Is Hong Kong an international financial centre? What are the similarities and differences between Hong Kong and other international financial centres like New York, London and Tokyo?

Why was the manufacturing industry in Hong Kong gradually replaced by the financial services sector in the 1980s?

Who benefits from Hong Kong being an international financial centre? Will the economy collapse if Hong Kong loses this position?

Hong Kong is a mature international financial centre, should it fear challenges brought by Singapore and Shanghai?

Are clean, honesty and integrity essential criteria for Hong Kong to remain an international financial centre?
Referring to the following situations, what services does financial sector include? What are the institutions in Hong Kong that provide the related services?

**A**
Hello! What can I help you?
I want to deposit $10,000 in my saving account. Thank you!

Mr. Wong, our bank has a favourable loan plan, which can help you!

**B**
Mr. Chan, we Tai Shing Insurance provides diversified services, which can give you comprehensive protection for your whole family. I can explain the details of each plan for you!
C. I hope to expand the mainland business, and need to raise more capital. To list on Hong Kong stock exchange is the best choice to me.

Mainland merchant

D. Please help me transfer USD 20,000 to the US for my son’s living expenses for studying abroad.

We want to change money for 1,000,000 Yen for our honeymoon in Japan.

E. Wow! Look! The recent gold price was going up!

Yes! The gold price reaches new heights in a decade. It seems it is the time to sell the gold stored at home!
Complete the following list referring to the above situations.

<table>
<thead>
<tr>
<th>What services does the financial sector include?</th>
<th>What institutions in Hong Kong provide related services?</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Deposits and loans</td>
<td>Banks, deposit-taking companies</td>
</tr>
<tr>
<td>B. Insurance</td>
<td>Insurance companies, banks</td>
</tr>
<tr>
<td>C. Raising funds through listing</td>
<td>Securities companies, Hong Kong Exchanges and Clearing Limited</td>
</tr>
<tr>
<td>D. Foreign exchange trading</td>
<td>Foreign exchange dealers, banks</td>
</tr>
<tr>
<td>E. Gold trading</td>
<td>Futures and gold dealers</td>
</tr>
</tbody>
</table>

Financial sector is one of the four economic pillar industries in Hong Kong. It includes financial activities, such as bank, insurance, securities, fund management, futures, gold trading and foreign exchange, which facilitate the capital flows in the market. There are many financial institutions in Hong Kong, like banks, private loan companies, securities brokerage companies, futures and bullion dealers, stocks, gold and futures trading firms, money changers and foreign exchange dealers. These companies provide various financial services for local and global investors in Hong Kong.
Worksheet (1): Features of international financial centre

We often read in news reports that New York, London and Tokyo are world-renowned financial centres. Read the following sources and analyze what are the features of an international financial centre.

Source 1: New York

New York is one of the major international financial centres in the world. According to the Global Financial Centres Index 2011, New York beat London, Tokyo, Hong Kong and Shanghai etc. and became the most competitive city as a financial centre in the world.

There are many headquarters of major global financial companies and branches of many foreign banks in New York. It has a diversified financial market with financial services including stocks and bonds, gold, futures and foreign exchange market, which attracts many foreign investors. New York ranks first globally in terms of asset management scale and stock trading volume. For example, the initial public offerings in New York Stock Exchange reached US$25.4 billion in the first half of the year 2011 and it ranked first globally.

In New York, the employment in financial sector accounts for 10% of the total employed population, of which about a half are employed in the securities industry. From the data on the left, New York’s financial sector contributes to almost one-third of its GDP, which doubled that of Hong Kong.

Source: Integrated report, Hong Kong Monetary Authority 2006
The fact that London becomes a well-known international financial centre in the world is because of its free and open market. Since Britain announced to fully lift foreign exchange controls in 1979, London’s foreign exchange market has become a completely free market basically. People can freely convert capital into other currencies to facilitate various transactions. Moreover, financial service is the major constituent of Britain’s economy, accounting for 5.5% of its GDP. About 1 million people engage in this industry in London, and most of the financial services institutions are found in London.

London is an international financial centre where most foreign banks have business operations there, and its volume of foreign exchange transactions ranks first in the world. It is the world's largest international insurance market, providing a wide range of investment markets and products to investors around the world.

In order to strengthen London’s status as an international financial centre, the Financial Services Authority (FSA) approved the white paper of Banking Act 2009 and Reforming Financial Markets in 2009, and made efforts to establish a more comprehensive system for risk control of the financial sector and stabilizing its development, so as to safeguard the interests of investors.

