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Reform and Breakthrough, Review and Prospect — for the 25th Anniversary of Hong Kong's Return

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Since Hong Kong returned to China 25 years ago, despite various challenges such as the 1997 Asian Financial Crisis, the 2003 SARS, the 2008 Global Financial Crisis, the 2019 amendment turmoil, and the Covid-19 pandemic, Hong Kong's economy has maintained prosperity and stability with the strong support of the central government. Hong Kong's GDP proportion in the world has increased steadily, and its status as an international financial center and trade center has been consolidated and improved. Standing on a new historical starting point, Hong Kong must forge ahead towards the goal of becoming a global metropolis, make new breakthroughs, foster strengths, circumvent weaknesses, seize new opportunities, and create a new legend.

1. Outstanding Economic Achievements

Hong Kong's economy has always been characterized by a high degree of extroversion and internationalization, and it is the freest economy in the world. In the past 25 years, Hong Kong has won many achievements and honors in the field of economic development. Compared with the global development over the same period, Hong Kong's GDP share has increased steadily, with per capita GDP rising faster, and its role in finance and trade fields has increased significantly.

1) GDP proportion increases steadily

Since its return to China, Hong Kong's economic development has roughly gone through the following four stages: the adjustment period of the Asian Financial Crisis and the SARS from 1997 to 2003, the period of rapid development of deepening economic cooperation between Hong Kong and the Mainland from 2003 to 2008, the period of the Global Financial Crisis and stable economic growth from 2008 to 2018, and the period of economic turbulence and exploration after 2018. Although Hong Kong's economic development has experienced ups and downs, according to the



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constant 2015 US dollar denomination system provided by the World Bank, Hong Kong's GDP has risen from US\$172.8 billion in 1997 to US\$311.6 billion in 2020, with an increase of more than 80%. The proportion of Hong Kong's economic output in the world generally shows an upward trend. As Hong Kong's GDP growth rate is as high as 6.4% in 2021, which is higher than the global growth rate, Hong Kong's share in the global GDP rebounded in 2021 compared with that of 2020.

It is worth noting that in the past 25 years, the proportion of Hong Kong's population in the world has been declining, from 11.1 per 10,000 in 1997 to 9.6 per 10,000 in 2020. Therefore, from a per capita perspective, Hong Kong's GDP per capita is growing faster than the world: Hong Kong's per capita GDP has risen from US\$26,600 in 1997 (constant 2015 US dollars) to US\$41,600 in 2020, and its ratio to global GDP per capita has risen from 3.61 in 1997 to 3.95 in 2020. Considering that in the past 25 years, developing economies have generally grown faster than developed economies, it is not easy for Hong Kong to achieve such economic performance. This also explains why Hong Kong has been rated as one of the most competitive regions in the world by international institutions for many years.

2) The status as a financial center is strengthened

The financial industry is the top priority of Hong Kong's economy. Since its return, Hong Kong has made many breakthroughs and achievements in the financial field. In the past 25 years, the annual growth rate of Hong Kong's financial industry is about 6%, and its proportion in GDP has increased from 10.3% in 1997 to 23.3% in 2021. The financial industry has become the largest pillar industry in Hong Kong. In terms of the stock market, in the past 25 years, Hong Kong's IPO market has been booming, and the number of IPO funds raised has won the world championship for many years. The number of listed companies has increased from 619 in 1997 to more than 2,500 in 2021, an increase of more than 3 times. The total market value of listed companies increased from US\$453 billion at the beginning of the return to US\$5,433.5 billion in 2021, an increase of nearly 11 times. In terms of the banking industry, Hong Kong is one of the cities with the highest concentration of international banks. Nearly 80% of the world's 100 largest banks conduct business in Hong Kong. By the end of 2021, there were 188 authorized banking institutions in Hong Kong, with a total asset value of US\$3.4 trillion and deposits of nearly US\$2 trillion.

