

Hong Kong's Transformation as a Financial Center

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Abstract

According to most analysts, Hong Kong's stature as an international financial center (IFC) increased during the first several decades after 1950. Even as this stature rose over the subsequent decades, many observers identified threats to that status. During the years leading up to Hong Kong's reversion to Chinese sovereignty in 1997, these threats seemingly became more evident as critics argued that China would not honor its pledge to maintain a discreet separation between itself and its new special administrative region. Even as these fears abated during the last few years prior to 1997, the Asian financial crisis of 1997 and the subsequent decline in Hong Kong's economy led to a shrinkage in financial activity that persisted for several years, raising anew the possibility that Hong Kong's status as a leading IFC rested on weak foundations. As financial activity expands, questions about the resilience of this recovery lurk behind many statements of financial officials and other observers.

These ebbs and flows in Hong Kong's status as an IFC provide misleading signals about the foundations of the city's financial strength and the prospects for the future. These foundations reach far back in Hong Kong's history, and they continue to be salient influences on its prospects. This foundation emerged during the first several decades after the start of Hong

Kong in the 1840s when it became the most important meeting place in Asia of the Chinese and the foreign (North American, European, and other Asian) social networks of capital. The individuals and firms which constituted the actors in these networks controlled the exchange of financial capital, broadly defined to include money and commodities, within Asia and between Asia and the global economy. Over the rest of the nineteenth century and continuing into the first half of the twentieth century, Hong Kong operated as the key decision making center of Asia for financial capital in its broadest form. This foundation set the basis for Hong Kong's increasing importance as an IFC during the early decades after 1950. The trajectories of various direct and indirect measures of Hong Kong's importance as an IFC for the second half of the twentieth century and continuing into the early twenty-first century reveal a rise over much of the period, followed by a flattening of some key indicators, seemingly suggesting potential problems with Hong Kong's prospects as an IFC.

This indication of stagnation, however, misleads. Hong Kong's status as a center of decision making about the exchange of capital is transforming as individuals and firms increase their sophistication and specialization in the control of exchanges of capital within Asia and between it and the global economy. These changes are reflected directly in the expansion of, for example, private equity firms and hedge funds in Hong Kong, and indirectly in the continued growth of the city as a regional headquarters and regional office place for firms from the most highly developed economies in the world. The continued proliferation of business services in Hong Kong also indirectly supports this transformation. Consequently, Hong Kong's prospects as an IFC rest on its past, its status was never derailed during the second half of the twentieth century, and its future looks bright as one of the three great global financial centers, the other two being London and New York.

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Over the past one hundred years Hong Kong's status as an international financial center (IFC) seemingly has ebbed and flowed as wars, a world depression, economic booms, and the geopolitical restructurings of imperialism and the end of colonialism have swept across Asia. Even as the political status of Hong Kong became resolved during the years leading up to its return to Chinese sovereignty in 1997, fears about the strength of its financial sector increased. These worries abated during the last few years prior to the turnover. Then the Asian financial crisis hit in 1997, the economy of Hong Kong shrank drastically, and the financial sector retrenched, raising anew the concern that the city's rank as a financial center rests on weak foundations. As financial activity expands, questions about the resilience of this recovery lurk behind many statements of financial officials and other observers.¹

¹ Rebecca Buckman, "Economic Ills Could Linger in Hong Kong," Wall Street Journal (June 23, 2003), A2; Mary K. Bumgarner and Penelope B. Prime, "Capital Mobility and Investor Confidence: The Case of Hong Kong's Reversion to China's Sovereignty," Pacific Economic Review, vol. 5, no. 2 (June 2000), pp. 263-78; Ben Edwards, "Capitals of Capital," Economist, vol. 347, issue no. 8067 (May 9, 1998); Bruce Gilley, "Darkness Dawns," Far Eastern Economic Review (April 11, 1996), pp. 14-15; Y. C. Jao, Hong Kong as an International Financial Centre: Evolution, Prospects and Policies (Hong Kong: City University of Hong Kong Press, 1997); Louis Kraar, "The Death of Hong Kong," Fortune, vol. 131, no. 12 (June 26, 1995), pp. 118-38; Howard C. Reed, The Preeminence of International Financial Centers (New York: Praeger, 1981); Catherine R. Schenk, Hong Kong as an International Financial Centre: Emergence and Development 1945-65 (London: Routledge, 2001); Edmund R. Thompson, "The Political Economy of National Competitiveness: 'One Country, Two Systems' and Hong Kong's Diminished International Business Reputation," Review of International Political Economy, vol. 11, no. 1 (February 2004), pp. 62-97.

The ebbs and flows in Hong Kong's status as an IFC, however, provide misleading signals about the roots of the city's financial strength and the prospects for the future. These roots reach far back into its history, and they remain salient determinants of its prospects. Hong Kong's standing extends beyond customary measures of IFCs which focus on characteristics such as numbers of international banks of various types, sizes of these organizations, and scale of financial activities (e.g., trading volumes of stocks, bonds, currencies, and derivatives) and on competitiveness factors such as availability of skilled personnel, regulatory environment, and corporate tax regime.²

Traditional assessments of IFCs provide little explanation of the behavior of the decision makers who control the exchange of financial capital, broadly defined to include financial assets and commodities, among individuals, firms, organizations, and governments. An evaluation of Hong Kong as a decision making center of financial capital demonstrates that it became the leading IFC for Asia during the late nineteenth century, it maintained that position throughout the twentieth century, and it is positioned as the world's third greatest international financial center after London and New York. Before presenting this alternative interpretation of Hong Kong as an IFC, previous analyses of its rank measured by standard financial indicators such as numbers of international banks, the size of various monetary transactions, and scale of activities on exchanges (e.g., stocks, bonds, and commodities) provide a benchmark.

Hong Kong's Fluctuations as an IFC

² Corporation of London, The Competitive Position of London as a Global Financial Centre (London: Z/Yen, November, 2005); Jao, Hong Kong as an International Financial Centre; Charles P. Kindleberger, The Formation of Financial Centers: A Study in Comparative Economic History, Princeton Studies in International Finance No. 36 (Princeton, N.J.: International Finance Section, Department of Economics, Princeton University, 1974); Jessie P. H. Poon, "Hierarchical Tendencies of Capital Markets Among International Financial Centers," Growth and Change, vol. 34, no. 2 (Spring 2003), pp. 135-56; Reed, The Preeminence of International Financial Centers; Research Department, Supervision of Markets Division, "Hong Kong as a Leading Financial Centre in Asia," Research Paper No. 33 (Hong Kong: Securities and Futures Commission, August, 2006); Adrian E. Tschoegl, "International Banking Centers, Geography, and Foreign Banks," Financial Markets, Institutions & Instruments, vol. 9, no. 2 (January 2000), pp. 1-32.

From 1900 to 1980, Hong Kong's status among the top ten international financial centers fluctuated between the eighth largest (ten is highest) and the lowest rank of one; a rank of zero means a center is not in the top ten (Fig. 1). This evidence rests on a systematic set of banking indicators which cover the entire period such as local international bank headquarters, presence of foreign banks, and foreign bank links. During this time London and New York always ranked in the top positions of ninth or tenth. Although differences in rank among the top ten centers sometimes reflected small variations in scale of importance as an IFC, the overall trends for Hong Kong have plausible bases. Its lower rank for 1905 and 1910 reflect idiosyncrasies; St. Petersburg, Russia, and Montreal, Canada, briefly moved higher in rank. Nonetheless, Hong Kong's Asian trade remained robust during this time, indicating that its financial sector likewise remained strong. The severe impact of the depression on Asia and the turmoil of the Second World War contributed to the substantial decline in its rank after 1930.³

The economic recovery in Asia following 1945 under girded Hong Kong's improved banking position over the subsequent two decades (Fig. 1). An influx of foreign banks led to an increasing sophistication of the exchange market in cash and securities for Asia, as well as strengthening Hong Kong's integration with global markets. Other international financial sectors grew, including gold trading in Asia and globally, the modest beginning of the stock exchange, and an influx of foreign insurance companies. The decline in rank after 1965 did not indicate a reduced role for Hong Kong in Asian finance. Instead, temporary moves into the top ten such as by German (Hamburg) and United States (San Francisco and Chicago) financial centers,

³ David R. Meyer, Hong Kong as a Global Metropolis (Cambridge, Eng.: Cambridge University Press, 2000); Reed, The Preeminence of International Financial Centers, appendix A.11, pp. 131-38.

combined with small differences in significance among these centers below London and New York, exaggerated the seeming decline of Hong Kong.⁴

The debate over Hong Kong's status as an IFC inevitably turns to its putative Asian competitors, Shanghai, Tokyo, and Singapore. When contemporary observers raise the possibility that Shanghai may challenge Hong Kong as China's leading international financial center or even become Asia's top IFC, they frequently claim that Shanghai will be regaining the position it held prior to 1949 when it surpassed Hong Kong as a financial center. This claim about Shanghai's earlier financial glory, however, overstates the case. Based on systematic measures of banking activity, Shanghai surpassed Hong Kong's rank only a few times (Fig. 1). Shanghai first entered the top ten IFCs in 1905, but it did not surpass Hong Kong until 1925, and it only exceeded that city's rank twice more, in 1935 and 1947. After that date Shanghai fell out of the top ten and never has re-entered that group. In spite of recent journalistic claims about Shanghai's resurgence as an IFC, researchers see that as a long-term process which will take several decades and any chance that it will surpass Hong Kong remains highly problematic, although they recognize that the city's international financial business is expanding significantly.⁵

⁴ Y. C. Jao, Banking and Currency in Hong Kong: A Study of Postwar Financial Development (London, Eng.: Macmillan, 1974); Reed, The Preeminence of International Financial Centers, appendix A.11, pp. 131-38; Schenk, Hong Kong as an International Financial Centre.