Source: Integrated report, 2010

Based on the above examples of New York and London, list the features of an international financial centre.

<table>
<thead>
<tr>
<th>Features</th>
<th>How do these features help build up the status as an international financial centre?</th>
</tr>
</thead>
<tbody>
<tr>
<td>free and open</td>
<td>various financial institutions can easily enter the market for transactions</td>
</tr>
<tr>
<td>no foreign exchange control</td>
<td>Free and easy to convert capital to facilitate transactions</td>
</tr>
</tbody>
</table>
comprehensive management system
establish a stable financial system to protect investors’ interests
diversified investment markets
attract investors around the world
convergence of financial professionals
provide financial expertise

Extended Activity: Do you think Hong Kong is an international financial centre?

Source 1: Percentage of production value of each type of production in GDP and percentage of GDP by major economic activities of Hong Kong in 2010

Source: Page 41, Chapter 3, Hong Kong Yearbook 2011
Source: Table 12(b), Page 74-75, Domestic Gross Product 2011
There are a lot of international financial institutions operating in Hong Kong. Among the top 100 banks in the world, 70 of them run business in Hong Kong. Until the end of 2010, there were 146 licensed banks in Hong Kong, among which 136 were foreign banks.

Numbers of the Top 500 multinational corporations have their headquarters in London, New York and Hong Kong

Source: Hong Kong Trade Development Council, Hong Kong Yearbook 2010

The percentage of the trading /issuing amount of the 5 countries/regions in the 4 types of financial activities in the world’s total in 2007

<table>
<thead>
<tr>
<th></th>
<th>Equity Turnover</th>
<th>Fund raised through IPOs</th>
<th>International Bond Market – amount outstanding</th>
<th>Foreign exchange turnover</th>
<th>Foreign exchange / Interest Rate Derivatives Market turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>49%</td>
<td>16.3%</td>
<td>23.3%</td>
<td>19.2%</td>
<td>19.4%</td>
</tr>
<tr>
<td>UK</td>
<td>10.9%</td>
<td>16.9%</td>
<td>12.6%</td>
<td>31.3%</td>
<td>38.1%</td>
</tr>
<tr>
<td>Japan</td>
<td>8.3%</td>
<td>3.7%</td>
<td>0.9%</td>
<td>8.3%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1.2%</td>
<td>12.9%</td>
<td>0.3%</td>
<td>4.2%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Shanghai</td>
<td>1.1%</td>
<td>3.6%</td>
<td>0.1%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Source: Hong Kong Monetary Authority, 2007
The Financial Sector Assessment Programme (FSAP) is a joint programme of the International Monetary Fund and the World Bank. It provides an analysis of the development needs of its members and help to enhance the members’ ability to reduce the chance of financial crises. The FSAP Mission visited Hong Kong in 2002. After the completion of the FSAP assessment on Hong Kong, the FSAP team has compiled a summary report called the Financial System Stability Assessment ("FSSA"). IMF concludes that the HKSAR's financial system is stable, fundamentally sound and overseen by a comprehensive supervisory framework. The IMF also noted that HKSAR's adherence to international financial sector standards and codes is strong, mostly reflecting the role of HKSAR as an important international financial centre.

Source : Office of the Commissioner of Insurance, 2009

Based on the above information, do you think Hong Kong is an international financial centre?

<table>
<thead>
<tr>
<th>Related Features</th>
<th>(Yes/No), because…</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source 1: Industry distribution</td>
<td>Yes, because the financial industry is important in the tertiary production of Hong Kong and tertiary production is the core of the economy of Hong Kong.</td>
</tr>
<tr>
<td>Source 2: Numbers of international financial institutions</td>
<td>Yes, because a number of international financial institutions set up branches in Hong Kong, showing the importance of Hong Kong in the world.</td>
</tr>
<tr>
<td>Source 3:</td>
<td>The position of the financial market in the world</td>
</tr>
<tr>
<td>----------</td>
<td>-------------------------------------------------</td>
</tr>
<tr>
<td>Source 4:</td>
<td>Effective supervision</td>
</tr>
</tbody>
</table>

: The financial regime of Hong Kong

There are many famous international financial centres in the world. They provide various financial services such as financing and credit in different places of the world, facilitating capital circulation and economic development. New York, London and Hong Kong are some of the famous international financial centres in the world. In 2008, TIME magazine ranked these 3 cities in parallel positions and described them as the important cities for future financial development of the world. As an international financial centre, the country/region should be in an important position in the global financial market, with multinational financial institutions willing to set up branches there and participate in local financial activities, and even relocate the headquarters to the country/region.