Benefiting from the interconnection mechanism with the Mainland market and the RMB financial infrastructure, Hong Kong has now developed into the world's largest offshore RMB capital pool, the world's largest offshore RMB foreign exchange market, and the world's largest dim sum bond market. The balance of RMB deposits in Hong Kong has risen rapidly from RMB 6.3 billion at the end of May 2004 to RMB 841.9 billion at the end of April 2022, an increase of more than 100 times. At present, more than 70% of the world's offshore RMB payments are processed in Hong Kong. According to the data of the Bank for International Settlements, the proportion of Hong Kong settlements in the world has increased from 3.81% at the beginning of the return to 7.62% in 2019, and each sub-item has increased to varying degrees, showing Hong Kong's role in the international settlement system has increased significantly.

In terms of asset management, Hong Kong has become a world-famous "capital port" and is currently the largest international fund management center in Asia and the largest international private wealth management center in Asia. In 2020, the AUM of Hong Kong asset and wealth management companies has reached HK\$34.93 trillion. Among the 20 largest private equity funds in the world, 15 have set up offices in Hong Kong, and many of them are regional headquarters. Meanwhile, Hong Kong is also one of the most famous insurance markets in the world, with the highest concentration and density of insurance

companies in Asia. In the latest “Global Financial Centers Index” report released by the UK’s Z/Yen Group and China Development Institute, Hong Kong’s overall ranking remains 3rd in the world, second only to New York and London.

3) The status as a trade center is consolidated

Hong Kong is a founding member of the World Trade Organization (WTO). As an international trade center, Hong Kong has significant advantages which include: a superior geographical location, a comprehensive zero-tariff and no trade restrictions, a convenient and low-cost customs clearance system, adequate legal protection, and a high degree of openness to financial markets, etc. Hong Kong’s commerce and trade have always been its main pillar in economic development since the opening of the port. The prosperity of commerce and trade has driven the development of shipping, finance, and related professional services. In the past 25 years since its return to China, Hong Kong’s status as an international trade center has been further consolidated. The proportion of Hong Kong’s imports and exports to the world has risen from 171 and 178 per 10,000 in 1997 to 270 and 268 per 10,000 in 2020. According to World Trade Organization, Hong Kong was the sixth-largest exporter of goods in the world in 2021.

Since the handover, the economic and trade cooperation between Hong Kong and the Mainland has continued to expand, and the convergence of interests has continued to expand: currently, the Mainland is Hong Kong’s largest export market and source of imports, as well as Hong Kong’s largest trading partner, accounting for more than half of Hong Kong’s merchandise trade imports and exports. Hong Kong has long been the Mainland’s largest source of foreign direct investment and an overseas financing platform, and has also become the Mainland’s largest overseas investment destination. In addition, over the past 25 years, Hong Kong has signed “Free Trade Agreements” and “Investment Agreements” with a number of economies. Those Agreements not only provided preferential treatment and legal protection for businesses, but also promoted Hong Kong’s integration with international standards, strengthened Hong Kong’s role as an intermediary, promoted the development of Hong Kong’s carrying trade, offshore trade, and service trade, and further consolidated Hong Kong’s status as an international trade center.

Of course, in the past 25 years, Hong Kong also has many deficiencies, mainly including a relatively single industrial structure, problems with the income distribution mechanism, deteriorating living conditions of residents, increasingly serious aging problems, and a shortage of medical resources. However, the overall development of Hong Kong’s economy since the handover is encouraging, and the inadequacies have laid a foundation for exploring and thinking about the future development direction of Hong Kong.

2. Efforts and Directions in the Future

Looking forward to the future, opportunities and challenges coexist. Hong Kong is at the crossroads of a new start. It should forge ahead towards the goal of becoming a global metropolis, actively integrate into the overall development of the country, cultivate new advantages, achieve new development and make new contributions, to better start the second half of the return.

1) The global metropolis

In the future, Hong Kong should move towards a “global metropolis” and strive to become a global metropolis in terms of both openness and influence. A global metropolis generally requires that the city be

large in scale, gather talents, and have comprehensive functions. It is usually a global technology, finance, education, and cultural center. At present, only New York and London meet these requirements in the world. Hong Kong owns unique endowments and advantages such as superior geographical location, a fusion of Eastern and Western cultures, large economic, trade, and financial scale, openness, freedom, and inclusiveness under the “One Country, Two Systems”. Combined with the background of a rising China, Hong Kong is fully capable of becoming a global metropolis. In the next 25 years, Hong Kong’s long-term stability must adhere to the framework of “One Country, Two Systems”, continue to enhance Hong Kong’s economic and social development space and capacity, enhance the coordination, equality, and sustainability of development, improve its integration into the overall development of the country, enhance the ability to support the country to rise, and focus on building four international centers of innovation, finance, trade, and culture.

