City Research Online

City, University of London Institutional Repository

Citation: Wei, X. (2024). The Development of Hong Kong as an Intermediate Financial Centre after 1978, by Studying Chinese State-owned Banks in Hong Kong. (Unpublished Doctoral thesis, City, University of London)

This is the accepted version of the paper.

This version of the publication may differ from the final published version.

Permanent repository link: https://openaccess.city.ac.uk/id/eprint/33471/

Link to published version:

Copyright: City Research Online aims to make research outputs of City, University of London available to a wider audience. Copyright and Moral Rights remain with the author(s) and/or copyright holders. URLs from City Research Online may be freely distributed and linked to.

Reuse: Copies of full items can be used for personal research or study, educational, or not-for-profit purposes without prior permission or charge. Provided that the authors, title and full bibliographic details are credited, a hyperlink and/or URL is given for the original metadata page and the content is not changed in any way.

City Research Online: http://openaccess.city.ac.uk/ publications@city.ac.uk

The Development of Hong Kong as an Intermediate Financial Centre after 1978, by Studying Chinese State-owned Banks in Hong Kong

Xinyi Wei 魏馨怡

Thesis submitted for

Doctor of Philosophy

Supervisor: Professor Ronen Palan, and Professor Andrew Jones.

Department of International Politics,

City University of London,

Word Count: 79,018

July 2024

Declaration

I, Xinyi Wei, confirm that the work presented in this thesis is my own. Where information has been derived from other sources, I confirm that this has been indicated in the thesis.

To Heika, my dearest corgi companion, your love provides me with warmth amidst our tumultuous family, supporting my journey to break free through education.

Abstract

This research project explores the rise of Hong Kong as the intermediate financial centre serving the Chinese financial system. Hong Kong's pivot role as a principal gateway for China's financial sector to access the global financial market has been thoroughly understood. Nonetheless, conventional theory often downplays the significance of offshore financial attributes when considering its role as a financial centre in facilitating Chinese financial internationalisation. Furthermore, the predominant focus of research on financial centres often neglects the nuanced political-economic dynamics inherent to Hong Kong and China. Against this backdrop, the overarching objective of this research project is to understand the features and driving forces that shape Hong Kong as the intermediate financial centre under China's rising financial sector. This thesis applies the two-fold structure at the micro and macro-level analysis to achieve that. The first objective is to investigate the offshore features of Hong Kong on firm-level financial activities. Following that, the second part is to rethink the relationship between Hong Kong and China in its formation as the intermediate financial centre from the perspective of the Chinese political economy.

The thesis begins with a systematic review of the development of Hong Kong's and China's financial sectors. It then constructs the new database and utilises a mixed-methodological approach to investigate Chinese state-owned banks' offshore financial activities through Hong Kong. The first empirical chapter is to investigate Chinese state-owned banks' global corporate structure through Hong Kong. Drawing on this evidence, the second paper breaks new empirical ground in the mechanism of offshore financial activities in Hong Kong by exploring Chinese state-owned banks' international bond issuance structure. They shed light on how Hong Kong facilitates Chinese state-owned banks' internationalisation on the firm level (Micro level). Employing in-depth interviews and triangulation techniques, the third paper zooms out on the formation of Hong Kong as the intermedia financial centre in the framework of the Chinese political economy (Macro-level). It presents how the interaction between Hong Kong and China shapes the financial landscape for both entities.

This thesis distils the following findings: The empirical analysis has revealed that Chinese state-owned banks set up a ‘sandwich’ arrangement of holding whereby a mainland company controls a Hong Kong subsidiary and further holds OFC subsidiaries, which in turn, holds a publicly listed joint-stock company in Hong Kong and subsidiaries in the Chinese mainland market. In addition, Chinese state-owned banks tend to establish strings of ‘floating’ subsidiaries in Hong Kong and Offshore Financial Centres (OFCs) with no known equity ties to the parent. In addition, with the liberalisation and deepened reform of China’s international bond market, Chinese state-owned banks have increasingly relied on their multiple layers’ offshore corporate structure with arbitrage purposes in different jurisdictions to issue bonds. Surprisingly, these arbitrages mainly benefit from SOE’s exclusive market access granted to State-Owned Enterprises (SOEs) under China's international finance schemes, coupled with the implicit guarantee provided by the Chinese government to SOEs. That further results in Chinese state-owned banks' monopolised position in advanced financial services on the Chinese international financial market. Subsequently, this thesis argues Hong Kong has been incrementally merging into the Chinese political framework since its reintegration with China in 1997, facilitated by its engagement in 'political bargains' pertaining to mainland China’s financial liberalisation. These political interactions not only shaped Chinese international financial schemes but also contributed to the formation of Hong Kong as the intermediate financial centre in the new era.

Overall, this thesis adds up to a multifaceted yet integrated perspective on the drivers, dynamics and consequences of Hong Kong’s role as the intermediate financial centre serving Chinese financial system. It clarifies the intersection features of IFC and OFC embedded in Hong Kong, which is essential for understanding how the Chinese financial sector integrates into the global financial market. This thesis also affirms that state and politics remain central to our understanding of the financial centre.

Acknowledgment

The idea for this thesis emerged against the backdrop of the Hong Kong protests spanning 2019-2020. During that period, a palpable anti-mainland China sentiment permeated Hong Kong, precipitating instances of physical violence directed at mainland Chinese civilians residing and working in the region. The collaborative financial endeavours among institutions in China, Hong Kong, and other nations experienced delays or cancellations due to the heightened commercial instability prevailing at that time. As a participant in the financial sector, involved in providing financial services to clients situated in both Hong Kong and mainland China, the ensuing confusion and apprehension regarding the evolving relationship between the two entities became integral to the formative development of my fledgling ideas.

The research project would not have been possible without funding from European Research Council (ERC), City University of London, and generous financial support from my mother, Jie Wu. Special thanks go to my supervisor, Professor Ronen Palan, and Professor Andrew Jones, for their advice and facilitation of valuable collaborations with experts in and outside City University London. I am also thankful to editorial teams of Journal of International Relations and Development, as well as the anonymous reviewers of my work for providing valuable comments and help with the publishing process. I am also extremely grateful to Professor Anastasia Nesvetailova for providing invaluable guidance, illuminating the way ahead as an inspiring female role model within the realm of political science.

Much of the empirical originality of this thesis stems from the fieldwork and my working experience in Chinese financial sectors. I am indebted to a number of individuals here: Jie Xu, who introduced me into Chinese and Hong Kong financial sector during the initial phase of my career in finance. She has not just consistently shared her expertise on and networks in China; she has also been the remarkable mentor. I am also extremely grateful to Yu Zhou and anonymity interviewees who have consistently shared their expertise on and networks in China and Hong Kong SAR that were paramount to this research project. Their contributions will hopefully help inform future research in this area.

Strong bonds of friendship and collegiality were essential for seeing me through to the successful completion of this thesis. Special thanks go to Dr. Chuling Ding. The deep friendship, trust and long-running discussion opened a window to research life and career across different disciplines, personal situation and natural of discipline settings. It has been a true privilege to learn from her. I would also like to express my gratitude to Dr. Xintong Jia, Dr. Lin Pan, Dr. Nhuy Nguyen-Huynh, and Dr. Kullanit Nitiwarangkul, for their consistent support and encouragement during my research and study at City. The empathy and mutual assistance among us, Asian women engaged in social science research in United Kingdom, have been instrumental in helping me overcome numerous challenges. Last but not least, to Kexin, Hui and Sixuan, I have been through a hard period at the final stage of my PhD program. Thank you for spending time keeping me companied, comforting me and encouraging me.

Above all, I am grateful to my furry brother, Corgi Heika, for his endless love and encouragement throughout the ups and downs of this research project. While he may be just a puppy and unable to peruse this thesis, his presence has been a constant source of support.

Xinyi Wei

London, 13 March. 2024

Abbreviation

ABC	Agricultural Bank of China
ABS	Advanced Business Services
AMC	Asset Management Company
APS	Advanced Producer Services
AFS	Advanced Financial Services
BOC	Bank of China
BOCHK	Bank of China Hong Kong (Holdings) Ltd.
BOCI China	Bank of China International (China) Co., Ltd.
BoCom	Bank of Communications
BRI	Belt and Road Initiative
BVI	British Virgin Island
CBRC	China Banking Regulatory Commission
CCB	China Construction Bank
CCDC	China Central Depository and Clearing Company
CCP	Chinese Communist Party
CDTA	Comprehensive Double Taxation Agreement
CEPA	Closer Economic Partnership Arrangement
CFTC	Commodity Futures Trading Commission
CICC	China International Capital Corporation Limited
CIRC	China Insurance Regulatory Commission
CMU	The Central Moneymarkets Unit
CNAPS	China National Advanced Payment System
CNY	China Yuan
CPPCC	National Committee of the Chinese People's Political Consultative Conference
CSDC	China Securities Depository and Clearing Corporation
CSRC	China Securities Regulatory Commission
EIPU	Equity Interest Purchase Undertaking
EM	Equity Mapping
EME	Emerging Market Economies
ETF	Exchange-traded Fund
FDI	Foreign Direct Investment
FIEs	Foreign-Invested Enterprises
FSAP	Financial Stability Assessment Programmes
GaWC	Globalization and World Cities Research Network
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GFN	Global Financial Network
HKD	Hong Kong Dollar
HKEx	Hong Kong Stock Exchange
HKMA	Hong Kong Monetary Authority
HKSAR	Hong Kong Special Administrative Region

HSBC	Hong Kong and Shang Hai Banking Corporation
HSI	Hang Seng Index
ICBC	Industrial and Commercial Bank of China
IFC	International Financial Centre
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions
IPE	International Political Economy
IPO	Initial Public Offering
IPPA	Investment Promotion and Protection Agreements
JSCB	Joint Stock Commercial Bank
LGFV	Local Government Financing Vehicles
MNC	Multinational Corporations
MNE	Multinational Enterprises
MOF	Ministry of Finance
NDRC	National Development and Reform Commission
NECIPS	National Enterprise Credit Information Publicity System
NPC	National People's Congress of China
NPCSC	Standing Committee of the National People's Congress
NPL	Non-performing Loan
OFC	Offshore Financial Centre
OJ	Offshore jurisdiction
PBOC	People's Bank of China
PRC	People's Republic of China
PSBOC	Postal Saving Bank of China
QDII2	New Qualified Domestic Individual Investor
QFII	Qualified Foreign Institutional Investors
REIT	Real Estate Investment Trust
RMB	Renminbi
RQFII	Renminbi Qualified Foreign Institutional Investors
RTGS	Real Time Gross Settlement
SAFE	State Administration of Foreign Exchange
SASAC	State-owned Assets Supervision and Administration Commission of the State Council
SBLC	Standby Letter of Credit
SCH	Shanghai Clearing House
SDR	Special Drawing Rights
SEC	Securities and Exchange Commission
SEZ	Special Economic Zones
SME	Small and Medium Enterprises Board
SNA	Standard Social Network
SOCB	State-owned Commercial Banks
SOE	State-owned Enterprises
SPC	State Planning Commission
SPV	Special Purpose Vehicle

SSE	Shanghai Stock Exchange
SSSR	Split Share Structure Reform
SWF	Sovereign Wealth Funds
SZSE	Shenzhen Stock Exchange
U.S.	United State
USD	United States Dollar
VAT	Value-added Tax
VIE	Variable Interest Entity
VOC	Varieties of Capitalism
WCN	World Cities Networks
WFOE	Wholly Foreign-owned Enterprise
WTO	World Trade Organization

Table of Contents

The Development of Hong Kong as an Intermediate Financial Centre after 1978, by Studying Chinese State-owned Banks in Hong Kong *0*

Declaration *1*

Abstract *3*

Acknowledgment *5*

Abbreviation *7*

Table of Contents *10*

Figures *16*

Tables *18*

Chapter 1: Introduction *19*

1.1. Background and Rationale **19**

1.2. Theoretical Framework **23**

1.3. Research Design **28**

1.3.1. Micro-level: Empirical analysis of Chinese state-owned banks 28

1.3.2. Macro-level: Financial Centre analysis 29

1.4. Methodology **30**

1.4.1. Dataset Construction: Offshore Financial Activities 30

1.4.2. Empirical Analysis: Equity Mapping (EM) 33

1.4.3. In-depth Interviews and triangulation 33

1.5. Findings **35**

1.6. Arguments and Contribution **37**

1.7. Structure **40**

Chapter 2: Navigating the Evolution of Financial Centers: A Comprehensive Multidisciplinary Literature Review ***43***

2.1. Introduction **43**

2.2 Varied Perspectives on Financial Centers **45**

2.2.1. International Financial Centre 45

2.2.2. Offshore Financial Centre 50

2.2.3. Intermediate Financial Centre 53

2.3. State and Financial Centres **54**

2.3.1. State in Economic Geography 54

2.3.2. State in International Political Economy (IPE) 57

2.3.3. State, MNEs and Financial Centre in GFNs 59

2.4. Chinese International Political Economy (IPE) **61**

2.5. Conclusion **65**

Chapter 3: Hong Kong's formation as the financial centre from the 20th century ***66***

3.1. Introduction **66**

3.2. History of Hong Kong **66**

3.2.1. 1949-1978 - Trade and Transition: Hong Kong's Navigating Changes as the British Colony in the Mid-20th Century 66

3.2.2. 1980s-1997: The dichotomized International Financial Centre and China's Economic Reform 71

3.2.3. 1997 – 2019: Hong Kong SAR's Handover and China's economy booming.........................78

3.3. Literature Review of Hong Kong as a financial centre 85

3.4. Conclusion...88

Chapter 4: China's state-owned financial system and its planned-oriented reform...90

4.1. Introduction 90

4.2. The dominant commercial banks...91

4.3. Financial Liberalization - Chinese Capital Market 97

4.3.1. Common Stocks 98

4.3.2. Corporate Bonds...107

4.3.3. Wealth management, shadow banking and their relationship with commercial banks 112

4.4. Internationalization in oversea capital market 114

4.5. Conclusion 119

Chapter 5: Exploring Financial Centre: A Mixed-Methods Approach to Hong Kong and Chinese Financial Sector 120

5.1. Introduction 120

5.2. Integrated Research Design: Micro and Macro Analysis with Mixed Methodology 120

5.2.1. Micro-level: Empirical analysis on offshore finance features of Hong Kong through the global corporate structure of Chinese state-owned banks 120

5.2.2. Micro-level: Empirical Analysis on Chinese State-owned banks' International Bond Issuance Structure 125

5.3.3. Macro-level: Theoretical Analysis of Hong Kong's Formation as a Financial Centre 127

5.3. Conclusion: Benefit of Mixed-method Approach...131

Chapter 6: Global Corporate Structure of Chinese State-Owned Financial Institutions through Hong Kong..133

6.1. Introduction..133

6.2. Chinese state-owned Banks' Internationalization..134

6.3. Equity Mapping of Bank of China (BOC) 136

6.3.1. Subsidiaries in BOC Group...137

6.3.2. International Headquarters - BOCI 144

6.3.3. Mainland Headquarter - BOCI China 145

6.4. Equity Mapping of China Construction Bank (CCB) 149

6.5. The Phenomenon of the Floating Subsidiaries 154

6.5. Conclusions 158

Chapter 7: Unveiling the Mechanism of Offshore Financing Activities through Hong Kong: A Study of the Bond Issuance Structure of Chinese State-Owned Banks...............160

7.1. Introduction..160

7.2. Chinese International Bond Market in Hong Kong 161

7.3. Chinese state-owned banks' International Bond Issuance Structure......................163

7.3.1. Direct Issuance Structure 165

7.3.2. Outbound Guarantee Structure..173

7.3.3. Keepwell Structure, guaranteed by 'Keepwell Deed' 180

7.3.4. SBLC Structure and Chinese state-owned banks' Advanced Financial Services 185

7.4. Non-SOEs' International Issuance Structure 188

7.5. Monopolized Advanced Financial Services by Chinese state-owned banks 191

7.6. Conclusion 194

Chapter 8: Examining the Formation of Hong Kong as an Intermediate Financial Center through Interaction between Hong Kong SAR and China 198

8.1. Introduction 198

8.2. Shift in Political and Economic Status 199

8.2.1. Smuggling center and Political isolation: 1950-1978 199

8.2.2. Emerging Intermediate Financial Centre and Economic Connection 1978-1997.................202

8.2.3. 1997, British Hong Kong to Hong Kong SAR..208

8.3. Shape the landscape of the Financial System 211

8.3.1. Relocation of the Financial Industry from Hong Kong to Mainland China..........................212

8.3.2. 'Political Bargaining' in Mainland China's Financial Liberalization 214

8.3.3. Chinese financial institutions' internationalization in Hong Kong 217

8.3.4. Chinese financial centres' Collaboration and the formation of Intermediate Financial Centre tailored for Chinese financial market. 219

8.3.5. Offshore Features Embedded in Chinese Financial Sector 223

8.4. Conclusion 226

Chapter 9: Conclusion 228

9.1. Introduction 228

9.2. Restatement of findings 229

9.3. Theoretical implications 233

9.4. Policy implications for financial regulation 236

9.5. Limitations and Avenues for Future Research 238

Appendix A: List of Interviews (2021-2023) 240

Appendix B: Ethical Approval 241

Appendix C: Participant Information Form and the Informed Consent 244

Appendix D: Interview Questions 254

Bibliography 255

Figures

Figure 1: *Equity Funds Raised by China-related Companies (HK$mil) and % of Market Capitalisation on HKEX, 2022* 81

Figure 2: Share of Outstanding Enterprise Bonds Held by Investor Type, 2023 111

Figure 3: 2003-2019 Annual turnover rate of the stock market in China, US, Japan and Hong Kong 117

Figure 4: Equity Map of BOC, 2021 based on Best Available Information on BOC's Subsidiaries and Affiliates, ... 137

Figure 5: BOCHK Shareholding Structure, December 2002 140

Figure 6: Corporate Organisational Structure of Overseas Listings of Chinese Enterprises 141

Figure 7: Subsidiaries of BOC Hong Kong (Holdings) Limited, 2020 144

Figure 8: Organisational Structure of BOC International Holdings Limited (BOCI) . 145

Figure 9: Shareholding Structure of Four Major Shareholders of BOC International (China) 146

Figure 10: Shareholding Structure of BOC International (China) and Its Wholly Owned Subsidiaries 147

Figure 11: Subsidiaries and Affiliates in Hong Kong, Equity Map of CCB, 2021 149

Figure 12: Location of Subsidiaries and Entities of CCB 150

Figure 13: Mainland-Hong Kong-OFC-Hong Kong-UK Structure, Equity Map of CCB, 2021 152

Figure 14: Detailed Mainland-Hong Kong-OFC-Hong Kong-UK Structure in CCB's Equity Mapping 153

Figure 15: Floating Subsidiaries and Affiliates in OFCs, Equity Map of CCB 2021 .. 155

Figure 16: 'Deemed' Subsidiary in BOC Group, Equity Map of BOC 2021 156

Figure 17: Issuance size of Chinese State-owned Financial Institutions (million USD), 1992-2020 164

Figure 18: Direct Issuance Structure 165

Figure 19: Semi-Direct Issuance Structure 168

Figure 20: Location of Issuer for 'Big 4' International Bond with Semi-Direct Issuance Structure by July 2022 169

Figure 21: Outbound Guarantee Structure 175

Figure 22: Location of Issuer for Chinese International Bond with Outbound Guarantee Structure, July 2022 176

Figure 23: Issuance Structure of HORSE GAL N2407, 2017 177

Figure 24: Keepwell Structure 181

Figure 25: Issuance Structure of ICBCIL FN N2701 183

Figure 26: SBLC Structure 186

Figure 27: The offshore bond issuance structure and credit enhancement measurements of Chinese Non-SOE, 2022 189

Figure 28: Chinese International Bond Issuer, July 2022 192

Figure 29: % of Market Capitalisation of China-related Stocks on Hong Kong Stock Exchange, 2022 207

Tables

Table 1: IPO Suspension on Chinese domestic stock market by 2023 105
Table 2: 'Big Four' Chinese State-Owned Banks' Initial Public Offerings..................135
Table 3: Bank of China Group's Principal Holding Companies 136
Table 4: Affiliates of China Construction Bank (CCB) 151
Table 5: Chinese commercial banks Providing SLBC by July 2022 187

Chapter 1: Introduction

1.1. Background and Rationale

This thesis investigates the rise of Hong Kong as the intermediate financial centre serving the Chinese financial system. International financial systems and agglomeration economies have reached levels of complexity in the age of globalisation, which requires a cross-border network of financial centres (Thrift 1995; Sassen 2011; Taylor 2005). In Asia, Hong Kong has served as a crucial hub in the Asia-Pacific region since the late nineteenth century. It emerged as the leading global International Financial Centre (IFC) in the late 20th century and early 21st century, ranking 3rd place for its competitiveness, following New York and London in the Global Financial Centres Index in 2010s (GFCI 2015; Enright *et al.* 2005; García-Herrero 2011; Meyer 2009; Overholt 2011). With its well-developed financial market, Hong Kong provides Advanced Financial Services (AFS) and a financing platform to non-residents world-widely. Simultaneously, it is renowned for its a low tax rate, complemented by minimal legal restrictions and a historical lack of household registration. It is extensively utilized by multinational enterprises (MNEs) as an Offshore financial center (OFC) (Tobin and Walsh 2013; Palan *et al.* 2009; Desai *et al.* 2006; Zoromé 2007). Hong Kong is therefore regarded as a financial centre that embodies both onshore and offshore characteristics. To emphasize these features, this thesis defines Hong Kong as an intermediate financial center and aim present its development within the framework of International Political Economy in past decades.

Originally a British colony and now a Special Administrative Region (SAR) of the People's Republic of China (PRC), Hong Kong was governed by the British Empire and later by PRC in terms of jurisprudence. Hong Kong's political and economic status as a financial center is profoundly shaped by geopolitical factors and international political landscape. Integral to its evolution from a fishing village to a leading global financial center, Hong Kong's interactions with China in different historical periods have been crucial. In the past four decades, Hong Kong's economic relationship with mainland China has been significantly enhanced. As a result of the Chinese Economic Reform, mainland China

reopened its financial market in 1990 to satisfy the expanding fund demand in economic construction. Since then, the fast-track China's financial sector has generated a heightened demand for financial services within the global financial market. Benefiting from the unique political status under the 'One country, Two systems' formula, Hong Kong has been assigned by Chinese authorities as the premier offshore financial centre, strategically positioned to facilitate China-related international financial schemes, including Chinese enterprise' oversea financing activities, China's cross-border investment programmes, multi-currency transactions' settlement, and related advanced financial services. In turn, global investors are taking Hong Kong as the interchange station for their business related to Mainland China.

China's financial sector is increasingly embedded into the global system of finance, capital flow and accumulation. Simultaneously, China's accelerating influence has been restructuring the financial landscape of Hong Kong. Against this backdrop, in the '14th Five-Year Plan,' the Central Government has prioritised the reinforcement of Hong Kong's standing as an international financial centre, the enhancement of its role as an IFC for offshore financial services, and the facilitation of more profound and broader interconnection between the financial markets of the Mainland and Hong Kong (Chinese National People's Congress 2021; State Council 2020). This objective is deemed desirable for both Hong Kong and China as a whole, as attaining a position within the exclusive inner circle of International Financial Centres promises significant economic benefits for both entities, concurrently bolstering their geopolitical influence. These gains would not solely come from expanding a narrowly defined financial industry but would also encompass a diverse range of spillover effects. From this perspective, Hong Kong is the IFC providing Advanced financial services to Chinese enterprises' internationalization.

However, the ascent and ambitions of China and Hong Kong have yet to inspire sufficient attention regarding the relationship between Hong Kong and China and making Hong Kong the financial centre. As the gateway for mainland China, the mechanism for Hong Kong to connect mainland China and the capitalism world is still unclear. In addition, given the discreet nature of offshore activities, most research on Hong Kong tends to overlook its dual characteristic of combining both onshore and offshore features.

Furthermore, current literatures primarily focus on financial centers in Global North countries within an Anglo-American context, such as New York, London, and Frankfurt. Hong Kong, formerly a British colony and currently a Chinese Special Administrative Region, has consistently maintained its unique history and political economy status. Even though it has been under the authority of Britain and the PRC, Hong Kong is an independent jurisdiction without direct economic support from sovereign countries, distinct from the financial center models in the Anglo-American orthodox. Its colony history and British legal and financial system also sets it apart from mainland Chinese financial centers like Shanghai, Shenzhen, and Beijing. Therefore, interpreting Hong Kong's formation as a financial center cannot rely directly on existing theories in financial center studies. To evaluate Hong Kong's development, it is essential to consider its unique political position and its evolving relationship with the Chinese state in different historical contexts.

Against this backdrop, the overarching objective of this research project is to understand the features of Hong Kong as the intermediate financial centre in China's rising financial sector. Hong Kong is conceptualised within the global financial network (GFN), functioning as an intermediate financial centre intertwined with interconnected institutions, financial activities, territories, and the dynamic political-economic landscape of China. The term 'intermediate financial center' draws from debates in financial geography and international political economy. Such centers serve as crucial nodes in the global financial system, offering Advanced Financial Services (AFS) that facilitate international financial activities for non-residents. These services enable multinational enterprises (MNEs) to internationalize and operate in the global financial market. Moreover, an intermediate financial center serves as a conduit that connects onshore and offshore financial activities. In order to gain a deeper understanding of Hong Kong in the context of China's ascendancy, the theoretical framework of this thesis is grounded on the research on the development of financial centres, combined with studies of Chinese political economy.

To advance this exploration, this thesis applies the two-fold structure at the micro and macro-level analysis. The first objective of this thesis is to investigate the offshore features of Hong Kong as an intermediate financial centre. Bringing the financial aggregation and

interaction between the firm and the state in Global Financial Network (GFN) theories into consideration, this thesis investigates the offshore features of Hong Kong in relation to firm-level financial activities. Following that, the second objective is to rethink the relationship between Hong Kong and China in its formation as the financial centre from the perspective of the Chinese political economy.

To achieve that, this thesis utilises a mixed-methodological approach encompassing quantitative and qualitative analyses. In the context of empirical analysis, the newly developed technique known as 'Equity Mapping' (EM) is employed to map out the global corporate structure and offshore financing activities of Chinese state-owned banks. This process is facilitated through the utilisation of a newly constructed database. In addition, supplementary investigations contain in-depth interviews and triangulation techniques, which serve to reveal offshore financial activities and furnish first-hand insights into Chinese state-owned banks' financial activities and the formation of Hong Kong as an intermediary financial centre.

The empirical analysis has revealed Chinese state-owned banks' multi-layer 'sandwich' corporate structure through Hong Kong and OFCs. Notably, these banks employ personal control to manage their 'floating' subsidiaries hidden in OFCs, which lack any equity relationship with the parent companies. Following that, this thesis presents the mechanism concerning offshore financing activities through Hong Kong undertaken by Chinese state-owned banks within the international bond market. Subsequently, this thesis argues that the formation of Hong Kong as the intermediate financial centre results from its 'political bargaining' with the Chinese central government in the Chinese financial opening scheme. The interaction between Hong Kong and China has shaped the financial landscape for both sides.

In the subsequent sections of this chapter, the thesis will be introduced as follows: Theoretical Framework, Research Design, Methodology, Findings, Contribution, and Structure.

1.2. Theoretical Framework

The critical role of Hong Kong as the International Financial Centre (IFC) has been thoroughly understood. Hong Kong is one of the pivotal decision-makers in the allocation of global capital, where its financial community retains its long-term prominence as the pivot of Asia-Pacific finance. Hong Kong is also one of the integral members of the global financial market through the international firm network there. Top-ranked enterprises from significant economies have operations in Hong Kong and have used it as their Asia-Pacific base since the 1990s (Meyer 2018). Each non-locally headquartered financial institution is involved in intra-organizational and inter-organization networks in Hong Kong and worldwide (Taylor *et al.* 2014b).