As an international financial centre, there should be a number of financial institutions such as banks, insurance companies and other financial-related services industries. Besides, free capital circulation and no foreign exchange control also help to promote the development of the financial industry. With free circulation of information, investors can obtain updated information, which facilitates their decision-making on investment. An international financial centre should also be overseen by effective judiciary system and supervisory organizations in order to protect the interests of market participants and the smooth operation of the financial market, so that investors and service users can be trouble-free when using the services.
Please read the following details and answer the questions.

**Back to the old days...**

Since 1940s, toy products had been manufactured in labour-intensive mode. The toy industry was once famous in Hong Kong, especially during 1960s and 1970s. With low production cost, diversified toy product designs, high quality, promptness in filling an order, punctuality in delivery, respect for the copyright of customers’ products and flexible marketing strategies, Hong Kong had gradually become one of the important toy production places in the world. At that time, Hong Kong surpassed Japan in the export of toys and became the largest toy export region in the world.

**Worksheet (2): Why does Hong Kong change from a light industry city to an international financial centre?**

**Source 1: The development of light industry in Hong Kong during 1960s and 1970s**

We were overjoyed to see the prosperous development of light industry in Hong Kong and the continuous increase in overseas orders. We worked at least 10 hours every day with high work efficiency. Many factories scrambled to hire us! If the boss of the toy factory that we were working in did not increase our salary, we would consider changing job!

However, the prosperous period did not last long. In the 80s, after the twenty-years vigorous development, there was a short supply of labour in the light industry of Hong Kong, leading to the rapid increase of wages. In addition, Hong Kong’s population continued to grow after World War II but the land supply was insufficient, which led to the rapid increase in land prices and rent. Therefore, many firms moved their factories to the mainland one after another in the late 80s in order to lower the cost of production. We were faced with unemployment problem.

**Source 2: An important turning point of the industrial development in Hong Kong**
The state is undergoing economic reform and opening-up. I plan to move my toy factories from Hong Kong to the Pearl River Delta. As the cost of labour and land there is only one tenth of Hong Kong’s level, we can expand the production scale five to twenty times!

Mr. Chan
Toys businessman in Hong Kong

### Source 3: Percentage share of employment in respect of different industries in total employment in 1981 and 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Manufacturing</th>
<th>Finance, insurance, property and commerce</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage share of total employment</td>
<td>41.2%</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

Source: Hong Kong Census and Statistic Department

### Try It Out

1. According to source 1, what are the advantages of Hong Kong in developing light industry in the 60s and 70s?

   Low cost of production, diversified toy production designs, excellent quality, promptness in filling an order, punctual delivery, respect for the copyright of clients’ products and flexible market strategies etc. all of these made Hong Kong competitive in the international market.
2. According to source 2, what are the factors contributed to the decline of Hong Kong’s light industry?

The cost of production in the mainland such as wages and rent are lower than Hong Kong.
China’s reform and opening-up is a favourable condition for expanding production scale.
Therefore, factories moved to the mainland and Hong Kong’s light industry declined.

3. According to source 3, try to describe the differences of Hong Kong’s manufacturing and financial industries in 1981 and 2011.

From the percentage of the employment in Hong Kong, manufacturing industry has declined and been replaced by financial and other service industries.

Knowledge Content: Reasons for Hong Kong’s economic reform – the road from manufacturing to international financial centre

Due to the insufficient supply of labour and land in Hong Kong, the cost of production including wages and rent kept rising from 1970s to 1980s. In addition to the reform and opening-up in the mainland, many businessmen moved their factories to the mainland for investment. It led to a decrease in the job opportunities in the light industry and other related jobs in Hong Kong. To support the production line in the mainland, those Hong Kong companies need to provide different types of business and financial services including import and export transportation, raw materials purchasing and sales of products, product design, insurance and financing services etc. Hong Kong gradually developed into a services and financial centre, providing financial services to the world and regions of Asia. The employed population also gradually changed from mainly engaging in light industry to service industries.
Why would the manufacturing industry in Hong Kong change into an international financial centre?

Please form a group of 4-5 and each student read one piece of information from sources 1 to 5. Find out the factors that are favourable to Hong Kong in developing into an international financial centre and complete the worksheet.