⁵ James Laureceson and Kam Ki Tang, "Shanghai's Development as an International Financial Centre," Review of Pacific Basin Financial Markets and Policies, vol. 8, no. 1 (March 2005), pp. 147-66; Jon Ogden, "Shanghai Ready to Roll: Shanghai Seems to be Returning to its Former Glory as a World Finance Centre," South China Morning Post (August 15, 2000), Business Post, p. 12; William H. Overholt, "Hong Kong or Shanghai?" China Business Review (May-June 2004), pp. 44-47; "Rivals More Than Ever: Which City, Hong Kong or Shanghai, Will Prosper Most in the New Century?" Economist, vol. 362, issue 8266 (March 30, 2002); Louise D. Rosario, "China: Shanghai Makes Up For Lost Time-China's Largest City Pulls Out All the Stops to Regain the Title of 'Global Financial Centre'" Banker (March 1, 2003); Shahid Yusuf and Weiping Wu, "Pathways to a World City: Shanghai Rising in an Era of Globalisation," Urban Studies, vol. 39, no. 7 (2002), pp. 1213-40; Simon X. B. Zhao, "Spatial Restructuring of Financial Centers in Mainland China and Hong Kong: A Geography of Finance Perspective," Urban Affairs Review, vol. 38, no. 4 (March 2003), pp. 535-71.

Tokyo's status as a leading IFC seems self-evident. Most contemporary rankings list it right below London and New York, and some even place Tokyo on par with them. Viewed from a longer perspective, Yokohama was the leading international financial center of Japan prior to 1935 (Fig. 1). It out-ranked Hong Kong for the first time in 1930, but Tokyo did not continually surpass Hong Kong until after 1955. Nonetheless, this high ranking of Tokyo overstates it as an IFC because most of the indicators measure size of financial activity such as number of banks, amount of derivatives traded, or capitalization of the stock exchange. Japan's large economy attracts foreign banks who want to do business in that country, and its domestic banks have extensive international financial transactions for the wealthy Japanese population and its numerous large and small corporations engaged in export markets. Few of the foreign international banks, however, use Tokyo as their base for Asia-Pacific finance; Hong Kong is that base.⁶

In contrast to Tokyo, Singapore entered the top ten IFCs between 1900 and 1980 only in 1947, when it ranked fifth, and that year Hong Kong was one rank higher at sixth. This more limited role of Singapore has not stopped the debate in Asian newspapers and in comments by government officials in both cities about which IFC is more significant. Researchers likewise have taken up the challenge of comparing their relative standing as IFCs based on traditional measures, as well as on indicators such as regional headquarters centers for foreign firms. Results are consistent: Singapore ranks significantly below Hong Kong as an IFC on most financial measures, although occasionally it has ranked higher in selected sectors such as foreign exchange trading or funds under management. Since the late-nineteenth century, Singapore has been the regional finance and trade center for southeast Asia, broadly defined to include the

⁶ Jao, Hong Kong as an International Financial Centre; Meyer, Hong Kong as a Global Metropolis, pp. 228-30; Poon, "Hierarchical Tendencies of Capital Markets Among International Financial Centers".

nearby countries of Thailand, Indonesia, and Malaysia. Hong Kong, however, has been both the finance and trade center for that region as well as for the rest of Asia-Pacific.⁷

In sum, based on standard financial indicators, Hong Kong has maintained a solid position within the top ten IFCs, albeit with fluctuations in rank. Government and business leaders in most IFCs would envy Hong Kong's status, yet its leaders aspire to the top of that ranking. This probably contributes to their anxiety about whether or not the goal can be achieved. I argue that such a goal has solid foundations, but it is necessary to broaden the conceptualization of an IFC to see why this is so.

A Broader Conceptualization of IFCs

At the most fundamental level financial intermediaries control and coordinate the exchange of capital in both money and commodity form.⁸ The scale of capital exchanged is an important variable, but the pivotal position of financial intermediaries in the decision-making about how capital is exchanged and allocated constitutes the chief source of their power. This focus on decision making shifts attention to the individuals, organizations, firms, and governments which have the greatest say in controlling and coordinating the exchange of capital. They make these decisions through their participation in social networks of capital. The intermediaries' power to implement the exchange of capital, in part, derives from the amount of

⁷ "Chinese Cities Scramble to Host Regional HQ," Industry Updates, China Daily Information Company (February 12, 2007); Jean Chua, "Real Challenge for Hong Kong is not Singapore; its Sister Cities such as Shanghai are Growing Blips on its Radar Screen," Business Times Singapore (January 26, 2005); K. C. Ho, "Competing to be Regional Centres: A Multi-Agency, Multi-Locational Perspective," Urban Studies, vol. 37, no. 12 (2000), pp. 2337-56; Jao, Hong Kong as an International Financial Centre; Meyer, Hong Kong as a Global Metropolis; Reed, The Preeminence of International Financial Centers, appendix A.11, pp. 131-38; Kelvin Wong, "High-End Bank Functions Outsourced to Singapore: Survey Finds Talent Pool and Business Culture Among Major Attractions," Straits Times (Singapore) (September 16, 2005); Friedrich Wu, "Hong Kong and Singapore: A Tale of Two Asian Business Hubs," Journal of Asian Business, vol. 13, no. 2 (1997), pp. 1-17; Hsiao-Wen Young, Ken Hung, and David C. Cheng, "Toward Asian Pacific Financial Centers: A Comparative Study of Financial Developments in Taiwan, Hong Kong and Singapore," Review of Pacific Basin Financial Markets and Policies, vol. 2, no. 1 (March 1999), pp. 29-55.

⁸ This discussion draws on Meyer, Hong Kong as a Global Metropolis, ch. 2.

capital they control (or their firm, organization, and so on); the standard measures of IFCs only partially pick up this power.

Other sources of strength, however, are equally, if not more, consequential. Financial intermediaries occupy different positions in the networks of decision making. They may have greater access to capital through participation in networks which bridge to other social networks of capital, but their competitors do not have as great a level of access to that capital. These network bridges provide access to confidential or expert knowledge which gives them the capacity to make more strategic decisions than competitors. In all of their decision making these intermediaries share this knowledge through social networks. Among the most powerful of these social networks are those which exist in a local agglomeration because they permit the greatest amount of knowledge exchange at the most sophisticated level. In this local agglomeration intermediaries build trust and have a wide range of venues for checking on each others expertise and veracity.

This attention to social networks of capital also helps maintain a perspective on the consequences of advances in transportation, telecommunications, information processing, and media, all of which permit exchanges of capital at larger volumes, over greater distances, and at higher speeds. In effect, the pure physical movement of capital in financial form reduces to its most primitive form as exchanges of ones and zeros over digital networks, and the physical nodes and lines of that digital exchange do not need to coincide with the location of the decision makers. Thus currency and derivative trading can be done electronically through servers. Similarly, the control over the physical exchange of commodities such as raw materials and manufactured goods need not coincide with the nodes of transportation such as ports or air cargo

hubs. These physical movements of capital, therefore, do not adequately measure the social networks of capital; the latter are the most consequential.

At the most basic level, therefore, IFCs are the pivotal nodes in the social networks of capital. All of the decision makers of capital are important, and this extends the actors to include not only the standard individuals and institutions such as commercial and investment banks, insurance firms, stock exchanges, and fund management, but it also includes each new specialized financial intermediary that emerges such as private equity, hedge funds, and so on. Furthermore, other actors who make decisions about the exchange of capital fall into this group. Thus global and world regional corporate headquarters of non-financial firms are pivotal participants in the social networks of capital. At an even wider scale, key business services who work closely with the decision makers of capital, such as international law and accounting firms and management consultancy, are part of these social networks. This wider array of actors has been recognized in the studies of global cities, but the social network bases of these agglomerations as decision making centers of capital has been underplayed.