The role of Hong Kong as an intermediate financial center, facilitating an international financial market and offering Advanced Financial Services (AFS), has been underscored in scholarly examinations of Chinese enterprises' engagements within and via Hong Kong. Recent research has proved that Hong Kong provided a conduit for China to raise financial capital and exchange information from the global financial market (Wójcik and Camilleri 2015; Zhao 2013). It has a more sophisticated and international-oriented financial market than mainland China (Karreman and van der Knaap 2010) and can promote Chinese capital's global expansions (Hall 2017). Hong Kong also has a politically privileged position in facilitating financial flows (Lai 2012; Woo 2015), and it can provide the global financial network with a gate to the Chinese market (Meyer 2020). Moreover, some researchers hold the opinion that Hong Kong's established administrative capability, stability, financial and legal expertise, unique trading opportunities with its open economy, and deep linkages with global financial networks are considered to explain its continued pre-eminence as a financial centre (Jones 2020; Meyer 2015, 2014; Lai 2012; Pauly 2011).

With a low tax rate, complemented by minimal legal restrictions and a historical lack of household registration, Hong Kong is also categorised as a Tax Haven or OFCs (Tobin and Walsh 2013; Palan *et al.* 2009; Desai *et al.* 2006). Nonetheless, conventional theory often downplays the significance of Hong Kong's offshore financial attributes when considering its role as a financial centre. This perspective arises because Tax Havens or OFCs are often seen

as primarily facilitating external transactions with limited influence on authentic banking and capital market activities. The advent of the Hong Kong Stock Exchange (HKEx) in 1986 marked a pivotal moment in the development of the capital market. Subsequently, in the context of the burgeoning cross-border financial activities associated with China, Hong Kong has ascended to become the primary hub for facilitating significant international banking transactions and capital market operations within this expansive market. In its capacity as a prominent participant in the capital market landscape, Hong Kong's offshore capabilities to channel the flow of funds through the global banking system are further strengthened by its ability to serve a diverse clientele worldwide. Hong Kong's intermediate role in facilitating the internationalization of Chinese enterprises extends to serving as a conduit that connects the Chinese onshore and offshore markets. Disregarding the offshore characteristics of Hong Kong as a financial centre would be an oversight of significant consequences when subjecting it to scrutiny and analysis.

Literatures in International Political Economy studies offers an alternative perspective to explore the intricate relationship between politics and OFCs by getting insight into firm-level business operations in these financial centres. (Garcia-Bernardo *et al.* 2017) have classified OFCs based on their role in MNEs' global corporate ownership and business chains: sink-OFCs attract and retain foreign capital, whereas conduit-OFCs serve as intermediate destinations facilitating the routing of international investments and enabling the transfer of capital without taxation. To examine Hong Kong's intermediate role in connecting onshore and offshore, it is essential to investigate the detailed mechanism for MNEs in utilizing Hong Kong in their offshore financial activities.

Against this backdrop, this thesis draw insights in financial centre studies in Financial Geography and International Political Economy, and conceptualised Hong Kong as the intermediate financial centre within GFN of interconnected institutions, financial activities, territories, and Chinese political economy dynamics. 'Intermediate Financial Center' refers to a financial center with dual characteristics: it provides financial market and Advanced Financial Services (AFS) through financial intermediaries operating within its jurisdiction, and it serves as an intermediate destination that facilitates the routing of international

investments and the transfer of capital. To gain a deeper understanding of Hong Kong's role as an intermediary financial centre in the context of China’s ascendancy, the theoretical framework of this thesis is grounded on the research on the development of financial centres, combined with studies of offshore financial centres and the Chinese political economy.

The study on the formation of financial centres often begins with Kindleberger’s book: ‘The formation of financial centres. Kindleberger explains the evolution and geographic expansion of international financial centres in terms of intricate balance characterised as the interplay between two opposing forces: market efficiencies and scale economies on the one hand and geographic, informational, and discriminatory business practices on the other. In the framework of his research, financial centres primarily canter around major trading centres to facilitate and support various trading activities with the aggregation of financial sectors, (Kindleberger 1973; Cassis 2012). In parallel with globalisation, (Friedmann 1986) raised a significant hypothesis of the world city to link urbanisation to global economic processes and build up world city hierarchy. (Sassen 1991a) places a notable emphasis on producer services as the central actors in the hierarchy of global cities.

Evolved with broader fields of urban studies as well as economic geography and history, financial centres are given a clear definition as large international full-service centres with advanced financial systems, supporting large domestic economies and servicing both domestic and international business (IMF 2000). The literature in economic geography has highlighted financial centres as the aggregation within a spatially distributed network of money and power (Amin and Thrift 1992; Allen and Pryke 1994; Taylor *et al.* 2014b; Wójcik 2013; Wójcik and Camilleri 2015). In terms of financial activities, financial centres can be considered urban spaces with a certain number of financial services grouping and serving as intermediaries centres, coordinating financial transactions and arranging for payments (Cassis 2012). Scholars also notice that the state plays a vital role in shaping the development and changing nature of IFCs through the politics of the territory (Christophers 2017; Hall 2017). Simultaneously, IPE literature has demonstrated financial centres are territories that embody a linear extension of sovereign state power, and they can be conceptualised as subnational tools

for the pursuit of national interests, accumulating financial wealth and extending monetary power (Clift and Woll 2012; Morgan 2012).

These scholarly works have provided interpretations of financial centres, specifically emphasising spatial concentration and their intricate connections with multiple dimensions of society. Beyond that, the emergence of financial centres can be comprehended within the framework of the increasing volume of cross-border international financial flows and robust international banking system, which would introduce the theories of OFC to this thesis (Dufey and Giddy 1994). IMF (2000) defined OFCs as jurisdictions with relatively large financial institutions engaged primarily in business with non-residents (IMF 2000). Financial operators mainly use them to raise funds from non-residents and invest or lend the money to other non-residents free from most regulations and taxes (Palan and Nesvetailova 2013).

Almost all financial centres can host financial intermediation activities primarily for non-resident borrowers and depositors through non-resident foreign currency-denominated businesses in their offshore banking business. Some scholars, therefore, view an international financial centre as identical to, or interchangeable with, an offshore financial centre (Park 1982). IFCs and OFCs stand out from domestic financial centres due to their primary focus on external currencies, freedom from domestic tax and exchange controls, and centralised infrastructure that promotes economies of scale for international banks. These centres house a critical mass of financial institutions, facilitating collaboration and expertise sharing. They strategically position themselves for accessibility, demanding robust transportation, communication infrastructure, liberal government regulations, political stability, and access to international professionals. In the early 1980s, Park categorised International or OFCs into four main types based on their locational and regulatory environments. These categories highlight the functional specialisation and complementarity among OFCs: Primary centres, Booking centres, Funding centres, and Collection centres.

Hong Kong's financial classification has evolved over years. In the 1980s, it was primarily classified as a Funding Center. However, as Hong Kong's capital market developed and the Chinese economy boomed, its financial role gradually transitioned towards that of a

Primary Center. The primary centre, also known as an intermediate financial centre, acts as an international financial intermediary primarily serving a specific central market area composed of developed industrial countries. While it serves clients globally, its primary financial flows are within its designated market region, making it a central hub for facilitating financial transactions among these countries. This centre offers a comprehensive range of offshore financial services, including Eurocurrency and foreign exchange trading, international financial marketing, Euro credit management and syndication, and Eurobond underwriting, often boasting a robust financial infrastructure comparable to major domestic financial centres. Its essential role lies in connecting and supporting international financial markets within its market area.

The interaction between Hong Kong and mainland China is inevitable in examining Hong Kong as the intermediate financial centre. Research within the domain of China's financial markets has delineated the mechanisms through which state authority and political bargaining play a particularly pivotal role in the country's economic framework. In the country’s one-party regime, the state not only shapes financial markets; instead, it creates them. At the core of Economic reform’s vision of a modern China was the recognition that the market would play a key role in bringing about fundamental reform (Brown 2016). Against this background, Chinese cross-border finance is a multi-layered phenomenon characterised by the interplay of global, national and local structures (Töpfer 2017). Another non-negligible aspect illuminated in IPE literature is the interplay between government and market and state and society in modern China. The vertical dimension of central-local and state-society relations is characterised by a top-down, layer-by-layer administrative contracting process, and the other is the horizontal dimension, which emphasises economic performance-based promotion tournaments among local officials (Li and Zhou 2005). Moreover, the reliance on privileged personal relationships (guanxi) shapes China’s regional sub-models to varying degrees (Witt and Redding 2014).

1.3. Research Design

Building on the theoretical framework, the research applies the two-fold structure at the micro and macro levels of analysis. Chapter 5 provides a comprehensive exposition of the research design and methodology employed in this thesis.

1.3.1. Micro-level: Empirical analysis of Chinese state-owned banks

On the micro-level, this thesis will conduct an empirical analysis of offshore financial activities to investigate the offshore features of Hong Kong as the intermediate financial centre. The empirical analyses are organised into two parts: the global corporate structure presents the shareholding structure through Hong Kong, and the offshore bond's issuance structure through Hong Kong. Both of these empirical studies take Chinese state-owned banks as the study objects.

There are three reasons to choose the Chinese state-owned banks to investigate.

First, capital control, financial market limitations, and a series of restrictions on the mainland capital market have propelled offshore financing in Hong Kong to the forefront of China's capital market endeavours. It has emerged as a critical conduit to fulfil increasing financing demands in mainland's economic reform. In turn, mainland Chinese enterprises constitute a substantial proportion of offshore financing and investment operations in Hong Kong. Through acquisitions and rapid growth strategies, Chinese financial institutions have secured a significant foothold in Hong Kong's financial sector.

Next, China's financial system is primarily dominated by the commercial banking system, which accounts for around 60% of the credits of the whole economic system. The four largest state-owned commercial banks ('Big 4': BOC, CCB, ABC, and ICBC) are also forerunners of Chinese enterprises in internationalisation and modernisation through Hong Kong. Understanding their internationalisation process can get a big picture of how Chinese MNEs utilise Hong Kong in their global expansion. It can also enhance our understanding of the modernisation of the Chinese state-owned economy against the background of China's economic reform in the 'party state'.

Furthermore, the majority of the offshore corporate structures of big MNEs are not disclosed due to the confidential nature of OFCs. According to financial regulation demand, Chinese state-owned banks are mandatory to disclose their overseas subsidiaries by Chinese authorities. It can be the first solid evidence for us to get insight into MNEs offshore corporate structures.

The second empirical study focuses on offshore financing activities by investigating the international bond market in Hong Kong. Hong Kong has historically been renowned as Asia's leading offshore funding centre for its Eurobond market. To end 2022, the aggregate outstanding amount of the bonds in this market has reached approximately US$ 10.244 trillion, which accounts for nearly half of the Asian offshore bond market. As one of the most essential overseas financial methods for Chinese enterprises, the international bonds market in Hong Kong has had a tremendous rise in the past decade. Nonetheless, how Chinese enterprises finance their activities in the bond market is still poorly understood. Considering China is the biggest bond issuer in Hong Kong, along with almost all of Chinese enterprises' overseas financing activities being serviced by advanced financial services companies in Hong Kong, getting insight into Chinese enterprises' international bond issuance can be a good chance to explore offshore financing activities in Hong Kong.

1.3.2. Macro-level: Financial Centre analysis

In addition to working as the intermediator between onshore and offshore financial networks, it is essential to investigate how Hong Kong is formed as the intermediate financial centre in this way. It is undeniably of mainland China's influence on its formation along with China's economic rise. Some scholars have pointed out that as a formal political part of Chinese territory, mainland China's authority directly shapes its institutional landscape. Nonetheless, Hong Kong's highly autonomous economic and financial system makes it significantly different from the mainland's centralised financial system. The offshore features of Hong Kong are even used by Chinese enterprises in regulation and tax arbitrage from Chinese governments. There is no reason for the government of China, as the 'Party-state, ' to shape a financial centre that is potentially out of control. Therefore, the formation of Hong

Kong as the financial centre cannot be considered the result of political interference from China's authority in an oversimplified and crude way. To unfold the formation of Hong Kong, the second part of the thesis is designed to review the evolution of Hong Kong chronologically and get insight into the interdependencies between Hong Kong and mainland China.

1.4. Methodology

The methodological approach adopted in this thesis is firmly rooted in the examination of financial centres from the perspectives of both political studies and research in new economic geography. The primary aim is to highlight the intricate relationships among politics, firms, markets and financial centres embedded in GFN. The thesis combines quantitative analysis of offshore financial activities with a comprehensive qualitative inquiry and cross-validation through existing secondary literature.

1.4.1. Dataset Construction: Offshore Financial Activities

The first purpose of this thesis is to provide empirical evidence to uncover firm-level offshore financial activities embedded in offshore financial networks through Hong Kong. A primary methodological challenge encountered is the absence of an existing offshore-finance database, which poses significant difficulty in conducting empirical research in this area. In the contemporary financial system, large global firms, as a rule, are not required to publicly divulge their complex legal structure or any of their subsidiaries below a certain threshold. Beyond basic reporting of financial data, the requirements for reporting on ultimate ownership diverge significantly between jurisdictions. Reporting by OFC's subsidiaries is close to zero and often practically inaccessible to public scrutiny. Tax havens like the Cayman Islands do not require tax returns; hence, no reporting is available. Some firms provide returns voluntarily in these jurisdictions, while their home countries require others to file annual reports. Therefore, given the confidential nature of offshore financing activities, few datasets with complete financial data for MNEs globally exist.

In contrast, Chinese state-owned banks are required to disclose part of financial information about their overseas subsidiaries to Chinese authorities, offering valuable evidence for analysis. For this reason, the research starts from the new database construction containing Chinese State-owned banks' global corporate structure and the financing activities behind it.

The database for Chinese state-owned banks' global corporate structure is grounded on Chinese authorities' mandatory disclosure policy for SOEs. Chinese State-owned Assets Supervision and Administration Commission (SASAC) formulated 'Interim Provision on the Registration of State-owned Equity of Limited Partnership' (《有限合伙企业国有权益登记暂行规定》) on 3rd January 2020 requires SOEs and their subsidiaries at all levels to register the equity and their distribution of the limited partnership to SASAC, including names, date of establishment, executive partners, business scope, subscribed capital contribution and paid in amount of contribution, information of partners, outbound investments and modification of any information above (SASAC 2020). The lists of consolidated institutions of Chinese state-owned banks are therefore published on their website including basic information about the names of their subsidiaries and affiliates (CCB 2021; ABC 2020).

Utilising the name lists of subsidiaries as a foundation, the approach to database construction adopts the due diligence methodologies characteristic of investment banks. The objective is to augment the database with detailed shareholding ownership information, an endeavour that necessitates integrating information from a wide spectrum of resources. The majority of existing research on offshore financial activities relies on algorithmic analysis utilising singular databases, such as the Orbis database, to conduct their investigations. Orbis provides the most comprehensive lists of corporate entities in the world, including lists of subsidiaries and affiliates that its own algorithm connects to one another as members of the same corporate groups. However, given the diversity in reporting requirements worldwide, not to mention language confusion in algorithm translation between English and Chinese, the Orbis data lack consistency with respect to Chinese companies. Furthermore, Orbis's

financial records tend to lag behind equity information by about two years. With the rapid growth of the Chinese economy, some of the data in Orbis may reflect corporations that no longer exist. To fill this gap, we complemented our search by using data from Bloomberg and Chinese company datasets (e.g., Qichacha 企查查 and Tianyancha 天眼查), as well as Credit China website (信用中国) and its sub-pages, National Enterprise Credit Information Publicity System (NECIPS, 国家企业信用信息公示系统), and WIND Financial Terminal.[1] We also used publicly disclosed information from IPO prospectuses, annual reports, and bond issuing information, following the financial due diligence method. With these multilingual datasets, I manually crosscheck information with Orbis, including their share-holding information, registration location, and year of establishment. The shareholding ownership databases of Chinese state-owned banks are therefore constructed. Corporate data published by the Chinese official credit system by 31st October 2021 is the standard data I used in this chapter.

In addition to Chinese state-owned banks' corporate structure, this thesis aims to unfold the offshore financial activities embedded in these structures. Similar to the data on shareholding ownership, the bond issuance structure, which involves multiple offshore financial centres, is notoriously difficult given its confidential nature. I employed the same method to add the category of Chinese state-owned banks' international bond issuance structure into the database. It is used to investigate bond issuance structure, which presents the connection among issuer, parent company and guarantees. Database analysis was based on the full directory of China's international bond and company-level data from WIND Financial Terminal. [2] Where firm-level information was unavailable, data from Bloomberg and the Exchange market were used. The sampling frame consists of 836 bonds listed

---

[1] Qichacha (企查查) and Tianyancha (天眼查) are the biggest and most popular websites, which have official licenses to use government data about enterprises. These datasets aggregate data from ministries, state administrations and industry associations and collect over 50 billion pieces of credit information. On this platform, natural persons and legal persons are consolidated and stored under one unified social credit code, which is uniquely attributed to each other. (Krause and Fischer 2020)

international financial exchange outside mainland China, including 288 bonds issued by Chinese state-owned financial institutions. When combined with the shareholding data of Chinese state-owned banks, this dataset offers an optimal foundation for examining the evolution of Chinese international bonds and their issuance procedures.

1.4.2. Empirical Analysis: Equity Mapping (EM)

With the database, I employed the new developed investigative technique 'Equity Mapping' approach (Phillips *et al.* 2021) to explore Chinese state-owned banks' internal corporate ownership structure and the financial product structure based on that.

The first step is to convert the shareholding data of Chinese state-owned banks and their subsidiary organizations into an equity map of corporate groups using a Standard Social Network (SNA) approach. To visualize the equity holding information, I use the force directed layout algorithms to simulate a physical system in order to spatialize a network. The graphs use social 'gravity' as an additional force in force-directed layouts, together with a scaling technique to present the equity map of Chinese state-owned financial institutions. In these force-directed drawings, each node represents one subsidiary or affiliate of the group, and the edges represent the interactions in shareholding between these entities. Subsequently, to gain a deeper understanding of offshore financial activities, 'Equity Mapping' ('EM') is employed to analyse the structures of international bond issuances by Chinese state-owned banks, with the findings presented as individual case studies.

The 'EM' results of Chinese state-owned banks' global corporate structure and international bond issuance structures are presented in Chapter 6 and Chapter 7.

1.4.3. In-depth Interviews and triangulation

Seeking to uncover causal processes, in the second step, I conducted in-depth qualitative interviews with stakeholders to supplement the database analysis to explore Chinese state-owned financial institutions' corporate structures through their daily operations. In-depth qualitative methods permit the investigation of micro-level factors. Based on snowball sampling, I selected personal interviews as the predominate form of inquiry.

Seventeen in-person and online interviews were carried out in English or Mandarin with mid-level employees in Chinese state-owned financial institutions, as well as clients, professional service firms, and regulators with experience working with Chinese state-owned financial institutions between 2020 and 2023 in China's main financial and political centres (Hong Kong, Shanghai, Beijing and Hong Kong) (see details in Appendix A). These critical first-person narratives constitute memory for the formation of Hong Kong as the financial centre. As some bankers and regulators may strategically downplay or hide political interference, the interviews are cross-checked against secondary sources on Hong Kong's major events in its development history chronologically, including official documents from mainland China, Hong Kong and the British Hong Kong Government; news sources such as Xinhua, Caixin, and South China Morning Post (Chinese), Ta Kung Pao (Hong Kong) and BBC, Financial Times (English); and interviews with other stakeholder groups. This combination of Western and Chinese sources allowed for identifying conceptual synergies and provided a reliable basis for developing an empirically grounded theoretical framework that reflects the local Chinese context.

In addition to stake-holder interviews, this chapter takes advantage of the author's practice experience in having been working on numerous offshore financing transactions with a Chinese element in past 5 year, which is intended to provide the first-handed experiences on the relevant issued to readers. It is also based on practical information collected not only from academic works or practice notes prepared by Chinese and international scholars and practitioners but also from information from market players. Apart from traditional sources, there is a Chinese widely used online chat platform, 'WeChat'[2], supply number of real cases. Financial participators in China are using it to share their cases and experiences to peers publicly through the official account in this application. Internet-based information vastly

[2] 'Wechat' is the Chinese instant messaging, social media, and mobile payment app developed by Tencent, having some similarities with 'WhatsApp'. It is accessible through mobile phones or computers, while mobile phone access is the primary function.

expands the scope of research, and avails author to be exposed to a much wider sphere of intelligence.

1.5. Findings

The first finding is that MNEs are setting up the complexed global corporate structure through Hong Kong and other OFCs. The empirical analysis shows that Chinese state-owned banks set up far more complicated and convoluted ownership structures in Hong Kong than generally thought. First, Chinese state-owned banks typically set up a 'sandwich' arrangement of holding whereby a mainland company controls a Hong Kong subsidiary. Yet deeper probing reveals the Hong Kong subsidiary holds, in turn, a British Virgin Islands or Cayman subsidiary which, in turn, holds a publicly listed joint-stock company in Hong Kong. The lower-level joint-stock company in Hong Kong serves as the bank's face to the world. Second, contrary to the theory that Hong Kong acts as a 'gateway' to the world, the lower-level Hong Kong joint-stock company is often used to set up many subsidiaries in the Chinese mainland market. In addition to those surprising patterns of holding, we discovered Chinese state-owned banks tend to establish strings of 'floating' subsidiaries in Hong Kong and beyond (often in other OFCs), with no known equity ties to the parent or to the Hong Kong holding companies. The detailed statement of this findings is presented in Chapter 6.

Secondly, the empirical analysis of Chinese state-owned banks' international bond issuance structure uncovers the offshore financial activities in Hong Kong's bond market through the complexed corporate structure. The findings show that Chinese enterprises' international bonds are involving main issuance structure: Direct Issuance Structure, Semi-Direct Issuance Structure, Outbound Guarantee Structure and Keepwell Structure. These offshore bond issuance structures are using offshore financial centres in varying degrees with the purpose of tax and regulation arbitrage.

The empirical analysis in Chinese international bond market also show there is a disproportionate allocation of capital in China's offshore bonds market in favour of SOEs as well. Specifically, SOEs are easy to gain market access earlier and able to combine implicit government guarantee in their bond issuance structure. In contrast, non-SOEs tend to use

offshore financial network to apply credit enhancement measurements with entrepreneurs' personal assets. In recent years, the profit goals with performance evaluation of official drive SOEs imitate private companies to using OFCs to build their bond issuance structure in their international subsidiaries. In addition to financing activities, Chinese state-owned financial institutions in Hong Kong are monopolised in Chinese enterprises' international bond market. They offer services that facilitate the international financing activities of Chinese enterprises. This assistance includes adeptly navigating regulatory and tax disparities between mainland China and various other jurisdictions by utilizing offshore financial network through Hong Kong. The detailed statement of this findings is presented in Chapter 7.

In addition to the investigation of offshore financial activities through Hong Kong, this thesis argus the formation of Hong Kong as the intermediate financial centre is the driven by the 'political bargain' in Chinese economic reform and financial opening scheme. From the perspective of history, Hong Kong is gradually blending with Chinese political framework from the independent oversea territory from 1980s to the provincial administrative region involved in PRC's economic and political environment. As Hong Kong is the first international finance hub established outside China, there is no 'best practice' to follow and the idea of mimicking an established financial centre does not apply. Under these conditions of uncertainty, Hong Kong authorities actively set strategy to integrate into Chinese political economy system to enhance its competitiveness as the financial centre. Its connection with mainland China is mainly concentrated in the highly central-controlled financial sector. Hong Kong authorities and financial community are involved in the political bargaining in financial reform in the form of cooperation with their mainland allies, including financial institutions, local governments and some financial authorities, to promote financial reform and opening. For Hong Kong, its direct incentive to participant in China's political bargain in financial opening is to secure international financial program approval from the Chinese government. It could give financial centres a competitive edge over their rivals, by expanding the scope of IFC capabilities. Early cross-border financial programme approval also allows more time to construct the financial infrastructures and integrate them into existing IFC architectures. In turn, Chinese local governments ingratiate Hong Kong to collaborate in international business for its advantage in financial market. Connected by Chinese political economy links, and

backed by the growing Chinese financial market, the alliance between Hong Kong and PRC financial centres are creating a financial industry chain centred by these financial centres for Chinese international financial market. Hong Kong's efforts in promoting Chinese financial opening make it become the intermediate financial centre between mainland and global financial network, and in turn, the inherent offshore features of Hong Kong are embedded in Chinese financial system. The detailed statement of this findings is presented in Chapter 8.

1.6. Arguments and Contribution

First, this thesis contributes to studies of offshore finance by providing evidence of various MNEs' global corporate structure in Hong Kong and other OFCs. The findings highlighted the multi-layers 'sandwich' structure connecting mainland-Hong Kong-OFCs, and the informal corporate structure controlled by personnel appointment rather than equity. These findings also extend the understanding in multinational enterprises' corporate structure. It highlights that equity links between the parent company and its affiliates/subsidiaries are not single corporate structure existing. The form of ownership can include the political tiers and individual connections in MNEs' corporate structure. This thesis also present mechanism of offshore financing activities and the driven factors behind through Chinese enterprises' bond issuance structure. The findings provide the evidence of MNEs' regulation arbitrage and tax avoidance measures through Hong Kong and OFCs in their offshore bond structures.

Furthermore, based on Chinese state-owned banks' global expansion through Hong Kong and OFCs, this thesis pays attention to the extension of China's political economic system in international financial market. This thesis illustrates the intricate state-firm relationship between Chinese authority and Chinese state-owned banks on international financial market. The evidence of Chinese state-owned banks' global corporate structure is disclosure the dynamic state-firm relationship between Chinese authority and SOEs during their global expansion. Specifically, the internal power dynamics inherent in the state-firm relationship shapes the fragmented corporate structures of Chinese state-owned banks in Hong Kong and OFCs. The analysis suggests the Chinese state-owned banks evolved this complicated arrangement in response to different and sometimes inconsistent sets of policies,

interests, and constituencies across different regions. While doing so, they must find ways to calibrate diverse political goals and respond to different political interests and constituencies inside and outside mainland China. In summation, these phenomena represent dynamics that yield economic outcomes, which in turn are a consequence of the internal power rivalries inherent within the Chinese governmental authority and firms. rivalries inherent within the Chinese governmental authority and firms.

These results have important implications for studying the state-firm relationship in non-Wester countries. On the surface, it is tempting to view the Chinese state and SOEs as a 'uniform' agent given that financial regulation is centrally administered in China. This may lead us to assume that Chinese SOEs are having the convergence of interest in their global business expansion. Contrary to this logic, the findings highlighted driven by profit and other business benefits, Chinese SOEs are commonly using OFCs in their international business to maximise their benefits. In turn, the personnel control from Chinese authorities enables Chinese SOEs establish the informal corporate structure without equity control in OFCs, which might have potential risks for Chinese financial system.