**Source 1:** The worries of Mr. Rich

The headquarter of my investment company is located in Tokyo, however, many friends encouraged me to move them to Hong Kong in recent years. They said that the opening time of the US and European stock market is immediately after the closing time in Hong Kong. If the headquarter of the company was located in Hong Kong, we can keep an eye on the development of the stock markets of both places and obtain comprehensive information. Do you think I should relocate the headquarters to Hong Kong?

Mr. Rich
Founder of a transnational investment company

**Source 2:** The Chow’s sharing in financial management

Fortunately, we can browse the company websites worldwide promptly, otherwise I will not be able to know the news that is unfavourable to the stocks and shares in Hong Kong immediately and sell the stocks to avoid losses.
Hong Kong economic freedom ranks first thanks to low taxation

The Heritage Foundation in the United States has announced the “2012 Index of Economic Freedom” in early January 2012. Since the “Index of Economic Freedom” report first published in 1995, Hong Kong has ranked first for 18 consecutive years. The report evaluates the economic freedom of 179 economic systems of the world, and includes ten components of economic freedom.

Today, the spokesperson said the Hong Kong government was gratified to receive this honour again. “The Government of the Hong Kong Special Administrative Region will continue its dedication in making Hong Kong a place with the highest level of economic freedom in the world. This is also the cornerstone of Hong Kong’s sustained economic stability, growth and prosperity,” he said. Among the ten components of the economic freedom, Hong Kong ranked first in both financial freedom and
trade freedom. Moreover, Hong Kong ranked second in investment freedom and property rights protection, and ranked third in business freedom and monetary freedom.

The Heritage Foundation commended Hong Kong for its effective judiciary and regulatory systems. In addition, Hong Kong’s openness up to outside world and trading with the world boosts the prosperous development of enterprises in Hong Kong. Moreover, Hong Kong ranked second again in Asia in respect of attracting foreign direct investment, second only to the mainland. The Heritage Foundation stated that through strengthened financial linkage, the interactive economic relationship between Hong Kong and the mainland becomes better and more mature.

Chairman of the foundation said in a local event yesterday that as long as Hong Kong maintains the transparency of its policies, low taxation and limited government in the economy, it is believed that Hong Kong can still top the list in the future economic freedom ranking.

Source: Local integrated news report, 2012

**Source 5**: The Mainland and Hong Kong Closer Economic Partnership Arrangement” (CEPA)

**“The Mainland and Hong Kong Closer Economic Partnership Arrangement” (CEPA)**

CEPA is a win-win agreement, bringing new business opportunities to the mainland, Hong Kong and foreign investors. For Hong Kong, CEPA provides a window of opportunity for Hong Kong businesses to gain greater access to the mainland market. CEPA also benefits the mainland as Hong Kong serves as a perfect “springboard” for mainland enterprises to reach out to the global market and accelerating the mainland’s full integration with the world economy. Foreign investors are also welcome to establish businesses in Hong Kong to leverage on the CEPA benefits and join hands in tapping the vast opportunities of the mainland market.

Source: Website of the Trade and Industry Department, 2012
1. According to the above information, what are the factors that benefit Hong Kong to develop as an international financial centre?

<table>
<thead>
<tr>
<th>Source</th>
<th>What are the factors that are favourable to Hong Kong in developing into an international financial centre?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source 1</td>
<td>Hong Kong is located at the international time zone between North America and Europe, and have time lag with both places. This can make up the operating hour gap of the two large international financial centres i.e. the US (New York) and the UK (London).</td>
</tr>
<tr>
<td>Source 2</td>
<td>Hong Kong enjoys information freedom so that information can promptly spread. It helps investors to grasp the required information for making investment decisions.</td>
</tr>
<tr>
<td>Source 3</td>
<td>The government is committed to expand post-secondary education. Therefore, the education level of Hong Kong residents has generally increased. In addition, the percentage of people studying commercial programs has increased. It shows that Hong Kong has trained up a lot of professional experts, which helps with the development of Hong Kong’s financial industry.</td>
</tr>
<tr>
<td>Source 4</td>
<td>Hong Kong has sound judiciary and regulatory systems, as well as simple taxation and low tax rate. It attracts foreign and local investors to carry out financial activities and invest in Hong Kong.</td>
</tr>
<tr>
<td>Source 5</td>
<td>Signing CEPA with the mainland makes Hong Kong a perfect “springboard” for mainland enterprises to reach out to the global market. It also attracts foreign investors to establish businesses in Hong Kong. Hong Kong becomes the bridge of Chinese and foreign industrial and commercial trade.</td>
</tr>
</tbody>
</table>
Apart from the vigorous economic activities, free capital flow and information flow, the following factors are also essential for Hong Kong to become an international financial centre. They are the geographical factor, political factor and financial management and organization factor.

