

The Pearl of the Orient: A Strategic Hub in the U.S.-China Financial Confrontation

Rongjie Zhang^{a,*}, Zhiyuan Sheng^b, Runzhi Li^c

Department of Economics and Trade, School of Business, University of Jinan, Jinan, Shandong, 250002, China

^a15666092673@163.com, ^b2931975276@qq.com, ^c1929696066@qq.com

**Corresponding author*

Keywords: Sino-US Financial Confrontation; International Financial Center; Greater Bay Area; Rmb Internationalization; Shanghai-Hong Kong Stock Connect; Shenzhen-Hong Kong Stock Connect; Bond Connect; Offshore RMB

Abstract: As Sino-US financial confrontation intensifies, Hong Kong China, as a crucial global international financial center, has become a key strategic platform in the financial competition between the two countries. This paper reviews the development of Hong Kong as an international financial center and provides an in-depth analysis of its role in RMB internationalization, capital market connectivity, and cooperation within the Greater Bay Area. Through mechanisms such as "Shanghai-Hong Kong Stock Connect," "Shenzhen-Hong Kong Stock Connect," and "Bond Connect," financial ties between Hong Kong China and the Chinese Mainland have deepened, consolidating its position as the largest offshore RMB center. With its highly internationalized financial system and unique "One Country, Two Systems" framework, Hong Kong China continues to maintain competitiveness within the global financial system. Despite challenges posed by the rise of financial centers in the Chinese Mainland, it continues to strengthen its role as an international financial hub by optimizing infrastructure and enhancing collaboration with the Chinese Mainland.

1. Introduction

1.1 Sino-US Relations and Their Impact on the Global Economy and Financial System

In recent years, Sino-US relations have undergone significant changes in various areas, particularly in economics and finance. As the world's two largest economies, the policies and decisions of China and the US have profound impacts on the global economic landscape. The trade frictions, technological disputes, and financial confrontations between the two countries not only affect their economic activities but also disrupt global market stability and investor confidence.

The tension in Sino-US relations sharply escalated in 2018, when the US government imposed high tariffs on Chinese goods, leading to retaliatory measures from both sides. What started as a trade issue soon expanded into the financial domain, with restrictions placed on Chinese companies listing in the US, tighter regulations on cross-border capital flows, and increased pressure on

Chinese tech companies. In response, China has sought to internationalize the RMB, expand the use of cross-border capital, and increase investments in Belt and Road Initiative countries. In this context, finance has become a central battleground in Sino-US competition. The confrontation in financial markets, monetary policies, and capital flows directly affects the liquidity, stability, and systemic risks of global financial markets.

1.2 Hong Kong's Strategic Role in Sino-US Financial Confrontation

As a leading global financial center, Hong Kong China holds a highly strategic position. It is one of the top four global foreign exchange trading centers and boasts one of the world's deepest and most liquid capital markets. Hong Kong China's financial industry plays a pivotal role in the global economy. Notably, in China's push for RMB internationalization, Hong Kong China has served as an essential bridge. With the world's largest offshore RMB liquidity pool and as the largest RMB clearing center, Hong Kong China acts as a crucial conduit connecting Chinese mainland and international markets.

Hong Kong China's uniqueness lies in its "One Country, Two Systems" political framework, which allows the city to enjoy economic support from Chinese mainland while retaining a highly liberal market economy.^[1] This dual identity grants Hong Kong China a special competitive advantage, particularly in cross-border financial services, capital flows, and RMB internationalization, placing it in an irreplaceable strategic position. Amid escalating Sino-US financial tensions, Hong Kong China, as China's offshore financial center, faces challenges but is also exploring new opportunities.

This paper will delve into Hong Kong China's role in the Sino-US financial confrontation, analyzing how it consolidates its position as an international financial center to respond to the challenges posed by the ongoing financial tension. By examining the historical evolution, current advantages, and challenges of Hong Kong China as a financial center, and exploring possible future directions, this paper aims to highlight how Hong Kong China continues to play a critical role in the global financial system and how it maintains and enhances its strategic platform amid the complexities of Sino-US relations.