Although there is the conflict of interest between Chinese authorities and SOEs, Chinese financial system, which is dominated by the central government, is expanding its global influence geographically through Chinese state-owned banks' international financial activities. Chinese state-owned bank are the major financiers and investors in capital market as the forerunners in Chinese financial opening. Their monopolist position is not only getting credit to the advantages of forwardness and disproportionate allocation of capital from the state, but also the irreplaceability in advanced financial services in China-related business. Chinese-background financial institutions are more familiar with Chinese political economic environment and demand of Chinese clients and may provide credits and participant in investment scheme which would not be available from international banks. Consequently, Chinese authorities possess a comprehensive level of control over Chinese international financial market through these state-owned banks. For individual banks, even though the economic performance-based promotion tournaments lead to bankers choose to utilization of OFCs for profit growth, the corporate management of these banks are linking corporate

strategies to nationwide goals in general. Since the Chinese state-owned banks are government agencies in Chinese political system, the State can use the personnel to leverage control in strategic firms. The management of top bankers, including the appointment, remuneration, incentives, promotion, transfer and dismissal, remained, are tightly controlled by the central government, and implement the wills of states in their internationalization. Chinese enterprises' offshore financing activities in international financial market reflects the diverse state-firm relationships that are deeply embedded in China's state-dominated financial industry, which are also extending to the global financial market in conjunction with ongoing economic reforms.

Furthermore, this thesis has important implications about the examination of Hong Kong as the intermediate financial centre. The empirical analysis of Chinese state-owned banks' global corporate structure and financing activities through Hong Kong have clearly position Hong Kong in the intermediate role to bridge major economies and offshore financial networks. At the same time, by investigating the mechanism of Chinese state-owned banks' offshore financing activities, this study presents the practical financial operations embedded in a multifaceted network involving the state, firms, advanced financial services, international financial centers, and offshore jurisdictions, all within the purview of the GFN. The insights suggest the hierarchy of China's political economic environment has embedded in global financial networks with Chinese enterprises' international business. They make an important conceptual intervention into the study of GFN. They highlight the changed in established network linkages are not simply the result of business interaction between different network layers such as 'state' and 'firms'. Such changes also reflect the dynamic relationships within a particular network layer. China's financial network may appear 'stable' as formal linkages between network layers remain intact; but they can still undergo substantial functional adaption that changes the logic behind these linkages. It is therefore necessary to further disintegrate seemingly homogenous actors such as 'firms' and 'state'. These insights have important implications for literatures on GFNs and financial centre studies.

Additionally, it is the first time to interpret the formation of Hong Kong as the financial center within the framework of Chinese political economy. This thesis advances explanations of financial centre's formation with politics perspective. In the Chinese context, financial networks are characterised by conflicts of interest among firms, regions, and different levels of government within the Chinese party-state. The progress in the process of economic reform is intricately tied to the dynamics of 'political bargaining' that unfold amidst these conflicts. This thesis links China's economic reform and the formation of Hong Kong as the financial centre and discuss the interdependence relationship between Hong Kong and mainland based on the Hong Kong's participation in political affairs in financial opening. This thesis represents a substantial conceptual intervention by extending the principles of China's 'political bargaining' in economic reform to the understanding of how financial centers come into existence.

Last but not least, this thesis seeks to advance the understanding of Hong Kong as the intermediate financial centres with novel insights into the political and social underpinnings of Chinese international finance. This focus on Hong Kong and China should, however, not be confused with a call for a sui generis model of Chinese financial centres. Whilst the research presented in this thesis does not lend itself to broader generalisations, the theoretical claims and methods used to study financial centres apply to any economic system. The underlying premise guiding the analysis throughout is that firm actors and the state are shaping financial relations, institutions, transactional flows, and spatial nodes (Haberly and Wójcik 2022). This idea reflects shifts in the interrelations between the state, firms and social dimensions is not specific to Hong Kong and China but applies to financial sector anywhere in the world irrespective of their economic system. Despite the focus on Hong Kong and China, this thesis thus provides important insights for the study of financial centres more generally. It should be read as an attempt to open up a broader agenda on financial centres' new characteristics.

1.7. Structure

This thesis is structured into 9 chapters.

Chapter 1 provides the introduction and spells out the rationale behind this thesis. It provides an overview of the substantive chapters, by outlining their respective research objectives and methodologies.

Chapter 2 examines the notion of a financial center through the lenses of financial geography and international political economy. Additionally, the thesis integrates insights from the literatures on offshore financial centers and the specifics of Chinese political economy into the extant research on financial centers.

Chapter 3 provides the essential background information of this thesis about Hong Kong. It conducts a chronologically review of the milestone in the evolution of a financial center over time and elucidates the enduring and intrinsic linkage with the mainland from its inception. This chapter also critically reviews existing literatures about Hong Kong in financial centre studies.

Chapter 4 is an overview of mainland China's financial system, situated within the context of the country's one-party regime, with a particular focus on its highly centralized control characteristics. This chapter provides the broad context of Chinese financial system anchor for the empirical investigations that follow.

Chapter 5 presents an in-depth introduction to the mixed-methods approach utilized in this thesis for investigating Hong Kong as a financial center and its relationship with the Chinese financial sector.

Chapter 6 presents the first empirical study of Chinese state-owned banks' global corporate structure, which links mainland China, Hong Kong and offshore financial.

Chapter 6 is co-authored with Professor Ronen Palan from City University of London and was published in the March 2023 issue of the Journal of International Relations and Development.

Chapter 7 pays attention to Chinese enterprises' tangible operations within the offshore financial market through Hong Kong. The chapter takes the rapid global expansion of China's

enterprises' offshore financing activities as its starting point to examine the linkage among mainland China, Hong Kong and offshore financial networks through the lens of Chinese international bonds' issuance structure.

Chapter 8 shifts attention from resource interdependencies at the firm-level (Chapter 5-6) to the global consequences of political interdependencies across spaces. This chapter links shifts in political bargaining in Chinese financial reform to financial centre formation of Hong Kong.

Chapter 9 spells out the conclusion of this thesis. It summarises the main findings of the research project, highlights their broader implications and identifies avenues for future research.

Chapter 2: Navigating the Evolution of Financial Centers: A Comprehensive Multidisciplinary Literature Review

2.1. Introduction

This thesis aims to investigate Hong Kong as the financial centre. In this chapter, I will review the existing literature on financial centres, including economic geography and international political economy. The study on the formation of financial centres normally commences with Kindleberger's book: 'The formation of financial centres: a study in comparative economic history', with attention devoted to the evolution of financial centres within major national economies (Kindleberger 1973). In the framework of his research, financial centres primarily canter around major trading centres to facilitate and support various trading activities with the aggregation of financial sectors (Cassis 2012). On the basis of it, early works interpret financial centers primarily through economic perspectives.

With the increasing cross-border transactions following the emergence of global financial integration after the 1990s, the growing volumes of financial flows and the increasingly globalising capital markets are shaping and trading in these financial centres. Researcher on financial centres devotes attention to financial centres in the international context from the perspective of finance flows. They categorize financial centers based on their roles in financial transactions, with some scholars establishing a hierarchical framework for these financial centers. Furthermore, scholars recognized the significance of space and place in the emergence and expansion of financial centres extends beyond a passive intermediary function. It transcends a predetermined geographical framework where financial dynamics and advancements unfold. The variations in the degree and form of financial centers across different locations contribute to disparate growth and prosperity, resulting in spatial unevenness. In view of these observations, multiple strands of research within financial centers have attracted scholarly attention across various disciplines.

It is noteworthy that although the notion of an IFC has a longer historical legacy, financial centres have long confounded the best efforts of observers to offer a decisive

viewpoint on their characteristics. The extant approach to financial centres is mainly dominated by the abstraction of western capitalism, especially the Anglo-American economies, the most important of which are IFCs like New York and London. The characteristics of other financial centres, like financial centres in the Global South and hidden offshore financial centres, have been neglected for a long time. Meanwhile, even though the state role has been valued in IPE literature, the state power beyond government departments, like in MNEs, still needs to be investigated. The research presented in this thesis echoes this notion.

To contextualise the idea of a financial centre, this chapter reviews work on financial centres from political, economic, and geographical perspectives. It examines how they and Chinese politics fit into the broader state and finance studies. Although the precise theoretical discussions vary in each following chapter, they all draw conceptual inspiration from literature in studying financial centres. This includes work highlighting the state's role in shaping financial centres.

This chapter provides an overview of the key themes that underpin the discussion and findings presented throughout this thesis. Its objective is to zoom out from the specifics of following substantive paper and highlight the broader themes that bind them in financial centre.

Drawing on different theoretical literatures, the following four themes warrant further analysis:

1. Varied Perspectives on Financial Centers
2. State and Financial Centre
3. Chinese International Political Economy

2.2 Varied Perspectives on Financial Centers

2.2.1. International Financial Centre

Research on financial centres has been impacted by the main theoretical approaches from economic geography over the past decades. The aim of financial centre study in the framework of economic geography is to demonstrate why space and place are central to a full understanding of finance, financial agglomeration, and the financial process. Financial centres differ in degree and form between different locations and places, which also produces uneven growth and prosperity across space. The significance of space and place in the emergence and expansion of financial centres extends beyond a passive intermediary function. It transcends a predetermined geographical framework where financial dynamics and advancements unfold. Contrarily, it is imperative to recognise that space and place are integrated into and contribute significantly to formulating and shaping financial forces and developmental processes. Geography of finance and money involves an intricate and paradoxical interplay between flows and territories. This intricacy is particularly reflected in the importance of specific financial territories that are termed financial centres (Pryke 2011). In the context of the increasing cross-border transactions following the emergence of global financial integration after the 1990s, the growing volumes of financial flows and the increasingly globalising capital markets are shaping and trading in these financial centres.

In the early studies, financial agglomeration was very popular, and most achievements on this topic were contributed by economists to provide purely economic explanations. The concept of agglomeration has two different meanings. One is related to the phenomenon that people and economic activities generally tend to concentrate in cities, referred to as 'urbanisation economies' or Marshall-Arrow-Romer effects (Saxenian 1996; Frenken *et al.* 2005; Mukkala 2004; Glaeser *et al.* 1992). The other relates to the phenomenon that firms from the same or related industries gather at certain places, correspondingly referred to as 'localisation economies' or Jacobs effects (Harrison *et al.* 1996; Combes 2000; Porter 1990, 1998). Agglomeration economies lead to economies of scale and scope that are considered

the major driving force behind the emergence and perpetuation of financial centres and can bring significant comparative advantages to the financial industry (Budd 1998).

In the era of pre-globalisation, the dynamics of the rise and decline of financial centres were reflected in Industry-specific agglomeration. Kindleberger interpreted the growth of IFCs as an outgrowth of their host states' geopolitical and geoeconomics power by emphasising the process of banks that gradually establish their branches in the financial centre (Kindleberger 1973). This kind of financial agglomeration creates an evolutionary and time-consuming process; the economies of scale make banks and other financial institutions concentrate on a specific area. Financial centres, like other agglomerations, are also the outcome of both centripetal and centrifugal forces (Grote 2009). These forces shape the changing geographies of finance from global to local (Martin 1999). German economist (Reszat 2000) applied location theory to explain how financial centres organise their use of space and how financial agglomeration and clustering occur. She argues that Krugman's edge city model can be applied to regional financial centres. Geographers also use this analytical framework to explain the continued importance of a small group of financial centres. (Grote 2009) examined the changing geography of foreign banks in Germany from 1949 to 2006 by an application of New Economic Geography models. His empirical result showed an inverted 'U'-shape concentration of foreign banks in Germany during this period. They argue that financial centres house the financial professionals, firms, and other organisations who together comprise financial markets, which, by allowing the financial instruments to be valued in terms of and exchanged for both one another and for 'real' assets, goods, and services.

The evolving literature of financial centres in economic geography is accompanied by global macroeconomic and political shifts, especially with the international financial system. Along with the transformation of the world economy and the rise of a new international labour division after the 1980s, research on financial centres went beyond the agglomeration of financial institutions. The world city and global city models were applied extensively in studies of the role of major cities as financial centres, as headquarters concentrations for Multinational Corporations (MNCs), and as agglomerations and clusters for Advanced

Producer Services (APS). World city' and 'global city' refer to the geographical concentration of multinational companies in selected cities in the context of globalisation. The world city theory assumes the formation of a worldwide urban hierarchy in and through which the MNEs coordinate their production and expansion activities. The seminal contributions from Friedmann (1986) emphasise the concentration of the command and coordination functions of operations in world cities. (Sassen 1991a) proposes similar hypotheses but starts from a more nuanced angle. She focuses on the combination of geographic dispersal of economic activities with simultaneous system integration that gives cities a strategic role in the world economy. She highlights two novel functions in her global city model: global cities are post-industrial for APS, and international marketplaces where firms and governments worldwide can buy APS (Sassen 2013b). From this perspective, financial centres are locations for APS and strategic sites as command-and-control centres for the accelerated and intensified globalisation of financial capital and financial innovation. More recently, (Bassens *et al.* 2018) point out, geographically, that beyond the short list of IFCs, the wider world city archipelago is still an obligatory nodes and hubs for inserting financial capital into contemporary economies and societies (Clark 2002).

Notably, differentiate from traditional financial markets and hierarchies, financial centres contribute to organise financial resources through social-economic channels, rather than pricing setting mechanism or the imposition of power (Smith-Doerr and Powell 2010). Geographers believe financial centres are in the social and cultural production of agglomeration, while they argue that economies of scale and agglomeration are themselves dynamic social and cultural practices (Pryke and Lee 1995). The term 'culture' in financial markets refers to the intermingling of information, values, expertise and contacts found in the financial district (Pryke 2011). Thus, financial agglomerations are professional centres and it is at this point that the advantage of agglomeration is of great help in cultivating a relationship based on trust (Leyshon 1995). (Clark and O'Connor 1997) emphasised the role of information and trust within IFCs in facilitating processes of financial innovation. It was then argued that the creation of local networks could help overcome the dramatic information asymmetries and uncertainties which typify client-provider relations within the finance (Clark 2005). Trust-based relationships are deemed essential for exchanging knowledge and

information within agglomerations (Hall 2011). To some extent, financial actors seek to reduce risk through the generation of trust, which can be forged by striking up interpersonal relationships, a process often achieved through face-to-face contact that is afforded as a communication technology (Leyshon 1997; Storper and Venables 2004).

In addition to culture agglomeration, financial centres are essential in maintaining and reproducing asymmetric information and incomplete knowledge. By analysing the flows of information and asymmetric information, economic geographers have pointed out the major determinants during the sophisticated agglomeration process (Thrift 1994; Porteous 1995, 1999; Clark 1997a, 1997b; Clark and O'Connor 1997). Financial centres are the major sites for generating, capturing, and interpreting the vast amounts of financial information and professional knowledge that flow through financial networks. The increasing use of IT promotes information spillovers and exchange. However, asymmetric (unstandardised) information or incomplete (tacit) knowledge cannot be exchanged and transferred electronically. Financial elites, gathering within different financial centres, conduct their work practices associated with the knowledge- and information-rich nature of financial products, which build the (unstandardised) information monopoly in the financial sector. These practices are vital in shaping the continued importance of a small number of IFCs (Hall 2011). Incomplete knowledge also matters in an increasingly speculative and digitised market economy. As (Sassen 2013b) highlighted, firms have constantly confronted incomplete knowledge, and this problem becomes especially acute when they go global. The advantage of agglomerations against the incomplete knowledge problem includes their diverse networks, information loops, and international talents, which together create a particular kind of knowledge capital considered as urban knowledge capital and a critical component in the economic production function of the global city. In current financial systems, financial centres are strategic production sites for innovation because they contribute to knowledge-making in a context where incomplete knowledge becomes acute. (Clark 2005) summarised geographical understandings of how IFCs facilitate the production of financial markets by allowing financial actors to exploit agglomeration economies associated with sharing knowledge and information concerning market conditions. (Wójcik 2011) demonstrates how

the geographical concentration of the securities industry overcomes the information asymmetries that characterise the production of financial products.

At the same time, under the influence of the ‘culture turn’ in the 1990s, economic and financial geographers have problematised the global monetary and financial system in a more spatially complex manner, which highlighted the influence of a wide range of social factors rather than through a relatively narrow economic reading.3 To achieve this, geographers established a framework for understanding the spatially distributed network of money and power in the financial networks and world cities networks (WCNs), as well as their impact on firm behaviour and regional development (Yeung 2005; Taylor 2011; Taylor *et al.* 2014b). Networks are socioeconomic structures that connect people, firms and places to one another and enable knowledge, capital and commodities to flow from global to local scale. This conceptual framework underpins the argument that financial activities form a global economic network that is distinctive in terms of its operation and impact, and specific actors associated with Advanced Business Services (ABS) and territories like world cities or offshore financial centres are particularly significant in shaping economic practices and regional development (Coe *et al.* 2014). In the era of space of flows, the significant advancements of IT and modern communication methods promote the dispersal of economic and financial activities from local and domestic to a broader global context and accelerate the processes of globalisation, which in turn leads to the rise of increasingly interconnected WCNs. Financial centres, as 'neo-Marshallian nodes’, are embedded within the financial networks (Amin and Thrift 1992). They are viewed as a spatially distributed network of money and power, where the globalisation and localisation processes intermesh in a variety of ways (Wójcik 2013). Based on the pioneering work on WCNs by the GaWC, the literature heavily explores the networking characteristics of financial centres both within and between cities by considering financial centres as nodes or hubs in the GFNs (Taylor *et al.* 2014b; Wójcik 2013; Wójcik and Camilleri 2015). The space of flows is not placeless. Its nodes and

[3] The ‘cultural turn’ from the 1990s was an interdisciplinary phenomenon involving the dramatic influence of post-structuralist epistemology in the related social science discipline (Thrift 2000).

hubs constitute these flows in interconnected GFNs and WCNs. Both nodes and hubs are hierarchically organised according to their relative weight in the network (Castells 1996).

2.2.2. Offshore Financial Centre

These scholarly works have provided interpretations of financial centres with a specific emphasis on spatial concentration and their intricate connections with multiple dimensions of society. Beyond that, the emergence of financial centres can be comprehended within the framework of the increasing volume of cross-border international financial flows and robust international banking system, which would introduce the theories of OFC to this thesis (Dufey and Giddy 1994).

OFCs emerged at around the mid-1970s (Bryant 1984). They can be understood as the jurisdictions that specialize in providing the private sector, as well as, in many cases, other states, with a zone of intensified legal, contractual flexibility and property rights protection. Some of them, like the British Virgin Islands (BVI) or the Cayman Islands, are well-recognized as tax havens or offshore financial centres used for tax or regulation arbitrage. Some literature views OFCs (or even IFCs) as illegitimate spaces to hide and clean the proceeds of crime or to evade tax at the early stage (Roberts 1995; Hudson 1998). However, offshore jurisdictions are offering wider services by facilitating financial entities and contracts, which can be described as a multidimensional legal, regulatory, and fiscal flexibility (Palan *et al.* 2010; Sharman 2006).

Existing literature has distinguished the difference in their definition between Tax Haven and Offshore jurisdictions (OJs). They are closely related and sometimes overlap with the functionality. Tax Havens take their sovereign choice of law to create the financial conduit in exchange for a fee, which meets the demand of non-residents for the privileges in financial activities. Low or zero taxation, moderate or light financial regulation and banking secrecy and anonymity are the main features of tax havens; OFCs are defined as jurisdictions with a relatively large number of financial institutions engaged primarily in business with non-residents (IMF 2000). OJs are offering more comprehensive service by facilitating financial entities and contracts what can be described as a multidimensional legal, regulatory,

and fiscal flexibility(Palan *et al.* 2009; Sharman 2006). Different from tax havens, OFCs are mainly used by financial operators to raise funds from non-residents and invest or lend the money to other non-residents free from most regulations and taxes (Palan and Nesvetailova 2013). Sassen (2013) argues that offshore financial spaces are forming a bordered space of private financial transactions free from national and international regulatory authorities (Sassen 2013a). This kind of financial space deborders formal state territoriality in the global financial network and constitutes the elements of multi-sited territory. From this perspective, OFCs can be defined less by the jurisdiction within which transactions are booked or conducted, than by their conduct in a networked transnational legal space, that paradoxically emerges out of the lack of a direct legal basis for multinational activity. In other words, all aspects of multinational economic activity need to be, from a formal legal standpoint, located in a specific national (or subnational) jurisdiction—which in turn opens the door to private strategies of legal–geographic optimization wherein private actors try to strategically locate the nominal 'paper' footprint of these activities within combinations of jurisdictions that afford the greatest regulatory, fiscal, or legal advantages (Picciotto 1999).

Almost all the financial centres can host financial intermediation activities primarily for non-resident borrowers and depositors through non-resident foreign currency-denominated businesses in their offshore banking business (Park 1982). Some scholars, therefore, view an international financial center as identical to, or interchangeable with, an offshore financial center. IFCs distinguish themselves by primarily dealing in external currencies, free from domestic tax and exchange controls. They cater to resident and non-resident clients, but resident interaction is tightly regulated. IFCs enable economies of scale for international banks, centralising infrastructure. They house a critical mass of institutions, fostering collaboration and providing expertise. Syndication, risk-sharing, and active interbank markets are standard. Strategically located for accessibility, they require robust transportation and communication infrastructure, liberal government regulation, political stability, and access to international-oriented professionals. IFCs play a vital role in global finance by offering a conducive environment for international banking and financial operations.

Park classifies four different types of financial centres:

1. Primary centres, such as London and New York serve worldwide clients, and each possesses predominant sources and uses of funds within its market area;
2. Booking centers, such as the Cayman Islands, act as the location for shell branches to book both outside sources and uses of funds;
3. Funding center, such as Singapore and Hong Kong, channel offshore funds collected from outside their market regions into their market through the banking system; and
4. Collection centres, such as Bahrain, are engaged primarily in channelling regional funds into the Euromarkets.

In the classification of financial centres, primary centres stand out as intermediate financial hubs rather than just offshore centres. They serve clients worldwide, but their primary sources and uses of funds are within their major market area, which typically consists of highly developed industrial countries. These countries supply surplus savings to the primary centre and borrow funds it facilitates. A primary offshore centre functions as an international financial intermediary for its market region, akin to a domestic financial centre serving a single country. Due to its central role in intermediation, a primary centre becomes the core of international banking and finance for its market area. It offers a comprehensive range of offshore financial services, encompassing activities like Eurocurrency and foreign exchange trading, international financial marketing, Euro credit management and syndication, and Eurobond underwriting. The financial infrastructure of a primary offshore centre is often comparable to, or even superior to, that of major domestic financial centres, reflecting its significance in the global financial landscape.

Nonetheless, the offshore financial features inherent within financial centres have often been overlooked. Conventional theory in this regard posits that OFCs primarily serve merely as conduits for transact conceived and organised elsewhere, and offshore financing represents little in terms of genuine banking or capital market activity. In the context of progressively globalised financial markets, local authorities are inclined to explore alternative approaches to cost reduction. These strategies may encompass facilitating relatively unrestricted market entry and adopting a flexible stance concerning taxation, levies, and regulatory frameworks,

all aimed at augmenting the competitiveness of financial centres. Meanwhile, due to the concealment of the operation mechanism of enterprises in the offshore world, related studies in offshore financial centres are short of discussion. Consequently, it is imperative to consider the offshore financial system when seeking a comprehensive understanding of modern financial centres.

2.2.3. Intermediate Financial Centre

Recent studies of IFC and OFCs in economic geography and International Political Economy are increasingly focusing on MNEs' firm-level activities.

The literature in economic geography applies network-based approaches to understand the spatially distributed network of money and power in the Global Financial Networks (GFN) through the lenses of firm behaviour and regional development (Yeung 2005). This conceptual framework underpins the argument that financial activities form a global economic network that is distinctive in terms of its operation and impact. Specific actors associated with advanced financial services (AFS) and territories such as financial centres play a particularly significant role in shaping economic practices and regional development (Hoyler and Taylor 2012; Taylor *et al.* 2014a; Coe *et al.* 2014). These financial centers serve as both crucial locations for financial markets and as intermediate nodes providing financial services that support MNEs' business and financial activities in the global financial market.

In addition, existing literature in International Political Economy studies provides another perspective to examine the complicated relationship among states, firms, and territories in the study of OFCs. MNEs establish their shareholding ownership structures through OFCs due to the benefits of low taxation and lenient regulation, thereby enabling tax avoidance and regulatory arbitrage. (Garcia-Bernardo *et al.* 2017) have classified OFCs based on their role in global corporate ownership and business chains: sink-OFCs attract and retain foreign capital, whereas conduit-OFCs serve as intermediate destinations facilitating the routing of international investments and enabling the transfer of capital without taxation.

Drawing from these insights, 'Intermediate Financial Center' therefore refers to a financial center with dual characteristics: it provides Advanced Financial Services (AFS) through financial intermediaries operating within its jurisdiction, and it serves as an intermediate destination that facilitates the routing of international investments and the transfer of capital. The investigation of intermediate financial centers can focus on multinational MNEs' firm-level activities and further explores the relationship between financial centers, politics, and states through the lens of these activities.

2.3. State and Financial Centres

2.3.1. State in Economic Geography

In addition to influence factors from the broader economy, social movement, and culture (Aalbers 2019, 2020; Hall 2011, 2012), some scholars have observed a discernible trend that finance centres seem to be capturing state institutions and strategies through financial system (Engelen *et al.* 2014; Hendrikse and Sidaway 2014; Peck and Whiteside 2016). Rather than viewing financial system as constraining state power and action, scholars also point to how states are embracing financial instruments and entities as new means of employing economic and political statecraft to achieve different objectives.

During the emerging period of financial geography between the 1970s and 1980s, geographers studied financial centres by analysing the dynamics of financial capital in urban spaces and the geopolitical economy of finance. Related research is rooted in a particular variant of 18th and 19th-century British political economy – Marx's critique of such forebears as Adam Smith, Thomas Malthus and David Ricardo. David Harvey pioneering applies Karl Marx's ideas about the circuit of capital and pointed out the surplus value of primary capital is partly diverted into financial market, which brings the inevitability of spatial economic integration and uneven developments (Harvey 1982, 1989). IFCs such as New York, London, and Tokyo are leading examples of strategic sites through the uneven circuit of capital in the financial market to organise the globalising world economy. This is quite different from, indeed opposed to, the pro-market/neoliberal usage of political economy

pioneered in the mid-20th century by public choice theorists (e.g. James Buchanan) and other Chicago economists (Milton Friedman).

However, in the context of the implications of the collapse of the Bretton Woods agreement from the 1970s onwards and the impact of the rise of neoliberal capitalism on the role of government in deregulation and capitalist finance (Leyshon *et al.* 1989; Leyshon and Thrift 1998), the role of politics is more or less neglected in the context of the Anglo-American Economy. During this period, there has been a tendency in financial centres' research to treat finance and the state separately as distinctive realms of (political-)economic processes. Some literature emphasises the potential decline in state power in the age of the post-Fordism (Hall 2017). (Leyshon *et al.* 1989) analysed the rise of British provincial financial centres in the 1980s because of the deregulation and devolution of financial power from London as the result of London's transformation into a stage for serving global financial markets. (Pryke 1991) attempted to capture the social and spatial transition that took place in the City of London in the build-up to the deregulation or reregulation of the City's financial market, the financial reform known as the 'Big Bang'. The conceptual engagements with the state as a vital and strategic actor in financial markets and in the global economy took a back seat and rarely featured in subsequent financial centres' study in geography, with the exception of (Christophers 2015, 2016) specific engagements with financial crises and regulation. This particular framing of finance may be partially due to neoliberal financial reforms in leading international financial centres of London and New York that were dominating the finance sector in the 1980s and 1990s, which also led to a certain ideological dominance in wider political and economic discourse about the role of finance in an increasingly neoliberal economy.