The Roots of the Hong Kong Pivot

From the standpoint of Hong Kong as an IFC, this argument about social networks of capital translates into the following. Hong Kong is the pivotal meeting place in Asia of the Chinese and the foreign (non-Chinese) social networks of capital. The individuals, firms, and organizations in the city have maintained their status as the most highly specialized and capitalized decision makers who control the exchange of capital over much of Asia and link that region to the global economy. Hong Kong quickly became the pivot of the social networks of capital of Asia after the leading British trading firms flocked to the new city in the 1840s, and other foreign firms followed. As leading Chinese trading firms joined this agglomeration from

the 1840s to the 1860s, the dominance of Hong Kong in Asia became assured. This agglomeration housed the most highly capitalized firms and the decision makers with the greatest expertise in finance and trade in Asia, and their networks reached into most of the countries of the region. This expertise and knowledge was exchanged within the Hong Kong agglomeration. The formation of the Hongkong and Shanghai Bank by the leading trading firms of Asia in 1864/65 ratified Hong Kong as the pivotal business center of Asia with control over the exchange of capital.⁹

The trading firms which organized the Hongkong Bank provided it with ties to all of the key economies of Asia, Latin America, North America, and Europe. As the bank expanded, it developed a branch office network in Asia that gave it an organizational entrée to demand for and the supply of financial and commodity capital across the region. Similarly, Chinese trading firms who agglomerated in Hong Kong developed trading ties across much of Asia and to countries outside of Asia, with the exception of Europe, in ways that mirrored the Hongkong and Shanghai Bank's branch office network. Other financial institutions located in Hong Kong over the late nineteenth and early twentieth centuries, solidifying the city as the pivot of the social networks of capital of Asia. Those financial and trading firms with this Asia-Pacific focus placed their senior decision makers in Hong Kong. This did not preclude cities such as Shanghai or Singapore from becoming major financial and trade centers, but in each case their decision makers generally had more restricted responsibilities. In Shanghai's case the individuals and firms focused on China, and in Singapore's case their focus was on the nearby countries of Thailand, Indonesia, and Malaysia, or what became those nations.

⁹ For the evidence on which the discussion of this section is based, see Meyer, Hong Kong as a Global Metropolis, chs. 3-6.

The social networks of capital in the Hong Kong pivot retained their resilience through the turmoil of the first half of the twentieth century, including the First World War, the depression of the 1930s, the Second World War, and the emergence of the People's Republic of China following 1949. As Hong Kong added a large industrial sector during the 1950s, the city's finance and trade sectors stood ready to move manufactures into world markets, and these sectors expanded accordingly. The late-twentieth century witnessed an explosive growth of Hong Kong as a decision making center of capital, but the alteration of that trajectory beginning around the mid-1990s raises questions about the capacity of Hong Kong to be Asia's leading IFC.

Hong Kong's Altered Trajectory as an IFC

The Economic Base

The economy of Hong Kong passed through wrenching changes during the 1980s as the share of manufacturing in gross domestic product (GDP) began to plummet after 1984 from about 24 percent to 9 percent a decade later, after which its share drifted below 4 percent by 2004 (Fig. 2). The shift of manufacturing to Guangdong Province and beyond lay behind that transformation, converting the city into a management and redistribution center for manufacturing in China and elsewhere in Asia. These economic functions are partially identified in the rising share of GDP comprised of wholesale, retail, and import/export during the 1980s to a level of about 25 percent, albeit with a dip during the recession following the Asian Financial Crisis of 1997. The changing share of GDP in finance, insurance, real estate, and business services, however, raises potential alarms about Hong Kong's status as an IFC. This sector's rising share tracked manufacturing's declining portion during the decade after 1984, and reached a peak of 27 percent of GDP a decade later. In contrast to the reinvigoration in wholesale, retail,

and import/export, the finance and other components showed little evidence of recovery from their plunge to 21 percent following the crisis of 1997.

Although the wholesale, retail, and import/export sector has exhibited resilience since the 1990s, signs of change in the core import/export sector are evident, and this has consequences for Hong Kong's status as an IFC. Over the past century this sector's firms, which control and coordinate trade in Asia and between it and the global economy, have been major contributors to making Hong Kong the pivot of the social networks of capital in Asia. The trade sector, measured by total re-exports, maintained its strength through the turmoil of the first half of the twentieth century, and then turned in explosive growth beginning in the early 1960s as Asian economic development took off (Fig. 3).

The massive relocation of Hong Kong's manufacturing to Guangdong Province contributed to the acceleration in growth of re-exports beginning in the 1980s. Nonetheless, the pace of growth of re-exports began a sharp retardation during the 1990s, and the slow pace of the recovery after the late-1990s recession points to a restructuring of Hong Kong as the pivot of physical commodity trade. The re-exports related to outward processing in mainland China are growing, but the pace lags the years around 1990. Other ports in the Pearl River Delta are providing increasing competition for Hong Kong in physically moving goods, but the government recognizes that the greater efficiencies of these other ports will benefit Hong Kong as it shifts more to providing trading and logistics services for goods that do not touch its port.¹⁰

¹⁰ "Advancement of Port Facilities in the Pearl River Delta Region: Opportunities and Challenges for Hong Kong, Third Quarter Economic Report, Economic Analysis Division, Economic Analysis and Business Facilitation Unit, Financial Secretary's Office (Hong Kong: Government of the Hong Kong Special Administrative Region, 2005), Box 3.1; "Offshore Trade and the Mainland's External Trade," Economic Analysis Division, Third Quarter Economic Report, Economic Analysis and Business Facilitation Unit, Financial Secretary's Office (Hong Kong: Government of the Hong Kong Special Administrative Region, 2006), Box 2.1.

The shift to trade and logistic services is part of the growth of the broader intermediary businesses and their support services in Hong Kong (Fig. 4). Total employment in these sectors expanded at the prodigious compound annual rate of 8.6 percent between 1976 and 1996, but since that time employment has stagnated. The smaller sectors of insurance and transport services have continued to grow modestly from the mid-1990s to 2005, and the sizeable sector of business services also has grown. The largest employment sector, imports and exports, has stagnated since the mid-1990s, and employment in financial institutions, formerly the second largest sector of the group, has declined. Its 2005 employment level falls 13,000 below the peak level of 141,000 reached in 1997, the start of the Asian Financial Crisis. Although the employment in financial institutions has started to recover, this decade-long failure to grow points to a transformation in Hong Kong's role as an IFC.

Change in Traditional Banking

The banking sector has been the customary indicator of IFC status in most rankings of these centers. Based on several core measures of banking, this sector in Hong Kong has ceased to be a leader. The forty-year long (1955-1995) increase in the number of licensed banks has ended, and the number declined precipitously from the peak of 185 in 1995 to 138 in 2006 (Fig. 5). These banks can offer the full range of domestic and international banking services; thus the decline suggests that many global banks no longer see the need to open a full licensed bank in Hong Kong. Part of this decline results from the mergers and acquisitions which have taken place among the world's largest banks. Thus the remaining licensed banks are huge global banks; virtually all of the world's top fifty banks operate in Hong Kong as licensed banks.¹¹

Many of the traditional activities of banks in Hong Kong, however, no longer are growing; in fact, most have either stagnated or declined, some precipitously. The change in loans

¹¹ Annual Report, 2005 (Hong Kong: Hong Kong Monetary Authority), table E, p. 198.

and advances of licensed banks over the period from 1973 to 2005 exemplifies this reduced role of the banking sector (Fig. 6). Total loans and advances soared at a compound annual rate of 21.3 percent from 1973 to their peak in 1997, but from that date until 2005 the aggregate amount has plunged 42 percent. Symptomatic of the substantial alteration in the operations of these licensed banks in Asia, they have reduced the aggregate amount of loans and advances for use outside Hong Kong by 90 percent since the mid-1990s. The main area of resilience has been the loans and advances for use in Hong Kong, which measures borrowing by households, firms, and government for domestic use, tracking the robustness of the local economy.

The changes in selected indicators of the balance sheets of the licensed banks over the thirty-five year period since 1970 reveals the alterations which have occurred in their macro capital positions (Fig. 7). Except for deposits from customers, an indicator of the growth of assets held by local individuals, firms, and organizations, all of the key measures of capital positions of the licensed banks peaked between the late 1980s and mid-1990s. The aggregate measure of total liabilities has stagnated since the mid-1990s. Inflows of capital to the banks from outside Hong Kong (amount due to banks abroad) for either local use or recirculation in Asia has plunged by two-thirds since 1995, and the capital sent from the licensed banks to other banks around the world (amount due from banks abroad) has leveled off.

To the extent that Hong Kong's rank as an IFC rests on the time-honored banking paths of the licensed banks, its status has declined significantly since the mid-1990s. Nonetheless, these banks are repositories of expertise in allocating capital, and they provide other services to clients in Hong Kong and Asia through their specialized banking services and advisory activities. From this standpoint, even as the number of licensed banks has declined, the representation of them from around the world in Hong Kong serves as an indirect indicator of the social networks

of capital in which the city is embedded (Table 1). These networks have three key components which have been consistent since the mid-1980s. Banks from across Asia use Hong Kong as a major base of operations, signifying that they value participation in the hub of the networks of capital of Asia. European banks have maintained a strong presence in Hong Kong, testifying to the importance of Asia to the businesses in that world region, and the major economies (United Kingdom, Germany, France, and Italy) have the largest representation. Canada and the United States remain large players in Hong Kong banking. The big drop in the number of United States banks mostly results from mergers and acquisitions among its large domestic banks.

