

Analysis of the Reasons Contributing to Hong Kong's Economic Development

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Hong Kong, which was a small village in the 19th century; it used to be called the Pearl of the Orient in the 20th century. Formerly a British colony, it continued to develop after its return to China in 1997. Currently, it is the center of the World trade and finance, and is recognized as an Asia-centered city. This study analyzed Hong Kong's success factors in terms of companies, industries, location conditions and policies. Hong Kong has developed its financial services, trading, and logistics industries based on geographical advantage and deregulation. The tourism model is based on high-end shopping and business trips. Commercially exploitable underground resources and natural tourism resources are limited, but Hong Kong is considered to have intangible resources and competitiveness in terms of excellent education and transportation infrastructure, and is a fusion of eastern and western culture, diverse cultural backgrounds, and tolerance, and English and Chinese are used widely. Hong Kong has the advantages of convenient transportation, high transportation density, and infrastructure. Among Hong Kong's success factors are four major strategic industries (finance, logistics, tourism, and professional services), that are well developed and provide a global business environment.

Key words: *company, industry, location conditions, policy.*

Introduction

Hong Kong, a small Chinese fishing village in the 19th century, was dubbed the Pearl of the Orient in the 20th century. Hong Kong has witnessed rapid development after it was transferred to China in 1997. Today, Hong Kong, which is the center of Asia's trade and finance, holds the status of a global hub. The service sector has transformed Hong Kong into a service-oriented economy contributing more than 90% toward GDP.

Despite the lack of commercially exploitable natural resources, various industries have developed and Hong Kong's tourism resources have gained the repute of turning it into a world-class tourist destination. Hong Kong has seen rapid economic growth in recent years and is showing robust and sustained development.

Traditionally, research on Hong Kong has studied only one aspect and failed to analyze the development of Hong Kong. Therefore, this study intends to analyze the success factors of Hong Kong focusing on four aspects (company, industry, location conditions, and policy).

Economic growth

Hong Kong has shown a steady growth rate of more than 8% for over three years starting from 2004 (8.7% in 2004, 7.4% in 2005, and 7.0% in 2006), but economic growth slowed after the 2008 global financial crisis.

However, it maintained less than 3% growth from 2011 to 2016. In 2017, Hong Kong showed a high growth rate of 3.8% (Statistics, n.d). In 2015, Hong Kong's GDP was US \$ 309 billion (nominal) and per capita GDP was US \$ 42,400 (nominal). At the end of 2015, trade volume was US \$ 462.2 billion in exports and US \$ 5,187 in imports. Foreign exchange reserves amounted to US \$ 360 billion (end-2015). The unemployment rate stood at around 3.3%.

Table 1: Real GDP growth rate

	Hong Kong	Mainland China
2006	7.0%	12.7%
2007	6.5%	14.2%
2008	2.1%	9.6%
2009	-2.5%	9.2%
2010	6.8%	10.6%
2011	4.8%	9.5%
2012	1.7%	7.7%
2013	3.1%	7.7%



2014	2.7%	7.3%
2015	2.4%	6.9%
2016	2.2%	6.7%
2017	3.8%	6.9%

Source: Statistics Bureau of Hong Kong, China National Statistical Office (China National, n.d)

Development Factors Analysis

A. Company

As one of the top financial centers in the world, 202 banks in 2014 (including 70 of the world's 100 largest banks) and 203 banks in 2015 (including 71 of the world's 100 largest banks) were operating in Hong Kong (Korean Consulate, 2015).

The largest financial company incorporated in Hong Kong is the Hong Kong and Shanghai Banking Corporation (HSBC). The HSBC was founded by the British and headquartered in London, but as its name suggests, from the end of the 19th century it served as a bridge to finance trade between Europe and Asia, including China. As of 2015, the company generated sales valued \$ 60.7 billion worldwide, about 2.2 times that of Shinhan Financial Group (\$ 27.1 billion), Korea's premier financial holding company.

Hong Kong is also home to a number of retail and new industries (information technology (IT), biotechnology (BT), and renewable energy). The world's largest health and beauty retailer Watsons (50th place) and retailer Hualun (71st place), which are owned by the multinational conglomerate Cheung Kong (Holdings) Limited (Cho and Kim, 2016). In Hong Kong's new industry, spending on R & D and innovation capacity rose to US \$ 3.13 billion in 2014. In particular, IT companies such as Texas Instruments, and IBM have their technology development centers in Hong Kong. Approximately 4,000 local companies participating in research and development related to new industries such as IT and BT are present in Hong Kong (Hong Kong, 2016).