The Asian Financial Crisis, Global Financial Crisis and European Debt Crisis in the following decades proved it is reckless to neglect the significance of state actors in the global economy and in the financial realm. The state does not only provide a backdrop (in the form of the necessary regulatory and legal milieux for financial transactions, providing stability and upholding trust in systems and institutions) to financial markets and transactions; the state needs to be understood as purposeful, strategic, and complex agents who are themselves

market actors. Due to their unique characteristics as political and economic actors, their intersections with financial markets, systems, and institutions shape processes and outcomes in ways that cannot be explained without incorporating and analysing the state as vital in shaping financial relations, transactions, institutions, and their geographical outcomes.

Recent research in financial geography develops the understanding that the state plays a vital role in shaping the development and changing nature of IFCs through the politics of territory (Christophers 2017; Hall 2017). More importantly, increasing scholarship has demonstrated how the state is vital in purposefully creating the conditions that help financial networks develop and thrive, as well as in the territorial construction of IFCs (especially in the context of the global financial crisis and China's rise in global finance). (French *et al.* 2009) and (Hall 2007) have highlighted the relational nature of regulation as regulatory bodies and governments seek to use regulation strategically for the competition between IFCs, which shows a growing interest in neo-Foucauldian governmentality approaches. (Hall 2011) points to the need to develop a more politically and geographically nuanced idea of money and finance and an understanding of the geographical heterogeneity of the international financial system. Based on these understandings of territorial fixes, (Christophers 2014) demonstrates how financialising capitalism seeks to overcome its crisis-prone tendencies through regulatory and other political interventions. In what follows, (Hall 2017) explores the implications of power and politics in the (re)production of IFCs on a bias of revisiting canonical approaches to IFCs. She calls for research in financial geography and cognate subjects to understand finance as a political relation and highlights that future research needs to better understand the state's role, particularly the financial authorities. This is a more comprehensive understanding of the role of politics, government and state intervention in producing and maintaining IFCs.

The other strand is the application of varieties of capitalism to the geography of the financial system (Engelen and Grote 2009). Related literature has devoted considerable effort to tracking the spatial-temporal variegation of capitalism. Financial geographers examined the transition from Fordist national state-led demand-side philosophies and practices of the 1960s and 1970s to the supply-side neoliberal globalisation of the 1980s; national-scale

spatial variegation in the nature of state regulation and governance; inter-scalar differences (and the production of such scalar formations); the role of discourse, ideology and policy networks in the shaping of such variegation; subject formation within different regimes, and; contestation, crisis and transformation of particular modes of governance (Rigby and Webber 1996; Swyngedouw and Cox 1997; Rose 1999; Larner 2000; Brenner and Theodore 2012; Peck and Tickell 2002; Peck and Theodore 2007; Sheppard and Leitner 2010).

In terms of financial centres, financial geographers examine whether the financial system is spatially centralised or decentralised, which assumes key importance for explaining uneven geographical development. (Engelen and Grote 2009) employ the theory of comparative political economy to present the precise patterns of financial centres with a theoretical frame under varieties of capitalism. They take an institutional perspective to explain the decline of Amsterdam and Frankfurt as European second-tier financial centres. This theory possesses more sensibility for context and specificity, which demonstrates a more institutionally oriented perspective. In contrast with the varieties of capitalism, (Dixon 2014) analysed the institutions and institutional changes in relation to finance and macro-institutional comparison. His work paid attention to the functions of finance and institutions, re-evaluated the relationship between institutional functions and institutional form, and concluded that institutional function is not always determined by institutional form: the former is often variable and context-dependent. Financial geographers contribute to the understanding of finance and money by interrogating how these territorialised differentiations shape the cause and consequence of a geographical crisis and make financial instability visible in space and time.

2.3.2. State in International Political Economy (IPE)

States as actors have a long tradition in the IPE (Evans *et al.* 1985; Evans 1995; Haggard 1990). In addition to performing various roles and functions, from regulator, facilitator, distributor, to buyer and owner (Alford and Phillips 2018; Babic *et al.* 2020), the state is an inter-scalar mediator between lead firms and non-firm actors (Lee *et al.* 2014). Apart from the well-researched roles as facilitator and regulator, the extant literature

emphasises how national firms can catch up and improve their competitiveness internationally during the post-developmental state era, from learning by doing, technological acquisition, reserve brain drain and in-house R&D (Amsden 2001; Amsden and Chu 2003; Hamilton and Kao 2017). The importance of local-central political relations, including the cooperation of local elites, for local development is examined (Boddy 1983; Miller 1994; Crook 2003).

At the same time, States' role in the evolution of financial centres remains of considerable interest in political aspects to IPE scholars. Existing theories in IPE situate the nation-states as the primary locus of state power under the theoretical frameworks that take national macroeconomic and geopolitical power as their conceptual point of departure. Urban scale features as a resource for accumulating national power through robust macroeconomic structures and national financial systems (Chey 2013; Chin 2014; Helleiner and Malkin 2012; Otero-Iglesias and Vermeiren 2015; Volz 2014). Financial centres can be conceptualised as subnational tools for the pursuit of national interests, accumulating financial wealth and extending monetary power, for example, as agents of 'economic patriotism' (Clift and Woll 2012; Morgan 2012). In this reading, they are territories that embody a linear extension of sovereign state power. Financial centres have been further conceived as distinct political agents in themselves, operating as municipal authorities in competition against other urban centres and subnational political authorities and responding to their own localised political constituencies (Pauly 2011).

These scholars do explicitly examine political scales in urban areas and treat them as important 'sites' of contestation where national interests are pursued (Pardo *et al.* 2019). Although political economists have incorporated sub-national spatial scales into the investigations of financial centres and financial system transformation more broadly, they have not cohered into sustained theoretical consideration of their distinctive modalities of power. These linear relational accounts of IFC politics have underspecified the mechanisms that link gradual changes to moments of rapid systemic transformation, neglecting the relationships between distinctive 'levels' of analysis or treating them as unduly static (Cohen 2015, Anon 2009; Kirshner 1997).

2.3.3. State, MNEs and Financial Centre in GFNs

Theories of GFNs provide valuable insights that investigate the development of financial centres by connecting the economic layers of financial centres with various political layers. The relational accounts of IFC development and networks emphasize the significance of structural complementarities and provide explanations of institutional stability rather than dynamics of change (Wójcik 2013). These works on financial centres adopted a firmer-based and network perspective to studying finance in the global economy (Coe *et al.* 2014; Hendrikse *et al.* 2020; Wójcik and Camilleri 2015). Given their attention to firm actors and state actors in shaping flows of investments, inter-firm relationships, and regional development outcomes, these network approaches to finance have taken more substantive notice of the state's role in shaping financial relations, institutions, transactional flows, and spatial nodes. (Haberly and Wójcik 2022) recent addition of 'world governments' to the conceptual framework of global financial networks, alongside the earlier categories of financial centres, offshore jurisdictions, and advanced business service complex (Coe *et al.* 2014), also signals a shift in conceptual engagement with the state in shaping the spatialities and outcomes of global finance.

GFN theory illuminates spatial temporalities of governance in the formation and shift of financial centres in past decades, given the complex ways in which states and markets are co-implicated. One of the key points is the relationship between the state and financial institutions' clusters. State can function synergistically with firms, but continually is threatened by firms' constant search for new technological and political formations elsewhere that enhance profitability—the 'spatial fix' (Harvey 1989; Storper and Walker 1989; Leitner 1990; Sayer and Walker 1992; Sheppard 2011). Specifically, financial and related services firms and organisations piled on top of each other in financial centre in the pursuit of maximising their centrality within the commanding heights of the economies. The resulting Marshallian clusters in financial centres often rely on the local political institutions that catalyse and nurture, but these political bodies may also undermine firms' profitability. At the same time, local entrepreneurialism manipulates places to attract investment to financial centres at the corporate level. At broader scales, firms' corporate strategies intersect with

unevenly empowered state governance systems (Dicken *et al.* 2001; Coe *et al.* 2004). Given the inability of capitalism to regulate itself, state regulation of the economy is a constant struggle between conflicting objectives, with different resolutions of the relationship between the state and the capitalist economy emerging in different contexts. This focus on the networks and linkages connecting the actual spaces of transnational finance — global cities — illuminates the role of sub-national actors and agencies. It shows how institutions within IFCs shape financial markets in ways that feed back into national and global arenas of political action.

IPE literature also have another well-researched topic that latecomer economies could sustain a more extended period of economic growth if their firms were able to connect with the global economy under a non-captive mode of governance (Gereffi *et al.* 2005; World Bank 2020). The latecomer economies largely focus on either the acquisition of technology and capital by national firms (Amsden 2001; Amsden and Chu 2003; Hamilton and Kao 2017) or the government between global lead firms and local firms (Coe and Yeung 2015; Yeung 2016). Existing studies have investigated that forming equity joint ventures with transnational corporations is widely used as a way of entering foreign markets (Beamish and Banks 1987; Hennart 1988). Latecomer economies could improve their competitiveness through organisational learning (Kogut 1988) by transferring foreign technologies and managerial skills through joint ventures.

A few notable exceptions are that even though existing literature have extended the financial geography and IPE approach to examine the financial centres and firms, they mainly focus on Western companies located in a few Western liberal market economies (Dicken 2015; Clark and Wójcik 2007). These markets are usually essentially free from state intervention and equipped with mature legal systems and free-market mechanisms. As such, their insight is not easily applied to the financial centres located outside major Western economies, where state may play the more substantial role.

At the same time, it is hard to employ current insights in financial centres directly to Chinese contexts. Recent advances have extended the analysis to explain how the interrelationship between foreign firms, financial intermediaries, and offshore jurisdictions helped domestic Chinese 'national champions' become players in global finance (Wojcik and Camiller, 2015). Despite their important insights, the focus remains on economic relations across locations. The specific channels through which political bargaining inside the Chinese party-state shapes global financial outcomes remain little understood. Whilst the state's role in the literature is acknowledged, it is mainly viewed as the agent that represents 'sub-national models', 'regions' and 'jurisdictions' (Peck and Zhang 2013; Zhang and Peck 2016; Wójcik and Camilleri 2015; Conlé 2011). As a result, the theorisation of the political underpinnings of China's GFNs and how they feed into business systems remains in its infancy. To complicate things further, Hong Kong functions as an OJ within China due to its separate regulatory, fiscal, and legal system, with the latter based on English common law and equity. The State role of China, including the Chinese firms, in Hong Kong lacks explorations at this stage.

2.4. Chinese International Political Economy (IPE)

All the secrets for understanding China lie in the intriguing interplay between government and market, and state and society. To cultivate a comprehensive understanding of Hong Kong as an intermediary financial center, it is imperative to undertake a systematically examination of pertinent literature in the field of Chinese political economy.

In current research on the Chinese political economy, scholars follow Western benchmarks to investigate China's government and identify its unique features.

The prevailing framework that has emerged from related literature is the Varieties of Capitalism (VOC) approach. This approach describes a firm-centric political economy in which two 'ideal-types' structure economic organisation, the liberal market economy in the U.S. and the coordinated economy in Germany. Based on the VOC approach, other literatures have further emphasised the regional vaterites by highlighting differences between sectors and local contexts (Crouch *et al.* 2001, 2009), bargaining dynamics behind institutional

change (Thelen 2012) and common institutional features that link seemingly disparate modes of capitalism (Streeck 2010). Applying these theories to the Chinese context, recent advances have suggested that Chinese capitalism is anchored by a centralised developmental state and complemented by a regional sub-system (Conlé 2011). These connections between the Chinese party-state and business systems have inspired a growing body of research on the rise of capitalism 'with Chinese characteristics' (Peck and Zhang 2013; Zhang and Peck 2016). (Peck and Zhang 2013) developed the variegated capitalism model with the Chinese style, which exists in the 'triangular' relationship with European and North American capitalism. In contrast to the VOC focus on the national level, the variegated capitalism literature emphasises that firms are embedded within many different institutional scales. The interconnection among local state, sector-specific scales as well as national global scales shapes the strategies that firms adopt and the economic outcomes they generate (Crouch *et al.* 2009). Reflecting on Chinese cross-border finance, it is a multi-layered phenomenon characterised by the interplay of global, national and local structures (Töpfer 2017). Another important aspect illuminated in IPE literature is the reliance on privileged personal relationships (guanxi) that shape China's regional sub-models to varying degrees. Such guanxi shapes both commercial and governmental transactions on a scale largely absent in traditional VOC models (Redding and Witt 2010). These studies indicate the Chinese model does not fit easily into any single analytical box under the VOC approach; it reflects an institutional mosaic of regional adaptions that combine elements of 'liberal market' models, 'coordinate market' models and informal social institutions.

Other broader debates are about an emerging 'new state capitalism', prompted by changing relationships between state and finance as observed during and after the 2008 GFC and the increasing importance of some Global South countries (especially China) in global financial networks. Compared to earlier studies on state capitalism that were more narrowly focused on state-owned corporations, especially in East Asia (Carney 2015), recent debates on new state capitalism engage with broader dimensions of financialised capitalism and a variety of institutional forms, including Sovereign Wealth Funds (SWFs), state-owned enterprises, national development banks, currencies, and monetary and industrial policies (Carroll and Jarvis 2022; Silverwood and Berry 2023; Skalamera Groce and Köstem 2023;

Su and Lim 2022). (Alami *et al.* 2021) identify a reorientation of official agendas and discourses about the state, with greater acknowledgement of the state as a promoter, supervisor, and owner of capital. While their analysis focuses on development, their arguments foreground the vital role of state-owned capital in shaping the geographical political economy of the changing global development regime and point to significant ideological adjustment involving a re-legitimation of the state in Development and a limited embrace of state-owned capital. The expansion of such state-capital hybrids takes various forms and is driven by different state agendas and positionalities, resulting in uneven forms of state-capitalist development (Alami and Dixon 2023). Taken together, the global rise of SWFs, state-owned enterprises, and development banks are seen as organisational manifestations of state-owned/ sponsored/ controlled/ directed capital that are developing new territorial and capitalist logics for states (Babic 2023).

Despite this differentiated appreciation of China's economic organisation, the capitalist approach does not go far enough in mapping the different segments of the Chinese economy. The trouble with the current work is that their focus on firms leads the authors to define 'institutional layers' in economic terms. Yet, a purely economic conception would struggle to explain outcomes in China's financial sector since the central government controls vital resources such as market access. In addition, China's provincial and municipal administrations have direct input into all major policy decisions at the central government level. They hold the biggest voting bloc of all members in the Central Committee, the governing body that runs China's top ruling body, that is, the Chinese Communist Party (Brown 2016). At the same time, China's financial markets have received little attention to date. This partly reflects the prevailing conception of Chinese 'business systems' in the literature, largely synonymous with the industrial economy. As a result, reference to the financial sector is only made in the context of varying sources of corporate financing between regions. The financial industry is therefore understood as one of several aspects that shape regionally differentiated industrial organisations rather than as a sphere of economic organisation that requires explanation in its right (Zhang and Peck 2016). What is needed is thus an approach that maps how the interaction between firms, especially financial firms, and different levels of government shapes economic outcomes.

In addition to applying capitalism theory to the Chinese context, Chinese domestic scholars who study China's administration and governance also commonly wield Western mainstream theories for benchmarking their analysis, including the theory of limited government, Weberian bureaucracy and Fiscal federalism. Numerous mutually contradictory descriptions and characterisations have emerged in the study of China's government with multi-empirical support in past decades. For example, in terms of the theory of limited government, both 'omnipotent' and 'unlimited' governments exist in Chinese society. The Chinese government's responsibilities cover every aspect of the Chinese economy and society (Tong 1995); the boundaries between government and market, state and society are blurred, and the legitimacy of the government comes from economic performance (Zhao 2016). Moreover, in some cases, Chinese government is considered informal, and the constraints imposed by rules, procedures, and laws are weak. Collusion, strategic responses, and selective policy implementation are pervasive (O'Brien and Li 1999; Zhou 2008); authority is fragmented under a centralised framework (Lieberthal and Oksenberg 1988). However, the government functions are still according to 'the rule of man' and are mobilization-based with an ambiguous division of responsibilities across agencies (Feng 2012; Zhou 2012).

A salient feature of such research is identifying various 'deviations' and 'puzzles' in China's government bureaucracy through a comparison with Western theoretical benchmarks. More importantly, this scholarship interprets these deviations and puzzles as distortions and failures in China's government organisations. At the same time, these various distortions and failures can often be reinterpreted as manifestations of solid-state capacity and China's unique institutional advantages. Despite this differentiated appreciation of China's economic organisation, these studies have not gone far enough in mapping the different segments of the State and Chinese economy. The boundaries between government and market, state and society are blurred, and the legitimacy of the government comes from the economic performance (Zhao 2016). Current literature fails to make any systematic attempt to resolve the logical inconsistencies created by these juxtapositions.

The conceptual framework of 'dual-market competition' (Zhou 2017, 2018) may touch upon the interplay between government and market, and state and society in modern China. It suggests understanding Chinese political economy from two critical dimensions: one is the vertical dimension of central-local and state-society relations, characterised by a top-down, layer-by-layer administrative contracting process, and the other is the horizontal dimension, emphasising economic performance-based promotion tournaments among local officials. This 'dual-market competition' or known as 'bureaucratic markets cum economic markets', argues that China's high rate of economic growth has been driven by a mutually emboldened bureaucratic market (market competition among firms across regions). The two dimensions, vertical administrative contracting and horizontal political competition should be examined together to clarify the unique features of China's administrative governance, political incentives, and economic development.

2.5. Conclusion

This chapter discussed some of the broader themes that bind the different chapters of this thesis in a common pursuit: to advance our understanding of the state and politics that shape the development of financial centres in the context of China's rise in past decades. To this end, the chapter critically reviewed different bodies of conceptual literature in financial geography, political economy, and Chinese politics. This included research on State, MNEs and Chinese political economy in the political economy literature. It also covered state perspectives in financial geography on how state and politics shape financial centres. This section summarises the key insights from the literature review and spells out their salience for the following substantive chapters.

Chapter 3: Hong Kong's formation as the financial centre from the 20th century

3.1. Introduction

Following the British victory in the Opium War of 1840-1842, Hong Kong transitioned into a British colony. Since the early 1900s, the capital network established by trading and financial entities operating within Hong Kong extended their influence extensively. Simultaneously functioning as a pivotal free port embedded within a prosperous commercial network across the Pacific Basin, spanning China, Japan, Southeast Asia, Australia, and America, the city experienced remarkable economic expansion. Moreover, in its capacity as a British colony, Hong Kong charts a distinctive course in its historical development while retaining its unmistakable Chinese identity. Serving as a crucial nexus between Eastern and Western cultures, it assumed a significant role in shaping the narrative of modern China.

This chapter presents an overview of the evolution of Hong Kong from the 1940s to 2010s in chronological order, with special focus of its relationship with China. It will provide the necessary background information of the development of Hong Kong as the leading financial centre globally.

3.2. History of Hong Kong

3.2.1. 1949-1978 - Trade and Transition: Hong Kong's Navigating Changes as the British Colony in the Mid-20th Century

Hong Kong retained its status as a British colony until 1997. From the 1940s to the 1970s, Hong Kong's economic landscape pivoted significantly around the manufacturing sector. Nonetheless, the fast pace of industrial growth was not the result of a change in Britain-Hong Kong colony government policy. Despite the absence of an explicitly anti-industry stance, there was an equally lacking adoption of a pro-industry stance. The primary impetus propelling Hong Kong's industrialization was rooted in the initiatives undertaken by local Chinese industrialists and those who had immigrated from China (Goodstadt 2005).

Hong Kong possessed a modest industrial sector prior to 1940. The rise of its industrial sector occurred against the backdrop of the resumption of the Chinese civil war between the Guomindang and the Communists, which recommenced following the conclusion of World War II in 1945. Driven by a desire to diversify risk exposure, industrialists from Shanghai and Guangdong initiated substantial investments in Hong Kong. By 1949, with the Kuomintang's military power effectively diminished by the Communists, the establishment of the People's Republic of China (PRC) took place in Beijing. Amidst the ensuing political turbulence following the communist takeover, a noteworthy cohort of industrialists opted to relocate from Shanghai and Guangdong province to Hong Kong (So 1986; Meyer 2008; Tsang and Cheng 1997). Over the subsequent decades, the influx of industrialists relocating from PRC played a pivotal role in establishing the entrepreneurial foundation for the city's substantial growth as a prominent export-oriented industrial center. Prominent among these industrialists were China' largest national capitalist, the Rong Family, who were distinguished as "Cotton Yarn King" (Coble 2003).

Throughout this period, the majority of investments in production facilities and the bulk of managerial and industrial workforce were predominantly contributed by Chinese immigrants. Leveraging financial resources, technology expertise, labour, and extensive networks brought by these Chinese immigrants, Hong Kong underwent a rapid transformation of its economy into a highly industrialised one within a decade and a half. A prominent illustration of this transformative phenomenon was the significant industrial migration from Shanghai to Hong Kong within the cotton textile industry. In 1947, prior to substantial investments by entrepreneurs from Shanghai, Hong Kong had 405 registered establishments in the textile industry employing 9,328 workers, with a majority involved in weaving and knitting activities. Five years later, the textile industry in Hong Kong witnessed a substantial growth, employing 27,394 workers across 502 registered factories. Specifically, in the cotton-spinning sector, which was predominantly dominated by immigrants from Shanghai, there was a noteworthy expansion from five factories with 102 workers in 1947 to 13 factories employing 8,925 workers (Census and Statistics Department, Hong Kong 1969). The textile industry emerged as the paramount economic activity in Hong Kong. As Hong Kong gained recognition for its industrial prowess in the late 1950s and early 1960s, the

prevailing international image typically depicted the larger mills owned and operated by entrepreneurial immigrants from Shanghai (Tsang 2004; Wong 1988).

In addition to its industrial sector, Hong Kong gain renown as the prominent trading center for Asia during the specified historical period. Following the Western trade imposition of a trade embargo against the People's Republic of China (PRC) subsequent to the Korean War, the influence exerted by the United States on Hong Kong to enforce this embargo substantially diminished its status as the premier entrepôt for China (Tsang 1989). This resulted in the loss of primary clientele for Hong Kong's industries from the mainland. Nevertheless, capitalizing on its highly adaptable regulatory environment and cost-effective labour force, Hong Kong evolved into a hub for illicit trade with the PRC, albeit on a reduced scale compared to earlier periods (Censu and Statistics Department, Hong Kong 1978). Simultaneously, the city's maritime and port facilities, previously acclaimed as among the finest in Asia, facilitated new trade opportunities for entrepreneurs amidst rapid industrialization. The trading and financial firms in Hong Kong provided these new-born manufacturers, established by Chinese immigrants, with opportunities to access global markets (Wong 1988). Hong Kong transformed itself into pivotal entrepôt in the East Asia region, with its rapidly advancing industrial sector propelling it to be recognized as one of 'The Four Asian Tigers' since the 1960s. These services facilitated the global distribution of Hong Kong's industrial goods, imported commodities to Asia, and disseminated them within the region (Brown 1971).

Expanding alongside its burgeoning industrial and trade sector, Hong Kong primarily established its financial framework to cater to global clientele. The initial stages of the financial sector’s development were marked by a period of disarray. Banking regulations, spanning the years from 1948 to 1964, were inadequately enforced, lacking comprehensive oversight. This lax regulatory environment posed significant threats to the stability of financial institutions, particularly within the secondary market (McCarthy 1985). Additionally, Hong Kong grappled with issues of corruption, a matter that was tacitly tolerated. Embedded within this narrative was a discernible enhancement in ethical and professional standards within the banking sector, instigated by the enactment of the 1964

Banking Ordinance and the establishment of the Independent Commission Against Corruption in 1974 (ICAC 2023).

In addition, the financial sector was mainly under the control of the expatriates, particularly before the 1960s, who adhered to institutional and commercial practices derived from United Kingdom. Prominent British firms, such as Jardine Matheson and Russell and Company, collaborated with major British and foreign banks, including the Chartered Mercantile Bank and Hong Kong and Shanghai Banking Corporation. These entities assumed the pivotal role of facilitating international and regional trade for Britain and its allies (Wong 1988).

For indigenous Chinese entrepreneurs, the financial services rendered by British banks were predominantly geared toward trade, exhibiting a repetitive and constricted scope. During the economic transformation spanning from the 1950s to the early 1960s, a synergistic relationship evolved between entrepreneurs from Shanghai and Cantonese origin in Hong Kong and British banks involved in commercial financing activities. The engagement of British banks provided Chinese entrepreneurs with access to financial resources, specialized expertise, and an extensive international financial network, enabling them to gain insights into global markets. British banks played a pivotal role in assisting local industrialists in entering international markets, yielding substantial profits and facilitating the rapid expansion of their businesses in East Asia (Meyer 2000).

However, the capacity of these British banks to function as a capital market was constrained to British enterprises, resulting in a situation where local Chinese entrepreneurs found themselves excluded from direct participation in the capital market. In response, a new generation of young local entrepreneurs equipped with modern Western educations assertively propelled their enterprises into the capital market through innovative approaches. To address the escalating financing needs of local enterprises, The Bank of East Asia, positioned as the largest Chinese-controlled modern bank in Hong Kong, along with other Chinese-controlled banks, such as Bank of Canton, Shanghai Commercial Bank and Chekiang First Bank, were successively established. Faced with the Hong Kong Stock

Exchange's reluctance to significantly expand to accommodate local enterprises, local Chinese entrepreneurs and financial institutions took matters into their own hands and established their own exchanges (Wong 1988). The Far East Exchange emerged in 1969, followed by the Kam Ngan Stock Exchange in 1971 and the Kowloon Stock Exchange in 1972 (HKEX 2016). Their innovative approach in financial activities liberated the financial sector from the dominance of expatriates and colonial governance. The spirit of innovation and entrepreneurship exhibited by local Chinese entrepreneurs continually shaped their business environment, even in the absence of support from authorities, leading to a bottom-up reform. Consequently, the inception of the modern financial market in Hong Kong unfolded within the context of the manufacturing industry boom in the 1970s (Nishimura 2012).

The early 1970s witnessed a number of significant developments in the global economy. The termination of the Bretton Woods Gold Standard in 1971 increased uncertainty in the international monetary landscape. This was followed by the dissolution of the interest rate cartel ensued, prompting a greater internationalization of finance as banks in Hong Kong were compelled to compete with other deposit-taking institutions for financial resources. Hong Kong's efforts to broaden its economic base received an unexpected boost, as the PRC dramatically mitigated tension with the U.S. by inviting President Richard Nixon to visit Beijing in 1972. This diplomatic gesture marked the commencement of the PRC's engagement with the external world. Consequently, Hong Kong's historical role as the primary entrepôt of China was reinstated. This restoration contributed substantial volume and value to Hong Kong's economic pursuits, rendering it more attractive as a regional hub for finance and business services.

Another significant development was the Hong Kong's colonial governments shifted from its permissive stand toward the financial sector to actively pursuing financial liberalization in the 1970s. With the Euromarkets emerge in 1960s, U.S. banks, which rapidly developed a branch network in London and British tax havens for their unregulated environment in order to circumvent stringent U.S. banking and financial regulations (Sassen 1991b). The results was the extraordinary growth of the Euromarkets in British colony and post-colony jurisdictions, like Jersey, Cayman Islands, BVI, Bermuda and Singapore, by

offering tax breaks and other incentives (Palan 2010). To capitalize on these opportunities, the British colonial government in Hong Kong lifted in 1978 of moratoriums on the issue of new banking licences (Hong Kong Legislative Council 1979).

Major foreign and international banks, including leading international merchant banks, gained the opportunity to establish full-fledged offices. Simultaneously, the new-born financial services industry benefited from a plentiful pool of local graduates from high-education institutions in Hong Kong. These school leavers and an increasing supply of graduates from the local universities and institutes of higher education gave Hong Kong the human resources to take on more knowledge-intensive jobs in finance and business servicing (Tsang 2004). This influx of talent rendered Hong Kong more appealing to other significant business servicing sectors, including international law partnerships, accountancies, and consulting firms (England 1998).