2. Hong Kong China's Status as an International Financial Center

2.1 Historical Review: The Development of Hong Kong China as a Financial Center

The status of Hong Kong China, China as an international financial center was not established overnight but developed through a long process of growth and accumulation. The history of Hong Kong China's financial industry dates back to the mid-19th century, when Hong Kong China was occupied by Britain and established as a free port. ^[2]As a free trade port, Hong Kong China's advantageous geographical location made it a vital transshipment center in East Asia. By the late 19th century, Hong Kong China, China had gradually evolved into an important international trade and financial hub, with the increasing trade activity driving demand for financial services.

In 1865, HSBC was established in Hong Kong China, marking the beginning of the modern banking system. In the same year, Hong Kong China also began to develop a stock market. Although the market was relatively small in its early stages, it expanded gradually as the regional economy developed. By the 1970s, Hong Kong China's financial markets began to internationalize. The collapse of the Bretton Woods system and the impact of the oil crisis destabilized global financial markets. Hong Kong China, leveraging its unique geographical location and free-market economy, gradually established itself as Asia's leading financial center.

After returning of Hong Kong to China in 1997, despite facing challenges such as the Asian

financial crisis, Hong Kong China's financial system demonstrated remarkable resilience. Supported by the "One Country, Two Systems" policy, Hong Kong China maintained a high degree of independence and transparency in its legal framework, capital markets, and international connectivity. During this period, Hong Kong China became the gateway for Chinese companies to access international capital markets, particularly through the Hong Kong China Stock Exchange, which facilitated large-scale international financing for Chinese state-owned enterprises.^[3]

In the 21st century, Hong Kong China has further strengthened its position within the global financial network by relying on the economic rise of Chinese mainland. The scale and liquidity of Hong Kong China's financial markets have expanded significantly, attracting substantial international capital inflows. Hong Kong China's role has become even more prominent during the process of RMB internationalization. By continuously optimizing its financial infrastructure, Hong Kong China maintains its competitiveness as a global financial center.

2.2 Financial Infrastructure and Advantages

As an international financial center, Hong Kong China boasts world-class financial infrastructure, encompassing banking, securities, insurance, and other sectors. Hong Kong China's banking system is highly developed and not only serves the local market but is also extensively internationalized. The banking system in Hong Kong China includes many renowned global banks as well as strong local banks, offering a wide range of financial products and services, including cross-border trade financing, foreign exchange trading, and asset management.

Hong Kong China is the world's fourth-largest foreign exchange trading center, with high trading volumes and a highly transparent and liquid market. The Hong Kong China Stock Exchange is a key component of the global capital markets, particularly notable for attracting international capital. The Hong Kong China Stock Exchange is a favored listing venue for Chinese companies and also draws companies and investors from around the world. Through mechanisms such as "Shanghai-Hong Kong China Stock Connect" and "Shenzhen-Hong Kong Stock Connect," Hong Kong China has further deepened its connection with Chinese mainland's capital markets, serving as a crucial channel for Chinese companies to raise funds and for international investors to access the Chinese market^[4].

Hong Kong China's securities market offers a variety of financial products, including stocks, bonds, futures, and options, with high levels of trading activity and daily turnover. Additionally, Hong Kong China's insurance market is one of the most competitive globally, with insurance penetration and density ranking among the highest in Asia. The insurance market offers a wide range of products, particularly in health, retirement, and wealth management. Of the world's top 20 insurance companies, 13 are authorized to operate in Hong Kong China, establishing the city as a global insurance hub.

