5 and Figure 6 below, Mainland of China and the U.S. are the first and second largest trade partners of Hong Kong respectively. Therefore, trade frictions between China and the U.S. will greatly reduce the external demand of Hong Kong's economy, bringing severe challenges for Hong Kong [7].

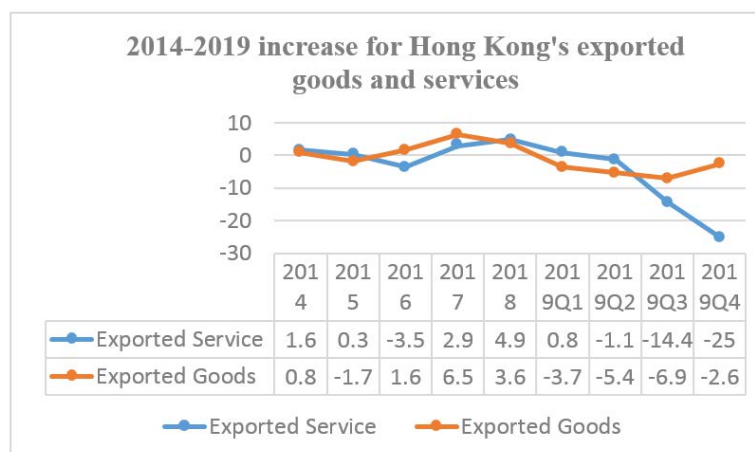


Figure. 4 2014-2019 increase for Hong Kong's exported goods and services chart
Source: Census and Statistics Department, HKSAR Government



Figure. 5 2020 Hong Kong's value of exported goods for different countries
Source: Wind Database

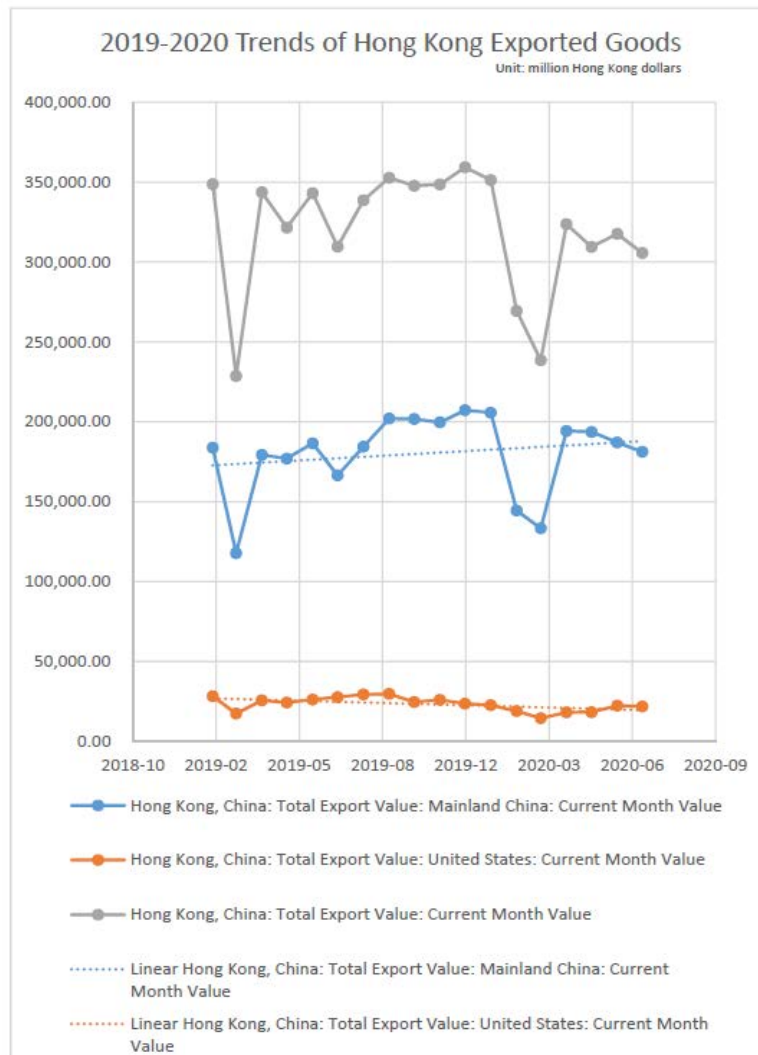


Figure. 6 2019-2020 Trends of Hong Kong exported goods
Source: Wind Database

At the same time, China and the United States are each of other's largest trading partner, and the continuous trade friction between them will indirectly affect Hong Kong's re-export trade. Before the Trump administration imposed the tariffs, the value of all goods re-exported from China to the United States through Hong Kong arrived at \$35.5 billion in 2017, accounting for about 12.5% of the total amount. On the other hand, the total value of US goods exported to the mainland of China via Hong Kong was \$9.36 billion, accounting for about 63.2% of the total amount [7]. This verified Hong Kong's status as a "super contact" in the economical relationship between China and U.S. [8] Therefore, the continuous expansion of trade disputes between China and U.S. will also indirectly drag down Hong Kong's import and export to some extent.