Indicators of Transformation

Foreign Headquarters and Offices

The decline of traditional banking activities coincides with the growing importance of long-standing intermediary sectors and their support services, and these businesses point to the increased strength of Hong Kong as an IFC. The decisions of international firms from outside Hong Kong to choose it as their regional headquarters or regional offices for operating in Asia or in parts of the region have been a foundation of the city's social networks of capital since the mid-nineteenth century. Regional headquarters supervise offices outside Hong Kong, whereas regional offices have managerial control outside Hong Kong, but do not supervise other offices.

The rate of growth of the number of regional headquarters and regional offices continued at an almost constant rate from the late 1970s to the mid-1990s (Fig. 8). Then a dip occurred in the number of regional headquarters while the pace of increase in regional offices slackened somewhat. The rate of growth in regional headquarters has regained traction, though at a reduced pace from the earlier decades. Still, their numbers in 2006 are 34 percent higher than their peak in 1997, a dramatic recovery to new heights. The total number of companies in Hong Kong

which are incorporated outside has maintained an almost unbroken compound annual rate of increase of 6.8 percent, reaching almost 7,500 by 2005.

The intraorganizational links between the global headquarters of the foreign firms and their regional headquarters, regional offices, and offices (without supervisory oversight elsewhere in Asia) in Hong Kong serve as conduits for transferring expert knowledge about capital investment opportunities and decisions about the exchange of capital. The evidence for regional headquarters and regional offices reveals the tight integration which Hong Kong has with the leading economies of the world (Table 2).

These economies account for about 90 percent of these units in the city, and this has remained stable between 1994 and 2006. As the largest economy, the United States houses the greatest share of regional headquarters and regional offices (Table 2). In the latter case it had been below Japan in 1994, but it surpassed that country by 2006. Corporations in the wealthiest Asian economies, including Japan, Singapore, Taiwan, and South Korea, have determined that they need to participate in the social networks of capital in Hong Kong. The second rank (after the United States) of Japanese corporations in Hong Kong stands as testimony to the superiority of its social networks for participating in the exchange of capital in Asia compared to those in Tokyo, which predominantly provide access to its domestic economy. Singapore's corporations have dramatically increased their number of regional headquarters and regional offices in Hong Kong, an indication that they do not view their global headquarters' city as a viable alternative to Hong Kong for participating in Asian capital networks.

European corporations increasingly have cast their lot with Hong Kong as a base for accessing Asian networks. For reasons that date back to colonialism, the United Kingdom continues to be among the top three economies with regional headquarters and regional offices in

Hong Kong (Table 2). At the same time, Germany, France, the Netherlands, and Italy have more than doubled their numbers of headquarters and of offices in Hong Kong between 1994 and 2006. Mainland China has maintained the fourth rank position in regional headquarters and offices. This testifies that its corporations see Hong Kong as a key point to access Asian business networks; their corporate headquarters city cannot adequately serve that purpose. Mainland China's firms are the leading contributors of local offices in Hong Kong; they account for 18 percent of all offices in a survey by the Hong Kong government.¹² These indicators of the choice of Hong Kong as a base by foreign firms indicate that the participants (individuals and firms) in its social networks of capital occupy a pivotal position in the global control and coordination of decision making about the exchange of capital, thus confirming the city's leading status as an IFC.

Specialized Financial Services

The published surveys by Hong Kong's government imperfectly measure the financial services, broadly defined, which are transforming the city as an IFC. Part of the measurement difficulty is that these firms are changing their organizational structures: sometimes the businesses are being internalized into more diversified firms, and at other times they are being spun off or starting as specialized firms. With these qualifications, the indicators of financial specialization provide some clues about the transformation of Hong Kong as an IFC. From the mid-1980s to the mid-1990s, the numbers of firms and of employees surged across areas as disparate as investment and holding companies, stock and share companies, and other financial institutions and services, especially mutual funds (Table 3). Over the subsequent decade ending in 2005, however, the numbers of firms and of employees leveled off in investment and holding

¹² Census and Statistics Department, Report of 2006 Annual Survey of Companies in Hong Kong Representing Parent Companies Located Outside Hong Kong, Hong Kong Special Administrative Region.

companies and in stock and share companies. These specialized financial services seem to be undergoing a restructuring which has some similarities to the changes in intermediary businesses and in traditional banking (Figs. 4-7). On the other hand, the broad category which includes specialized financial institutions and mutual funds continued to surge, hinting at the expanding sectors of the Hong Kong IFC.

Producer Services

The changes in the broad category of selected producer services which provide specialized support to businesses indirectly confirm the strengthening of Hong Kong as an international financial center over the two decades since 1984 (Table 4). The dramatic expansion of air and sea cargo forwarding services demonstrate that even as the physical commodity trade passing through Hong Kong grows at slower rates, firms in the city are maintaining control over the decision making about the management of this movement and about the financing of it globally. These service firms and their workers do not physically handle commodities. Collectively, with almost 3,000 firms and 35,000 employees, these business services are one key to the city's position as an IFC.

Services such as legal, accounting, and advertising expanded significantly between 1984 and 1995, and then the expansion of their total numbers of firms and of employees slowed or leveled off (Table 4). The precise international component of these services cannot be separated from the large domestic component which each of these services includes. In contrast, the business management and consultancy group, which includes many services that international firms would demand, exploded by about ten times between 1984 and 1995, and then over the next decade the number of firms rose another 15 percent from a large base and the number of employees jumped 44 percent, reaching over 24,000 by 2005. The total number of employees in

the selected producer services, which have ties to Hong Kong's business as an IFC, almost tripled between 1984 and 1995, and then this number increased another 23 percent over the next decade which included the downturn during and after the Asian Financial Crisis.

The net exports of services provide indirect support for concluding that services are now a key component of Hong Kong's status as an IFC. Over the twenty-six year period from 1979 to 2005 the value of these net exports rose at an extraordinary compound annual rate of 13 percent (Fig. 9). This growth rate varied somewhat over shorter periods, but the overall pattern remained quite steady. Following the severe downturn of the Asian Financial Crisis, the recovery quickly commenced, and the 1998-2005 period witnessed a compound annual growth rate of 15 percent, sending net exports of services to new highs.

These indicators of the transformation of Hong Kong can be interpreted as pointing to an increasing specialization of sophisticated financial services, broadly defined as the decision making over the control and coordination of the exchange of capital. The specialized producer services support these activities. Together, they reveal a strengthening of Hong Kong as an IFC. Nonetheless, the stagnation or even outright decline of some financial intermediary services calls into question this interpretation (Fig. 4). The explanation of this seeming stagnation/decline is directly related to the increasing specialization in financial services.

Outsourcing of Routine Financial Services

The return of Hong Kong to Chinese sovereignty in 1997 and the increasing cooperation between the Guangdong Provincial government and the Hong Kong Special Administrative Region, in part symbolized by CEPA (Closer Economic Partnership) which was established in 2003, set the stage for international financial services firms in Hong Kong to feel more comfortable about transferring their back office jobs to Guangdong Province. In a sense this

replicated the increasing comfort which the manufacturers of Hong Kong felt during the early 1980s about moving their factories to Guangdong Province, and once most of their concerns were alleviated, they began a pell-mell rush across the border. The Asian Financial Crisis of 1997 and the subsequent severe recession in Hong Kong, as well as in many Asian countries, however, delayed the move by the financial services firms to restructure. This led to a sharp temporary retrenchment in many global financial services businesses in Hong Kong.