2) Make strengths stronger

In the future, Hong Kong needs to continue to move towards the goal of a world-class financial center, continue to expand the RMB offshore market, accelerate the construction of the “Belt and Road” investment and financing market and the wealth management market in the Asia-Pacific region, and strive to build a world-class financial center. The key directions should include: further opening up the connection with the Mainland capital market, exploring the listing resources for the return of Chinese concept stocks, and vigorously developing the Asian bond market; further expanding the asset management market in the Mainland and the Asia-Pacific region; further promoting the development of Chinese-funded financial institutions in Hong Kong to provide services such as project loans, syndicated loans, and venture capital funds, and develop the “Belt and Road” investment and financing platform; vigorously developing green finance, financial technology, inclusive finance, science and technology finance and other emerging financial services to build a world-class green financial center and technology financial center.

In terms of trade, Hong Kong is already a world-class re-export trade port and still has great potential for development in the future. Hong Kong should actively participate in various regional trade agreements as a SAR, especially opening up more bilateral trade cooperation agreements in the Asia-Pacific region and along the “Belt and Road”. On the other hand, Hong Kong can strive to carry out service trade with the Mainland in the form of direct cross-border provision, especially in the fields of banking, insurance, and professional services, to meet the Mainland’s demand for high-end service industries. At the same time, Hong Kong should make good use of its modern system to help the Mainland build a new system for opening up. Finally, Hong Kong must adhere to the window function of opening up to the outside world, become an international service hub for the Belt and Road Initiative, promote the liberalization and facilitation of cross-border trade and investment, and actively become a participant in the domestic cycle and a promoter in the international cycle.

3) Catch up on shortcomings

Although Hong Kong’s technology innovation industry has grown rapidly in recent years, its share in the overall economy is still small. In fact, Hong Kong has many advantages in technological innovation, including top-notch basic scientific research strength, intellectual property protection, attractiveness to global scientific research talents, and first-class financial supporting services. In the latest issue of the QS World University Rankings, a total of 5 Hong Kong universities have entered the top 100 in the world, with a number of key disciplines ranking among the top. In the future, Hong Kong should strive to create a world-

class science and technology innovation environment, especially to transform the development model of the science and technology industry. Specifically, under the integrated framework of the Guangdong-Hong Kong-Macao Greater Bay Area, Hong Kong can actively develop the northern metropolitan area, develop its technological innovation industry, livable space, and higher education platform, and provide continuous technical and talent support for the innovation and development of Hong Kong and Mainland. In this process, Hong Kong can also optimize its own economic structure and explore new growth engines.

Hong Kong, a place where Chinese and Western cultures meet, should strive to become a global cultural center in the next 25 years. The proportion of foreigners in Hong Kong leads the world. The national “14th Five-Year Plan” also clearly supports the development of Hong Kong into a center for cultural and artistic exchanges between China and foreign countries, which is also an important condition for attracting high-quality talents from all over the world and building a business, technology, innovation, and financial center. In the future, Hong Kong should build its cultural soft power in an all-round way by building world-class cultural facilities and multicultural spaces, strengthening relations with overseas art and cultural institutions, and strengthening cultural exchanges and cooperation with the Mainland. Hong Kong is committed to building world-class cultural facilities and diversified cultural and creative industries, for deepening the research and promotion of Chinese civilization, and enhancing the global influence of Chinese culture.