As the world's largest offshore RMB liquidity pool, Hong Kong China plays a critical role in the internationalization of the RMB. Hong Kong China is not only the largest RMB clearing center but also promotes the use of RMB in international trade and investment through several market connectivity mechanisms, including "Shanghai-Hong Kong China Stock Connect," "Shenzhen-Hong Kong China Stock Connect," and "Bond Connect." Cooperation between the Hong Kong China Monetary Authority and the People's Bank of China further strengthens Hong Kong China's status in RMB internationalization.^[5]

2.3 Hong Kong China's Connection with Chinese mainland: The Greater Bay Area and Financial Market Connectivity

The Greater Bay Area is a regional development strategy proposed by the Chinese government

to enhance cooperation between Chinese mainland, Hong Kong China, and Macau China. The goal is to link several cities in Guangdong Province (such as Guangzhou, Shenzhen, and Zhuhai) with Hong Kong China and Macau China to create a world-class city cluster with global competitiveness. This region is one of the most economically developed areas in China and is tasked with advancing technological innovation, financial services, and external openness.

Hong Kong China, as one of the core cities in the Greater Bay Area, relies on its international financial system and legal framework to provide an irreplaceable bridge for financial cooperation and capital market integration within the region. ^[6]The development of the Greater Bay Area has injected new vitality into Hong Kong China's role as a financial center and has further strengthened the financial connectivity between Hong Kong China and Chinese mainland. Especially in the process of RMB internationalization, Hong Kong China, as the largest offshore RMB trading center, plays an increasingly important role in the financial integration of the Greater Bay Area.

2.4 Mechanisms of Financial Market Connectivity

The financial market connectivity between Hong Kong China and Chinese mainland is central to the Greater Bay Area's financial cooperation. Mechanisms like "Shanghai-Hong Kong China Stock Connect," "Shenzhen-Hong Kong China Stock Connect," and "Bond Connect" enhance capital market integration and international investor participation in China's markets.

Launched in 2014 and 2016, the Stock Connect programs allow mutual investment between Hong Kong China and Mainland stock markets, increasing capital flow and providing international investors access to China via Hong Kong China. Similarly, "Bond Connect," introduced in 2017, facilitates foreign access to China's interbank bond market, solidifying Hong Kong China's role as a global capital intermediary and the largest offshore RMB center.

Additionally, the Cross-Border Wealth Management Connect scheme enables regional residents to purchase cross-border wealth products, further integrating financial markets and offering new opportunities for Hong Kong China institutions to expand in the Mainland.

2.5 Hong Kong China's Role in RMB Internationalization

As the largest offshore RMB center, Hong Kong China plays a crucial role in the internationalization of the RMB. Since China first introduced offshore RMB business in Hong Kong China in 2004, the city has gradually developed into the world's largest offshore RMB liquidity pool and trading hub. Hong Kong China possesses the world's largest RMB deposit market, clearing system, and a rich variety of RMB-denominated financial products.^[7]

Hong Kong China's offshore RMB market provides international investors with access to the Chinese market without the restrictions imposed by Mainland capital controls. Through the "Shanghai-Hong Kong China Stock Connect" and "Shenzhen-Hong Kong China Stock Connect" mechanisms, international investors can use RMB to trade Mainland assets, significantly promoting the use of RMB in international financial markets. At the same time, as the main center for issuing RMB-denominated bonds, Hong Kong China has driven the development of the offshore RMB bond market. According to the Hong Kong China Monetary Authority, the total issuance of offshore RMB bonds in Hong Kong China exceeded 54 billion yuan in 2024, making it the leading market for offshore RMB bonds globally.

Through these mechanisms, Hong Kong China has not only served as a bridgehead in the RMB internationalization process but has also promoted the use of RMB in cross-border trade, investment, and financing, consolidating its status as a leading international financial center.