3.3 The anti-amendment incident

Since June 2019, the opposition and some radical forces in Hong Kong conducted parade in the name of peaceful rallies. Although the violence has been eased in 2020, it has not completely subsided. Some destructive behaviors, such as strikes, traffic jams, still occur frequently. These events pose great threats to the normal operation of society for Hong Kong.

Capital is the most risk-averse. Only when there is a safe and stable market environment, can capital be willing to flow into Hong Kong. Hong Kong's position as an international financial center will be consolidated at the same time. Hong Kong's position as the world's freest economy entity has been lost after the anti-amendment incident. In addition, Hong Kong's linked exchange rate mechanism was under threat. A number of hedge funds, including Hyman Capital, have been bearish to Hong Kong currencies, betting that political turmoil will cause capital outflows and rise interest rates, thus making current linked exchange rate mechanism to collapse. At the same time, if international rating agencies further downgrades credit ratings of Hong Kong and the mainland of China, funding costs will rise sharply. If some highly indebted companies fail to raise capital, it could trigger corporate "storm". Once the number of such enterprises increases, the stability and development of Hong Kong's financial market will be challenged [7].

3.4 COVID-19 Pandemic

In the early 2020, the outbreak of COVID-19 affected more than 180 countries and regions around the world. The World Health Organization defines COVID-19 as "pandemic". As the world's freest trading port, Hong Kong has also been inevitably affected by COVID-19.

In the view of global financial markets, America as a major economy entity with close ties to Hong Kong, slashing its target range for the federal funds rate to 0%-0.25%. In the capital market, many investors lost confidence, leading to a sharp fall in the overseas capital market. The U.S. stock market experienced four first-level circuit-breakers in the eight trading days from March 9 to 18, 2020. In addition, the global commodity market fell sharply, the foreign exchange market also showed great volatility. It is a challenge for Hong Kong in the context of global financial market shocks.

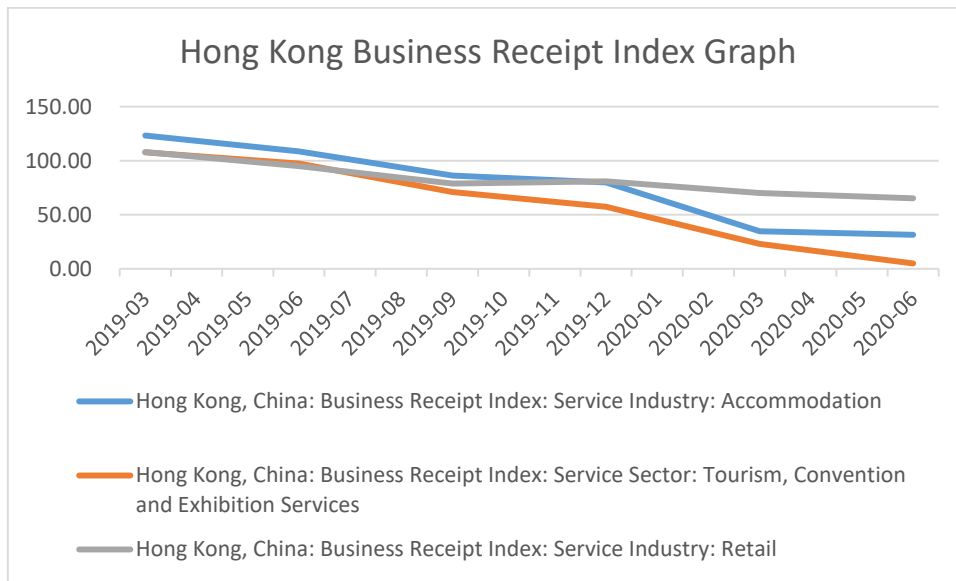


Figure. 7 Hong Kong Business Receipt index
Source: Wind Database



Figure. 8 Tourists to Hong Kong
Source: Wind Database

In addition, according to figure 7 and figure 8, Hong Kong's tourism, retail industry and catering industry were all hit heavily. Among them, tourism industry accounts for about 4.5% of Hong Kong's GDP, but it has almost come to a standstill as the number of visitors to Hong Kong has dropped sharply. At the same time, the epidemic has greatly reduced the demand for consumption and investment in various countries, and measures such as suspension of production have negatively impacted the global supply chain, thus harming Hong Kong's trade and logistics industry, and causing a worrying economic downturn [7, 9].

3.5 Continuous Policies Support for Mainland Financial Centers

In the past few decades, Hong Kong has played an irreplaceable role in the development of Chinese capital market by riding the wave of the mainland's reform and opening up. Due to its independent currency, special linked exchange rate system, and common law judicial system which is more consistent with the Common law system, its advantages cannot be easily replaced by other financial cities in the mainland [8]. However, with continuous advancement of the mainland's reform and opening-up policies, the gap has been gradually narrowed. Hong Kong's original role has been challenged to a certain extent.

On August 18, 2019, the CPC Central Committee issued *Opinions of the CPC Central Committee on Supporting Shenzhen in building a Socialist Pilot Demonstration Zone with Chinese Characteristics*, putting forward the strategic plan to build Shenzhen into a socialist Pilot Demonstration Zone with Chinese Characteristics by the middle of this century. Shenzhen is widely recognized as a fintech city. As a leader of the mainland's innovative development, Shenzhen has its unique advantages. It has gradually become a modern international innovation center, and shaped a development model driven by both technology and finance [8, 10, 11].