The shift of back office jobs to India or other countries distant from Hong Kong cannot readily be separated from the restructuring which global financial firms are organizing from their headquarters. Nonetheless, the move of back office jobs to Guangdong Province, including the nearby Shenzhen metropolitan area, conforms to the movement of back office financial jobs from major central cities in North America or Europe to their surrounding suburbs or even farther out to satellite cities. The initial forays of financial and related services firms to Guangdong Province are identifiable at least by 2001 when Ernst & Young started a facility in Guangzhou. Over the next two years HSBC, Standard Chartered, and the Bank of East Asia in Hong Kong had shifted back office jobs or enlarged their back offices across the border in Guangdong Province, even as they shifted some back office jobs from the main office areas in Hong Kong to peripheral sites within the city.¹³

By 2005 the choice of Shenzhen as a base for back office jobs had become a routine calculation, subject to simply a reference to the growth of that office market. In 2006 HSBC was reporting that it had 3,500 back office jobs in China, though the precise locations were not

¹³ “Bank of East Asia to Transfer More Back Office Processes to Guangzhou,” AFX-Asia (January 10, 2003); “Banking Giants Draw Up Plans for Mainland,” Global News Wire, Asia Africa Intelligence Wire, The Standard (September 17, 2002); Louis Beckerling, “Leverage Opening,” South China Morning Post (November 9, 2002), Business Post, p. 3; Bruce Einhorn and Manjeet Kripalani, “Move Over India,” Business Week (August 11, 2003), p. 42; “HSBC to Hire 2,700 in China, India, Hong Kong,” Emerging Markets Datafile, Hong Kong Imail (April 5, 2002); Kelvin Wong, “Swelling Bank Workforces Spark Hunt for Extra Office Space,” South China Morning Post (January 6, 2005), Business Post, p. 1.

specified; nonetheless, it had been an early entrant to Guangdong Province. By that same year the Shenzhen government had institutionalized a program to explicitly lure back office jobs from Hong Kong. The mayor of Shenzhen shrewdly argued that this program was consistent with strengthening Hong Kong as a global financial center because low-value, low-wage jobs would shift to his city, thus increasing the efficiency of the global center's financial services firms.¹⁴

The mayor of Shenzhen possesses a sophisticated grasp of the dynamics of the transformation of Hong Kong as an IFC. The increasing shift of back office jobs to Shenzhen and elsewhere in Guangdong Province such as the Guangzhou metropolitan area probably will keep a lid on the overall employment size growth of financial services and the associated producer services jobs, which also have back office components (e.g., routine accounting jobs), for some years to come. This results because the back office sector is far larger than the sophisticated financial and producer services sectors. Thus a movement of, for example, 500 back office jobs would not be matched by the entry of the same number of high-level positions. Thus, Hong Kong will increase its specialization and sophistication as an IFC even as aggregate numbers of jobs show little change. Still, at some point in the near future, the shift of the largest number of back office jobs will wane; then the growing numbers of sophisticated financier and producer service workers will contribute to net growth in Hong Kong.

Transformative Specialized Sectors

The growth of the private equity and hedge fund sectors epitomizes the transformation underway in Hong Kong's status as an international financial center. The individuals and firms in these sectors focus most of their activities on Asia, and they require deep knowledge of

¹⁴ "113 of Top 500 Global Firms Find Home in Shenzhen," *Asia Pulse* (August 26, 2005); Jiang Bing He, "Shenzhen Office Market, Quarter 2, 2005," *DTZ Quarterly Property Market Overview in North Asia* (July 20, 2005); Lee Yuk-kei and Carrie Chan, "Shenzhen Out to Lure SAR Banks' Business," *Global News Wire, Asia Africa Intelligence Wire, The Standard* (April 13, 2006); Lee Yuk-kei and Yvonne Lee, "Bank to Boost China Staff," *Global News Wire, Asia Africa Intelligence Wire, The Standard* (March 8, 2006).

business opportunities in the region and of the individuals and firms who manage the firms and funds in which they invest. Private equity firms operate within a complex political and economic environment because their investments generally are in assets that are fixed in place, whether they be banks, factories, retail stores, and so on. The hedge fund managers sometimes operate with private equity firms, and they also require confidential knowledge of the strategies and skills of the lead managers of investment funds in the region.

Hong Kong dominates as the center of private equity funds which invest in Asia. As of 2004, Japan had about the same aggregate amount of private equity funds under management, but almost 90 percent of this was invested in domestic companies. In contrast, Hong Kong is the reverse image; about 90 percent of its US\$27 billion are invested outside Hong Kong and almost all of these are targeted elsewhere in Asia. Overall, Hong Kong funds manage about 2.5 times the amount managed from Singapore, and Hong Kong's private equity investments elsewhere in Asia are more than triple that of Singapore. Hedge fund management in Hong Kong is on a rapid upward trajectory. Between 2004 and 2006, the number of active hedge fund managers doubled from 58 to 118, the number of hedge funds jumped from 112 to 296, and the amount of assets under management almost quadrupled from US\$9.1 billion to US\$33.5 billion.¹⁵

These private equity and hedge fund firms come to Hong Kong precisely because it is the pivot of the social networks of capital in Asia. The interweaving of the numerous foreign and Chinese individuals and firms across many business sectors directly in finance and indirectly in corporate management and producer services, and the business networks which link them elsewhere in Asia provide the private equity and hedge fund managers with unparalleled access

¹⁵ Economic Analysis Division, "Private Equity Investment," *Half-Yearly Economic Report*, Economic Analysis and Business Facilitation Unit, Financial Secretary's Office (Hong Kong: Government of the Hong Kong Special Administrative Region, 2005); Securities and Futures Commission, "Report of the Survey on Hedge Funds Managed by SFC Licensed Managers," (Hong Kong: Government of the Hong Kong Special Administrative Region, October, 2006).

to knowledge and expertise in Asia. This is shared in Hong Kong within the close social networks of friends, business acquaintances, clubs, and the many venues where they share insights including formal and informal meetings, lunches, dinners, parties, and so on.¹⁶

From the Past to the Future

Hong Kong's status as the pivot of the social networks of capital in Asia was established by the 1860s because it became the meeting place of the most sophisticated financiers and traders from the foreign and the Chinese business networks. That position has never been lost over the past 150 years. An international financial center (IFC) must be conceptualized beyond the traditional banking measures to a broader definition which encompasses the decision making about the exchange of finance and commodity capital. With this definition, Hong Kong has been the leading IFC in Asia since 1860, and fluctuations in its ranking from 1900 to 1980, as measured by traditional banking measures, do not adequately reflect its continued position as the Asian pivot of decision making for the exchange of capital.

The increasing scale of its financial and producer services sector during the decades after 1950 coincided with Asian economic growth and development. The seeming stagnation which set in by the mid-1990s did not reflect the deterioration of Hong Kong as an IFC. Some of the decline and/or stagnation consisted of temporary adjustments to recessionary conditions set off by the Asian Financial Crisis. At the deeper level, however, the financial sector of Hong Kong, broadly defined, was entering a period of structural readjustment as firms increasingly shifted back office activities to Guangdong Province. The expanding areas, such as private equity and hedge funds, are emblematic of the increasing specialization and sophistication of Hong Kong as an IFC.

¹⁶ These generalizations are based on confidential interviews with leading financiers in Hong Kong conducted by the writer in 2006 and 2007, with funding from a United States National Science Foundation grant (No.: 0451945).

The fundamental challenge to the future of Hong Kong as Asia's premier IFC emerged as political risk during the period leading up to the "Joint Declaration of 1984" between the United Kingdom and the People's Republic of China, which would set the date of 1 July 1997 for the return of Hong Kong to China's sovereignty. However, China boldly declared in article 7 and Annex 1 in the "Joint Declaration" that "The Hong Kong Special Administrative Region will retain the status of an international financial center." At the third session of the Seventh National People's Congress on 4 April 1990 the Basic Law governing Hong Kong was passed. In language almost identical to the Joint Declaration six years earlier, article 109 said: "The government of the Hong Kong Special Administrative Region shall provide an appropriate economic and legal environment for the maintenance of the status of Hong Kong as an international financial centre."¹⁷

Beijing's leaders have never deviated from their support of Hong Kong as an IFC, and over the years different officials have repeatedly affirmed that position. Recent examples of this include Jia Qinglin, Chairman of the National Committee of the Chinese People's Political Consultative Conference, on a visit to Hong Kong in June 2006, and Shang Fulin, Chairman of the China Securities Regulatory Commission, in Beijing in November 2006. These officials typically stress the importance of cooperation between Hong Kong and the Mainland, and they often frame this in a supply and demand framework. The city provides financial services for the Mainland, and its businesses and government organizations generate demand for Hong Kong services.¹⁸

¹⁷ The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, Adopted by the Seventh National People's Congress at its Third Session, April 4, 1990 (Hong Kong, 1992); "Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China on the Question of Hong Kong," Signed in Beijing, December 19, 1984.

¹⁸ "Chinese Consultative Body Chief: Beijing Supports Hong Kong as a Financial Centre," Global News Wire, Asia Africa Intelligence Wire, BBC Monitoring International Reports (July 5, 2006); "CSRC Supports Mainland Firms

The strengthening of the financial linkages between the Mainland and Hong Kong, therefore, stands high on the agenda of Beijing leaders. At the same time, financial leaders in Hong Kong reciprocate the motivation to expand financial integration. The Hong Kong Monetary Authority states that as an aim in the 2005 Annual Report, and Mr. Joseph Yam, its Chief Executive, proposed a five-prong strategy to enhance that integration. Mr. Fred Ma, Secretary for Financial Services and the Treasury, repeats that theme of Hong Kong as an intermediary for China in speeches which he gives in Hong Kong and around the world.¹⁹

The formal financial organizations in Hong Kong, including the Hong Kong Monetary Authority, the Financial Secretary, the Securities and Futures Commission, and the Hong Kong Exchange, have the proper role of enhancing the organizational, legal, and regulatory structures to strengthen Hong Kong as an international financial center. Many of these issues have been itemized for evaluating the status of an international financial center, such as list developed by the Corporation of London and evaluated by the Securities and Futures Commission of Hong Kong.²⁰ Yet, attention also must be paid to providing a welcoming environment for sophisticated financiers, top corporate decision makers (regional headquarters and offices), and producer service providers from around the world to base themselves in the city. They are the fundamental building blocks of the social networks of capital in Hong Kong, and ultimately their agglomeration in the city and their interaction defines it as a pivotal center of decision making for the exchange of capital.