1. **Stable investment environment**
The political environment of Hong Kong is relatively stable. There are rarely fierce political conflicts or violence. Therefore, political instabilities that may affect investor incentive can be avoided in Hong Kong. Moreover, Hong Kong has an efficient, clean and law-abiding government, and a comprehensive legal system. These are the reasons for Hong Kong to become an international financial centre.

2. **Excellent geographical location**
Hong Kong is situated in an excellent location. The time zone that Hong Kong is in perfectly makes up the time difference of London and New York. Hong Kong is eight hours faster than London and 13 hours faster than New York. The time difference allows global investors to make investments in Hong Kong when the two places’ markets are closed, so that Hong Kong becomes another important financial market other than North America and Europe, and it also allows the international financial trade to operate 24 hours a day. In addition, Hong Kong is a hub which situates between north and south Asia. It is the main export trading base of the mainland, especially the Pearl River Delta region. These advantages help Hong Kong to provide high value-added financial services as well as to assist with the economic development of Asia and the mainland.

3. **Comprehensive financial institutions**
Hong Kong has different financial management institutions and organizations to assist it in becoming an international financial centre. For example, the Hong Kong Monetary Authority is responsible for Hong Kong’s financial policies and monetary management. It help stabilize Hong Kong currency’s exchange rate, and promotes the stability of Hong Kong banking system. The Securities and Futures Commission (SFC) is responsible for monitoring the operation of Hong Kong securities and futures market. The Financial Reporting Council (FRC) conducts independent investigations into possible auditing and reporting irregularities in relation to listed entities. Setting up different financial sectors help Hong Kong fully monitor the operation of the financial industry, and ensure the financial activities can be carried out in a stable and fair environment.
4. Advanced communication facilities
Hong Kong has advanced development in technology and communications with comprehensive hardware facilities and free access to information. Information related to economy and finance can rapidly spread, which helps investors to grasp global information and make appropriate investment decisions. Advanced communication facilities help multinational financial companies to connect with each other, promote exchange and communication, and helps with the development of the financial industry.

5. Excellent human resources
The Hong Kong government is committed to expand post-secondary education. Many institutes offer courses that are related to finance in order to train up to work in and assist with the development of the financial industry. Apart from the financial professionals, Hong Kong residents’ educational level has generally increased. They have more understanding about the development and operation of the financial sector. Some individuals and organizations have also learned to seek professionals’ advices, and use the resources provided by the financial services industry appropriately to assist themselves in managing their own assets.

6. Close connection with the mainland
Since the reform and opening-up in 1978, the economy has been developing rapidly in the mainland, and attracting a lot of Hong Kong and foreign businessmen to make investments there. During the process, the mainland needs investment services and financing arrangements provided by the financial services sector. As a result, Hong Kong becomes the bridge of trading between China and foreign countries, and this promotes the development of local financial industry.
Study the following scenarios, explore the effects on people’s livelihood after Hong Kong became an international financial centre and complete the table.

**Scenario 1**

Dear, I know you have great potential and talent in arts. However, for the sake of your future working opportunities and prospects, I still hope you can study economics and finance in the university!

Ming, Form 6 graduate

**Scenario 2**

Hong Kong provides us with a sound financial investment market. Therefore, apart from earning income by working as an accountant, I have also been having stock and fund investments in the past 20 years. Thus, I can have enough money to send my children to study aboard, travel outside Hong Kong in holidays and have a comfortable life!

Mr. Ho, Professional accountant
The days when we worked in factories were tough and we needed to work day and night. However, as long as you were willing to work and able to endure the hard work, your income was stable and you could maintain a certain level of living standard. Nevertheless, since the Hong Kong factories moved to the mainland and Hong Kong turned into an international financial centre, workers like us have been facing great challenges in our lives.

I studied Business Administration. Hong Kong financial industry really provides a lot of opportunities for young people! I am now thinking about which job I should choose.