Accordingly, as the largest international financial center in the Far East area in the 1920s and 1930s, Shanghai's financial industry development also accelerated under the context of reforming. On February 14, 2020, the publication of *Opinions on further accelerating the construction of Shanghai international financial center and financial support for the integrated development of the Yangtze River Delta* means that Shanghai has become a pacesetter of the financial reform in China[12]. This has not only further promoted the construction of Shanghai's international financial center and the integrated development of the Yangtze River Delta, but also led the construction of a high-quality modern economic system in China.

However, the current development of Hong Kong's financial industry is lack of technology finance. Its technology finance has not formed a certain industrial scale [8]. According to *Fintech Global Cities 2020 Report*, Hong Kong's composite index ranks only tenth in the world. It also lags behind cities such as Beijing and Shanghai in the ranking of all mainland fintech cities. Meanwhile, *2019 Global Competitiveness Report* released by the world economic forum shows that Hong Kong ranks last in the index of "innovation ability"[25].

Besides Shenzhen and Shanghai, with the establishment of various free trade zones and the continuous promotion of various national policies, Hong Kong's advantages over the mainland are gradually decreasing. If Hong Kong keeps going on the same path of development, its position as an international financial center will be challenged in the long-term. Therefore, Hong Kong should make effort to shift from an "international financial center" into a "finance + technology" center. Also, Hong Kong should fully integrate its own development with national strategies, absorb the advantages of mainland financial center, and strive to achieve its own transformation and upgrade in the process of developing together [8].

4. Opportunities

The challenges as well as the dilemmas of Hong Kong at this moment that need to be resolved are unprecedented. However, relying on the motherland and favorable policies, and occupying a unique geographical location, Hong Kong is still able to exert its unique advantages in economic planning and remain firmly in the center of world finance. With the support of the Belt and Road policy, the continuous construction and improvement of the Guangdong-Hong Kong-Macao Greater Bay Area, the promulgation of the National Security Law and the establishment of a new free trade zone, Hong Kong also has more possibilities and opportunities to consolidate its international status.

4.1 The Belt and Road Policy

In March 2018, the "Arrangement between the National Development & Reform Commission and the Government of the Hong Kong Special Administrative Region on Supporting Hong Kong's Full Participation in and Helping the 'Belt and Road' Initiative" was released. Strengthening the connection with the construction of the "Belt and Road" is an important opportunity for Hong Kong to take off again.

Hong Kong itself has a strong geographical advantage. It is located in the center of the Asia-Pacific region, connecting the markets of the European Union and the Asia-Pacific region. It is also the sea-land junction of the China-ASEAN Free Trade Area, occupying the hub position of the One Belt One Road [13]. At the same time, Hong Kong has an independent tariff status, which is conducive to the reduction of financial barriers. In addition, the "Belt and Road" financial network is also an opportunity for Hong Kong. New financial institutions such as the Asian Infrastructure Investment Bank, the Silk Road Fund, and the "16+1" financial holding company complement each other with traditional multilateral financial institutions such as the World Bank, forming a financial network gradually [14]. As an offshore RMB center, Hong Kong not only provides financial services for the Asia-Pacific region, but also raises funds for the inland regions, so as to realize the offshore RMB and become its distribution center.

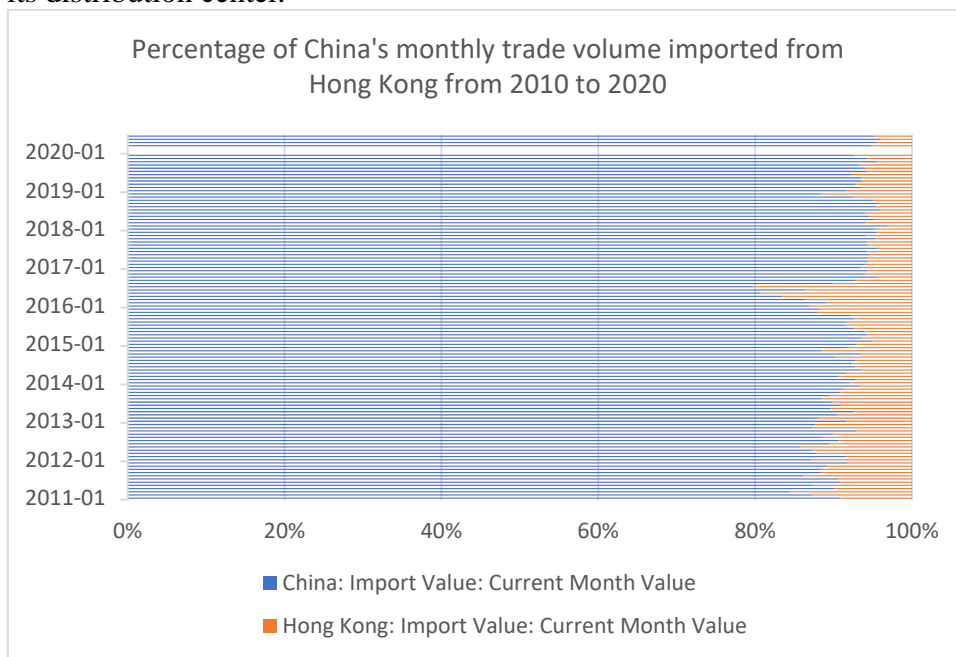


Figure. 9 Percentage of monthly trade volume imported from mainland China from Hong Kong from 2010 to 2020