Listing in Hong Kong,” Global News Wire, Asia Africa Intelligence Wire, Business Daily Update (November 30, 2006).

¹⁹ Hong Kong Monetary Authority, Annual Report, 2005 (Hong Kong: Government of the Hong Kong Special Administrative Region), pp. 86-87; Fred Ma, “Hong Kong: Financial Centre in the New Silk Road,” Financial Times China-Middle East Summit, Dubai, January 30, 2007; Joseph Yam, “One Country, Two Financial Systems,” British Chamber of Commerce, October 20, 2006.

²⁰ Corporation of London, The Competitive Position of London as a Global Financial Centre (London, Eng.: Z/Yen, November, 2005); Securities and Futures Commission, “Hong Kong as a Leading Financial Centre in Asia,” Research Department, Supervision of Markets Division, Research Paper No. 33 (Hong Kong: Government of the Hong Kong Special Administrative Region, August, 2006).

Because the growth of China will generate an enormous demand for sophisticated financial services which Hong Kong firms can provide, the continued positioning of the city as China's window to global capital in both directions, when added to Hong Kong's Asia-Pacific financial services, will cement the city's rank as one of the three great global IFCs, the other two being London and New York.

Table 1. Number of licensed banks in Hong Kong by political unit of beneficial ownership, 1986-2005

| <u>Country/region</u> | <u>1986</u> | <u>1991</u> | <u>1997</u> | <u>2001</u> | <u>2005</u> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Asia and Pacific | 84 | 89 | 108 | 85 | 75 |
| Hong Kong | 20 | 15 | 16 | 14 | 12 |
| Mainland China | 15 | 15 | 18 | 19 | 12 |
| Australia | 4 | 4 | 4 | 4 | 4 |
| India | 4 | 4 | 4 | 4 | 5 |
| Indonesia | 2 | 3 | 3 | 2 | 1 |
| Japan | 25 | 33 | 44 | 20 | 12 |
| Korea, Republic | 3 | 3 | 3 | 3 | 3 |
| Malaysia | 2 | 2 | 3 | 1 | 3 |
| New Zealand | 0 | 1 | 0 | 0 | 0 |
| Pakistan | 1 | 1 | 1 | 1 | 1 |
| Philippines | 2 | 2 | 2 | 2 | 2 |
| Singapore | 5 | 5 | 5 | 7 | 4 |
| Taiwan | 0 | 0 | 4 | 7 | 15 |
| Thailand | 1 | 1 | 1 | 1 | 1 |
| Europe | 37 | 48 | 50 | 44 | 40 |
| Austria | 0 | 2 | 2 | 2 | 1 |
| Belgium/Luxembourg | 3 | 3 | 4 | 4 | 2 |
| Denmark | 0 | 2 | 2 | 0 | 0 |
| France | 8 | 8 | 8 | 5 | 5 |
| Germany | 8 | 8 | 10 | 9 | 8 |
| Italy | 4 | 7 | 6 | 6 | 6 |
| Netherlands | 3 | 3 | 3 | 3 | 3 |
| Republic of Ireland | 0 | 1 | 0 | 0 | 0 |
| Spain | 1 | 3 | 3 | 1 | 1 |
| Sweden | 0 | 3 | 2 | 1 | 1 |
| Switzerland | 3 | 3 | 3 | 3 | 3 |
| United Kingdom | 7 | 5 | 7 | 10 | 10 |
| North America | 28 | 24 | 20 | 15 | 15 |
| Canada | 6 | 6 | 6 | 5 | 5 |
| United States | 22 | 18 | 14 | 10 | 10 |
| Middle East | 2 | 2 | 2 | 2 | 2 |
| Bahrain | 1 | 1 | 1 | 1 | 0 |
| Iran | 1 | 1 | 1 | 1 | 2 |
| South Africa | 0 | 0 | 0 | 1 | 1 |
| Total licensed banks | 151 | 163 | 180 | 147 | 133 |

Sources: Office of the Commissioner of Banking, *Annual report of the Commissioner of Banking for 1989*, Table 1.5, pp. 57-58; Hong Kong Monetary Authority, *Annual report 1995*, Table 4, pp. 94-95; Hong Kong Monetary Authority, *Annual report 1997*, Table 3, pp. 120-21; Hong Kong Monetary Authority, *Annual report 2005*, Table D, p. 197.

Table 2. Number of regional headquarters and regional offices in Hong Kong by political unit of parent company, 1994 and 2006

| <u>Political unit of parent</u> | <u>Regional headquarters</u> | | <u>Regional offices</u> | |
|---------------------------------|------------------------------|-------|-------------------------|-------|
| | 1994 | 2006 | 1994 | 2006 |
| United States | 178 | 295 | 193 | 594 |
| Japan | 91 | 212 | 257 | 519 |
| United Kingdom | 91 | 114 | 107 | 223 |
| Mainland China | 62 | 112 | 69 | 156 |
| Germany | 35 | 76 | 52 | 136 |
| France | 26 | 55 | 25 | 117 |
| Netherlands | 22 | 48 | 46 | 47 |
| Singapore | 6 | 44 | 25 | 106 |
| Switzerland | 34 | 42 | 38 | 68 |
| Taiwan | 14 | 28 | 39 | 149 |
| Italy | 11 | 23 | 25 | 52 |
| Australia | 14 | 21 | 31 | 65 |
| Sweden | 13 | 19 | 26 | 34 |
| South Korea | 12 | 16 | 45 | 62 |
| Canada | 11 | 15 | 24 | 31 |
| Selected total | 620 | 1,120 | 1,002 | 2,359 |
| Other | 94 | 108 | 130 | 258 |
| Total | 714 | 1,228 | 1,132 | 2,617 |

Source: Census and Statistics Department, Hong Kong Special Administrative Region.

Table 3. Specialized financial services in Hong Kong, 1984 to 2005

| <u>Type</u> | <u>No. of establishments</u> | | | <u>No. employed</u> | | |
|---|------------------------------|-------------|-------------|---------------------|-------------|-------------|
| | <u>1984</u> | <u>1995</u> | <u>2005</u> | <u>1984</u> | <u>1995</u> | <u>2005</u> |
| Investment & holding companies | 642 | 3,202 | 2,777 | 6,041 | 21,289 | 19,832 |
| Stock & share companies | 777 | 855 | 719 | 5,412 | 10,031 | 11,509 |
| Other financial institutions & services | 133 | 986 | 1,357 | 1,733 | 7,597 | 12,700 |
| Stock, bullion, & commodity exchanges | 6 | 3 | 2 | 190 | 587 | 792 |
| Commodity futures & gold bullion brokers/dealers | 161 | 260 | 82 | 1,578 | 2,049 | 547 |

Source: Census and Statistics Department, *Employment and Vacancies Statistics (Detailed Tables), Series A (Services Sectors)*, Hong Kong, various years.

Table 4. Producer services in Hong Kong, 1984 to 2005

| <u>Selected services</u> | <u>Number of establishments</u> | | | <u>Number employed</u> | | |
|--------------------------------|---------------------------------|-------------|-------------|------------------------|-------------|-------------|
| | <u>1984</u> | <u>1995</u> | <u>2005</u> | <u>1984</u> | <u>1995</u> | <u>2005</u> |
| Air cargo forwarding | 269 | 606 | 750 | 4,840 | 9,571 | 14,208 |
| Sea cargo forwarding | 332 | 1,456 | 2,126 | 3,640 | 12,505 | 20,369 |
| Ship brokerage | 29 | 134 | 55 | 177 | 649 | 226 |
| Solicitors | 285 | 572 | 786 | 6,878 | 14,743 | 15,433 |
| Barristers | 213 | 468 | 800 | 393 | 725 | 1,073 |
| Accounting & auditing | 454 | 1,181 | 1,937 | 6,645 | 14,461 | 14,082 |
| Bookkeeping & general accoun. | 271 | 1,518 | 1,829 | 896 | 4,122 | 6,689 |
| Advertising cos. & agencies | 608 | 787 | 944 | 4,158 | 6,744 | 5,504 |
| Other advertising services | 502 | 2,537 | 3,045 | 1,743 | 8,273 | 7,925 |
| Public relations | 29 | 168 | 274 | 206 | 1,070 | 1,451 |
| Market research | 58 | 114 | 95 | 563 | 1,099 | 762 |
| Business manage. & consultancy | 312 | 3,240 | 3,732 | 2,094 | 16,908 | 24,407 |
| Selected total | 3,362 | 12,781 | 16,373 | 32,233 | 90,870 | 112,129 |
| Other business services | 2,320 | 7,892 | 12,219 | 24,536 | 55,519 | 92,430 |
| Total business services | 5,682 | 20,673 | 28,592 | 56,769 | 146,389 | 204,559 |

Source: Census and Statistics Department, *Annual Digest of Statistics*, Hong Kong, 1989; Census and Statistics Department, *Employment and Vacancies Statistics (Detailed Tables), Series A (Services Sectors)*, Hong Kong, various years.