Chi Keung, University graduate of Department of Business Administration
What do the above scenarios reflect? Does being an international financial centre bring positive or negative effects on people’s livelihood? Please explain.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Positive or negative effects on people’s livelihood?</th>
<th>Elaboration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Positive / Negative: ________________________________</td>
<td>Possible answer: The employment opportunities in Hong Kong focus on financial services. It may affect students’ choices on further studies because they may follow the employment trend.</td>
</tr>
<tr>
<td>2</td>
<td>Positive / Negative: ________________________________</td>
<td>Possible answer: There are many investment opportunities in Hong Kong. It is easy for Hong Kong people to increase their wealth through different channels.</td>
</tr>
<tr>
<td>3</td>
<td>Positive / Negative: ________________________________</td>
<td>Possible answer: Hong Kong’s industrial sector has moved to the mainland. Manufacturing workers have employment difficulties.</td>
</tr>
<tr>
<td>4</td>
<td>Positive / Negative: ________________________________</td>
<td>Possible answer: Hong Kong financial industry provides ample employment opportunities and university graduates’ employment opportunities increase.</td>
</tr>
</tbody>
</table>
Source 1: The percentage of GDP by key industries of Hong Kong in 2010

![GDP by Industry Pie Chart]

Source: Table 12 (b), Page 74-75, Gross Domestic Product 2011

Source 2: The percentage share of employment of the key industries in the total employment in Hong Kong in 2010

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage share of employment in total employment (%)</th>
<th>Industry</th>
<th>Percentage share of employment in total employment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>4.59</td>
<td>Accommodation and food services</td>
<td>9.98</td>
</tr>
<tr>
<td>Electricity and gas supply, and waste management</td>
<td>0.43</td>
<td>Transportation, storage, postal and courier services</td>
<td>6.31</td>
</tr>
<tr>
<td>Construction sites</td>
<td>2.17</td>
<td>Information and communications</td>
<td>3.47</td>
</tr>
<tr>
<td>Import/export trade and wholesale</td>
<td>22.07</td>
<td>Financing and insurance</td>
<td>7.67</td>
</tr>
<tr>
<td>Retail</td>
<td>9.70</td>
<td>Real estate</td>
<td>4.40</td>
</tr>
<tr>
<td>Professional and business services</td>
<td>12.28</td>
<td>Social and personal services</td>
<td>16.91</td>
</tr>
<tr>
<td><strong>Total employment in 2010</strong></td>
<td><strong>2,559,240</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Hong Kong Annual Digest of Statistics 2011
Source 3: Median hourly wage of some industries in Hong Kong in 2010 (HK dollars)

Source: Page 48, Hong Kong Annual Digest of Statistics 2011

Source 4: Government revenue between 1989-2010

Asian Financial Crisis

Global Financial Tsunami

Source: Hong Kong Census and Statistics Department
Unit price shrank by two-thirds after financial crisis

Mr. Chow worked in the financial industry. He spent over HK$ 4 million on purchasing a private residential unit which is more than 600 square feet in 1997, and planned to move in after getting married. However, due to the financial crises that occurred in Hong Kong one after another, and the SARS outbreak in 2003, property prices slumped and his unit shrank by nearly two-thirds to HK$ 1.5 million that year.

Source: Integrated news report, 2012

Lehman Brothers declared bankruptcy 16 September 2008

After Lehman Brothers, which was once active in Hong Kong’s financial market, declared bankruptcy, the market is highly concerned about the effects it brings to the Hong Kong stock market and investors. In particular, Lehman had participated in warrants and “minibonds” selling business, which involved investor assets of at least over HK$ 10 billion.

Source: Legislative Council Secretariat
1. According to sources 1 and 2, how important is the financial and insurance industry to Hong Kong economy and labour market? (Try to compare it with the manufacturing industry.)

   Financial and insurance industry is very important to Hong Kong’s economy. Its output value accounts for 15% of Hong Kong’s GDP, ranks third in the main economic activities and tertiary industry. Although the financial and insurance industry creates employment opportunities for Hong Kong, the employed population in the industry only accounts for less than 8% of the total employed population. On the contrary, although the output value of manufacturing industry accounts for less than 2% of the GDP, its employed population accounts for more than 4% of the total employed population. It shows that the financial and insurance industry creates large amount of revenue to Hong Kong, but the employment opportunities that it created is not in proportion to the revenue.

2. According to source 3, how is the income of the financial and insurance industry employees different from the other Industries?

   According to the statistics in 2010, the median hourly wage of employees in the financial & insurance industry ranks third in all major industries in Hong Kong. It is an industry with a relatively high income.
3. According to your answers for question 1 and 2, if Hong Kong focuses on developing financial industry, what will happen to the people’s income distribution?

The income of the financial industry employees is higher than that in other industries but the employment opportunities it creates is relatively less than that of the other industries. If Hong Kong focuses on developing financial industry, the income disparity of residents will likely deteriorate.