Source: Wind Database

4.2 Construction of the Guangdong-Hong Kong-Macao Greater Bay Area

The Bay Area economy is an advanced form of the regional economy and an open economic model that is highly recognized in the world. At present, the core of the world's financial economy is gradually shifting from inland to coastal areas, and most of the internationally ranked economic groups are in coastal economic belts. According to the comparison of data from the four major bay areas, the development of the Guangdong-Hong Kong-Macao Greater Bay Area is not outstanding.

As the core of the Guangdong-Hong Kong-Macao Greater Bay Area, Hong Kong must seize its own advantages in the construction of the Bay Area and improve its international financial status.

Hong Kong has the advantages of the "one country, two systems" system in the Greater Bay Area. The financial market is open, and it can freely formulate policies in accordance with the basic Law. It is also an important platform for trade between the mainland and foreign countries. As the hub of the Maritime Silk Road and the shipping route of the Pacific and Indian Oceans, Hong Kong has well-developed ports and airports, thus ensuring its status as a global resource allocation center. Hong Kong's financial advantages have also established its special position in the Bay Area. Hong Kong has a complete financial system and financial infrastructure, as well as strong financial research and development capabilities. About 70 of the world's top 100 banks provide services in Hong Kong. Relying on the financial services industry, Hong Kong has gathered the Asian headquarters of many multinational corporations, which has established its financial strengths [15].

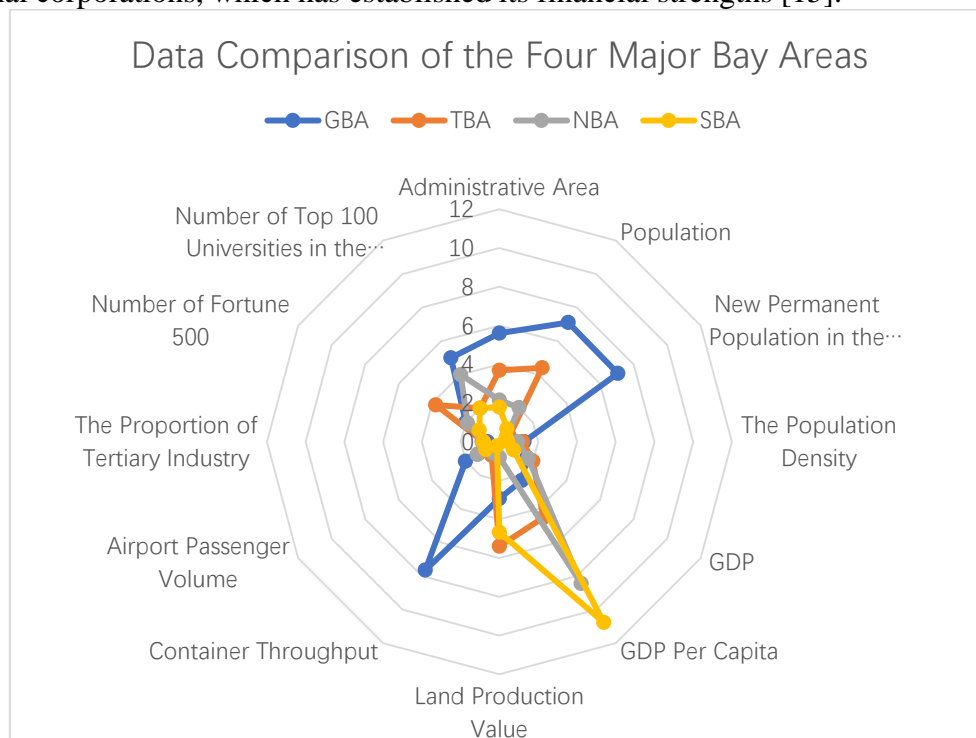


Figure. 10 Data Comparison of the Four Major Bay Areas

In addition, Hong Kong also has a talent advantage. Hong Kong implements biliterate and trilingual language education, which sprouted from its special historical soil and fits with the characteristics of an international financial metropolis, thus stabilizing its status as an international financial center [16]. As far as the cultivation of financial professionals is concerned, Hong Kong attaches great importance to the cultivation of talents' financial general knowledge from an early age. In the entire Greater Bay Area, Hong Kong has many world-class universities, which attract talents from all over the world. At the same time, it follows the laws of the market and has established a good school-enterprise cooperation mechanism with enterprises [17]. These have played a vital role in the cultivation of financial and business talents, and have greatly improved the efficiency of Hong Kong's financial asset management. In terms of scientific and technological research and development, the port area has 44 academicians of the two national academies, and the Ministry of Science and Technology has approved the establishment of 16 national key laboratories and 6 national engineering technology research centers in Hong Kong [18].