Figure 1. Rank of Hong Kong, Shanghai, and Tokyo (Yokohama before 1935) as international financial centers, 1900-1980

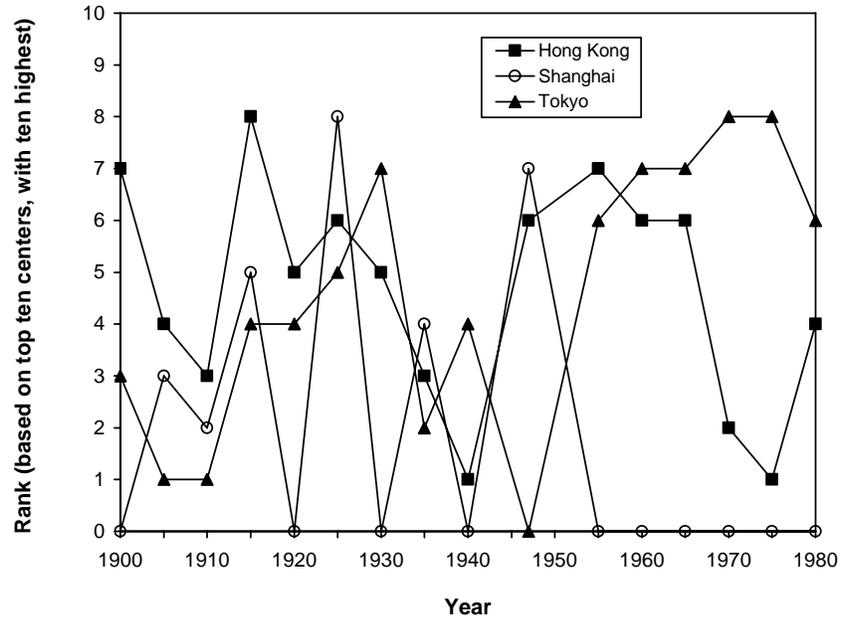


Figure 2. Sectoral shares of total gross domestic product (GDP) in Hong Kong, 1980-2004

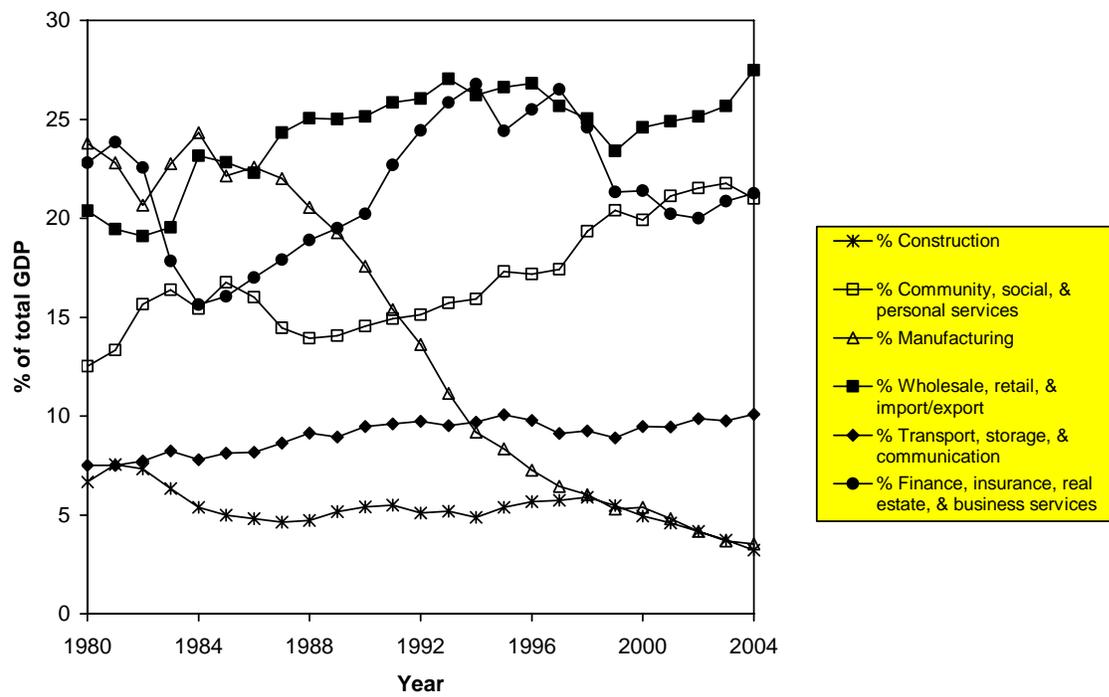


Figure 3. Value of domestic exports and re-exports of Hong Kong and of re-exports to and from mainland China involving outward processing, 1918-2005

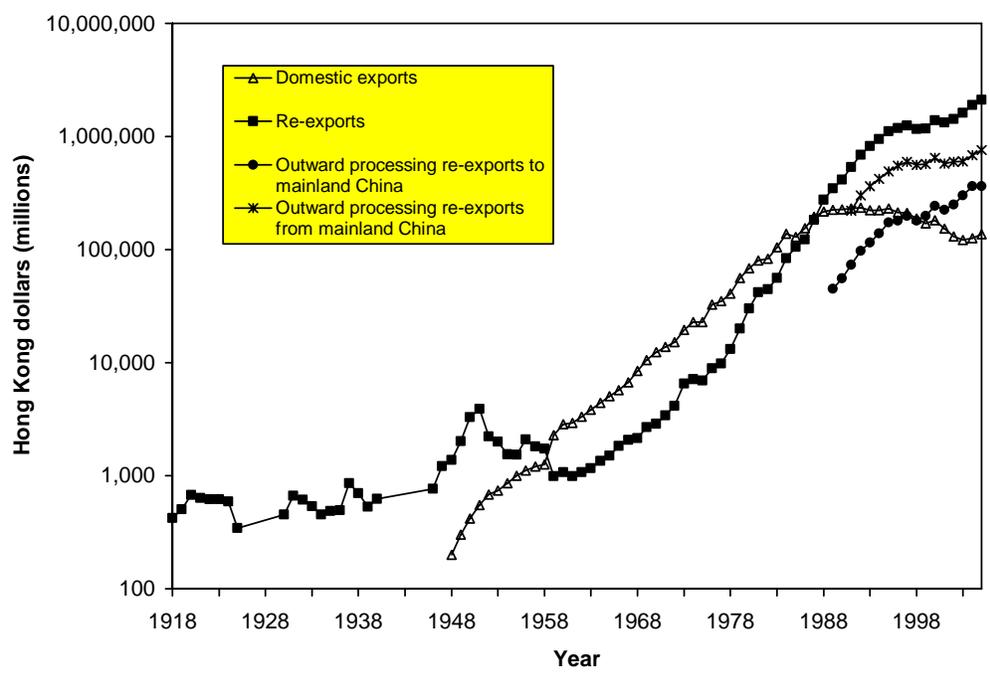


Figure 4. Employment in intermediary businesses and their support services in Hong Kong, 1976-2005