In summary, spanning the period from 1940s to 1970s, Hong Kong directed its efforts towards economic diversification by expanding its industrial and trading sector. Concurrently, it developed its financial sector, including the network of banks, exchanges and financial services, which prepared its transfer into a modern financial centre and regional hub for business services in following decades. Furthermore, in 1978, China embarked on a gradual but far-reaching economic reform in the Third Plenary Session of the Eleventh Central Committee (CCP 1978). Since then, China's economy has been significantly modernised and opened up to the rest of the world. The reform process has affected all sectors of the economy, including the financial sector. China's opening gave impetus to Hong Kong to develop to fulfil the growing needs in business services brought by economic reform.

3.2.2. 1980s-1997: The dichotomized International Financial Centre and China's Economic Reform

Since the 1980s, Hong Kong authorities have actively pursued the goal of establishing itself as a global capital market. To achieve this objective, substantial efforts have been dedicated to enhancing infrastructure, particularly in the financial and service sectors. These endeavors encompassed ensuring monetary stability, fortifying the integrity of the financial

system, and optimizing the efficiency and resilience of Hong Kong's market infrastructure. Additionally, the collaborative benefits stemming from China's economic reform have facilitated the development of a complex and mutually advantageous economic relationship between Hong Kong and PRC.

In 1986, the consolidation of four stock exchanges — namely the Hong Kong Stock Exchange, the Far East Exchange, the Kam Ngan Stock Exchange, and the Kowloon Stock — along with the integration of governmental regulatory oversight, resulted in the formation of 'The Stock Exchange of Hong Kong' (HKEX 2016). This amalgamation marked the establishment of a modernized securities exchange and signalled the maturation of Hong Kong's financial sector. Subsequently, in the ensuing years, Hong Kong persistently fortified its financial infrastructure, addressing aspects such as currency stability, legal frameworks, and regulatory mechanisms.

The Hong Kong Dollar (HKD), a pivotal element in the city's status as a financial hub and free trade port, underwent significant development in the 1980s (HKMA 2023). Its monetary system, referred to locally as 'the linked exchange rate' and more commonly known as the 'peg,' was established during this period and has endured to the present day. This fixed exchange rate system has played a crucial role in maintaining stability and bolstering confidence in Hong Kong's currency, contributing to its standing as a prominent global financial center.[4] The establishment of Hong Kong's currency board took place in 1983, coinciding with the pegging of the Hong Kong dollar to the US dollar at a fixed rate of 7.80 to 1. Subsequently, in September 1998, an adjustment occurred, setting the rate at 7.75 to 1. Post-2000, the exchange rate gradually moved from 7.75 back to 7.85. The HKD maintains free convertibility, with the Hong Kong Monetary Authority (HKMA) assuming

[4] Hong Kong's first currency board from 1935 to 1967 was pegged to the pound sterling at the rate of sixteen to one. From 1972 to 1974, it was pegged to the US dollar instead. In 1975, the government decided to let the currency float. However, the financial crises induced by the Sino-British negotiations over the future of Hong Kong caused significant volatility and considerable downward pressure on the Hong Kong dollar. Eventually, the government re-established the currency board system.

responsibility for maintaining the peg. In other words, the government commits to buying banknotes at the rate of 7.85 HKD per USD, though the market exchange rates generally deviate from this parity. Given the currency board system, Hong Kong's interest rates are primarily determined exogenously, aligning with their US-dollar counterparts adjusted by a risk premium (HKMA 2024b).

The framework of Hong Kong financial laws was formulated in substantive from 1986-7, with its substantive implementation coinciding with the Asia Financial Crisis of 1997-8. On the regulation and laws at securities and future front, Hong Kong has applied standards developed by the International Organisation of Securities Commissions (IOSCO) in 1987, the principal international forum for developing internationally recognised standards of regulation (IOSCO 2006). At the same time, Hong Kong bolstered the bilateral regulatory agreements with all the major markets of the world. By 1997, before the return to PRC, Hong Kong had, in total, signed 28 such agreements, including with the securities and futures regulator in mainland China (HKSA 2024). It had strong ties with the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC), cemented by a regulatory agreement.

During the 1990s, Hong Kong actively engaged in competition with other financial centers, aligning itself with international standards across various domains of financial regulation. The Exchange Fund (Amendment) Ordinance came into operation on 1 April 1993, and on that date the Hong Kong Monetary Authority was established (IMF 2012). It empowers the Financial Secretary to employ the Exchange Fund for maintaining the stability and integrity of Hong Kong's monetary and financial systems, in addition to its primary function of regulating the exchange rate. On the banking side, Hong Kong was one of the first Asian markets to adopt the Basle Capital Rules and became the first Asian market to announce the application of the Basle Market Risk Capital Rules in 1996 (BIS 2015). Hong Kong Financial Law system was designed in substantive from 1986-7 and implemented in the Asia Financial Crisis of 1997-8. Up to date, financial services in Hong Kong are primarily regulated by the Hong Kong Monetary Authority (HKMA), the Securities and Future Commission, and the Office of the Commissioner of Insurance (HKMA 1997). The

regulatory agencies operate within the framework of the Banking Ordinance, the Exchange Fund Ordinance, the Security and Futures Ordinance, and a number of other ordinances (HKMA 2011).

The financial regulatory framework in Hong Kong plays a pivotal role in facilitating unrestricted capital flows. Embracing a free-market philosophy, Hong Kong endeavors to minimize its agencies' intervention in the financial system while upholding the preservation, stability, and integrity of the monetary and financial infrastructure. In this regard, Hong Kong adopts a stance of not imposing foreign exchange or capital movement controls, thereby enabling the seamless movement of capital into and out of the territory without any impediments.[5] The Hong Kong Monetary Authority (HKMA), as outlined in its document 'Mandate and Governance of the Hong Kong Monetary Authority,' explicitly affirms its dedication to unrestricted capital movements and the prohibition of foreign exchange control policies within Hong Kong (HKMA 2017). This commitment is further underscored in Hong Kong's broader policy framework concerning the unimpeded flow of capital and the unrestricted convertibility of currency, which is also evident in its trade and investment agreements. Hong Kong has entered into 22 international investment agreements, referred to as 'Investment Promotion and Protection Agreements' (IPPAs), with various foreign economies (UNCTAD 2023; CEBD 2024). These agreements aim to bolster two-way investment flows and offer additional assurance to overseas investors regarding the protection

---

[5] Hong Kong Monetary Authority (HKMA), 'Mandate and Governance of the Hong Kong Monetary Authroity',

Under 'one country, two system;, Hong Kong maintains its own economic financial, and legal system. Hong Kong's mini-constitution, the 'Basic Law', enshrines free market principles for the monetary and financial systems, with Article 112 stating that:

[n]o foreign exchange control policies shall be applies in the Hong Kong Special Administrative Region. The Hong Kong dollar shall be freely convertible. Markets for foreign exchange, gold, securities, futures and the like shall continue.

The Government of the Hong Kong Special Administrative Region shall safeguard the free flow of capital within, into and out of the Region. – Basic law of HKSA of PRC (1990) art 12 (Basic Law).

of their investments in Hong Kong.[6] Hong Kong has also signed eight Free Trade Agreements (FTAs) that touch upon and impact the movement of capital, containing a wide range of commitment relating to financial services and free transfer of funds relating to covered services commitments.[7]

As of the present day, the comparative regulatory intensity among fifty-three financial hubs shows Hong Kong is one of the areas with the strictest public securities regulators, which regularly applies tests of substantive suitability for Securities and corporate disclosure (a standard stronger than that of adequate disclosure). The Financial Stability Assessment Programme (FSAP) survey of the observance of common standards and codes places Hong Kong banking regulation among the most developed, with insurance regulation of a high standard and securities market regulation to be improved (IMF 2021). Even though securities law and supervision are customarily lagging in design and implementation, regulatory law and practice generally conform to evolving modern transnational standards.

In addition to fostering a free-market approach, Hong Kong has strategically developed its offshore characteristics, particularly in the realm of Euromarkets, distinguished by a low tax rate. In 1981, the British colonial government officially declared that Hong Kong had no intention of instituting a conventional income tax or levying taxes on offshore income—a stance that subsequent administrations continued to uphold.[8] Operating under a territorial

---

[6] See eg Agreement between the Government of the Hong Kong Special Administrative Region of the People's Republic of China and the Government of United Kingdom of Great Britain and Northern Ireland for the Promotion and Protection of Investments (12 April 1999), art 6; Agreement between the Government of the Republic of Korea or the Promotion and Protection of Investments (30 July 1997), art 7, Agreement between the Government of Hong Kong and the Government of the Italian Republic for the Promotion and Protection of Investment (02 February 1998), art 6.

[7] Hong Kong's Free Trade Agreements (FTAs) containing provisions on the free transfer of funds include those negotiated with Australia, ASEAN, Georgia and New Zealand.

[8] John Bremridge, appointed as Financial Secreter in 1981, indicated he had no intention of establishing a normal income tax, or of taxing offshore income, and left it at that. Moreover, his successors— Sir Piers Jacobs (who was Financial Secretary from 1986 to 1991), Sir Hamish Macleod (1991 to 1995), Sir Donald Tsang (1995 to 2001), Antony Leung (2001to 2003), Henry Tang (2003 to 2007) and John Tsang (2007 and still in office) —

system of taxation, residents in Hong Kong are only taxed on income arising in or derived from Hong Kong. In February 1982, the interest withholding tax on foreign currency deposits was abolished. In 1989, all forms of tax on interest were abolished. Since this declaration, Hong Kong has solidified its standing as a jurisdiction with a low tax rate. These measures, coupled with the combination of a low tax rate and a free-trade policy, laid the foundation for the formal establishment of the Euromarkets in Hong Kong. By the fiscal year 1995/96, with a more proactive government stance, Hong Kong had ascended to become the second-largest offshore financial c in the Asia-Pacific region.

Additionally, the distinctive offshore attributes of Hong Kong are intertwined with its unique offshore listing regulations on the Hong Kong Stock Exchange (HKEx). In 1984, 2 years prior to its establishment, The Hong Kong Stock Exchange made a strategic decision to amend its listing rules, expanding eligibility from domestic corporations to foreign-domiciled entities. This pivotal regulatory shift emerged in response to the Jardine group, a Far East trading firm with a longstanding presence in Hong Kong spanning over 140 years, opting to change its corporate domicile to Bermuda (The New York Times 1984). Faced with the prospect of companies relocating to offshore justifications, Hong Kong authorities demonstrated their commitment by making listing rules sufficiently flexible to accommodate foreign-domiciled enterprises (HKEX 1984). Subsequently, Hong Kong's Stock Exchange has served as the venue for an escalating number of foreign-domiciled companies, propelling it to become one of the largest equity markets globally.

Since 1990s, Hong Kong has been distinguished by the presence of a robust political, social, legal, and judicial infrastructure, and is admired for the strength of its financial industry, commitment to the rule of law, and the independence of its judiciary. It has further earned a reputation as one of the most unrestricted and open IFCs globally.

Concurrently with the evolution of Hong Kong as an IFC, the period from the 1980s to 1997 is marked by conditions fostering economic development and collaboration between

---

have all followed the same line. That is, they have all made it plain that the government no longer has any intention of either establishing a normal income tax or taxing offshore income.

Hong Kong and mainland China. The signing of the Sino-British Agreement in 1984 marked a reduction in the political uncertainty surrounding Hong Kong's future (The Government of Hong Kong 1982). From 1987 onwards, Hong Kong progressively leaned on the People's Republic of China (PRC) as its economic hinterland, leading to a continuous upgrading of its economy. Hong Kong assumed a pivotal role as a crucial driving force accelerating the growth of the Chinese economy by being the largest source of Foreign Direct Investment (FDI) and facilitating industrial transfers. Additionally, Hong Kong's status as an international financial hub address the challenges posed by the underdeveloped domestic market in mainland China (Cheung and Fan 2001).

In response to rising costs in Hong Kong, industrialists strategically opted to keep offices in the city to manage the nonproduction aspects of their industries, simultaneously relocating manufacturing factories to mainland China. This strategic move took advantage of the lower prices of raw materials and labour costs prevalent in mainland China. As a consequence of this industrial shift, the south-east coastal regions, particularly the Yangtze River Delta and Pearl River Delta, successfully established export-oriented economies (People'sDaily 1980). The symbiotic relationship between Hong Kong and mainland China became evident as this arrangement allowed mainland China to benefit from Hong Kong's strengths in marketing and design, while Hong Kong capitalized on the cost-efficient production capabilities in the mainland. This strategic alignment facilitated a harmonious collaboration where each region complemented the other's strengths. By the mid-1990s, Hong Kong's manufacturing sector experienced a notable decline, prompting a shift in its economic role. Hong Kong transitioned into primarily serving as a corporate management center for China's expanding manufacturing industry (Cradock 1994). This evolution marked a strategic realignment, wherein Hong Kong's proficiency in management, finance, and international business played a crucial role in overseeing and coordinating the broader corporate activities of China's growing manufacturing sector. Chapter 8 is expected to delve into the detailed exploration of the symbiotic relationship between Hong Kong and mainland China in the political economy, offering a comprehensive analysis since the 1980s.

Hong Kong's competitiveness as a financial center is intricately linked to its pivotal role as a hub for China's international capital-raising activities, particularly in the context of financing endeavors for large Chinese State-Owned Enterprises (SOEs) and private firms within the Hong Kong stock market. Notably, emulating the approach of the Jardine group, some Chinese companies listed in Hong Kong adopt an offshore legal structure known as "Red Chips", to circumvent listing restrictions imposed by the central authorities of the PRC (Chapter 6 would discuss the offshore legal structure applying in Chinese enterprises' oversea listing in detail).

In parallel, the existence of mainland companies in Hong Kong has generated a burgeoning client base, necessitating a comprehensive spectrum of professional support services, encompassing legal, accounting, auditing, underwriting, loan syndication, merger and acquisition, investment advisory, among others. Responding to the increasing demand from mainland clients, prominent investment banks, including those of Chinese origin, have established operations in Hong Kong. It is crucial to note that, preceding the year 1997, Chinese financial institutions were prohibited from participating in this market. Following this pioneering step, the 'Big 4' Chinese state-owned banks—Bank of China (BOC), China Construction Bank (CCB), Industrial and Commercial Bank of China (ICBC), and Agricultural Bank of China (ABC)—subsequently established their international investment banks in Hong Kong, signifying a notable transformation in the financial landscape. The specific way by which they used Hong Kong in their international financial activities are discussed in Chapter 6 and 7.

3.2.3. 1997 – 2019: Hong Kong SAR's Handover and China's economy booming

On July 1, 1997, China reclaimed sovereignty over Hong Kong, marking a significant historical event. Operationally, this date signifies the commencement of the 'one country, two systems' paradigm. The British Empire concluded its presence in Hong Kong, resulting in the transfer of the vibrant and highly capitalist economy of Hong Kong to the PRC (Ministry of Foreign Affairs of China 2000).

Hong Kong's status as a leading international financial centre and China's most internationalised capital market has experienced relatively minimal changes since the 1997 handover. Despite some notable deficiencies inherent in the system, particularly in the realm of offshore finance, the integrity and standard of the judiciary in Hong Kong was, in broad terms, comparable to those in most British common law jurisdictions. The Court of Final Appeal has, so far, upheld its independence since the transfer of sovereignty. While the Hong Kong Special Administrative Region (HKSAR) government extended an invitation to the National People's Congress of China (NPC) to enact laws that would be binding on the Courts, the People's Republic of China (PRC) did not exert its influence at that time. Consequently, the Court of Final Appeal has steadfastly maintained its independence (Ministry of Foreign Affairs of China 2000).

Nevertheless, despite the mitigation of political handover upheavals, the euphoria of the smooth handover gave way to apprehension. This shift in sentiment was not attributable to actions taken by China but rather stemmed from external events unfolding outside the realms of Hong Kong and China. Hints of the looming Asian financial crisis appeared in various countries in 1996, and the region-wide Asian financial crisis began with the symptom of a classic currency crisis in Thailand. International speculators and hedge funds such as Soros' Quantum Fund launched a calculated attack on the baht and shorted other Asian markets. Thailand was forced to abandon the baht's fixed exchange rate with USD, effectively crashing the currency. This speculative short then spread, through 'contagion effects', to Southeast Asian neighbours and deepened into a financial, and finally an economic, crisis characterised by severe recession in most of the affected countries. During the second half of 1997, countries like Thailand, Indonesia, the Philippines, and South Korea faced currency crises and bank collapses (HKEX 2001).

In 1997, Hong Kong's economy exhibited greater resilience compared to its Asian counterparts. The real estate market was flourishing, reaching its zenith with the Hang Seng Index (HSI) peaking at 16,673 points in August (Hong Kong Government Information Centre 2002). However, the primary pillar of Hong Kong's economic model during this period was its export-oriented services sector, predominantly comprising finance and tourism. This sector

faced challenges in maintaining competitiveness due to the depreciation of currencies in key customer and regional competitor countries. Simultaneously, Hong Kong's return to Chinese governance introduced an element of uncertainty regarding the authorities' potential responses to fluctuations in the exchange rate. In the ensuing year, Hong Kong encountered multiple speculative attacks on its currency, which was pegged to the United States dollar. The Hong Kong Monetary Authority (HKMA) employed various defensive measures, including raising interest rates and intervening in securities markets, to thwart these attacks. However, these defences proved ineffective against the dual onslaught targeting both the HKD and the Hang Seng equity (HKMA 1998).

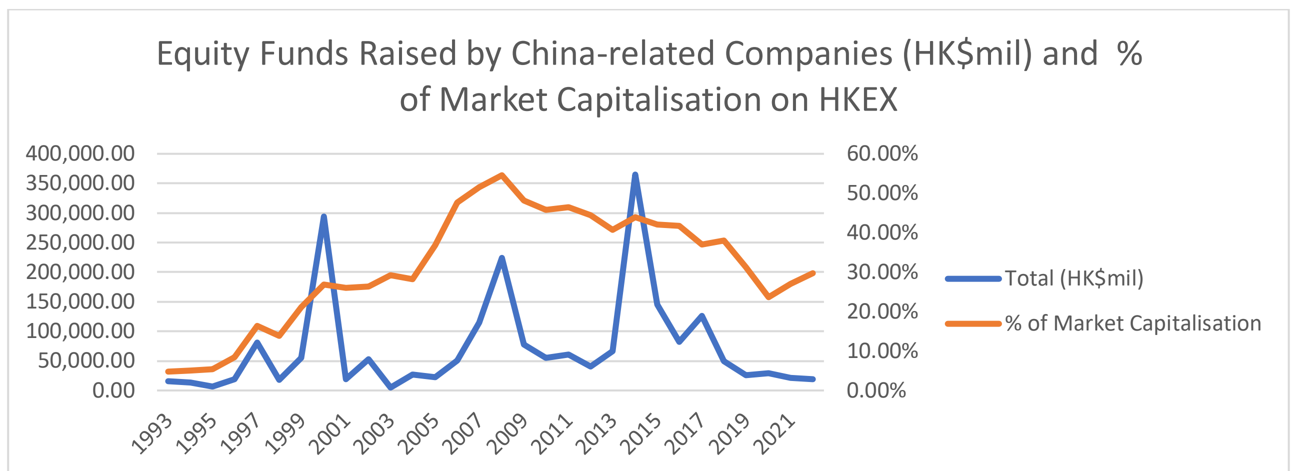
The USD peg exchange system stood as a cornerstone of Hong Kong's externally oriented economy and served as a conduit for the PRC’s economy, operating under stringent foreign exchange controls. Speculation about potential devaluation of the Chinese Renminbi (RMB) circulated, triggering a bank run. Despite these rumours, the Chinese authorities consistently affirmed their commitment to maintaining the stability of the RMB, with Premier Zhu Rongji publicly pledging that the central government would safeguard Hong Kong at any cost. Joseph Yam, Chief of the Hong Kong Monetary Authority (HKMA), conveyed in a March speech that the mainland authorities had unequivocally expressed support for the Hong Kong Dollar's (HKD) peg to the USD (HKEX 1998). He noted that there was a standing offer to extend assistance, backed by the mainland's foreign reserves amounting to 140 billion U.S. dollars. While there is no concrete evidence to substantiate financial market intervention by the HKMA funded by China's foreign currency reserves during the volatile months, such reassurances played a crucial role in pacifying the market by rejecting the notion of engaging in a competitive devaluation game. In response to speculative pressures, the HKSAR government effectively thwarted speculators through an intervention involving 10 billion USD. Additionally, measures were taken to reinforce the stability of the HKD-USD peg exchange system (HKEX 1998).

Nevertheless, as economic distress swept across Asia, the rapid growth of Hong Kong and its global businesses came to a halt. Hong Kong's economy endured two years of negative GDP growth and a significant decline in asset prices. Influenced by the ongoing

Asian financial crisis, Hong Kong entered a recession in 1998, experiencing a GDP contraction of 5.1% compared to 1997, followed by an erratic and laborious recovery (Hong Kong Government Information Centre 2002). The economic situation was further exacerbated in 2003 when the severe acute respiratory syndrome (SARS) epidemic struck Hong Kong. During this challenging economic period, Hong Kong's financial institutions and other crucial business sectors experienced retrenchment. The pace of GDP growth did not witness a recovery until the conclusion of 2003 (The Government of the Hong Kong Special Administrative Region 2004).

After this crisis, Hong Kong initiated a fundamental restructuring of its economy by becoming more dependent on the growing Chinese economy. With the implementation of China's financial liberalization policy in the early 2000s, Hong Kong, with its extensive history as a financial center for the PRC, gained a significant advantage. HKEx emerged as the primary financial market for the overseas listings of large state-owned enterprises. The market capitalization of companies related to China listed on the HKEx has been experiencing a gradual increase since then (Figure 2) (HKEx 2023a). Simultaneously, Hong Kong capitalised on its well-established international financial network and advanced financial services system to offer advanced financial services to Chinese enterprises. This surge in demand from Chinese clients played a pivotal role in fostering the growth of advanced financial services in Hong Kong. Leveraging this strategic position, Hong Kong's economy evolved into a provider of more sophisticated intermediary services for China, the wider Asian region, and the global economy. Hong Kong's position as a hub linking China and the world's financial markets was further reinforced.

Figure 1: *Equity Funds Raised by China-related Companies (HK$mil) and % of Market Capitalisation on HKEX, 2022*



Date: 31st Dec 2022

Source: (HKEx 2023a)

In parallel, Hong Kong has emerged as the foremost Asian wealth management centre for asset management firms, private equity firms, and hedge funds. The city has facilitated nearly all international financial institutions that are legally qualified to invest in the Chinese domestic financial market. As of 2019, 73 Hong Kong-registered financial institutions obtained Qualified Foreign Institutional Investor (QFII) qualifications (out of a total of 207 QFII financial institutions) and secured an approved investment quota of 26.78 billion USD (out of a total of 116.26 billion USD) (HKEx 2020a). Hong Kong stands as the primary jurisdiction accommodating global financial institutions seeking to invest in mainland China (CSRC 2022). Simultaneously, the leading Private Equities and Hedge funds started to use it as their headquarters for their Asian investments. Hong Kong surpasses Tokyo and Singapore in private equity investments in Asia. The period between 2004 and 2006 witnessed a substantial surge in hedge fund management in Hong Kong, with the number of hedge fund managers doubling from 58 to 118 (SFC 2006b). Additionally, their assets under management experienced almost a fourfold increase, rising from US$9 billion to US$34 billion (SFC 2006a).

Hong Kong has also made efforts to be a pioneer in RMB internationalization, encompassing the development of various RMB-denominated products and the establishment

of an RMB settlement system. On June 29, 2003, the Mainland and Hong Kong signed the first free trade agreement, the Mainland China and Hong Kong Closer Economic Partnership Arrangement (CEPA) (Ministry of Commerce People’s Republic of China 2004). Following the establishment of agreed-upon regulatory frameworks between the People's Bank of China (PBOC) and the Hong Kong Monetary Authority (HKMA) in November 2003, and the People's Bank of China's designation of the Bank of China (Hong Kong) as the world’s renminbi clearing bank offshore, Hong Kong’s banks were permitted to offer personal renminbi services on a limited and trial basis. These services included deposits, remittances, exchanges, and credit services to individuals and businesses with extensive cross-border linkages (PBOC 2003). Over the following years, the authorities in Hong Kong, in partnership with the financial industry, are actively building financial infrastructures to facilitate and promote the internationalisation of the Renminbi (RMB). The Hong Kong Monetary Authority (HKMA) has played a key role in developing a diverse range of renminbi-denominated products in Hong Kong. The financial landscape in Hong Kong now features a broad spectrum of renminbi financial products, such as certificates of deposit, fixed-income funds, and insurance policies, strategically designed to meet the diverse needs of investors.

Furthermore, Hong Kong has established the offshore renminbi clearing platform for RMB trade settlement—the Renminbi Real Time Gross Settlement (RTGS) system, designed for the purpose of RMB trade settlement (HKMA 2024a). This platform is strategically positioned to assist banks globally in the cultivation of diverse forms of offshore Renminbi-related business activities. The Renminbi RTGS system in Hong Kong is intricately linked with the China National Advanced Payment System (CNAPS), a substantial large-value Renminbi payment system operating in Mainland China. Commencing in June 2012, the operational timeframe of the Renminbi RTGS system underwent an extension, now spanning 15 hours, from 08:30 to 23:30 (Hong Kong time). This prolonged operating period serves to streamline the settlement process for offshore Renminbi payments conducted by financial institutions located in diverse time zones, utilizing the infrastructure established in Hong Kong (HKMA 2012).

Within the domain of capital markets, a pioneering initiative introduced in 2017, referred to as 'Bond Connect,' facilitates international investors' 'northbound' access to participate in the trading of corporate bonds aligned with the Belt and Road Initiative (BRI) and other bonds within the Chinese bond market. Bonds procured by eligible offshore investors undergo registration under the HKMA (National Inter-bank Lending Center 2017).. They are securely held in onshore nominee accounts established by the Hong Kong Central Money Markets Unit (CMU) at either the Shanghai Clearing House (SCH) or the China Central Depository and Clearing Company (CCDC) (The People’s Bank of China 2017).[9] Subsequently, CMU members take charge of settling bond transactions on behalf of onshore investors through the CMU. The creation of transparent connections between foreign investors and mainland Chinese financial institutions is facilitated by the contractual relationships nurtured within the trading link through Bond Connect Company and the HKMA. This arrangement eliminates the need for overseas investors to establish Chinese settlement and custody accounts, providing them with the means to circumvent the imposition of capital controls originating from Mainland China. Moreover, the structure of Bond Connect empowers foreign investors to capitalise on their existing trading and settlement practices in Hong Kong, thereby removing additional constraints, including investment quotas, lock-up periods, and repatriation limits (HKEX 2018). Since its establishment, Bond Connect has allowed multiple BRI countries to issue ‘panda bonds’ in China’s Interbank Bond Market to mainland and overseas investors (HKEX 2019).

Moreover, to enhance RMB liquidity, the currency swap agreement and Renminbi Liquidity Facility were announced by the PBOC and the HKMA on 04 July 2022 as enhancements to the existing currency swap agreement. As a long-standing currency swap agreement, its size has been expanded to RMB 800 billion / HKD940 billion from RMB500 billion / HKD590 billion, differentiating Hong Kong from other jurisdictions in terms of being the only one whose agreement is not subject to renewal, and also having the largest swap size (HKEX 2022).