Through the analysis of advantages, Hong Kong should further seize the opportunity based on these advantages and develop cooperation with other parts of the Bay Area to broaden future development. In terms of policy, Hong Kong should deepen the “Belt and Road” policy, actively participate in it, and build it into an important platform for this policy. As far as talent innovation is concerned, Hong Kong should integrate its technological innovation with the Bay Area manufacturing industry to promote the international innovation influence of the entire Bay Area, thereby enhancing its status. Combining with the mainland market, it has improved its multi-level and multi-faceted technology innovation financing method, making Hong Kong a science and technology center in the Greater Bay Area, and realizing the convenient interaction of innovation flow, information flow, talent flow, and capital flow in the region[18]. In terms of financial development, in-depth cooperation between Hong Kong's financial industry and the Bay Area should be propelled to promote the integrated development of the capital markets of Shenzhen and Hong Kong, and create an international financial hub.

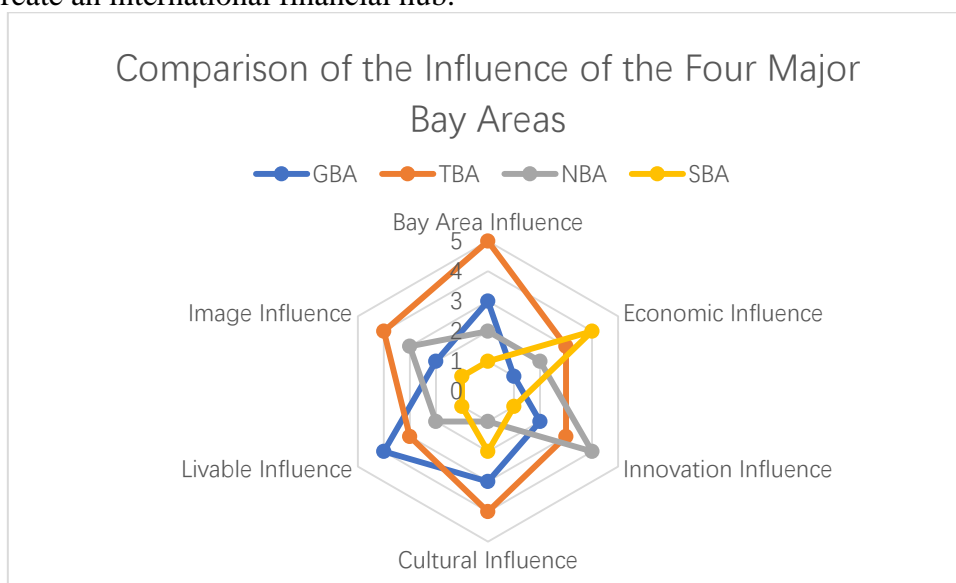


Figure. 11 Comparison of the Influence of the four major Bay Areas

4.3 The promulgation of the National Security Act

On June 30, 2020, the 20th meeting of the 13th National People's Congress Standing Committee unanimously passed the "Law of the People's Republic of China on Maintaining National Security in the Hong Kong Special Administrative Region of the People's Republic of China." The "National Security Law" of Hong Kong has blocked the loopholes in Hong Kong's laws and systems for safeguarding national security. Its implementation is a major improvement to the system of "one country, two systems" and has brought the practice of "one country, two systems" into a new milestone in Hong Kong.

Without a stable and coordinated social environment, there will be no development in social productivity, economic and culture. The higher the degree of stability of the social environment, the greater the extent of social and economic development, and the longer the sustained economic development. According to the World Happiness Index, Hong Kong's ranking has declined slightly since 2010, which closely connects to the degree of its social environment's stability. After the implementation of the National Security Law, the rights and freedom enjoyed by Hong Kong citizens in accordance with the law will not be deteriorated, but will be protected to the greatest extent. As a

highly cosmopolitan city, Hong Kong's connection with the world will not be weakened, nor will the normal communication activities of Hong Kong citizens be disturbed.



Figure. 12 Ranking of Happiness

As a special area under the "one country, two systems" policy since 2009, Macau had passed and implemented the National Security Law. According to data, the Macau GDP deflator has been on a downward trend since 1990. Since the National Security Law was promulgated in 2009, it has shown an overall upward trend except for certain special years (see Figure 13). This shows that the promulgation of the National Security Law has maintained Macao's economic growth to a certain extent.