2.6 Deepening Financial Cooperation between Chinese mainland and Hong Kong China

As the Greater Bay Area continues to develop, financial cooperation between Chinese mainland and Hong Kong China is also deepening. Hong Kong China, as one of the world's most important international financial centers, provides Mainland enterprises and financial institutions with access to international markets through its well-established financial infrastructure and extensive global connections. Chinese mainland's ongoing financial liberalization offers Hong Kong China new business opportunities, especially in fintech, wealth management, and asset management.

The Greater Bay Area not only provides Mainland companies with financing and investment channels through Hong Kong China but also brings new growth opportunities to Hong Kong China's financial industry. ^[8]For example, the Greater Bay Area's fintech development is a global focal point, and Hong Kong China's fintech companies can collaborate with Chinese mainland, leveraging the Greater Bay Area's vast market to drive financial innovation. Additionally, Hong Kong China's insurance, securities, and banking sectors can benefit from the Greater Bay Area's economic integration, further strengthening its competitiveness in international financial markets.

3. The financial tide of the Federal Reserve and the coping strategies of the mainland and Hong Kong China.

Facing the adjustment of the Fed's financial policy, Chinese mainland and Hongkong need to cooperate closely to cope with the risks brought by the fluctuation of global dollar liquidity, especially the huge impact of the change of the Fed's monetary policy on the global financial market. In recent years, the Fed's policy of raising interest rates and shrinking its balance sheet has had a huge impact on the global capital market, and the current trend of the Fed's interest rate cut may bring about loose liquidity of the US dollar and trigger a new financial tidal effect. How to deal with this financial tide and promote the internationalization of RMB has become a common issue for the mainland and Hong Kong China.

3.1 The impact of the Fed's financial tide

The Federal Reserve's monetary policy directly affects the global dollar liquidity. When the Federal Reserve tightened monetary policy, funds in the global capital market tightened, and the US dollar returned to the United States, which led to capital outflows from emerging markets and intensified exchange rate fluctuations. “”? When the Federal Reserve cuts interest rates, the dollar liquidity in the global financial market will increase, and funds will seek new high-yield markets, which will lead to capital inflows in emerging markets and increase short-term liquidity, but it may also increase market volatility. For China, the interest rate cut by the Federal Reserve may lead to a large influx of capital, pushing up the RMB exchange rate and increasing external demand pressure. But at the same time, the easing of the dollar also provides opportunities for the internationalization of the RMB. If China can seize this opportunity to promote the use of RMB in international trade settlement and reserve currency, it will help to enhance the international status of RMB.

3.2 Cooperation between the Mainland and Hong Kong China

In the face of the financial tide of the Federal Reserve, Chinese mainland and Hongkong should cooperate closely and give full play to their respective advantages to resist the impact of the dollar tide, especially in the aspects of financial market stability and RMB internationalization. Chinese mainland should give more policy support to Hong Kong China, especially in foreign exchange management, capital flow control and cross-border RMB settlement. As Hong Kong China is the

largest offshore RMB center in the world, the stability of its financial market is of great significance to the internationalization of RMB. The mainland can help Hong Kong China maintain the stability of the financial market and ensure the orderly flow of capital in the financial tide of the Federal Reserve by setting up more RMB settlement platforms, increasing RMB reserves, deepening Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. China should increase its support for financial institutions in Hong Kong China to develop RMB business, for example, by encouraging the issuance of offshore RMB bonds, increasing the clearing mechanism of RMB deposits and enhancing the liquidity of RMB in Hong Kong China. Through these measures, Hong Kong China can better serve as a "bridgehead" for RMB internationalization and attract international investors to use RMB for trading and reserves.

3.3 How can Hong Kong China help the mainland resist the dollar tide?

As the fourth largest foreign exchange trading center and the largest offshore RMB trading center in the world, Hong Kong China has the unique advantage of helping the mainland resist the dollar tide. When the loose dollar leads to the influx of capital, Hong Kong China can absorb some international capital into RMB assets through its highly internationalized financial market, thus alleviating the pressure of capital flow in the mainland. In addition, Hong Kong China, as a global foreign exchange trading and financial center, can provide global investors with investment opportunities in RMB assets through its market mechanism and reduce market volatility dominated by the US dollar. Under the background of the financial tide of the Federal Reserve, Hong Kong China can use its mature offshore RMB market to provide a liquidity buffer for the mainland. By issuing more offshore RMB bonds and expanding RMB-denominated financial products, Hong Kong China can enhance the attractiveness of RMB assets and help Chinese mainland consolidate its position in the global financial market.