[9] Onshore Clearing Institutions

The influence of mainland China in the financial industry has extended beyond the macro-level involvement in financial markets and institutions since the 2000s. Both mainland and Hong Kong individuals have been impacted by the financial liberalization initiatives originating from the mainland. The internationalization of the Renminbi (RMB) initially manifested in the realm of consumer finance. In January 2004, the mainland-sponsored inter-bank ATM network, UnionPay, was introduced in Hong Kong (PBOC 2004). This initiative served as a testing ground for UnionPay's overseas payment architecture and contributed to the system's acceptance in neighbouring economies, including Macao and other East Asian states that are popular destinations for Chinese travellers.

In summary, there has been a noticeable increase in financial integration between Hong Kong and China since the early 2000s. Hong Kong has emerged as a key provider of diverse financial services for Chinese investors, offering open access to both Chinese and international issuers and investors. Notably, it has gained prominence as the leading offshore Renminbi (RMB) business center since 2010. Concurrently, mainland China has implemented financial market liberalization measures, including the relaxation of interest rate controls and the full participation of eligible offshore investors in the domestic bond market. A crucial development for Chinese investors has been the establishment of mutual market access schemes structured through Hong Kong. These schemes permit eligible mainland investors to engage in financial products traded in the global financial market, with their accounts remaining in mainland China. Simultaneously, these schemes facilitate global investors' access to China's financial market through Hong Kong-based financial institutions, eliminating the need to open accounts in mainland China and bypassing China's exchange and capital controls. Hong Kong occupies an irreplaceable role in the cross-border investment scheme and the Renminbi internationalisation efforts of the PRC.

3.3. Literature Review of Hong Kong as a financial centre

Literature in the financial centres has emphasised Hong Kong's importance as the leading global IFC. Recent research has proved that Hong Kong provided a conduit for China to raise financial capital and exchange information from the global financial market (Wójcik

and Camilleri 2015; Zhao 2013). With special legal status under the 'one country, two systems' formula, Hong Kong provides the mutual recognition of professional standards for China and the global market as the intermediate hub (Meyer 2014). It has a more sophisticated and international-oriented financial market than mainland China (Karreman and van der Knaap 2010) and can promote Chinese capital's global expansions (Hall 2017). Hong Kong also has politically privileged position in facilitating financial flows (Lai 2012; Woo 2015), and it can provide the global financial network a gate to the Chinese market (Meyer 2020). Moreover, some researchers hold the opinion that Hong Kong's established administrative capability, stability, financial and legal expertise, unique trading opportunities with its open economy, and deep linkages with global financial networks are considered to explain its continued pre-eminence as a financial centre (Jones 2020; Meyer 2015, 2014; Lai 2012; Pauly 2011). Hong Kong is used equally by non-Chinese to access mainland multinationals with operations in China or that seek out China's private firms (Bhattacharya 2011). Because capital controls on China's currency remain in force, financial firms with Chinese businesses implement deals and funding in Hong Kong (Zhao *et al.* 2011, 2004; Lai 2010, 2012).

From the perspective of OFC, some scholars have argued Chinese companies incorporate in Hong Kong primarily for tax avoidance purposes (Burns and McConvill 2011). Nonetheless, China operates a world-wide system of taxation, and Chinese enterprises are taxed on income from all sources. Tax arbitrage accounts have difficulty explaining, therefore, why OFC-mediated flows have tended to increase when tax breaks were withdrawn after the announcement of the Enterprise Income Tax Law in March 2007 (Sharman 2012). There is no particular reason for state-owned banks to seek to avoid taxation (Qu *et al.* 2020; Richardson *et al.* 2016). In fact, as I go on to explain in Chapter 6, Chinese SOEs have an incentive to pay tax to cater to and support the careers of the state officials who control these banks (Bradshaw *et al.* 2019; Cao *et al.* 2021). Considering this backdrop, tax avoidance does not seem to provide a plausible explanation for the explosive expansion of Chinese state-owned banks in Hong Kong. Indeed, many argue Hong Kong provides a degree of openness and transparency in the context of an otherwise opaque Chinese market (Haberly and Wójcik 2015; Meyer 2014).

Jason Sharman suggests transaction costs in Chinese domestic financial markets rather than criminal activities and tax arbitrage are driving capital outflows towards Hong Kong. As an area of lax financial enforcement (Perez *et al.* 2012), Hong Kong serves, according to Jason Sharman, as a waystation to disguise the origin and destination of capital flight and thus facilitate round-tripping investment towards mainland China, thereby avoiding onerous financial regulations (Huang 2008; Sharman 2012).

In addition to the investigation of the role of Hong Kong in China's international financial activities, the debates about Hong Kong's future as an intermediate financial centre between China and the global economy have reignited (Meyer 2020; Li 2020). Some scholars hold the opinion that with other financial hubs in the mainland, most notably Shanghai, having jockeyed for the role of China's leading financial centre, Hong Kong is diminishing in its importance (Wang *et al.* 2012). Moreover, the tense relationship between Hong Kong and Mainland China has been strengthened by recurring socio-political crises and protest movements since 2019 (Liu 2020). On 30th June 2020, The Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Administrative Region (NSL) was passed by the Standing Committee of the National People's Congress (NPCSC). Many industrialised Western nations reacted critically to the NSL, expressing concerns about the law's potential impact on Hong Kong's loss of autonomy (Young 2021). Meanwhile, concurrent with China's growing interplay with the global economy and the robust growth of its domestic economy, Beijing, Shanghai and Shenzhen are competing with Hong Kong for the status of the Mainland's IFC (Zhao 2013).

The opposite opinion is Hong Kong gains unusual benefits from China's overwhelming heft in the Asian economy; at the same time, its status as the global leading IFC and OFC is currently irreplaceable for China (Meyer 2020). Simultaneously, China's accelerating influence has been restructuring the geography of international finance through Hong Kong. The objective to remain Hong Kong as a globally influential IFC is a common goal for Hong Kong and China as a whole because breaking into the inner circle of the IFC could bring substantial economic gains, increased 'soft' geopolitical power, and a large pool of lucrative jobs. These gains would come not just from the growth of a narrowly defined financial

industry but also from a wide range of positive spillover effects, not the least of which is the creation of several related industries interconnected with finance (Elliott 2011).

Scholars from the Asia-Pacific region have contributed to the study in comparisons between Shanghai, Hong Kong and Singapore as IFCs. (Zhao 2003, 2013; Zhao *et al.* 2004) and (Wang *et al.* 2007) bring the information hinterland theory into IFC research from financial geography and apply it to the evolution of the comparative analysis of Chinese financial centres, Beijing, Shanghai and Hong Kong included. (Lai 2012) examines the critical roles of Shanghai, Beijing and Hong Kong as financial centres. It emphasises the complicated coexistence of competition, collaboration, and horizontal and vertical connections between these three centres in a globalised network. It has been concluded Hong Kong's dominance is due to its 'established administrative capability, stability, financial and legal expertise and unique trading opportunities' as a more open economy. When examining IFCs relationally as 'embedded networks of interdependence', Hong Kong acts primarily as an offshore financial centre, with its status as a particular autonomous economic area. The other Chinese financial centres, Beijing's role is as a 'political centre' to determine China's financial system, and 'Shenzhen and Shanghai' are as a 'business centre' (Pan *et al.* 2016).

3.4. Conclusion

In summary, this chapter is a retrospective analysis of Hong Kong's historical development, presented chronologically, thereby furnishing pivotal contextual information for subsequent chapters. During the initial phases of its evolution, civilian entrepreneurs and the financial community emerged as predominant catalysts in facilitating Hong Kong's transition from a transitory port to a global financial hub. Concurrently, with mainland China's economic reforms, Hong Kong's financial sector underwent a remarkable expansion, propelling its ascendancy within the global financial landscape. This substantial growth engendered a profound deepening of the relationship between mainland China and Hong Kong. Hong Kong assumed an irreplaceable role in cross-border investment initiatives and RMB internationalisation on the part of the PRC. Furthermore, this chapter conducts a comprehensive review of pertinent scholarly literature pertaining to the study of Hong Kong.

Scholars have consistently acknowledged Hong Kong's pivotal role as an IFC and have substantiated its function as a conduit for China in the realm of international capital mobilisation.

The next chapter will review the historical trajectory of the reform in Chinese financial sector and related literatures.

Chapter 4: China's state-owned financial system and its planned-oriented reform

4.1. Introduction

China's growth has lifted millions of people out of poverty. It has been hailed as one of the most important economic achievements in modern times. After three decades of transitioning from a centrally planned to a market-oriented economy, and as China's rise in prominence becomes more visible on the global stage, the importance of China's financial markets in this development process will only intensify. Before looking in detail at Hong Kong and Chinese financial institutions' activities through it, it is vital to provide an overview of the changing financial system in mainland China.

Currently, the Chinese financial market still has features of the planned economy. The significant measures are the highly centrally controlled financial system, including the financial industrial dominated by the state-owned commercial banks, the capital market under central plans, and the restrictions on non-state (domestic and foreign) banks and intermediaries of their entrance. Different from decentralisation in other economic sectors at the same period, local governments have limited influence on financial policymaking. The central government is entirely responsible for formulating development strategy, regulations, policies and supervision. Due to policy preferences, central government-owned financial institutions and their subsidiaries are also significant participants and monopolies of each sector in the financial industry. However, with the deepening of reform, the economic sector requires a more efficient capital market for financing activities. In facing tremendous growth and expansion in business, enterprises, both SOE and non-SOEs, are not satisfied with the commercial banking dominant financial system. Their increasing demand for funding and investment drives them to look for alternative methods in the capital market, such as shadow banking in the domestic wealth management industry and the internationalisation of financial institutions.

Aiming to provide background information and explain the necessity to investigate Chinese State-owned commercial banks, this chapter will present the domestic financial system from the perspective of its reform history since 1978. This chapter will unfold as the Chinese commercial banking system, Chinese capital market (common stocks and bonds), wealth management and related domestic shadow banking, and internationalisation trials. Aiming to provide background information and explain the necessity to investigate Chinese State-owned commercial banks, this chapter will present the domestic financial system from the perspective of its reform history since 1978. This chapter will unfold as the Chinese commercial banking system, Chinese capital market (common stocks and bonds), wealth management and related domestic shadow banking, and internationalisation trials.

4.2. The dominant commercial banks

State-owned commercial banks have occupied the dominant position in China's financial system since the planned economy and shoulder much of the cost of economic reforms, providing about three-fifths of total credit to the market (Hale and Long 2010). As a part of the broader historically rooted planned economy system, these commercial banks controlled by the central government through administrative means. The central government exercises direct oversight over the allocation of capital to these banks, employing administrative measures to regulate interest rates. Consequently, these banks play a pivotal role in facilitating payments and overseeing credit allocations for the entire societal framework (Naughton 2007).

To adapt to economic development needs, the Chinese government has implemented gradual but far-reaching reforms to address the institutional, organisational and political problems faced by its banking sector. The reform process happened in the early 1980s and can be broadly divided into three distinct periods (Berger *et al.* 2009; Fu and Heffernan 2009). One was the change from the mono-banking system into a plural-banking system consisting of a central bank and various banking institutions; the other was the transition from a specialised to a commercial banking system (Avery *et al.* 2011). The last wave was the

ongoing reform to internationalise and liberalise the banking system under the central government's plan after China acceded to the WTO in 2003.

Historically, PBOC was the only bank in China, acting partly as the central bank and partly as commercial banks (Lin and Zhang 2009). Prior to the late 1970s, the Chinese banking system consisted of only one bank – the People's Bank of China (PBC). The PBC was part of the Ministry of Finance and its role in China's planned economy was primarily to collect revenues from state-owned enterprises and allocate investment funds approved through the budget. Since the late 1970s, the Chinese banking industry began to develop after it broke away from the 'unified administration system' under the political administration from the central government. Chinese banks started their modernisation since then. From 1978 to the early 1990s, the authority created a 'two tier' banking system, consisting of the People's Bank of China (Central Bank) and four large state-owned banks were re-established or separated from it: ICBC, ABC, BOC, and CCB. These banks, the so-called 'Big 4', make up the foundation of the commercial banking system. Initially, there was a high degree of functional segmentation between them. They specialised in conducting four major types of businesses (rural finance, foreign exchange, construction projects, and industrial and commercial loans). By 1985, they were allowed to accept deposits and make loans to households and corporations (mainly SOEs: state-owned enterprises) via nationwide branches. In the mid-80s, several new joint stock commercial banks (JSCBs) also entered the market, initially offering bank services to households and firms, mainly in the regions and cities. This group included the Bank of Communications, the CITIC Industrial Bank, the Shenzhen and Guangdong Development Banks, China Merchants Bank, China Everbright Bank and Hua Xia Bank. By now, all these commercial banks have expanded to universal banks, with trust, securities, and insurance affiliates, and are now national commercial banks that compete with each other.

The second wave of reforms occurred in 1993, as the State Council announced the new stage of bank reforms in the 'Decision on Financial System Reform' (The State Council 1993). One of the objectives at this stage was to create a competitive commercial banking sector where state-owned banks coexisted alongside other types of financial institutions and

encourage state-owned banks to implement market-oriented practices. Three policy banks, the China Development Bank, The Export-Import Bank of China and the Agricultural Development Bank of China, were created to separate policy-directed lending from the Big Four; these three banks are responsible for funding policies related to national critical investments, foreign trade and rural reform, respectively. 112 City commercial Banks were also established by city governments through the restructuring and active merging of over 5000 urban cooperative banks.

In addition, China promulgated the Law of the People's Republic of China on Commercial Banks and legally defined the four specialised national banks as commercial banks (ABC, BOC, CCB and ICBC) 1995. These four banks took this opportunity to accelerate the process of becoming actual commercial banks. Facing a vertiginous market, China's banking industry suffered a sharp increase in nonperforming loans (NPLs), and the NPL ratio reached approximately 30 per cent in 1997. To reform state-owned banks and address the NPL problem, the government injected billions of dollars of capital into the Chinese state banks and created four asset management companies to take over large amounts of non-performing loans by the end of the twentieth century (1999). The four financial asset management companies (AMCs), China Great Wall Asset Management Co. Ltd, China Cinda Asset Management Co. Ltd, China Huarong Asset Management Co. Ltd, and China Orient Asset Management Co. Ltd, had received and disposed of non-performing assets (approximately CNY 1.4 trillion) divested from the four large banks. Furthermore, foreign banks were allowed to carry out basic functions in China, although there were many restrictions until after the country joined the WTO in 2001.

The third period includes the early 2000s up until the most recent years when the speed of reforms accelerated with the aim of enhancing the reputation and the international competitiveness of the Chinese banking sector. In March 2003, the government transferred the central bank's supervisory and regulatory functions to the China Banking Regulatory Commission (CBRC). CBRC focus on critical areas such as accounting requirements and standards for loan classifications, capital adequacy, risk management and internal controls, and corporate governance. In this stage, the Chinese Government also proposed a further

reformation of the state-owned commercial banks on the basis of the restructuring in the late 1990s. Recognising the importance of and its responsibility in reducing NPLs in the 'Big 4', the central government established Central Huijin Investment Company, through which the PBOC injected large amounts of foreign currency reserves (mostly in the form of US dollars, T-bills, Euros and Yen) into these banks to improve their balance sheets in preparation for going public. All Big Four banks have since become publicly listed and traded on both the HKEX and SSE before 2010.

In this period, the banking system have undergone historical processes of restructuring, centralisation and concentration, involving reductions in the number of independent banks and a shift towards a more branch-based banking model. In 2006, there were 19,797 banking institutions in Mainland China, but the number decreased to 4,604 as a result of mergers and acquisitions at the end of 2021. By the end of 2021, the mainland's banking system consisted of three policy banks: five largest State-owned Commercial Banks (SOCBs)[10], 12 Joint Stock Commercial Banks (JSCBs)[11], 125 city commercial banks, 946 locally incorporated foreign banking institutions, one Postal Saving Bank of China (PSBOC) and so on. In total, the number of people employed in China's banking institutions amounted to 3,673,435 (CBRC 2022).

To date, the China Development Bank and two other policy banks have been established to take over lending in support of government policy objectives. Five SOCBs are the direct descendants of the planned economy banking system, accounting for more than two-fifths of total assets in Mainland China's banking sector today. There are 12 JSCBs so far, which were established between 1987 and 2005. The JSCBs present a sharp contrast to the SOCBs, which are the new entrants relatively unburdened by baggage from the planned economy era. City commercial banks were created from urban credit cooperatives that had

[10] Five SOCBs include the 'Big Four' (ICBC, CCB, ABC and BOC) and Bank of communications

[11] China Everbright Bank, China Minsheng Banking Corporation, China Merchants Bank, CITIC Bank Corporation, Hua Xia Bank, Shanghai Pudong Development Bank, Ping'An Bank, China Guangfa Bank, Industrial Bank, China Zheshang Bank, China Bohai Bank, and Hengfeng Bank

been set up to provide lending services to small-scale companies. Besides the four categories already described the remaining players in the mainland's banking industry, including foreign banks, are quite small.

The growth of bank assets, the ratio of bank assets, and the ratio of bank assets to GDP help to explain the major characteristics of China's financial system. Bank assets climbed from 43,950 billion CNY to 381.95 trillion CNY from 2005 to 2021 (PBOC 2022b), and their growth rate was much faster than GDP. The ratio of banking assets to GDP increased from 201.9% to 218.22% over the same period, compared to 98.42% in Germany and 73.95% in the USA at the end of 2020 (World Bank 2021). The impact of China's commercial banking is also shown on the global financial landscape. The mainland bank assets in 1993 only accounted for 1% of world banking assets – in contrast to 27.5% in 2020.

Due to the degree of financial openness and innovation, as well as the legal system, China's financial system has remained dominated by the banking sector, and capital markets, which represent an alternative to banking financing, are relatively underdeveloped (Naughton 2007). At the same time, existing literature has emphasised that political intervention in the Chinese banking sector has always been penetrating, frequent, and complex. The Chinese banking system was highly centralised and uniformly controlled by the government. Banks' organisational structure and internal management are inherently akin to government organs. Before the Global Financial Crisis (GFC), Chinese SOCBs had just accomplished their transformations into shareholding corporations and IPOs. However, the management of top bankers, including the appointment, remuneration, incentives, promotion, transfer and dismissal, remained untouched by reforms. Instead, bankers were still managed by the government and the Chinese Communist Party (CCP) through a politicised and administrative approach, acting as a channel of political intervention and government control. The top personnel were involved in the bureaucratic system and managed as government officials in accordance with the Nomenklatura system – a traditional Soviet model for monitoring an incentivising the leading cadres in political organs and state-owned sectors (Brødsgaard 2002).In this way, the power of the government and the CCP over the banking

system could be maintained, and the operations of banks could be manipulated to fulfil the national strategies for economic and social development (Lu 2019).

In commercial banks' daily operation, the government interfered heavily in SOCBs' credit and lending decisions, compelling them to play a significant role in supporting industrial and economic reforms. The government may impose non-commercial tasks on Chinese State-owned Banks, resulting in less autonomy in pursuit of economic profit and business development (Lin and Tan 1999). As a result, SOCBs had to provide loans to government-favoured projects undertaken by SOEs. Empirical evidence demonstrates that even with fewer guarantees and higher risks, SOEs could still obtain more loans from SOCBs than enterprises (Chen and Wohlfarth 2019). These policy loans were often used to support loss suffering and unprofitable SOEs, notwithstanding the higher propensity to default. Sometimes, these SOEs had already defaulted on their previous bank loans. To maintain their operations and prevent them from bankruptcy, SOCBs had to roll over the loans. After removing Non-performing Loans (NPLs) in the early 2000s, SOCBS accomplished a flurry of modernising reforms. However, the state-owned character of SOCBs remains, and they have still been required to assume substantial policy burdens, either explicit or implicit. In response to the Global Financial Crisis in 2008, the Chinese government launched a series of economic stimulus plans such as mega-projects of infrastructure construction and health and cultural development projects. Nearly half of the stimulus funding was allocated to bank lending.

In addition, the extant studies have also pointed out that even under the centralised financial system, there is uneven development in geography distribution in the banking sector. Based on qualitative data, (Yeung 2009) indicated that during the reform of the SOCBs, the market-oriented strategy with regard to outlet distribution may have led to underdeveloped areas suffering from financial exclusion in terms of operational efficiency and probably resulted in increasing spatial concentration of SOCBs' activities (also see (Yeung *et al.* 2012; He *et al.* 2013). To fill the gap in financial demand in these regions, top-down reform and opening up for the banking sector have driven the deregulation and formation of provincial financial systems, which serve different administrative spaces (Wu *et*

al. 2007). It can be ascribed to the combination of exogenous and endogenous banking institutions, including the SOCBs, the JSCBs, city commercial banks and foreign banks. They also mapped the spatial differences at the provincial level and recognised Beijing and Shanghai as the most mature and leading banking centres in Mainland China. The eastern coastal region possesses a majority of financial resources, and the financial systems in the central and western regions, which are underdeveloped areas in the economic sector, are at the budding stage.

4.3. Financial Liberalization - Chinese Capital Market

Chinese capital market was suspended during the planned economic period. After the economic reform and open-up policy announced in 1978, the reopening of the capital market was put on the central government's agenda. Similar to the banking sector, the primary purpose of the capital market construction in the mainland is to provide funding for economic reform, representing an alternative to banking financing. Since its inception in the early 1990s, the Chinese stock market has experienced unprecedented development. Despite rapid economic changes during the reform, the initial growth of the Chinese capital market is slow and lagging. By the early 2000s, China's stock market was already the largest in the developing world, and as of late 2016, the Chinese Stock Exchange (SSE and SZSE) became the world's second-largest in terms of market capitalisation. Despite rapid growth in the market value during the reform, the initial development of the Chinese capital market is slow and lagging, especially in market-orientated development. In transition economies, such as China's, the uncertainty in developing capital markets is exacerbated by the conflicting institutional logic from socialism and capitalism (Bruton and Ahlstrom 2003; Peng 2003). Instead of a full-fledged adoption of standard market principles, a hybrid has emerged in which the government retains substantial discretionary power and interferes directly in the market (Carney *et al.* 2009; Nee 1992). While controlling the financial risk through the central government's macro-strategy, the planned-based domestic financial market cannot supply sufficient funds to the whole economic entity. This drives Chinese enterprises to seek alternative methods in international financial markets. The section will briefly overview the primary market in the Chinese capital market and its internationalisation, focusing on

common stock and corporate bonds, as they constitute the major parts of the market at this point.

4.3.1. Common Stocks

The capital market activities had a long hiatus during the planned economy from 1959 to 1981. When China began to transform into a more market-oriented economy after economic reforms started in 1978, the Chinese capital market began its revival. Similar to the banking sector, the primary purpose for the PRC adopting the capital market is to provide funding for economic reform, which represents an alternative to banking financing. The government first tried to raise funds in the capital market in the 1980s. In May 1982, the State Commission for Restructuring the Economic Systems was established to reform China's economic system, whose initiatives included overhauling SOEs. The commission actively promoted the so-called joint-stock reform, which introduced non-state participation in (state-owned) firms. Ownership by non-state entities, including individuals, was offered in exchange for capital or other forms of economic contributions. Some small state-owned enterprises and collective enterprises then began to restructure themselves into joint-stock firms, which led to an early form of stocks. After December 1986, when the State Council announced the 'Regulations on Deepening Enterprise Reform and Enhancing the Vitality of Enterprises', more enterprises, including some large state-owned enterprises, started to issue stocks, and the primary stock market began to emerge (State Council 1986). In the early stage, most stocks had bond-like characteristics with finite maturities, guaranteed par values and predetermined interests or dividends paid at maturity. In addition, most stocks were issued to employees and local citizens and were self-issued without an underwriting process. The ownership of these SOEs applied the 'split-share structure', where there were two classes of shares: one was issued to the public, and the other represented the pre-existing ownership, which often belonged to different parts of the government.

With the deepening of reform and opening up, the new-born private sector searched for new pathways to raise funds. Without the capital market, corporate financing was mainly based on commercial bank loans, where funds obtained are debt-based with a short maturity.

Also, commercial banks prefer to offer loans to enterprises with asset collateral or guarantees. In China, SOEs have more chances to get loans compared to non-SOEs. The single financing channels would restrict the development of the emerging non-governmental economy and limit their capacity in the following innovation. In facing the boom of private enterprises, the authorities are aware of the necessity of developing an equity market, which could broaden financing channels to meet the financing needs of different enterprises (Heep 2014). At the same time, as the number of stocks and investors rose in the late 1980s, the need for secondary trading of stocks also increased. When China's capital market was re-born in 1990, the establishment of SSE and SZSE made an epoch-making contribution to China's financial development and structural reform.

From the 1990s to 2000, the basic structure of the capital market and related infrastructures were initially established. After the Shanghai and Shenzhen Stock Exchanges were established in December 1990, the Chinese stock market has been characterised by the co-existence of various types of shares. A Shares, which represents the shares listed on the two main stock exchanges, are denominated in RMB and comprise approximately 96% of all shares traded. In addition to that, the authority had the intention to open up the international financial market at an early age. The preliminary trial of financial internationalisation began with the establishment of B Shares in 1992 in both Shanghai and Shenzhen.[12] In 1993, a SOE was approved to be listed on HKEx in the form of H-share, which was the prelude for mainland enterprises to raise funds on overseas financial market.[13]

---

[12] The participants in B-share market were exclusively foreign investors before 2001. On SSE, B-share prices are denominated in U.S. dollars while on the SSE prices are denominated in Hong Kong dollars. B-share firms are accounting for only a tiny proportion of the total market.

[13] H Shares refer to shares of companies registered in mainland China but listed and traded on HKEx. Many companies issue their shares simultaneously on HKEx and one of the two stock exchanges in mainland China. There are often substantial price discrepancies between H shares and their A-share counterparts issued by the same company. A-shares are generally traded at a premium to H shares.

The centralised regulatory system of Chinese capital market was gradually settled from 1990s. The State Council Securities Committee and its executive branch, the CSRC, were established to regulate China's stock and futures markets in October 1992. In 1994, the first Company Law was passed by the National People's Congress. In 1996, mainland exchanges officially implemented the Price Limit of 10% to the trading system, preventing arbitrage on financial products.[14] In 1998, the State Council Securities Committee ceased operation, and its functions were transferred to the CSRC, which became the sole regulator supervising nationwide securities and futures markets. China's Securities Law, the nation's first comprehensive securities legislation, took effect on July 1, 1999. It grants the CSRC authority to manage a centralised and unified regulation of the nationwide securities market to ensure their lawful operation. The CSRC oversees China's nationwide centralised securities supervisory system, with the power to regulate and supervise securities issuers, as well as to investigate and impose penalties for illegal activities related to stock and futures markets. The CSRC is empowered to issue Opinions or Guideline Opinions, non-legally binding guidance for publicly traded companies, but they are the main channel for authority to issue instructions in practice.[15]

When China's capital market was re-born in the 1980s, its essential function was enterprise financing. However, due to a lack of fundamental understanding of finance, the pace of financial disintermediation in China was slow, and the process of marketisation of China's financial system was stagnated before 2000s. The capital market in this period has the mentality of a planned economy and runs counter to market logic. The capital market at that period was characterised by a lack of reliable information and a high degree of information

[14] In financial and commodity markets, prices are only permitted to rise or fall by a certain number of ticks (or by a certain percentage) per trading session.