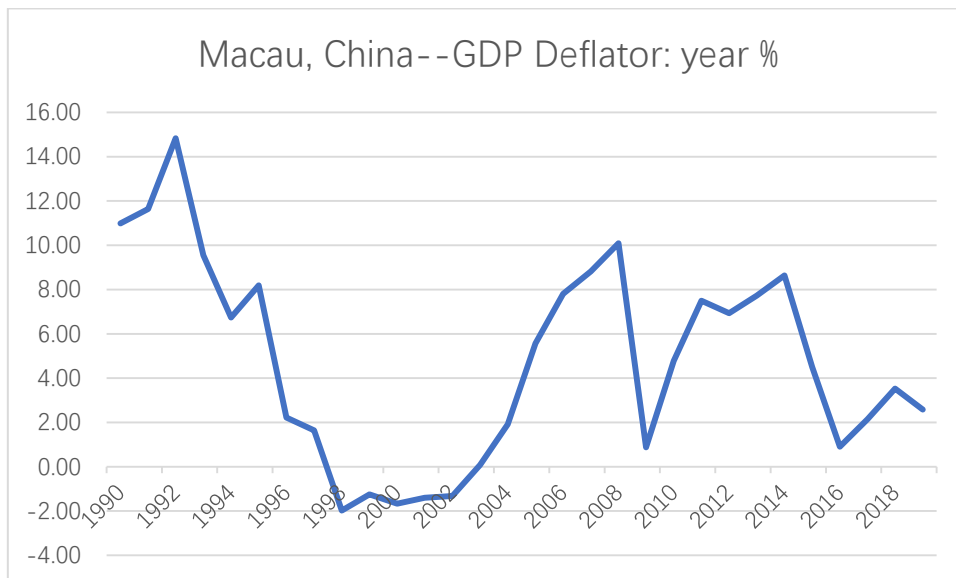


Figure. 13 Macau, China--GDP Deflator: year%

Hong Kong is under the same policy as Macau, and its early economic development was similar to that of Macau (see Figure 14). Therefore, we have reason to believe that the promulgation of the National Security Act can also create a good economic development environment for Hong Kong and

consolidate its own international financial status.

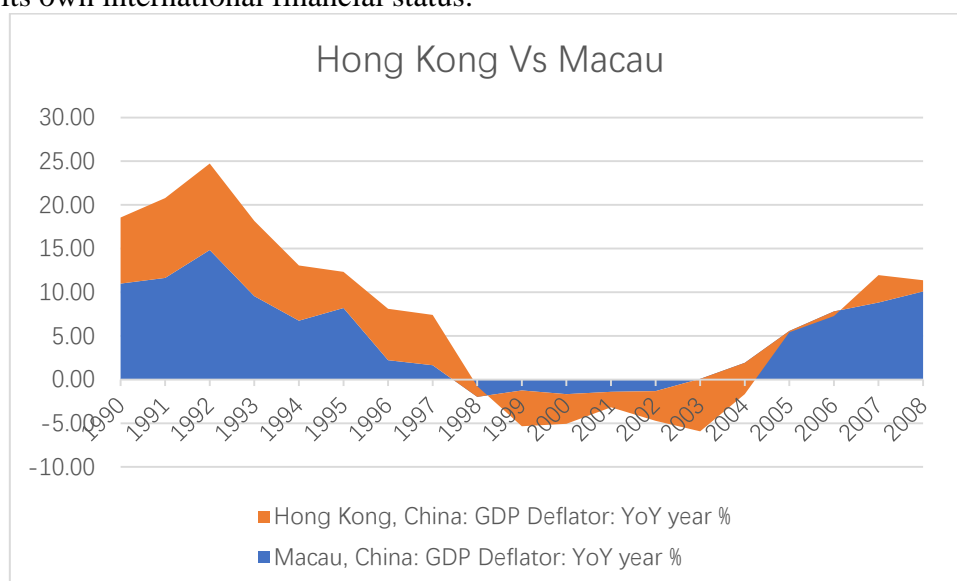


Figure. 14 Comparison of GDP deflators between Hong Kong and Macao from 1990 to 2008

4.4 Establishment of Free Trade Zone

On June 8, 2020, the State Council announced at the press conference of the "Overall Plan for the Construction of Hainan Free Trade Port" [19], saying that Hainan will complete the overall construction of Hainan Island by 2025, and the island will be closed to implement zero tariffs.

Even though many scholars believe that the establishment of a new free trade zone will bring challenges to Hong Kong, on another level, this is also an opportunity. From the perspective of the development of global free trade ports, free trade ports are generally regional or international financial centers, which have a strong siphon effect of funds. Furthermore, the financial industry has a relatively high proportion of economic development, financial institutions, especially foreign-funded institutions, and there are many financial trading platforms. The Free Trade Port is also an offshore financial center, and all currencies circulating in the port are convertible currencies. Based on the above considerations, in China, only Hong Kong can still meet all the above conditions and can compete with other international financial free ports. Hainan as an international free port, there is still a gap in the development of the financial industry, including the low proportion of financial industry in Hainan's economy, and financial radiation has not formed yet. It is lack of financial institutions, trading platforms, offshore financial services, and the free exchange of RMB [20]. Other free zones are still in the conceptual stage and do not have the strength to compete with Hong Kong.

Hong Kong should seize the opportunity of the domestic free trade port area in the initial stage of construction, use its existing advantages to promote cross-regional and cross-system integration, extend its rich experience in international contacts to the mainland, and assist in the introduction of foreign capital. It can also cooperate with mainland enterprises, jointly explore overseas markets, look for development opportunities, promote the economic development of the two places in order to achieve win-win results and prompt the development of inland areas. It needs to follow relevant national policies, create a new land of opening up with a higher level and a better business environment, and play a stronger radiating role.