Hong Kong is the preferred place by multinational corporations and global financial companies because it is a key trade, logistics, financial services hub, as well as serves as a strategic bridgehead for the Chinese market.

Besides, Hong Kong's innovation and technology sector together with that of Shenzhen – the Shenzhen-Hong Kong technology cluster – ranked the world's second largest based on the Global Innovation Index 2018. Hong Kong's start-up ecosystem is thriving. Some 2,000 start-ups were in Hong Kong employing over 5,000 employees in 2016. In 2017, the number

of start-ups continued to rise by 16% and the number of staff employed in these start-ups increased 21% (Hong, 2018).

In addition, biotechnology, artificial intelligence, smart city and financial technologies were identified as the four areas of strength for development in Hong Kong, and the expenditure on research and development as a percentage of the gross domestic product is expected to be doubled in five years from 2017.

B. Industry

Hong Kong is home to banks, retailers, and new industries (IT, BT, and renewable energy). Hong Kong has developed an organic link between finance, trade logistics, professional services, and tourism. The service sector accounts for more than 90% of GDP. In the 1980s, the country was transformed into a service-oriented economy, and in terms of quality, it has emerged as a center for trade and finance in Asia.

Table 2: Proportion of the four largest industries in GDP (nominal) (unit: %)

Year	Finance	Tourism	Trade and Distribution	Professional services	(Law, R&D, etc.)	Sum
2000	12.8	2.4	23.6	10.6	3.4	49.4
2005	13.8	3.2	28.5	10.9	3.5	56.4
2010	16.3	4.3	25.3	12.4	4.5	58.4
2011	16.1	4.5	25.5	12.4	4.6	58.5
2012	15.9	4.7	24.6	12.8	4.7	58.0
2013	16.5	5.0	23.9	12.4	4.8	57.8
2014	16.7	5.1	23.4	12.4	4.8	57.5

Source: Hong Kong Census and Statistics Department (Statistics, n.d)

The amount of money traded in the Hong Kong financial market is transferred and invested through international capital flows from the US and European countries, and Hong Kong has a relatively small proportion of its own funds. In 2015, the interbank market's daily average trading volume reached US \$ 30.6 billion.

For instance, the Hong Kong stock market ranks sixth in the world and second in Asia by market capitalization. In 2011, its total volume of IPOs reached US \$ 33.4 billion, exceeding the London and New York markets. Hong Kong is becoming the largest center of IPOs in the



world for Mainland China enterprises (Korean Consulate, 2015). In recent years, there has been a sharp acceleration in the country's finance using yuan (RMB) in transacting business.

In 2014, the volume of transactions dealing in RMB was 6.3 trillion yuan(RMB), up 63% from the previous year. The number of institutions handling the yuan stood at 149, the amount deposited in yuan was 1.44 trillion yuan. The amount deposited in yuan grew three times, and the trade settlement amount was ten times over the period 2010–2014. Asia has emerged as the engine of global economic growth.

In addition, asset management companies, private banking, consulting companies, and real estate trust companies have established Hong Kong's position as a global asset management center. In particular, Hong Kong is the world's largest offshore yuan business hub, serving as a platform to provide yuan trade settlement, financing, and investment services. Yuan deposits in Hong Kong have the largest yuan liquidity in the world.

Especially, the tourism and the supporting distribution industry developed together with the financial industry leveraging the geographical advantage and infrastructure. In the case of tourism, shopping infrastructure such as outlets and departmental stores are well equipped to represent the image of the city as an impressive shopping destination.

Hong Kong does not just rely on souvenirs and specialties but sells a wide variety of products ranging from fashion, precious metals, luxury watches, furniture, medical supplies, wine, and electronics goods. In addition, many new products have been launched and regular seasonal sales attract tourists.

Also, Hong Kong's skyscrapers offer a spectacular skyline view to tourists, most notably the signature lighting show known as the Symphony of Light. One of Hong Kong's most popular theme parks, Disneyland (Asia's other Disney parks are in Tokyo and Shanghai) is very popular as it offers a variety of attractions.