4. According to sources 4 and 5, point out the effects on the government and residents when financial industry becomes an important economic pillar of Hong Kong.

The financial industry is closely linked with foreign economies. Economic turmoil or recession occurs in foreign countries will also affect the local financial market in Hong Kong. Crises happened in Hong Kong financial market will bring negative effects to the residents and government. For example, residents would suffer from investment losses, decrease in property prices, employees’ incomes or even unemployment, leading to decrease in money for consumption and quality of life. Economic downturn will also reduce the government’s tax revenue and weaken the government’s ability to provide social welfare and services.
5. These are a number of negative effects on Hong Kong for being an international financial centre, why Hong Kong still needs to strengthen its position as an international financial centre?

Financial industry also brings benefits to Hong Kong. It boosts the development of other industries as well, for example, business services, information technology and even tourism, etc.

The consumption of people engaged in the financial industry also creates job opportunities for the retail industry. Currently, financial industry, which plays an important role in Hong Kong’s economic development, is one of the four pillar industries in Hong Kong. Faced with global competition, Hong Kong should first stabilize its financial system and strengthen its development in order to consolidate the status as an international financial centre. Nevertheless, while Hong Kong is developing its financial industry, other industries should also be explored so as to achieve diversity of industries and ensure a more balanced economic development.
In the economic aspect, Hong Kong has gained a handsome profit from financial services sector, and people working in the sector can earn an income and improve their quality of life. We can analyze the effects of being an international financial centre on Hong Kong from the perspectives of people’s living and local economy.

1. Effects on people’s livelihood
   - Positive Effects:
     As Hong Kong has become an international financial centre, citizens have access to more and more financial services and products, which increases their opportunities in effective money management and savings. Meanwhile, it creates job vacancies and increase people’s job opportunities. For people with higher education level and skills, they can have more development chances by entering multinational financial companies.

   - Negative Effects:
     Hong Kong being an international financial centre has lowered the chances for people with lower education level and skills to get a job, and caused their incomes to decrease, widening the gap between the rich and the poor. If Hong Kong overly relies on the financial sector, people specialised in other industries have to find job in other places, which means brain drain in Hong Kong.

2. Effects on the economy
   - Positive Effects:
     Hong Kong being an international financial centre can stimulate the development of other industries and improve its economy. Multinational corporations are attracted to set up their branches or headquarters in Hong Kong and foreign investors to use the local financial services as well. This can help enhance the overall economic development.

   - Negative Effects:
     The development of the financial sector helps strengthen the relationships between Hong Kong and other countries in the world. The financial service sector in Hong Kong is susceptible to external factors and the overall economic development will be prone to fluctuation if it overly relies on the financial sector, and so do people’s incomes, wealth and properties, which will affect the local economic growth.
In 2008, an American magazine – TIME coined a new word, namely, “Nylonkong”, in an article, and it means New York, London and Hong Kong are recognized as the three most important cities in the world, reflecting the position of Hong Kong as a financial centre has captured the attention of the world. However, while the competitiveness of other regions increase continuously, what should we do?

Read the following information and answer the questions

Since March, 2007, there are surveys carried out once every half a year to assess and rank the development of 75 financial centres, and the Global Financial Centres Index (GFCI) will be announced publicly. The 10th GFCI was announced in September, 2011. The ratings of London (774) and New York (773) were very close, with full marks 1000, whereas Hong Kong scored 770, only 3 points lagged behind. London has its leading position in aspects of asset management and professional services, New York ranked first for its government regulation and banking, whereas Hong Kong has the strongest insurance sector.

The researcher stated that the ratings of London and New York dropped slightly, and their competitiveness was not as strong as it was, whereas Hong Kong is striving to catch up the two places. The rating of Singapore was 735, ranked forth, which is very close to Hong Kong. In recent years, Singapore has been developing its infrastructure construction actively, and especially in the field of information technology, the Government has been dedicated to enhancing the free flow of information and speed of information circulation. Meanwhile, it also strongly promotes the post-secondary education in order to enhance the chances of its citizen to receive tertiary education and improve their education level. Some researchers predicted that Singapore will soon enter the top three positions.