5. Hong Kong's Future Development Direction

5.1 Consolidate the International Status of the US dollar Financial Ecosystem

Currently, Hong Kong ranks third in the US dollar financial ecosystem, behinds New York and London. Therefore, to consolidate Hong Kong's position as an international financial center, it is necessary to consolidate its international position in the US dollar financial ecosystem and maintain its influence in the international financial market, especially in Asian financial markets.

To strengthen international and regional financial cooperation, deepen international influence, increase close cooperation with financial organizations, and promote global financial reforms, Hong Kong should make more efforts in maintaining the international financial environment [21]. In addition, it is indispensable to cooperate with financial trade in the Asia-Pacific region and coordinate countries to maintain currency as well as market stability in the Asia-Pacific region.

At the same time, Hong Kong should continue to maintain its own good credit rating and international financial environment, so as to attract international financial institutions to settle here. Hong Kong should also attach importance to the construction of financial infrastructure, improve the stable and efficient operation of a cross-currency, multi-level, and wide-ranging transaction settlement system [4], maintain a good international reputation, and consolidate Hong Kong's international position in the dollar financial ecosystem.

5.2 Develop the International Status of the RMB Financial Ecosystem

With the deepening of the internationalization of the RMB, the full use of the active role of the Hong Kong RMB offshore market can fundamentally enhance the international competitiveness of Hong Kong's international financial center. A diversified RMB offshore financial market can help Hong Kong establish a dollar and RMB dual-core compound financial center, which has a profound impact on Hong Kong's status as an international financial center.

The RMB offshore financial market is conducive to the smooth financing of Hong Kong's infrastructure projects, thereby giving full play to the geographical advantages of Hong Kong's natural water ports, the location advantages of transportation hubs, and the advantages of multimodal transportation; it is conducive to enterprises' financing and investment activities. It is also beneficial to the combination of financial and technological innovation, thereby improving the international level of Hong Kong's financial industry.

Hong Kong companies can obtain offshore RMB loans directly from banks or obtain financing from the bond market in the form of bond issuance. Through overseas investment, offshore funds were converted into onshore funds, which not only develops the RMB offshore financial market, but also improves Hong Kong's infrastructure.

Furthermore, the offshore RMB financial market can consolidate Hong Kong's status as an international financial center. Through the aggregation and redistribution of RMB, Hong Kong can complete the currency cycle and become the hub of RMB financial cycle, thereby consolidating Hong Kong's position as the mainstay of the RMB financial ecosystem and further enhancing the influence as an international financial center.

5.3 Respond to National Policies & Handle Internal and External Relations

In the 13th Five-Year Plan of the Chinese National Rejuvenation Strategy, the positioning of Hong Kong is based on the basic development of Hong Kong's financial industry. This is also the first time that the central government has included the development of Hong Kong and Macau as a single chapter, and proposed "enhancing the status and function of Hong Kong and Macao in Chinese

economic development”, showing the central government’s expectations for Hong Kong.

Hong Kong should be based on the top-level design of the central government and take advantage of its unique advantages in external relations as an open economy, to promote the development of the mainland economy and the internationalization of the RMB. Government should support Hong Kong to consolidate and upgrade its position as the three major centers of international finance, shipping and trade, and strengthen its position as a global offshore RMB business hub [22]. Also, it needs to encourage Hong Kong to assist national opening up trend, devote the construction of the "Belt and Road", deepen financial cooperation and accelerate the interconnection with the Mainland.

In addition, due to the continuous improvement of the establishment and trial of free trade zones in the Mainland, Hong Kong's role as an offshore RMB center may undergo tremendous changes. While enhancing and consolidating its own international financial status, Hong Kong must also pay close attention to the direction and progress of other pilot zones, and carry out forward-looking and mutually promoting reforms that can be adapted to it [23]. Hong Kong need to not only see and learn the strengths of global financial centers such as Singapore, Tokyo, London, and New York, but also continuously improve its own strengths, be prepared for confront those unfavorable situations. It should take fully advantage of strong support of the hinterland and own confidence to compete with other financial centers.

6. Conclusion

This article discusses whether Hong Kong's status as an international financial center will be shaken from five dimensions: the development history of Hong Kong as an international financial center, the challenges and opportunities that Hong Kong is facing now, and its future development direction.

From the discussion, it can be seen that Hong Kong relies on its far-reaching financial industry development history, unique geographical advantages and unique development characteristics which separate it from other domestic financial centers. Even though Hong Kong is now facing unprecedented challenges and has experienced record negative economic growth, with the advantage of its special systems, its status as a financial free port and an international financial center will not be taken. Although it appears that its GDP is in a state of decline, this should not be a criterion for judging Hong Kong’s financial status. From the perspective of the system, import and export trade, currency system, and the degree of market freedom and openness, Hong Kong's important financial status will not be easily replaced by the mainland financial center. As long as it develops financial technology, promotes the transformation and upgrading of its own financial industry, eliminates inferior financial industries, and seizes opportunities such as the "Belt and Road" strategic construction to cooperate with the mainland, it is able to turn the pressure of conceptualizing free port and other challenges into new opportunities. As Mr. Li Xiaojia said: "If we focus our perspective on the unique position of Chinese financial market, Hong Kong has become a well-deserved link between China and the world in the past ten years. In the next ten years, the financial market seems to more urgently need a "strategic buffer zone" recognized by both parties to achieve market connectivity and integration [24].