The iconic Hong Kong Convention and Exhibition Center is located on a man-made island in front of Hong Kong's Victoria Harbor. It was opened in July 1997 to celebrate the transfer of Hong Kong to China. It is the largest exhibition center in Asia spread over 250,000 square kilometers, leading the country's tourism and meetings, incentives, conferences, events and exhibitions (MICE) industry.

Due to the lack of natural tourism resources, the government has developed a variety of tourism genres, such as wine festivals. In 2008, Hong Kong abolished tariffs on wines measured at a temperature less than 30 degrees with the aim of becoming a global hub for

wine, and successfully hosted the Wine & Dine Festival in 2009. In 2015, about 59.31 million tourists visited Hong Kong, with mainland China accounting for about 77% of the total number of tourists at 45.84 million.

Table 3: Tourism Industry Competitiveness Index by Year

2011 (139 countries)			2013 (140 countries)			2015 (141 countries)		
Ranking	Country	Score	Ranking	Country	Score	Ranking	Country	Score
1	Switzerland	5.68	1	Switzerland	5.66	1	Spain	5.31
2	Germany	5.50	2	Germany	5.39	2	France	5.24
3	France	5.41	3	Austria	5.39	3	Germany	5.22
4	Austria	5.41	4	Spain	5.38	4	United States	5.12
5	Sweden	5.34	5	United Kingdom	5.38	5	United Kingdom	5.12
6	United States	5.30	6	United States	5.32	6	Switzerland	4.99
7	United Kingdom	5.30	7	France	5.31	7	Australia	4.98
8	Spain	5.29	8	Canada	5.28	8	Italy	4.98
9	Canada	5.29	9	Sweden	5.24	9	Japan	4.94
10	Singapore	5.23	10	Singapore	5.23	10	Canada	4.92
12	Hong Kong	5.19	14	Japan	5.11	11	Singapore	4.86
22	Japan	4.94	15	Hong Kong	5.11	13	Hong Kong	4.86
32	Korea	4.71	25	Korea	4.91	29	Korea	4.37

Source: World Economic Forum, Travel & Tourism Competitiveness Report 2015 (World Economic Forum, 2015).

Note: The national competitiveness report is published every two years. The year of publication are 2010; 2012; 2014 Unpublished.

Table 4: Tourism industry and National Competitiveness 2015, 2017

Rank	2015	2017	2017 score
1	Spain	Spain	5.43
2	France	France	5.32
3	Germany	Germany	5.28
4	United States	Japan	5.26
5	United Kingdom	United Kingdom	5.20
6	Switzerland	United States	5.12
7	Australia	Australia	5.10
8	Italy	Italy	4.99
9	Japan	Canada	4.97
10	Canada	Switzerland	4.94
11	Singapore	Hong Kong	4.86
13	Hong Kong	Singapore	4.85

Source: World Economic Forum, Travel & Tourism Competitiveness Report 2015, 2017, pp. 33 (World Economic Forum, 2017).

According to the World Economic Forum “Travel & Tourism Competitiveness Report 2017”, business environment is first in the world, safety and security is fourth in the world, ICT readiness is first in the world, air transport infrastructure is fifth in the world, and ground and port infrastructure is first in the world (World Economic Forum, 2017).

Hong Kong’s estimated population was about 7.44 million people (2018), which is 0.6 times the size of Jeju Island. However, from 2011 to 2018, the tourism industry competitiveness index among 140 countries is higher than Korea. It is worth noting that although Hong Kong lacks natural and cultural resources, it has emerged as an international tourism city with its excellent service infrastructure and enabling environment.

C. Location Conditions

First, Hong Kong is closely linked to Mainland China geographically and culturally and serves as a gateway to Mainland China since 1979. Until the 1970s, Hong Kong was a funding market for East Asian countries such as Korea, Taiwan, and Thailand. However, Hong Kong continues to be among the relatively developed financial regions in Asia, rather than an international financial market.



In 1979, Deng Xiaoping promoted China's reforms and openness policy and announced the Shenzhen Provincial Propaganda Zone in Guangdong Province in close proximity to Hong Kong. As a result, Hong Kong provided funds for foreign companies entering the Shenzhen Special Zone and various other services such as law and accounting. It has become popular as an outpost of advancement.