4) Focus on citizen’s livelihood

In the next 25 years, Hong Kong needs to establish the governance concept of “citizen-oriented, win for sharing”, and be more active in the field of citizen’s livelihood. In terms of housing, the price and rent of private houses in Hong Kong are too high; it is difficult to apply for public housing; the per capita living area is small and the living quality is poor. The government needs to increase land supply in an all-round way as soon as possible, and may consider implementing the “New Home Ownership Scheme” to improve the living conditions of residents. In terms of medical care, the development of public and private medical care in Hong Kong is unbalanced, and private hospitals charge high fees. In the future, efforts should be made to invest in the construction of more hospitals, enrich medical resources, and serve the general public at lower prices. In addition, Hong Kong has entered into a deeply aging society. In 2020, the population of Hong Kong’s elderly over the age of 65 reached 1.3 million. The government can appropriately optimize the MPF investment structure to increase the rate of return, and provide corresponding elderly care services based on understanding the needs of the public, meeting the expectations and needs of the public, and alleviating the problems caused by aging population. The young generation represents the vitality and hope of society, and supporting young people is the fundamental way for Hong Kong to succeed in the future. It is suggested to introduce more measures to support young people in Hong Kong, to enhance the confidence and hope of the younger generation to stay in Hong Kong. Reforming the old and making new, citizen-oriented, achieving breakthroughs in these difficulties, so that all citizens can gain a higher sense of happiness and fulfillment.

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主要經濟指標 (Key Economic Indicators)

	2020	2021	2021/Q4	2022/Q1
一. 本地生產總值 GDP				
總量 (億元) GDP(\$100 Million)	26,716	28,426	7,545	6,782
升幅 (%) Change(%)	-6.1	6.4	4.7	-4.0
二. 對外貿易 External Trade			2022/05	2022/01-05
外貿總值 (億元) Total trade(\$100 Million)				
總出口 Total exports	39,275	49,607	3,881	19,217
進口 Total imports	42,698	53,078	4,248	20,588
貿易差額 Trade balance	-3,422	-3,471	-367	-1,371
年增長率 (%) YOY Growth(%)				
總出口 Total exports	-1.5	26.3	-1.4	1.9
進口 Imports	-3.3	24.3	1.3	2.4
三. 消費物價 Consumer Price				
綜合消費物價升幅 (%) Change in Composite CPI(%)	0.3	1.6	1.2	1.4
四. 樓宇買賣 Sale & Purchase of Building Units				
合約宗數 (宗) No. of agreements	73,322	96,133	7,949	26,538
年升幅 (%) Change(%)	-2.0	31.1	-11.3	-35.2
五. 勞動就業 Employment			2022/02-2022/04	2022/03-2022/05
失業人數 (萬人) Unemployed(ten thousands)	259.1	250.9	20.6	19.1
失業率 (%) Unemployment rate(%)	5.5	5.5	5.4	5.1
就業不足率 (%) Underemployment rate(%)	3.1	2.7	3.8	3.5
六. 零售市場 Retail Market			2022/05	2022/01-05
零售額升幅 (%) Change in value of total sales(%)	-24.3	8.1	-1.7	-2.9
零售量升幅 (%) Change in volume of total sales(%)	-25.5	6.5	-4.9	-5.9
七. 訪港遊客 Visitors				
總人數 (萬人次) arrivals (ten thousands)	356.9	9.1	1.9	3.5
年升幅 (%) Change(%)	-93.6	-97.4	252.7	26.7
八. 金融市場 Financial Market			2022/04	2022/05
港幣匯價 (US\$100=HK\$)				
H.K. Dollar Exchange Rate (US\$100 = HK\$)	775.2	779.8	784.7	784.9
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	30.1	8.0	6.3	-1.3
M2	5.8	4.3	3.7	1.9
M3	5.8	4.3	3.7	1.9
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	5.4	4.6	4.2	2.2
港元存款 In HK\$	6.2	1.4	0.9	-0.5
外幣存款 In foreign currency	4.6	7.9	7.7	5.0
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	1.2	3.8	1.7	1.8
當地放款 use in HK	1.7	4.7	2.6	3.0
海外放款 use outside HK	0.1	1.7	-0.4	-1.2
貿易有關放款 Trade financing	-6.2	14.2	9.4	5.8
最優惠貸款利率 (%) Best lending rate (%)	5.0000	5.0000	5.0000	5.0000
恆生指數 Hang Seng index	27,231	23,398	21,089	21,415