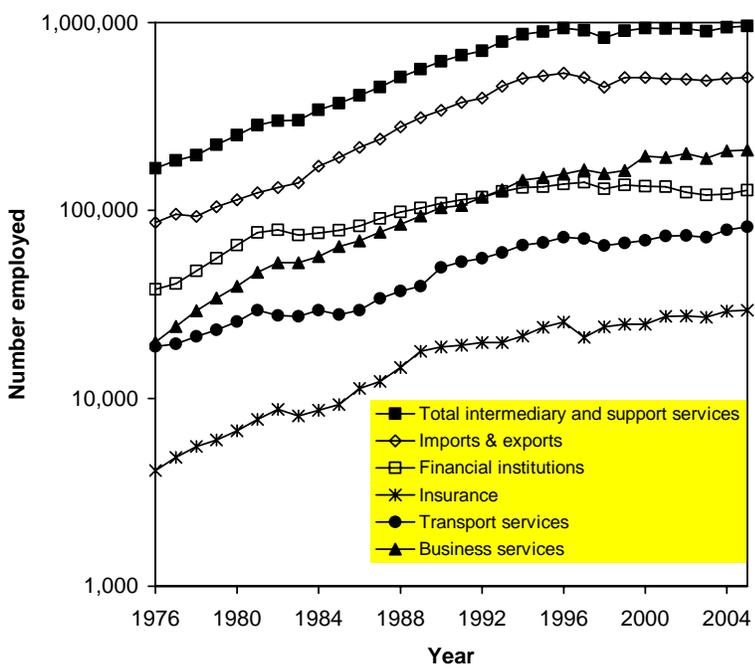


Figure 5. Number of licensed banks in Hong Kong, 1955-2006

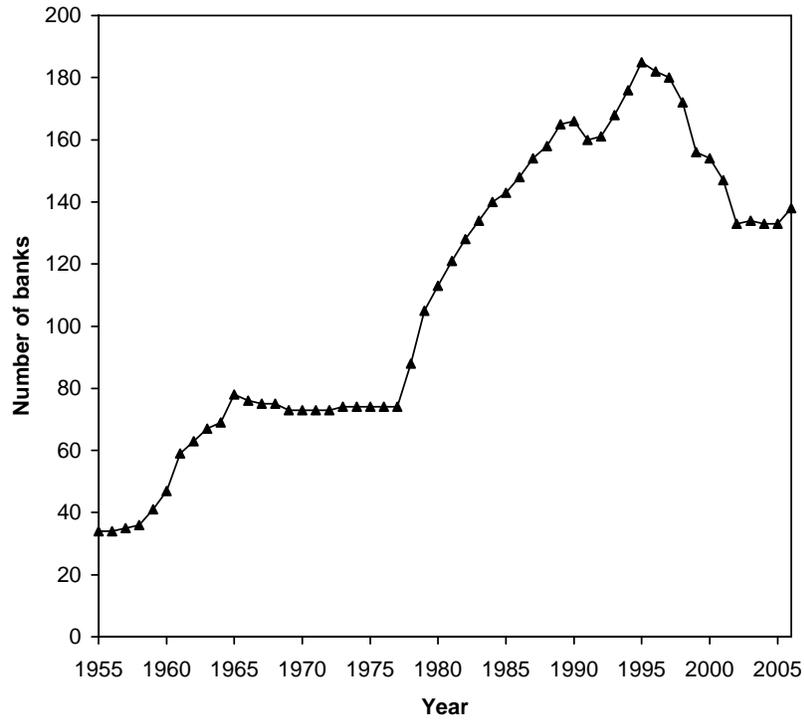


Figure 6. Loans and advances of licensed banks in Hong Kong, 1973-2005

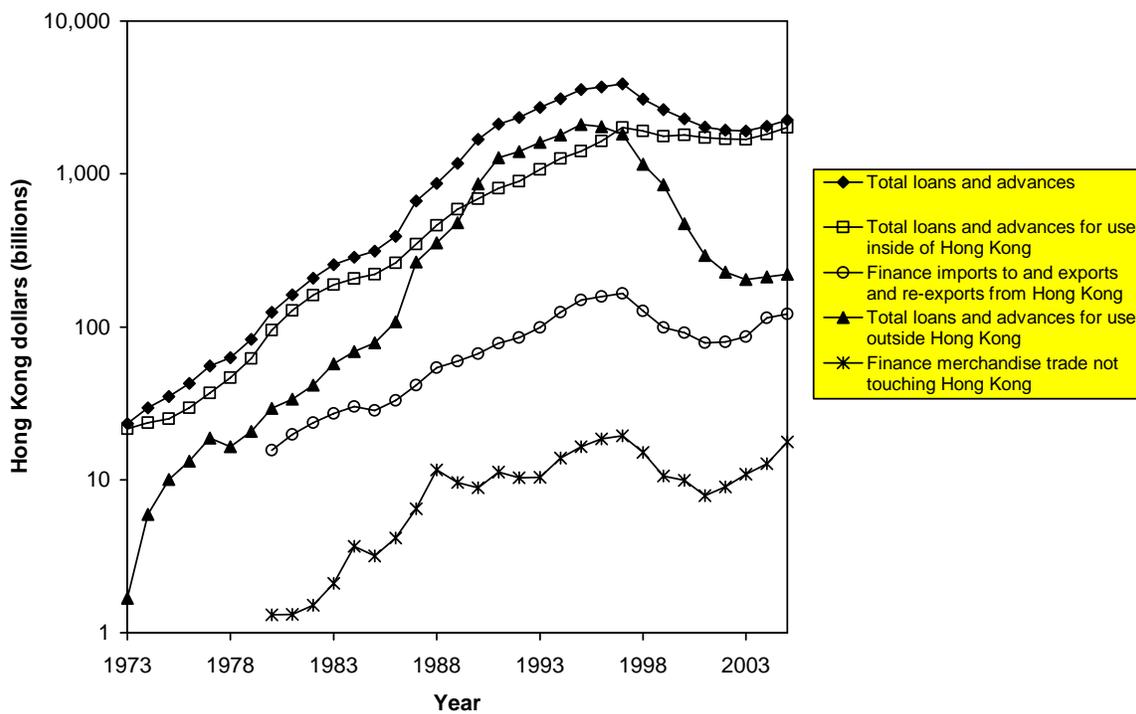


Figure 7. Balance sheets of licensed banks in Hong Kong, 1970-2005

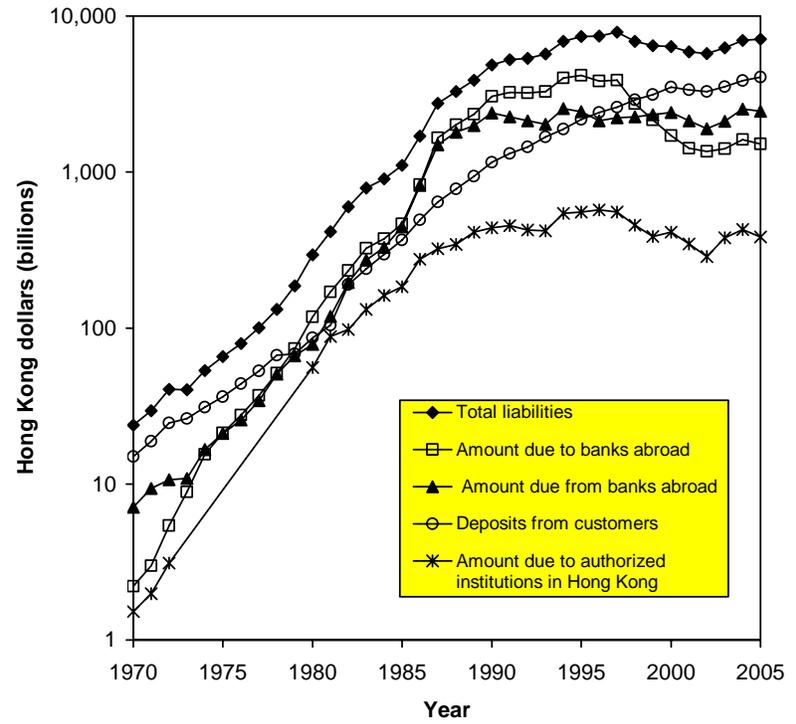


Figure 8. Number of regional headquarters and regional offices in Hong Kong and total number of companies incorporated outside Hong Kong, 1979-2006

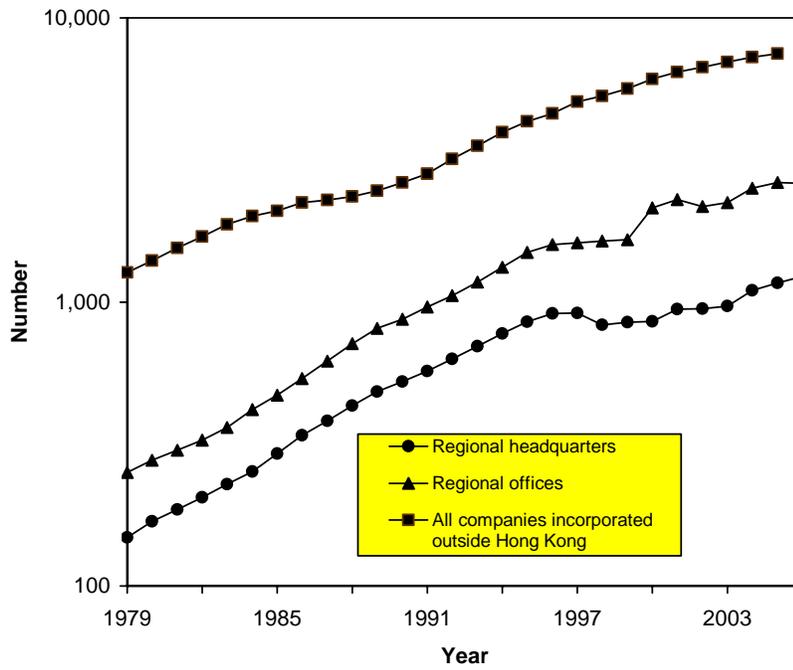


Figure 9. Net exports of services from Hong Kong, 1979-2005