By establishing close cooperation with the world's largest market, Hong Kong and China share a symbiotic relationship. Hong Kong specializes in high-end value-added services such as trade, logistics, and professional financial services, which China's mainland economy cannot resolve by itself, and has succeeded in pursuing the hub strategy connecting Asia to the West. Hong Kong is located in a hub linking Asia with Southeast Asia, Northeast Asia, and the West as well as China. It is located in the middle of the Asia-Pacific region and is easily accessible to and from major Asian cities (Beijing, Seoul, Tokyo, Bangkok, and Kuala Lumpur with flight time less than four hours).

In addition to its geographical advantages, Hong Kong is well equipped with efficient and convenient local transport, world-class maritime and air cargo systems to support business operations. The Chek Lap Kok Airport is among the world's top three airports, the Hong Kong Port is the fifth largest in the world, and both are considered as transportation and logistics hubs.

The Chek Lap Kok airport is a passenger hub and people can travel to more than 190 cities, including famous foreign cities and 50 Mainland China destinations. Among Hong Kong's public transport services, there are six major public transport systems, including the MTR (Mass Transit Railway) subway system, tram, railway, ferry, taxi, and bus and minibus services. The special transportation system includes high-speed airport railway and peak tram services.

According to the World Economic Forum Global Competitive Report 2015–2016, the overall quality of infrastructure in Hong Kong is ranked third in the world, that is, airports and railways rank third, while road infrastructure is placed fifth (World Economic Forum, 2016). Hong Kong's ground transportation network is second, while paved road density is tenth (World Economic Forum, 2017). Hong Kong has a modern and sophisticated communication infrastructure, which forms the basis for Hong Kong to transform into an international business and financial center. Hong Kong also has high network connectivity.

Hong Kong ranks fourth in Asia in terms of network readiness, placing Asia in international internet bandwidth. The number of mobile communication holders per 100 persons and the volume of general telephone calls are the also considered to be highest in the world (World



Economic Forum, 2016). In addition, a large percentage of Hong Kong residents speak English and are awarded degrees from top-level institutions of higher education, such as the Hong Kong University, Hong Kong University of Science and Technology, and Chinese University of Hong Kong.

The combination of Chinese and British culture keeps English as a common language, while using the contact points of Eastern and Western culture and Chinese as the mother tongue. Although Hong Kong is an Asian country, after the Treaty of Nanjing (1842), British culture was introduced for over a period of 100 years, providing a convenient business environment and suitable living conditions for Europeans and Americans. This reduced inconvenience in the using English, openness to foreigners and tolerance for diverse cultures, and resulted in the assurance and consideration of foreign business and work activities.

After the first Kadoorie School opened in Hong Kong in 1890, 74 international schools (44 elementary schools, 30 secondary schools) have been established (Choi, 2011). The total budget for education in 2014–2015 was HK \$ 75.37 billion, the largest part of Hong Kong government's total budget (Loh and Cui, 2014).

Moreover, Hong Kong is well equipped with industrial parks and educational institutions to foster knowledge-based industries. For example, The Hong Kong Science and Technology Park (HKSTP) provides 330,000 square meters of research facilities and currently houses more than 580 companies. Prestigious universities (Hong Kong University and Hong Kong University of Science and Technology, Hong Kong Central University) supply professionals for Hong Kong's specialized industries, namely IT and financial services.

D. Policy

Hong Kong has long been a British colony and has accepted and operates the standards of international law and commerce. The Hong Kong government's economic policy upholds the principles of “market leads, government facilitates” and “prudent management of public finances,” and tries to realize “big market and small government.”

Thus, Hong Kong maintains a firm policy stance that adheres to minimal government intervention and free market economy principles, earning the trust of investors, both Hong Kong and foreign. It also maintains fiscal discipline, focuses on infrastructure investment to enhance competitiveness, and boldly implements policies.

Currently, Hong Kong operates as a free competitive market system and is the least regulated area. The international city is characterized as a “free economic zone” as a local brand,

making business activities easier for companies, allowing unlimited capital inflows, and strong investor protection. It is developed by a solid rule of law, an efficient system, and a fair business environment. Also, Hong- Kong provides an effective business environment by establishing an independent judiciary, property rights and rule of law principles under the “one-country, two systems” framework.

There are no market barriers to access foreign companies, and trust in the market is protected by the equal treatment of foreigners and strong investor protection. As the world’s most resilient economy, Hong Kong has been ranked world number one in the index of economic freedom for the past 22 years and continues to retain its rating.