3.4 Analysis of the Federal Reserve's interest rate cut and RMB internationalization

At present, the Fed's interest rate cut policy may lead to the depreciation of the US dollar, which provides an important opportunity for the internationalization of the RMB. The main driving forces of RMB internationalization include its use in international trade settlement, cross-border investment and global reserve currency. The Fed's interest rate cut will further weaken the attractiveness of the dollar and provide more room for the development of the RMB.

China should take advantage of the opportunity brought by the interest rate cut of the US dollar to promote the use of RMB in trade settlement in countries related to the Belt and Road Initiative. By signing more currency swap agreements, China can increase the proportion of RMB payments in global trade and reduce its dependence on the US dollar. With the loose dollar, global investors may seek diversified asset allocation to avoid risks. China should capitalize on this trend to enhance the attractiveness of RMB assets, especially in the stock and bond markets, and attract international capital by opening more sectors, thereby improving the global acceptance of the RMB. The interest rate cut by the Federal Reserve provides other countries the possibility of choosing RMB for currency reserve management. China should accelerate the development of the offshore RMB market, increase the convenience of RMB reserves, and attract more countries to include RMB in their foreign exchange reserves through the stability and yield of RMB-denominated assets.

4. Conclusion

Through the financial connectivity mechanisms within the Greater Bay Area, Hong Kong China's role in the Sino-US financial confrontation has become even more critical. With its mature

financial infrastructure and global linkages, Hong Kong China not only helps Chinese mainland integrate into global capital markets but also plays a vital role in the process of RMB internationalization. Despite facing challenges from the rise of Mainland financial centers, Hong Kong China continues to maintain a significant strategic position in the global financial system, thanks to its unique geographical location, legal advantages, and the internationalization of its financial markets.

References

- [1] Li Liren. *Building a Financial Powerhouse: Hong Kong China's Role in the RMB Internationalization Process* [J]. *Contemporary Financier*, 2024, (08): 23-26.
- [2] Zhang Wenzhe. *Research on the Consolidation and Development of Hong Kong China's Status as an International Financial Center* [J]. *Modern Business*, 2024, (14): 168-171.
- [3] Rolien H. *The Price of Speculation: Fintech Risk Regimes in Hong Kong China*[J]. *Cultural Studies*, 2024, 38(2): 219-244.
- [4] Xie Yan et al. *Research on the Impact of Sino-US Tariff Confrontation on the Economy and Finance: An Empirical Analysis Based on Multiple Regression and the GTAP Model* [J]. *Regional Financial Research*, 2020, (02): 21-27.
- [5] Seth S, Ilias A, Jessica D, et al. *The Second Cold War: US-China Competition for Centrality in Infrastructure, Digital, Production, and Finance Networks* [J]. *Geopolitics*, 2024, 29 (4): 1083-1120.
- [6] Adeel R, Assad U, Li X. *Does trade policy uncertainty in China and USA matter for key financial markets?* [J]. *Economic Change and Restructuring*, 2024, 57 (2)
- [7] Bin-xia C, Yan-lin S. *Financial market connectedness between the U.S. and China: A new perspective based on non-linear causality networks* [J]. *Journal of International Financial Markets, Institutions & Money*, 2024, 90 101886.
- [8] Jian L, Yan C, Shufei L, et al. *Information spillovers in Hong Kong China REITs and related asset markets* [J]. *Quarterly Review of Economics and Finance*, 2023, 92 215-229.