In this report, the ranking of Shanghai rose greatly to the fifth with the score of 724. Since 2009, China has further opened up the financial industry in Shanghai, which attracted quite a lot of multinational financial enterprises to invest there. In addition, thanks to the rapid economic growth in the mainland of China, the financial industry in Shanghai has gained prosperous development. Besides, there are four Asian cities ranked in the top ten. “It is no surprise that the financial centres in Asia are rapidly reducing their gap with their counterparts in developed countries. This is a
long-standing trend that reflects the importance of these rapidly growing markets,” said by one famous researcher.

Source:
- Local integrated report (2012)
- GFCI - Global Financial Centres Index
  (http://www.longfinance.net/Publications/GFCI%2010.pdf)

1. According to the GFCI released in September, 2011, list the top five centres and their ratings in the following table?

<table>
<thead>
<tr>
<th>Place</th>
<th>Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>774</td>
</tr>
<tr>
<td>New York</td>
<td>773</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>770</td>
</tr>
<tr>
<td>Singapore</td>
<td>735</td>
</tr>
<tr>
<td>Shanghai</td>
<td>724</td>
</tr>
</tbody>
</table>

2. London, New York and Hong Kong have always remained on the top positions. In what aspects do these three cities have best performance?

   London has leading position in asset management and professional services. New York ranks first for its governmental regulation and banking. Hong Kong has best insurance services.

   .................................................................
3. In recent year, financial industry in Singapore and Shanghai has been developing rapidly and are challenging Hong Kong’s position as the global financial centre. According to the article above, what are the strengths of these two places that create challenges to Hong Kong?

<table>
<thead>
<tr>
<th>City</th>
<th>Advantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>● It has been developing its infrastructure which is favourable to the development of financial industry.</td>
</tr>
<tr>
<td></td>
<td>● It strongly promotes tertiary education to enhance the education level of its people for training up more and more professionals.</td>
</tr>
<tr>
<td>Shanghai</td>
<td>● Since 2009, China further opened up the financial industry in Shanghai, which attracted quite a lot of multinational financial enterprises to invest in Shanghai</td>
</tr>
<tr>
<td></td>
<td>● Thanks to the rapid economic growth in mainland of China, the financial industry in Shanghai has gained prosperous development.</td>
</tr>
</tbody>
</table>

4. What areas of strength can Hong Kong develop to respond to the challenges of Singapore and Shanghai and maintain its top position as the global financial centre among other Asian cities? (Any reasonable answers are acceptable)
In the globalized community, global finance and commerce have become more and more prosperous. The role of Hong Kong being an international financial centre has been rising gradually to respond to the needs of global finance and commerce. However, quite a lot of countries/regions are developing their financial services industries rapidly to attract investors around the world. Therefore, faced with the competition from other regions, particularly the fierce competition from some other Asian regions like Shanghai, Singapore, etc, Hong Kong has to look for more business opportunities. Other than the four traditional major pillar industries (financial services, trading and logistics, tourism and professional services and producer services), Hong Kong can actively develop other potential industries (e.g. testing and certification services, innovation and technology, cultural and creative industries, environmental industries and education services etc.) to enhance the diversity of the local economic development.

Faced with the global competition, Hong Kong should be more proactive in training talents who are good at communication and who can master the knowledge of business and finance to help develop high-value added industries. Besides, Hong Kong can also create an international platform with cultural diversity to attract more foreign investors or financial professionals to invest or work in Hong Kong, and thus, enhance the competitiveness of Hong Kong.

Apart from participating in and contributing to the economic development of China, Hong Kong can also promote itself as an offshore RMB centre to enhance the functions of RMB in financing, investment, transactions and hedges or to attract investment from the mainland of China. Both Hong Kong and China can reach a win-win situation and reinforce the existing development goal. Hong Kong can also actively participate in the activities of East Asian Economies to enhance cooperation as well as business opportunities.
Concept Map of International Financial Centre

- **Features of international financial centre**
  - Openness
    - Free trade
    - Freedom of capital flows
    - Freedom of Information
  - Geographical aspect: it is located in the centre of Asia and advantageous time zone
  - Political aspect: it is politically stable and has a comprehensive legal system and a highly efficient government
  - Monetary authority: it has many administrative organizations which can enhance investors’ confidence.
  - Positive effects: promote economic development and growth and provide job opportunities.
  - Negative effects: brain drain in other industries and widening the gap between the rich and the poor
  - Training up talents
    - Developing business in the mainland and East Asia
    - Diversified economic development

- **Reasons for Hong Kong developing to become an international financial centre**
  - Strengthening the position of Hong Kong as an international financial centre
  - Effects of being an international financial centre on the Hong Kong economy and people livelihood

- **Hong Kong as an international financial centre**