[15] In March 2023, the new financial regulator (the National Financial Regulatory Administration) is announced to replace the China Banking and Insurance Regulatory Commission (CBIRC). China Securities Regulatory Commission (CSRC) become the parallel regulator to the People's Bank of China (PBOC)and the CBIRC, to oversea China's financial sector in securities industry, and the cabinet's Financial Stability and Development Committee have overall responsibility of the financial system.

asymmetry. At the same time, some deep-rooted problems and structural issues, such as incomplete regulation systems, underdeveloped financial exchanges, lack of disclosure mechanisms, and many more, still existed, limiting the operations of the markets and restricting their expansion. Besides, China's State-dominated economic system is biased toward non-SOE capital market financing activities. The approval-based listing rules set a range of restrictions on non-SOEs' IPOs, and the share-split system also resulted in a large magnitude in IPO under-pricing. These issues increase the cost of funds generated in emerging markets where market imperfections are severe, especially for non-SOEs. At the same time, as income levels rose, there is an increasing propensity among domestic capital market to take on a wealth management function. The incomplete institutions on the secondary market were urgently in need of change. This gave rise to the need for further reforms after 2000.

CSRC has made great efforts to improve corporate governance for domestically listed firms. In 2001, CSRC cracked down on listed firms' irregularities and fraudulent activities and severely punished 30 firms. In August 2001, CSRC developed a guideline for establishing an independent director system. On January 7, 2002, CSRC formally issued the Corporate Governance Code for firms listed in China. The code is quite close to the international norm. 2002 was then designated as the year of corporate governance. In April, CSRC announced that it would send inspection teams out to all listed companies to see if the standards set by the Corporate Governance Code were met by the end of 2002. As a result, there were obvious corporate governance improvements among listed firms in China after 2002. In 2004, the State Council released its opinions of the State Council on Promoting the Reform, Opening and Steady Growth of Capital Markets, highlighting the intermediaries' supervision.

Meanwhile, the CSRC implemented a series of reforms, including liberalising restrictions on securities firms and the investment fund management industry. After the accession to the WTO, the financial reform in the mainland has been deepened, where non-SOEs gradually have access to the capital market in both equity, bonds and other financial instruments. SOEs took advantage of this opportunity to undertake corporatisation and

internationalisation reform through the capital market. Since the 2000s, China's capital market has been gradually supervised from an administrative approach to a market and law-based one, which is based on both theoretical logic and market realities.

One remarkable progress in financial reform in the 2000s was the Split Share Structure Reform in 2005. In the 1990s, the Chinese capital market adopted the 'split-share structure', which led to the ambiguity or ambiguity in enterprises' ownership rights. This structure distinguishes between these two classes of shares, in which one type of share was issued to the public and the other represents the pre-existing ownership, which often belongs to different parts of the government. The latter were often called government or legal-person shares. Although these 'legal-person shares', of which more than 70% are state-owned, are non-tradable in the market, they benefited from duplicate voting, cash flow, and other legal rights as their tradable counterparts. As the controlling shareholders, government agents owned stocks on behalf of the Chinese government. SOE executives, who were appointed and evaluated by these agents, enjoyed absolute control without sharing in the costs borne by the holders of minority tradable shares. Such misalignments, coupled with an inadequate regulatory environment including limited disclosure, poor investor protection, and over-reliance on the banking system, might have incentivised them to resort to decisions that undermined SOEs and have contributed to suboptimal performances of tradable shares (Ang and Ma 1999; Qi *et al.* 2000; Sun and Tong 2003; Green and Ho 2004; Kato and Long 2006). Second, because of the limited amount of shares for public trading, the stock market was vulnerable to speculation and manipulation which resulted in high volatility and turnover (Allen *et al.* 2005; Liao *et al.* 2014). The severe agency issues in corporate governance and the vulnerability of the capital market significantly weakened investors' confidence. China's main stock index — the Shanghai Composite Index, declined for five consecutive years from 2100 points in mid-2001 to 1070 in mid-2005. China CSRC launched the Split Share Structure Reform (SSSR) in April 2005, which was not to terminate government ownership or control but to make state-owned shares responsive to the stock market. The basis for evaluating the performance of government agents would be the market value of state-owned shares instead of the book value of SOE assets as before the reform (Liao *et al.* 2014). After SSSR, the government shares of SOEs are nominated as tradable on the secondary market.

Although the reform converted state shares from non-tradable to tradable, the traceability of state shares is still limited. According to a regulation outlined in July of 2007 by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), state shareholders of a firm need to obtain permission from the central government if they intend to transfer more than 5% of the firm's total shares within three years (SASAC 2007). The regulation is to reduce the possible price impacts of large share-selling activities by state shareholders and to preserve state ownership in public firms.

In addition to SOEs' corporealization in the capital market, the financial reform from the 2000s has created space for non-SOEs through infrastructure construction in the capital market. In May 2004, the Shenzhen Stock Exchange formally launched the Small and Medium Enterprises Board (SME Board) to list and trade shares of small- and medium-sized firms. The firms listed on the SME Board typically have high growth and profitability. In October 2009, to better support the financing of small enterprises, the Shenzhen Stock Exchange launched the Growth Enterprise Market. Compared with the Small and Medium Enterprise Boards, the Growth Enterprise Market focuses more on even smaller firms and high-tech firms. The Growth Enterprise Market also has listing and trading rules that are different from those of the SME Enterprise Board. In 2019, the SSE established a new sector, The Science and Technology Innovation Board, which is independent of the main board market. Its primary investment direction is emerging technology industries, such as new generation of information technology, high-end equipment, new materials, new energy, energy-saving and environmental protection, and biomedicine. On this board, SSE and CSRC have launched a registration-based IPO system. By the end of 2022, the total number of companies listed on SSE and SZSE stood at 2,887 (214 SSE and 2,673 SZSE) (SSE 2021; SZSE 2022). The total market capitalisation on the two stock exchanges amounted to RMB 37.23 trillion (3.52 trillion, 33.7 trillion, SSE), ranking second globally, following the stock exchanges in the USA. Currently, a number of regional security exchanges also exist. Still, they have played only a relatively minor role in China's overall stock market, both in terms of total market capitalisation and trading volume.

The boom of Chinese stock market after 2000 is the primary factor that contributed by the reform of listing rules. The development of China's IPO regulatory system is conducted in a well-phased and gradual manner with fundamental characteristics of the government's tight control. Out of concern that a large number of post-IPO firms will fail, and this will hinder the development of a strong stock market, the Chinese government tend to design elaborate regulations and safeguards to ensure the quality of IPO issuers. Its tight market control is realised primarily through a 'charter system' for market entry, as it is typical of regulatory institutional frameworks. The listing rules have traversed four phases: the Administrative Review and Approval System with quota management at its core, an approval system based on the Channel System, an approval system, and the registration system based on a sponsor system.

China's IPO quota system was first adopted in 1993 to maintain market order and to prevent cash-starved, poor-quality SOEs from flooding the market with shares. The State Planning Commission determined the quantity of equity to be issued each year, and CSRC would then divide this quota among the provinces and ministries. A company seeking to list would have to be selected by a provincial government or ministry with a quota before asking CSRC for approval. Local authorities often reduced the issuing proceeds for each firm in order to let more firms list within the quota limit. In 1996, the quota was changed from restricting the quantity of equity to be issued to limiting the number of firms listed. In February 2001, CSRC replaced the IPO quota system with new rules, which reduced CSRC's power to approve IPOs and increased the responsibility of the lead underwriters. From this time, the IPO and other financing activities in the domestic capital market were under the authorised issuance approval mechanism. In the new rule, quota allocations for listing were abolished, and CSRC approval was replaced with a CSRC confirmation requirement for IPOs. Issuers and underwriters could now negotiate IPO prices independently, although these would be subject to the CSRC's approval. The rules were further revised in February 2004, which put more responsibility onto the securities firms. On June 13, 2019, SSE officially launched a science and technology innovation board called STAR Market, and the first batch of 25 enterprises was listed on July 22, 2019. The most important innovation of the STAR market is the introduction of a registration-based IPO system to the Chinese market. One year

later, ChiNext Market on SZSE switched from the traditionally approval-based IPO system to the new registration-based IPO system, and the first batch of stocks under the new rules went public on August 24, 2020. From then on, the two essentially different IPO rules coexist in the Chinese stock market: stocks that plan to list on the main board market must obey the approval-based IPO rules, and those that plan to list on the STAR Market or ChiNext Market should obey the registration-based IPO rules.

Effectively, the reform in IPO rules has not produced a fundamental change in the substantial interference directly in the market from the authority. There are still limitations on how many IPOs can be issued under the IPO system in both direct and indirect ways. On the one hand, the authority is replacing the direct explicit and strict quota system with controlling the number of sponsors to limit IPO numbers indirectly. Under the new IPO rules since 2001, the firm needs at least one listing sponsor (i.e., a qualified securities-trading firm) and two deputy sponsors in the form of individuals who work for a listing sponsor and possess the necessary certifications. The listing sponsors and deputy sponsors serve the double function of guarantor and reference. In addition, a deputy sponsor is not allowed to act for several IPOs simultaneously. In order to enforce careful firm selection, the Chinese stock market authorities kept the number of certified listing sponsors and deputy sponsors relatively small. Currently, there are in total 100 major securities houses (most of them are state-owned) with 8,279 sponsors by September 2023.

On the other hand, CSRC has the right to make a final decision on the success of a single IPO case and the whole market. Historically, there have been 9 IPO suspensions, ranging from 3 months to 15 months, and the last one was in 2015. (Table 1) CSRC also have the right to slow down the IPO approval process according to the equity market performance. The latest IPO and other financing activity approvals postponed for Chinese domestic capital were announced on 27th August 2023 due to the downturn of the stock market (Xinhua 2023).

Table 1: IPO Suspension on Chinese domestic stock market by 2023

No	Date	Period
1	1994.7 - 1994.12	5 months
2	1995.1 -1995.6	5 months
3	1995.7 - 1996.1	6 months
4	2001.7 - 2001.11	3 months
5	2004.8 - 2005.1	5 months
6	2005.5 -2006.6	12 months
7	2008.9 - 2009.6	9 months
8	2012.10 - 2014.1	15 months
9	2015.7 - 2015.11	4 months

Source: Wind (2023)

The heavy-handed regulations have limited enterprises' access to adequate financing through the stock market in the planned-orient system in the Chinese capital market. In addition to the tight control of listing, the lack of institutional investors is the other main factor. There are four major classes of investors in the Chinese stock market: domestic individual investors, financial intermediaries and financial service providers, including brokers, integrated securities companies, investment banks, trust companies, domestic institutional investors and QFII. In the mainland, commercial banks are forbidden by law from participating in security underwriting or investing business, except for QFIIs. Nor can banks lend funds to their clients for securities business. Insurance companies are permitted to invest in common stocks only indirectly through asset management products operated by fund institutions. Chinese legal norms also prohibit banks and insurance companies from investing in private equity directly (Lu *et al.* 2013).

Stock markets are crucial sources for entrepreneurs to obtain significant equity investments, which not only give entrepreneurs access to a broad pool of potential investors but also endorse the quality of the ventures and thus can support long-term growth (Ding *et al.* 2010). Nevertheless, when the State has absolute power over financing activities, the unpredictable policy preference results in low participation in the financial market. Because of the inefficient capital allocation, Chinese enterprises, even SOEs, cannot get powerful financial support in the domestic stock market.

4.3.2. Corporate Bonds

China's bond market was re-established slightly earlier than the stock market. Similar to the stock market, the re-birth of China's bond market in the 1980s was to raise funds for economic reform and act as a complement to the credit supply from commercial banks. When China began to transform into a more market-oriented economy after economic reforms started in 1978, the Chinese capital market began its revival. Ministry of Finance (MOF) resumed issuing Treasury bonds (T-bonds) in 1981, with the primary goal of addressing the considerable inflationary pressures resulting from economic reforms that started in late 1978. These bonds were not tradable and offered to both individual and corporate buyers, mostly through administrative allocation in proportion to wages. Corporate or enterprise bond markets began in 1984. From 1984 to1986, 739 firms in Shanghai issued bonds for a total of RMB 139 million. Corporate bonds were not transferable either, as the mainstream opinion was that securities trading facilitated speculation and would allow traders to get something from nothing and, therefore, must be banned.

To reduce risks in the banking system and build up a multi-tier capital market system, the central government has been encouraging enterprises' direct financing since the 2000s. The share of corporate bonds in China's total social financing –the aggregate amount of funding provided by China's domestic banking system and capital markets to the real economy –jumped to 6.4% by end-2022 (10.5% by the end of 2021), from only 0.8% at end-2004 (State Council 2023a). China's bond market had grown to CNY144.8 trillion by the end of 2022 regarding the principal amount of bonds outstanding, the second-largest after the US (State Council 2023b). Bank loan replacement is a crucial incentive for domestic corporate bond issuance. The size of China's bond market relative to the domestic bank loan base also increased to 62.9% by the end of 2018 from 34.0% at the end of 2004, indicating a surge in direct corporate debt financing. The cost of issuing bonds has been lower historically than the cost of bank loans of similar duration for Chinese corporations due primarily to the strong bargaining power of Chinese banks. The longer tenors, a fixed interest rate and much lower security requirements are other incentives for corporations to issue bonds. However, the cost

of bond issuance approached that of bank loans from 2018, as corporate bond yields rose on regulators' deleveraging measures and tighter market liquidity.

Chinese bond market has operated in a fragmented, tripartite regulatory environment involving multiple government authorities: the PBoC, the China Securities Regulatory Commission (CSRC), and the National Reform and Development Commission (NDRC). Corporate credit bonds in China have four main categories: enterprise bonds, corporate bonds, short-term commercial papers, and medium-term notes. Though those four types of bonds are all issued by entities with corporate credit, they are under different regulatory authorities and are issued and traded in different markets.

The enterprise bonds are issued by enterprises, including government agencies, enterprises under collective ownership, and state-owned enterprises. During the early years, enterprises needed to first apply for the approval of the State Planning Commission (SPC), and the SPC was then required to submit the application to the State Council for review and approval. The redundancy and complexity of the process had curbed the growth of the enterprise bond market. The issuance process was then significantly simplified in 2008, leading to the liberalisation of the enterprise bond market. Currently, the issuance of enterprise bonds is approved by the National Development and Reform Commission (NDRC), which is a successor of the State Planning Commission (SPC). Enterprise bonds are issued and traded in both the interbank bond market and the exchange markets and are under the general depository of China Central Depository & Clearing (CCDC). Corporate bonds are regulated by the CSRC.

Corporate bonds are issued and traded in the exchange bond market only and under the depository of China Securities Depository and Clearing Corporation (CSDC). Compared with enterprise bonds, the history of corporate bonds is relatively short. Although the Company Act stated that listed companies are allowed to issue debt, it was never carried out until August 2007, when the CSRC starts approving issuance of two corporate bonds with total size of CNY 5 billion. After the CSRC adopted new regulations in 2015, the corporate bond market has expanded quickly. Under the new policy, the issuing body of corporate bonds was

expanded from only listed companies to include both listed and non-listed companies. In addition, the corporate bonds were also allowed to be privately placed, as well as public offering. As a result, the total issuance of corporate bonds jumped to 472 bonds with a full size of CNY 1.0 trillion in 2015, a sharp increase from only 184 bonds with a total size of CNY 282 billion in 2014. In 2022, the corporate bond market continues to grow fast, with a full size of CNY 13.8 trillion issued during the year (State Council 2023b). Among the four types of bonds in the category of corporate credit bonds, enterprises and corporate bonds are the most considerably sized. While enterprise bonds are issued in the interbank market, they can be listed and traded in the exchange market as well. The majority of corporate bonds are traded in exchanges (SSE and SZE), which are an order-driven market. In exchanges, bond trading, alongside equities, are conducted based on tender prices.

Short-term commercial papers are issued by non-financial enterprises with legal person status. This instrument, similar to commercial papers in the U.S., is a direct financing tool with maturity not exceeding one year. Short-term commercial paper first appeared in China in 1989. During the early years, the issuance of short-term commercial paper was highly regulated and needed approval from the PBOC. The issuance of short-term commercial papers was halted between 1997 and 2005 until the new regulation policy reopened the market. Under the new policy, the issuance of short-term commercial paper switched from the old approval system to the new registration system. Medium-term notes, with maturity ranging from 2 to 10 years, fill the gap between short-term commercial papers and enterprise/corporate bonds. Similar to short-term commercial papers, medium-term notes are also issued by non-financial enterprises with legal person status and traded in the interbank bond market. The first issuance of medium-term notes occurred on April 15, 2008, when the Ministry of Railways and other six companies issued CNY 119 billions of medium-term notes in total. Medium-term notes were used to be issued and deposited at the CCDC before June 17, 2013. Afterwards, the newly issued medium-term notes are under the depository of SHCH.

Issuance in the Chinese domestic corporate market is dominated by SOEs and China's Local Government Financing Vehicles (LGFV), which accounts for around one-fourth to one-

third of annual corporate issuance since 2014 and represents an increasing portion of outstanding corporate credits (approximately 40%). SOEs' (including LGFVs) share by issuance amount reached 84.3% in 2022, as more LGFVs – typically owned by local governments – tapped the onshore market with relatively small deal sizes. The SOEs' dominance can be attributed to their leading roles in infrastructure investment and a favourable position in accessing financial resources and obtaining government support. The state-owned sector's advantage over the private sector in access to external funding channels (especially banks) and government support has resulted not only in a lower number of state-owned issuers defaulting than private companies but also a higher percentage that has made full repayments in cash after defaults. Non-SOEs, mainly private companies, typically account for a lower share of issuers (less than 30%) and principal amount (less than 20%) among outstanding corporate bonds.

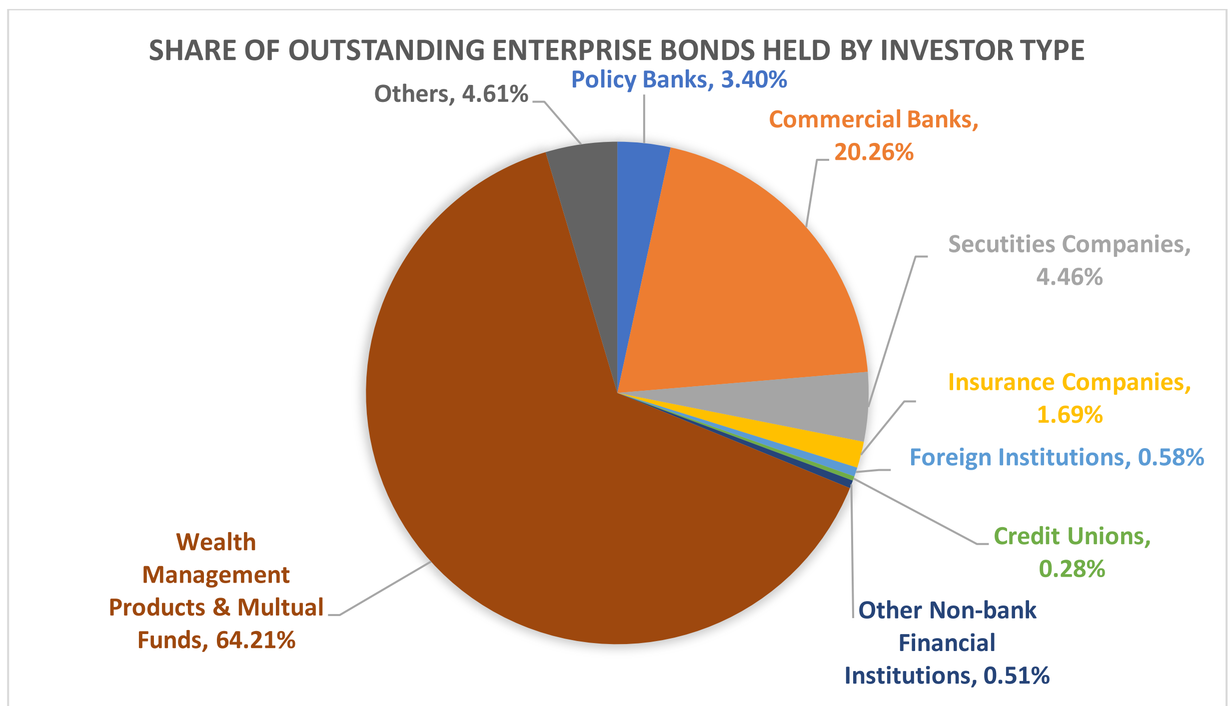
Nevertheless, private companies outnumbered SOEs in both the number of default issuers and the total principal amount of bonds in default in the onshore bond market. Private companies are more vulnerable than SOEs to external funding market volatility and, therefore, face greater liquidity and/or refinancing risk under tight credit conditions. Aggressive business strategies, 'key man risk', and/or weak accounting/corporate governance practices were among the main drivers of some of the private-sector defaults.

The registration-based and approval-based mechanism are co-existed in the bond issuance approval system currently in China. A registration-based mechanism applies to the issuance of short-term commercial paper (SCP), CP and MTNs in the interbank market. Similarly, CSRC has adopted a post-issuance registration mechanism for privately placed exchange corporate bonds instead of pre-issuance approval since January 2015. The issuance of other corporate bonds is still subject to regulatory approval. However, policy interventions are unlikely to entirely disappear. To maintain the financial stability and state macro control, specific sectors, like education, medical, and other public service industry, are restricted in access to capital market. Moreover, PBOC/NAFMII restricted Chinese property developers from tapping the CP/MTN market from 2008 to 2014 to rein in the housing market. In addition, the Shanghai and Shenzhen stock exchanges have raised the entry barriers for

exchange corporate bond issuance by property companies since the end of October 2016 to curb excessive capital flow into the sector.

Furthermore, participants in the corporate bond market exclusively consist of a singular category of investors—namely, commercial banks and their affiliated financial institutions. Qualified Investors in Chinese domestic bond exchanges include financial institutions and their wealth management products; corporates, public institutions, and partnership enterprises with net assets no less than CNY10 million; social security funds, enterprise annuities, and charity funds; and individual investors with financial assets no less than CNY3 million. Among these investors, commercial banks, along with wealth-management products (WMPs), dominate the investor base (Figure 2). WMPs are issued by commercial banks as a tool to obtain funds and offer more attractive yields than deposit rates. Banks usually hire asset management firms to manage the proceeds. Most of the WMPs are not principally guaranteed, so banks keep them off their balance sheets. In other words, most investment in corporate bonds is from the credit capital in commercial banks, which effectively creates a shadow bank in the Chinese capital market. Also, the similar funding sources brings the consistency of risk preference in investment strategy. SOEs (including LGVFs) from economically developed areas have more chances to obtain low-cost funds from different sources. For non-SOEs and SOEs from less developed regions, the difficulties they face are not only the chance to get authorities' approval to issue bonds but also the chance to get investors from the commercial banking system.

Figure 2: Share of Outstanding Enterprise Bonds Held by Investor Type, 2023



Source: China bond, Shanghai Clearing, (August 2023)

4.3.3. Wealth management, shadow banking and their relationship with commercial banks

The origin of wealth management products can be traced back to the global financial crisis in 2008. To support China's massive stimulus plan then, large state-owned banks pumped volumes of new loans into the economy and also grew more aggressive in the deposit market. This created a plausibly exogenous shock in the local deposit market to medium- or small-sized banks facing differential competition from the 'Big Four' banks. Responding to this shock, medium- or small-sized banks significantly increased shadow banking activities after 2008, most notably by issuing wealth management products. The scales of issuance are greater for banks that are more constrained by on-balance sheet lending and face greater competition in the deposit market from local branches of the more rapidly expanding big banks. Chinese asset management industry experienced dramatic growth after 2013 and has become the world's second-biggest fund market, behind the United States.

At the same time, shadow banking is accompanying this industry's rapid development. Since the government controlled all financial resources by assigning exclusive monopoly to state-owned commercial banks and allowing no room for private financial business, the funds raised through the capital market essentially amounted to a shift of household savings and corporate deposits from state-owned banks to other players and financial sub-industries. Wealth management products in the Chinese domestic financial market are essentially acting as the shadowing banking system by investing commercial banks' funds in the capital market through different financial institutions.

Firstly, rigid redemption widely exists among wealth management products. In practice, banks can generally redeem them according to the rate of return present in the contract. For those products with a range of return of returns, they can also be redeemed according to the upper limit of the rate of return range. So, the non-principal protection and floating rate of return are very rare in practice. No matter how the investments go, banks can 'guarantee' the redemption according to the contracted expected rate of return. The consequence is the gradual accumulation of risks within the banks and the more significant pressure on banks' future investments. Also, the regulatory arbitrage is universal. As the Chinese regulatory authorities tighten the supervision of credit expansion of commercial banks, commercial banks have gradually begun to make use of 'channels' to expand their lending business. Specifically, banks use wealth management funds to indirectly transfer funds through security companies, trust companies, and other institutions to companies that need funds. Accordingly, security companies, trust companies, and other institutions become shadow banks. These channels move assets off commercial banks' balance sheets and repackage them as wealth management products. These products experienced phenomenal growth due to a combination of very attractive yields and implicit guarantees. Unregulated and without the requirement to disclose holdings or mark to market, wealth management products were free to invest in a broad range of opaque and illiquid securities while leveraging leverage to boost returns. With multiple financial institutions creating, distributing and investing in each other's products, a complex web of interconnectedness emerged, underpinned by principal and return guarantees that created a moral hazard and magnified systemic risks. As a result of these issues, the asset management business has helped increase the volatility of asset prices, distort the

mechanisms of asset pricing, decrease the efficiency of resource allocation, and enhance the systemic risk of the whole financial system in China.

In April 2018, China announced major new asset management product (AMP) rules designed to curtail shadow banking activity, increase investor protection and reduce systemic risks. The new rules ban the principal and return guarantees, along with fund pooling and channel business. The stricter rules have passed on structure, leverage and duration, and the product disclosures have been improved. The new rules bring about a significant change in how commercial banks and financial institutions operate. While the rules should substantially lessen systemic risks and moral hazards, their onerous restrictions and ban on guarantees will significantly reduce the desirability of new wealth management products. Commercial banks will be hardest hit—initially by a loss of fee income from issuing wealth management products. They will also need to source alternative funding, set aside larger credit provisions, and potentially face higher numbers of nonperforming loans as residual nonstandard assets return to their balance sheets.

By the end of 2022, China's GDP has reached 121 trillion yuan, with more than 53 million registered enterprises (92.3% non-SOEs). These non-SOE entrepreneurs typically face both challenges in raising large loans from state-owned banks Field (Fung et al. 2007) and the limited opportunities for capital market entry. These enterprises, which conduct their financing through these non-standard wealth management products, are experiencing a shortage of capital, especially the working capital. After the new rules, enterprises with difficulty getting sufficient credit from commercial banking are actively looking for alternative supplementary funding methods, even with higher costs.

4.4. Internationalization in oversea capital market

Following the decision in 1978 to switch to a growth strategy, Chinese state-owned banks substantially increased their international borrowing through Hong Kong to support economy reform in mainland China (Kueh and Howe 1984). The combination of top-down bureaucratic control and bottom-up policy entrepreneurialism encouraged a coalition for growth that was open to pursuing flexible policy and experimentation with Western methods

of organisation and financial conduct (Mcnally 2013; McNally 2019). Importantly, the complex political set up (possibly learning from the failed transition in Russia) opposed the privatisation of state assets. Instead, from the second half of the 1990s, the Chinese central government encouraged state institutions to act like private investors. Chinese state-owned banks substantially increased their international borrowing through Hong Kong during the period (Kueh and Howe 1984).