The development of Hong Kong's business and financial industry is closely linked to Deng Xiaoping's reforms and openness. On the occasion of the designation of the Shenzhen Special Zone in 1978, foreign banks were allowed to remove the restriction on banking business, and foreign capital could establish a bank if the conditions were met.

We also introduced foreign currency exchange rate system to prevent foreign financial institutions from being burdened by foreign exchange risks. The number of banks in Hong Kong increased from 140 in 1984 to 185 in 1995, while deposits amounted to HK \$ 22 trillion, more than 400 times prior to the designation of the Shenzhen Special Zone. Hong Kong traditionally has a relatively strong banking industry compared to New York and London. However, the proportion of the securities industry has grown sharply ever since China’s large corporations were listed on the Hong Kong stock market. Today, there are 193 banks and 1,731 securities firms in Hong Kong.

In addition, as per the agreement Deng Xiaoping concluded with the British Prime Minister in 1984, even though Hong Kong was returned to China in 1997, it has maintained a "national sovereignty system" with 50 years of autonomy in all areas except diplomatic relations and defense.

Unlike Mainland China, which follows the socialist system, even after the transfer of sovereignty Hong Kong continues with the capitalist system started by the Britain. This policy is being implemented consistently. With the stability of this political system and consistency of policies, Hong Kong's instability has disappeared. The economy and industry are stable and developed.

Moreover, the promulgation of stable policies such as the rule of law and the guarantee of economic freedom (Article 110 in the Basic Law of Hong Kong), revived the development of

four major industries by resolving the concerns and anxieties of foreign investors and entrepreneurs.

In 1993, the Chinese government first granted for listing and trading of H shares (mainland enterprise stocks), authorized the redemption of Hong Kong financial institutions in 2004, and the issuance of yuan-denominated bonds in Hong Kong in 2007.

The Basic Law of Hong Kong, which is the constitution of Hong Kong, states in Article 109 that “the Hong Kong Government provides an appropriate economic and legal environment to maintain its status as a financial center of Hong Kong.” The Hong Kong government has been actively supporting this (Article 110).

Table 5: Hong Kong Development Cause Assessment

Company	Industry	Location conditions	Policy
Multinational corporation	Industrial Strategy	Highly skilled workforce	Tax Reduction policy
Financial company development	Demand abundance near (Mainland China)	High accessibility Multicultural fusion	(Small government)

Conclusion

This study has analyzed the factors that contributed to the development of Hong Kong, which was a small fishing village in the 19th century, into a center of Asian trade and finance in terms of companies, industries, location requirements, and policies. This study has analyzed the factors contributing toward Hong Kong’s development into a center of Asian trade and finance from the perspective of four aspects such as companies, industries, location requirements, and policies.

Hong Kong’s rapid economic growth is characterized by openness, low regulations, low tax rates, stable and fair legal systems, and the world's freest market economy system. Hong Kong has the advantages of convenience, excellent communication, and transportation infrastructure that are suitable for a high population density.

It has grown into a global financial, trading, and tourism hub based on the geopolitical advantage of the gateway into and out of China. Several multinational corporations, global banks, and financial companies have their offices in Hong Kong. Thus, the industry is developing based on the yuan(RMB) trading business.

Hong Kong has a high potential for growth, with international companies headquartered in Asia or headquarters and approaching China's huge service demand market. The four major



strategic industries (finance, trade-logistics, tourism, professional services) are well developed and have a competitive advantage in that they have a global business environment.

In terms of industrial development, the financial services and trade-logistics industry have developed due to geographical advantage and deregulation. Furthermore, tourism, which is based on shopping and business trips, has been growing. Although there are a few natural tourism resources and historical sites, Hong Kong has recently become a global tourist destination.

Commercially exploitable underground resources are scarce, yet Hong Kong is considered to have intangible resources and competitiveness in terms of an excellent educational system and educational institutions, acceptance of the east and west cultures, a diverse cultural background and tolerance, and use of both English and Chinese languages by the residents. It has a competitive edge in that foreigners are well equipped with the basics for daily life, education, and business activities.

In recent years, Shanghai and Singapore have emerged as competitive cities as they are also international financial centers; however, the volume of port trade volume has been declining, and the economic growth rate tends to be shift toward Shenzhen in Guangdong Province. Therefore, it is necessary that Hong Kong makes continuous efforts based on the growth factors.



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