As the current global epidemic is still going on and the changes in the international situation are complex and difficult to predict, this article is only based on available theories for discussion. In practice, the development and evolution of Hong Kong is also affected by many other factors. But at this critical moment, this article's discussion of this hot spot still has far-reaching significance.

References

- [1] Guoliang, Xie (2013). *Research on Hong Kong International Financial Center under the Rise of Chinese Economic*. Fudan University.
- [2] Chenghua, Gao (2010). *Study on the Impact of Hong Kong Economic System Change on Economic Development*. Wuhan University
- [3] Yahua, Wang (1997). *Discussion for the influence of geographical conditions on the development of Hong Kong*. Fujian Reform. p17-18.
- [4] Huarong, Yin (1995). *The impact of US dollar depreciation on Hong Kong*. *Hong Kong and Macao Economy*.p 22-24.
- [5] Bo Chen, Tongshen Yu (2012). *Inflation and Irrational Exuberance in Financial Industry: An Empirical Study Based on Data from 1978 to 2009*. *Economic Forum*. p62-65.
- [6] Yan Li, Yue Wang (2019). *Deepening economic and trade cooperation between Guangdong, Hong Kong and Macao under the friction of Sino-US trade*. *Foreign Trade Practice*. p9-12.
- [7] Chunxin, Wang (2020). *Hong Kong's economic situation in 2019 and its outlook in 2020---on the impact of the anti-amendment incident and the Covid-19 epidemic on Hong Kong's economy*. *The Study of Hongkong and Macao*.p62-72.
- [8] Qing, Zheng (2020). *The Difficulties and Challenges of Hong Kong Economic*. *Chinese Trade*.p60-62.
- [9] Feipeng, Lou (2020). *Economic and Financial Impact of the New World Crest Epidemic and Suggestions for Countermeasures: An Analysis from the Perspective of Infectious Diseases*. p34-43.
- [10] Central Committee of the Communist Party of China, State Council (2019). *Opinions on supporting the construction of shenzhen as the first demonstration of socialism with Chinese characteristics*. http://www.gov.cn/zhengce/2019-08/18/content_5422183.htm.2019-8-9.
- [11] Qian He (2020). *Analysis of efficient development strategy of insurance in demonstration area by enabling financial technology*. *Business Information*. p76-77.
- [12] Chinese People Bank (2020). *Opinions on Further Accelerating the Construction of Shanghai as an International Financial Center and Financial Support for the Integrated Development of the Yangtze River Delta*. <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3971154/index.html>. 2020-02-14.
- [13] Tianrui Zhao, Chenwu Sun, Fuguo Zhang (2015).*Opportunities and challenges of regional economic development under the background of "One Belt And One Road" strategy*. *Economical Problem*. p19-23.
- [14] Yumin Liu, Jianping Ruan (2020). *Building an International Science, Technology and Finance Center: Thinking on Hong Kong's Connecting with "One Belt And One Road"*. *Social Scientist*.p39-45
- [15] Jiajun, Liu (2019).*Leverage Hong Kong's strengths and advance the development of the Guangdong-Hong Kong-Macao Greater Bay Area*. *Chinese Development Observation*. p20-23.
- [16] Qixia Chen (2011). *Mixed use of Cantonese and English in Hong Kong and the policy of "bilingualism and trilingualism"*. *Technology Information*.p 540.
- [17] Hong Zhao (2015). *A Preliminary Study on the Training Mechanism of Industrial Talents in Hong Kong*. *Career Education*.p35-38.
- [18] Xiang Ao (2018). *Integration of roles of the Guangdong-Hong Kong-Macao Greater Bay Area and the Guangdong Free Trade Zone in the "One Belt And One Road" strategy*. *Knowledge Economic*.p14-15.
- [19] Central Committee of the Communist Party of China, State Council (2020). *Overall Construction Plan for Free Trade Port in Hainan*. http://www.gov.cn/xinwen/2020-06/08/content_5518060.htm
- [20] Fanghong Wang, Hailong Yang (2019). *Study on Financial Development Characteristics of International Free Trade Port and Financial Development of Hainan Free Trade Zone (Port)*. *Hainan Finance*. p24-32.
- [21] Xiaoxin Chen (2017). *Status Evolution and Path Selection of Hong Kong International Financial Center*. Jilin University.
- [22] Pu Pei, Qingwen Zhu (2019).*The orientation and direction of the Guangdong-Hong Kong-Macao Greater Bay Area under the background of "One Belt And One Road"*. *The People of Rule of Law*.p42-45.
- [23] Weijiang Feng (2017). *The Future of Hongkong's Financial Industry*. *Chinese Finance*.p21-23.
- [24] Xiaojia Li (2020). *Li Xiaojia Blog: 2020 is coming, is Hong Kong OK?* *Sina Finance and Economics*.
- [25] World Economic Forum. *2019 Global Competitiveness Report*. <https://www.useit.com.cn/thread-24943-1-1.html>.2019-10-09.