China's accession to the World Trade Organization (WTO) in 2001 deepened its reform and led to unprecedented urban growth (Clark *et al.* 2015). In preparation for China's commitment to open its domestic financial market under WTO rules, the state granted Chinese financial institutions privileged access to the global capital market through Hong Kong to 'test' the salience of the reform programme in the controlled setting of Hong Kong (Töpfer 2017). As cash flow from state-owned banks was drying up due to non-performing loans and defaults following the 2008 financial crisis, the risk of an industry-wide banking crisis generated a sense of urgency among CCP leaders (Bell and Feng 2013). As pioneers in the internationalization of Chinese financial institutions, Chinese state-owned banks had developed expertise in finance. The Chinese government sought to use this expertise to reform the Chinese domestic financial market. At the same time, the government allowed foreign branches of these banks to develop and invest in the mainland. The paradoxical result was that Hong Kong began to serve as the Chinese banks' gateway to the Chinese market.

The authorities encouraged Chinese financial institutions to employ Western fund management practices to 'upgrade' the domestic financial sector (Robertson 2015). The experience gained in Hong Kong served as forerunner for subsequent changes in mainland China's financial sector. *S*maller Chinese financial and business services, such as regional commercial banks, securities companies, and private financial companies, followed in the big banks' footsteps, performing a wide range of intermediary services, such as dealing and brokering, asset management, investment advisory, mergers and acquisitions, and corporate finance.

Simultaneously, the heavy-handed regulations in capital market access and trading and the market preference in SOEs have limited enterprises' financing activities in domestic financial markets. The lack of market-oriented financial instruments makes the Chinese financial system have difficulty in allocating funds effectively. Even though SOEs have the privilege of acquiring credits from commercial banks and capital markets, their demand for investments and other financial needs, like hedging, cannot be satisfied in the domestic financial market. As China's economy boomed after 2010, the surging demand for financing and investments drove Chinese enterprises to look for alternative ways in the global financial market. Entrepreneurs with high-growth ventures, such as SOE (Big 4, PetroChina) and non-SOEs (Alibaba and Tencent), are successively going IPO overseas and getting involved in the global financial market through Hong Kong. Overseas financing has become necessary for Chinese enterprises.

Overseas listings were not initially planned by the government. Inspired by China's growth potential after Deng Xiaoping's grand tour of South China in early 1992, international investors wanted to hold Chinese equity. Investment banks foraged around China for restructured SOEs that wanted to raise capital overseas. In response, the State Council quickly issued its first regulation on listing overseas, 'A Special Regulation on Raising Capital and Listing Overseas by a Joint-Stock Company,' on April 19, 1993, and three months later, the SOE, Tsingtao Brewery, firstly got oversea listed on HKEx.

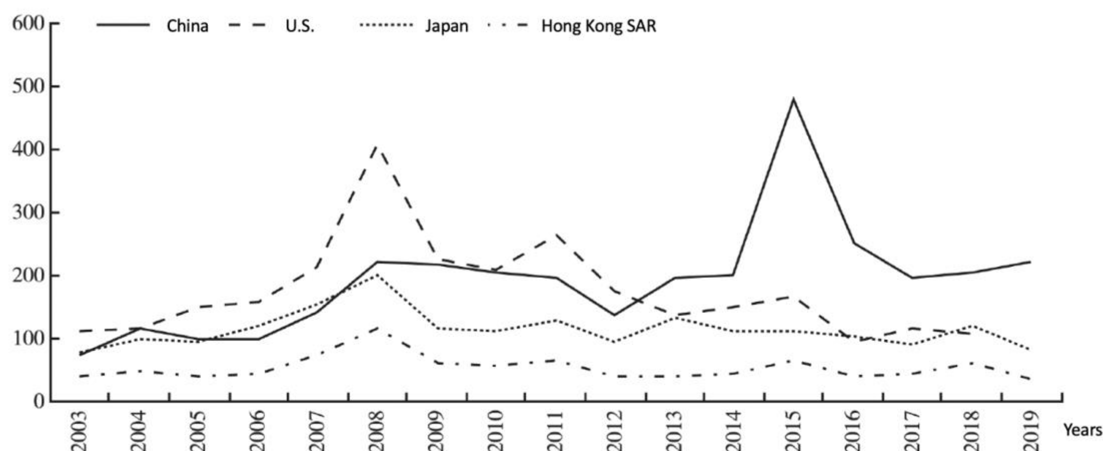
As stated in the last section, China's IPO quota system adopted in 1993 aimed to maintain market order and prevent cash-starved, poor-quality SOEs from flooding the market with shares. It prevented many large firms from getting listed, and CSRC quickly found that overseas listings could be a partial solution. Eventually, firms with a net worth above RMB400 million, the previous year's net profit greater than RMB60 million, and issuing proceeds of more than US$50 (about RMB400 million) were allowed to apply for an overseas listing in the form of H-Shares. From 2000 to 2010, large SOEs, including the four biggest state-owned commercial banks, gradually were listed on HKEx. At the same time, small and medium-sized non-SOEs have been making use of the 'Red Chip' form to get listed on HKEx since 1993. By the end of 2022, the market capitalisation of China-related Stocks on the

mainboard of HKEx has reached HKD$10,565,171.12 million and HKD$ 2,341.93 million on GEM, which contributes around 30% of the total market capitalisation (HKEx 2023a).

By doing so, the Chinese government effectively diverted some big issues to the more significant overseas markets. However, the CSRC has never admitted that it uses overseas markets to relieve domestic issuing pressure. Besides relieving the pressure on domestic issues, the Chinese government also uses overseas listings to force SOEs to conform to 'international standards'. By listing overseas, H-share firms are forced to undergo thorough restructuring, be audited according to international standards, and be disciplined and monitored by a more demanding investment community. As more and more Chinese firms were listed overseas, the Chinese government started to emphasise the strategic role played by overseas listings in establishing a modern corporate system. However, it is still speculated whether H-share firms exhibit better corporate governance than their domestic counterparts after the listing. Moreover, the offshore features of these overseas listing firms are deliberately ignored due to their invisibility in the offshore world.

Another interesting fact to be noticed is that Chinese enterprises' overseas listing is always at a significant price discount compared to the A-share in mainland stock exchanges. At the same time, compared with an IPO on the domestic stock market (A-share in SSE and SZE), the price-earnings multiple (P/E ratio) in the Hong Kong market is generally lower. For Chinese enterprises, the IPO costs in Hong Kong are higher, and the accounting disclosure requirements and regulation environment are much more complex, so a Hong Kong market listing will bring less short-term financial benefits than a mainland market listing. On the secondary market, the liquidity of the secondary market in China's stock exchanges has also remained high-level since 2003. Compared with developed capital markets, the turnover rate of China's stock market has been higher than that of HKEx for a long time (Figure 3).

Figure 3: 2003-2019 Annual turnover rate of the stock market in China, US, Japan and Hong Kong



Source: World Bank and CEIC, 2022

It is intriguing the reasons for Chinese government and enterprises continuously choose Hong Kong as their overseas financing market. Initially, the Chinese government wanted New York to be the overseas listing hub for its SOEs, but it ended up being Hong Kong. Existing literature has indicated the sharply increasing price discount on B-shares relative to A-shares in the early 1990s urged the Chinese government to choose H-shares for overseas listing, where the substantial discounts were relatively narrow (Sun and Tong 2003). Along with deepening financial reform in the mainland, the policy on listing overseas has been gradually well coordinated after the 2000s. Although having features with higher IPO costs, lower liquidity levels, and a higher P/E ratio, Hong Kong has become the largest stock market to host Chinese enterprises' overseas listings. Following the listing, re-financing and business activities in the Hong Kong financial market have grown vigorously. In addition to the equity Market, Hong Kong has become the offshore hub for Chinese bonds, currency, derivates, and commodities.

However, except for stock IPOs, existing literature has not systematically reviewed the development of these financial products traded in Hong Kong. In addition, neither stock nor bonds of the financial mechanisms have been well-investigated yet. The reason Chinese authorities and enterprises choose Hong Kong as its gateway to the global financial market has not been fully discussed either. In addition to the investigation of Hong Kong's

chrematistic as a financial centre, this thesis will also present Chinese enterprises' overseas financing activities in equity and bonds and the mechanisms behind them.

4.5. Conclusion

Financial market developers in China followed the typical philosophy of crossing the river by feeling the stones, which defined the character of China's stock and bond markets as well as its asset management industry. Every step has resulted from trial and error but not as part of a far-reaching, extensive bang reform. Besides the capital market background, another factor influencing or limiting China's asset management industry is the country's financial system structure, which is dominated by state-owned banks. The central government controls almost all financial resources by assigning exclusive monopolies to state-owned banks. The development of China's capital market essentially amounted to shifting household savings and corporate deposits from state-owned banks to other players and financial sub-industries. Therefore, it is necessary to study the Chinese financial industry's internationalisation through Hong Kong by examining large state-owned commercial banks. During this shift, conflicts between the old and new finance have been inevitable. Chinese state-owned financial institutions' performance in this transition progress is one of the essential metrics of financial modernisation for the emerging Chinese financial industry.

The following chapters will investigate Hong Kong's role in the Chinese financial system as the financial centre. Also, Chinese state-owned financial institutions' financing activities in Hong Kong, including stock and bonds, will be explored separately to understand their relationship with offshore financial network through Hong Kong.

Chapter 5: Exploring Financial Centre: A Mixed-Methods Approach to Hong Kong and Chinese Financial Sector

5.1. Introduction

In the preceding chapters I covered existing studies of financial centers and provided a chronological overview of the developmental trajectory in the financial sectors of Hong Kong and China. Employing these insights, the subsequent chapters of this research employ the two-fold, the micro and macro analysis with mixed-methodologies to investigate Hong Kong as the financial centre. Specifically, the research work presents a collection of three discrete research papers with different topics and methodologies. Chapters 6 and 7 delve into a micro-level empirical analysis of the offshore financial activities of Chinese state-owned banks. Chapter 8 shifts its focus to the macro level, exploring the development of Hong Kong as a financial center through an investigation of its interaction with the Chinese financial sector within the framework of the Chinese political economy.

5.2. Integrated Research Design: Micro and Macro Analysis with Mixed Methodology

On the micro-level, this thesis will conduct an empirical analysis of Hong Kong as an intermediate financial centre. Currently, it is difficult to come up with any hard evidence based on the claims on offshore financial activities through Hong Kong. Chapter 6 and 7 aim to fill this gap by investigating Chinese state-owned financial institutions' offshore financing activities through Hong Kong. The empirical analyses are organised into two parts: the global corporate structure presents the shareholding structure through Hong Kong, and the offshore bond's issuance structure through Hong Kong.

5.2.1. Micro-level: Empirical analysis on offshore finance features of Hong Kong through the global corporate structure of Chinese state-owned banks

Recent studies of Offshore Financial Centres center around how large banks and corporations utilize complex ownership structures and multi-subsidiary arrangements to exploit differences in national regulations, such as taxation and rules on capital flight. In

practice, MNE subsidiaries operate as autonomous legal entities, following the regulations set by their licensing authorities. The approach for MNEs to engage in arbitrage through Offshore Financial Centres (OFCs) using a company's subsidiary structure is twofold. Firstly, companies establish separate subsidiaries in each country of operation, capitalizing on regulatory differences across jurisdictions for arbitrage opportunities. Secondly, they manipulate ownership structures to exploit national rules, creating legal frameworks that circumvent regulations, with tax arbitrage being a notable example. Analysing the connections between group subsidiaries provides insights into the ultimate purpose of an investment or corporate structure.

Informed by these studies, Chapter 6 directs its focus towards an exploration of the way large Chinese state-owned banks utilize Hong Kong as a financial centre. This involves a detailed examination of the corporate structure of Chinese enterprises operating in Hong Kong and other Offshore Financial Centers (OFCs). Specially I focus on the ‘Big 4’, four largest Chinse state owned banks. The selection of Chinese state-owned banks for investigation is grounded in three primary considerations.

Firstly, these banks emerge as major players in the Hong Kong financial industry, garnering public attention for their active participation in the global financial market. The imperatives of capital control, financial market constraints, and a series of restrictions within the mainland capital market have elevated the prominence of offshore financing in Hong Kong within China’s capital market initiatives. This development has emerged as a pivotal conduit in meeting escalating financing demands amid mainland China’s economic reform. Notably, mainland Chinese enterprises play a substantial role in the realm of offshore financing and investment operations within the Hong Kong context. Through strategic acquisitions and rapid growth strategies, Chinese financial institutions have effectively established a significant presence within Hong Kong's financial sector.

Secondly, the domination of China's financial system by the commercial banking sector, constituting approximately 60% of the total economic system's credits, is a noteworthy factor. The four largest state-owned commercial banks, commonly referred to as the 'Big 4'

(BOC, CCB, ABC, and ICBC), serve as vanguards for Chinese enterprises in their pursuits of internationalization and modernization facilitated through Hong Kong. A comprehensive understanding of their internationalization processes provides insights into how Chinese Multinational Enterprises (MNEs) leverage Hong Kong for global expansion.

The problem however --and that has been the primary challenge encountered in research related to Offshore Financial Centres (OFCs)-- is the absence of an existing offshore-finance database, which poses significant difficulty in conducting empirical research in this area. Within the contemporary financial system, large multinational enterprises (MNEs) generally refrain from publicly disclosing intricate legal structures or details regarding their subsidiaries below a specified threshold. Beyond the fundamental reporting of financial data, the criteria for disclosing ultimate ownership vary substantially across jurisdictions. Subsidiary reporting by OFCs is nearly non-existent and often practically inaccessible for public scrutiny. Tax havens such as the Cayman Islands do not mandate the submission of tax returns, resulting in a lack of available reporting. While some firms voluntarily provide returns in these jurisdictions, others are compelled by their home countries to submit annual reports. Consequently, due to the confidential nature of offshore financing activities, there exists a scarcity of comprehensive financial datasets for MNEs on a global scale. In contrast, Chinese state-owned banks are required to disclose part of financial information about their overseas subsidiaries to Chinese authorities, offering valuable evidence for analysis. This data represents a foundational source for gaining insight into the offshore corporate structures of MNEs, constituting a noteworthy contribution to the existing body of knowledge.

For these reasons, the research in Chapter 6 develops a new database construction containing Chinese State-owned banks' global corporate structure. The database construction exercise is begun by consulting the Chinese state-owned banks' disclosure information. China authorities have introduced a series of requirement for enterprises operating in mainland China to file annual reports and disclosure their global corporate shareholding structure. Chinese State-owned Assets Supervision and Administration Commission (SASAC) formulated 'Interim Provision on the Registration of State-owned Equity of Limited

Partnership' (《有限合伙企业国有权益登记暂行规定》) on 3rd January 2020 (SASAC 2020). State-owned enterprises and their subsidiaries at all levels are required to register the equity and their distribution of the limited partnership to SASAC, including names, date of establishment, executive partners, business scope, subscribed capital contribution and paid in amount of contribution, information of partners, outbound investments and modification of any information above. The list of consolidated institutions of Chinese state-owned banks therefore published on their website are basic information about Chinese names of subsidiaries and affiliates.

Employing the name lists of subsidiaries as a foundational framework, the construction of the database follows due diligence methodologies characteristic of investment banks. The primary aim is to enhance the database by incorporating detailed shareholding ownership information, a pursuit that entails amalgamating data from a diverse array of sources. A predominant approach in existing research on offshore financial activities relies on algorithmic analyses leveraging singular databases, such as the Orbis database, to conduct their inquiries. The Orbis database stands out as one of the most comprehensive repositories of corporate entities globally, encompassing lists of subsidiaries and affiliates interconnected by Orbis's proprietary algorithm as members of the same corporate groups. However, owing to the variations in reporting requirements across the globe and the potential for language discrepancies in algorithmic translation between English and Chinese, the Orbis data exhibit inconsistencies, particularly concerning Chinese companies. Furthermore, the financial records in Orbis often lag behind equity information by approximately two years. Given the rapid expansion of the Chinese economy, certain data in Orbis may reflect corporations that have ceased to exist.

To address this gap, this chapter use additional data from the disclosed information of Chinese state-owned banks and their listed subsidiaries and the detailed lists of subsidiaries in financial consolidation; these became mandatory disclosures under the requirements of the China Banking Regulatory Commission (CBRC) in 2020 (CBRC 2020; SASAC 2020). In addition, I complemented our search by using data from Bloomberg and Chinese company datasets (e.g., Qichacha 企查查 and Tianyancha 天眼查), as well as Credit China website (信

用中国) and its sub-pages, National Enterprise Credit Information Publicity System (NECIPS, 国家企业信用信息公示系统), and WIND Financial Terminal.[16] I also used publicly disclosed information from IPO prospectuses, annual reports, and bond issuing information, following the financial due diligence method. Corporate data published by Chinese official credit system by 31st October 2021 is the standard data I used in this chapter.

With the database, I employed the new developed investigative technique 'Equity Mapping' approach (Phillips *et al.* 2021) to explore Chinese state-owned banks' internal corporate ownership structure. The first step is to convert the shareholding data of Chinese state-owned banks and their subsidiary organizations into an equity map of corporate groups using a Standard Social Network (SNA) approach. To visualize the equity holding information, I use the force directed layout algorithms to simulate a physical system in order to spatialize a network. The graphs use social 'gravity' as an additional force in force-directed layouts, together with a scaling technique to present the equity map of Chinese state-owned financial institutions. In these force-directed drawings, each node represents one subsidiary or affiliate of the group, and the edges represent the interactions in shareholding between these entities. The 'EM' results of Chinese state-owned banks' global corporate structure are presented in Chapter 6.

In-depth stakeholders' interviews conducted as the supplement of the database analysis. Employing qualitative methods facilitated an investigation of nuanced micro-level factors, by exploring Chinese state-owned financial institutions' corporate structure through their daily operation. Based on snowball sampling, personal interviews were chosen as the predominate form of inquiry. 17 online Interviews were carried out in English or Mandarin with mid-level employees in Chinese state-owned financial institutions, and clients, professional service

[16] Qichacha (企查查), and Tianyancha (天眼查) are the biggest and most popular website, which have official licenses, to use government data about enterprises. These datasets aggregates data from ministries, state administrations and industry associations, and collected over 50 billion pieces of credit information. On these platform, natural persons and legal persons is consolidated and stored under one unified social credit code which is uniquely attributed to each other. (Krause and Fischer 2020)

firms and regulators who have experience in working with Chinese state-owned financial institutions in Hong Kong. As some bankers and regulators may strategically downplay or hide political interference, their responds will be crosschecked against local new sources, official documents and interviews with other stakeholder groups.

5.2.2. Micro-level: Empirical Analysis on Chinese State-owned banks' International Bond Issuance Structure

In addition to Chinese state-owned banks' global corporate structure, this thesis aims to unfold the offshore financial activities embedded in these structures.

The international bonds market for Chinese enterprises has the tremendous rise in the past decade. To end-2022 the aggregate outstanding amount of the bonds in this market has reached approximately US$ 10.244 trillion (HKD Debt Instruments: US$115.6 billion, Offshore RMB Debt: $137.6 billion, and G3 Currency Bond: US$716.9 billion) , which accounts of nearly half of the Asian offshore bond market. Even severely affected by COVID-19 from 2020, the new issuance in Hong Kong bond market has reached the aggregate amount of US$ 324.7 billion in 2022 (The Central Moneymarkets Unit 2023). However, it also has been the turbulent times for Chinese international bond market. The default risk of Chinese enterprises tends to raise in the past 2 years. There was in total 15 issuers defaulted in 2021[17], and $26.2 billion of offshore bonds has missed their payment by Chinese enterprises by July 2022 so far.

Nevertheless, there has been a lack of thorough investigation into the connection between mainland China, Hong Kong, and Offshore Financial Centers (OFCs) within the bond market. While recent literature has highlighted the crucial role of Hong Kong in the international bond market of Chinese enterprises by analysing their issuance volumes, the detailed mechanisms of these bond issuance activities remain inadequately explored. A notable gap persists in the academic literature concerning the Chinese offshore bond market

[17] 15 defaulted issuers in 2021: 1 Sate-owned enterprises (SOEs), and 14 Privately Owned Enterprises (POEs). 10 of the POEs are property developers.

and the financial services that support it. Considering Hong Kong is the first stop for Chinese enterprises in their international financing activities, delving into the structure of Chinese international bonds can also unveil the offshore features of Hong Kong as the financial center supporting Multinational Enterprises' (MNEs) offshore financing activities.

Focusing on Chinese international bond market, Chapter 7 concentrates on the study of Chinese enterprises' involvement in offshore financial networks, with a specific focus on the Chinese international bond market. The empirical analysis centers on investigating the structure of Chinese international bond issuance through Hong Kong. The advanced financial market in Hong Kong is the primary choice for Chinese authorities and enterprises to conduct financing activities, addressing their fund requirements in domestic markets. A nuanced understanding of their financing behaviour is pivotal, particularly concerning the development of the Chinese international financial market. Furthermore, this investigation aims to provide evidence of the intricate relationships in financing activities between the onshore and offshore financial networks in practical terms.

Analogous to the challenges encountered in obtaining data on shareholding ownership of MNEs, the structure of bond issuance, particularly when involving multiple offshore financial centers, is inherently intricate and confidential. Employing a similar methodology, I extended the database used in Chapter 6 to incorporate the category encompassing the international bond issuance structure of Chinese state-owned banks. This approach aims to address the inherent difficulty in accessing information related to the intricate nature of bond issuance within the framework of multiple OFCs.

The database was employed to scrutinize the bond issuance structure, delineating the connections among the issuer, parent company, and guarantees. The analysis of the database was predicated on the comprehensive directory of China's international bonds and company-level data sourced from the WIND Financial Terminal. In instances where firm-level information was unavailable, supplementary data from Bloomberg and the Exchange market were utilized. The sampling frame encompasses 836 bonds listed on international financial exchanges outside mainland China, comprising 288 bonds issued by Chinese state-owned

financial institutions. When integrated with the shareholding data of Chinese state-owned banks, this dataset serves as an optimal foundation for examining the evolution of Chinese international bonds and their issuance procedures. The bond issuance structure disclosure by 31st July 2022 is the standard data I used in this chapter.

To delve further into the intricacies of offshore financial activities, the 'Equity Mapping' ('EM') technique is employed for analysing the structures of international bond issuances by Chinese state-owned banks. The findings are presented in the form of individual case studies to provide a nuanced and detailed exploration of the subject matter.

The following step encompasses conducting 17 stakeholder interviews, and my practical experience gained through involvement in numerous offshore debt financing transactions with Chinese enterprises over the past five years. This approach aims to offer readers first-hand insights into relevant issues. The information is derived not solely from academic literature or practice notes prepared by Chinese and international scholars and practitioners, but also from data gathered from market participants. In addition to conventional sources, a notable contribution comes from the widely used Chinese online chat platform, 'WeChat,' where financial practitioners openly share real cases and experiences through official accounts. This utilization of internet-based information significantly broadens the research scope, providing an extensive sphere of intelligence.

5.3.3. Macro-level: Theoretical Analysis of Hong Kong's Formation as a Financial Centre

Chapter 8 shifts its focus to the macro level, exploring the development of Hong Kong as a financial center through an investigation of its interaction with the Chinese financial sector within the framework of the Chinese political economy. The methodological approaches are grounded in financial centres' study in political economy and new economic geography research, aiming to emphasises the relationships among politics, firms, markets and territories embedded in global financial network (GFN).

Chapter 4 offers insights into the historical process of liberalization within the Chinese financial sector. Initiated in the 1980s, mainland China embarked on a financial reform

initiative that spanned in past four decades, leading to the gradual modernization of the financial sector. The establishment of China's financial market, initially overseen by the central government during the transition from a planned to a market economy after 1978, aimed to secure adequate funds for economic reform. As the financial reform progressed, there was a systematic improvement in the construction of financial infrastructure. In the post-2000 era, both the stock and bond markets, along with their respective regulatory and supervisory systems, were established. This marked a pivotal development as the capital market expanded its financing function to encompass domestic non-SOEs, officially signalling financial liberalization. Subsequently, the capital market gradually opened up to participation from both domestic and international investors, further expanding the functions of financial markets to encompass investment activities. Nonetheless, the central governing authority retains strict control over the Chinese financial system, limiting the participation and impact of local governments and non-state-owned enterprises (non-SOEs) within the financial system.

Despite extensive financial reforms, discernible traits reflective of a planned economy persist within the Chinese financial system. The continued dominance of the four largest state-owned commercial banks remains notable. In addition to the credit offered by these banks, the highly centralized financial system in China falls short in providing a comprehensive range of financial instruments capable of satisfying the financing and investment requirements of the domestic market. Hong Kong, functioning as an International Financial Centre with close ties to the mainland, serves as a complement to the financial markets within mainland China.

The developmental trajectory of Hong Kong unfolds in synchrony with the process of financial liberalization in mainland China. In addition to serving as an intermediary between onshore and offshore financial networks, it is imperative to explore how Hong Kong has evolved into an intermediate financial center. Undoubtedly, the influence of mainland China, coupled with China's economic ascent, has played a pivotal role in shaping Hong Kong's financial landscape. Some scholars posit that, as a formal political entity within Chinese territory, mainland China's authority directly forms the institutional framework of Hong

Kong. Nevertheless, Hong Kong's highly autonomous economic and financial system sets it apart significantly from the centralized financial system prevalent in the mainland.

Simultaneously, the intricate political relationships that exist among various stakeholders within the Chinese financial system, encompassing the Chinese central government, state-owned enterprises, and local governments. These complexities are inherent in the financial system frameworks of China. While financial reform in China is progressively liberalized, it concurrently engenders a political dynamic characterized by strategic manoeuvring among diverse political stakeholders. The internationalization of the Chinese financial system, particularly through Hong Kong, is notably influenced by this intricate political-economic landscape. A notable gap in the existing literature is the limited availability of systematic comparative research between Hong Kong and other sectors within the Chinese financial system, particularly from the perspective of the Chinese political economy.

To elucidate the formation of Hong Kong, Chapter 8 is structured to systematically review its historical evolution, providing a chronological overview and offering insights into the intricate interdependencies between Hong Kong and mainland China within the context of the Chinese political economy. The theoretical framework guiding the examination of state-led financial center development in non-Anglo-American countries, as presented in Chapter 8, is rooted in a thorough review of secondary literature. Additionally, this framework is enriched by in-depth interviews with key financial participants. The literature review encompasses scholarship on financial centers in economic geography, theories pertaining to Chinese political economy, and the broader body of literature on the state and economic development within political economy.

By leveraging theoretical synergies among the diverse bodies of literature, the chapter aims to provide a comprehensive understanding of the complex dynamics shaping the evolution of Hong Kong. The integration of recent empirical findings on Hong Kong and the Chinese financial market further enhances the depth and relevance of the theoretical

framework, allowing for an exploration of the interaction between Hong Kong's development and the broader context of Chinese political economy.

Based on snowball sampling, I selected personal interviews as the predominate form of inquiry. Sixteen in-person and online interviews were carried out in English or Mandarin with mid-level employees in Chinese state-owned financial institutions, as well as clients, professional service firms, and regulators with experience working with Chinese state-owned financial institutions between 2020 and 2023 in China's main financial and political centres (Hong Kong, Shanghai, Beijing and Hong Kong) (see details in Appendix A). These critical first-person narratives constitute memory for the formation of Hong Kong as the financial centre.

Nonetheless, the qualitative research may not be generalisable. Nor may it reflect the complete picture of reality due to potential bias from misinterpretations and faulty or incomplete memory. For this reason, the method of data source triangulation is used in the analysis of Chapter 8. The interviews are cross-checked against secondary sources on Hong Kong's major events in its development history chronologically, including official documents from mainland China, Hong Kong and the British Hong Kong Government; news sources such as Xinhua, Caixin, and South China Morning Post (Chinese), Ta Kung Pao (Hong Kong) and BBC, Financial Times (English); and interviews with other stakeholder groups. This combination of Western and Chinese sources allowed for identifying conceptual synergies and provided a reliable basis for developing an empirically grounded theoretical framework that reflects the local Chinese context.

In sum, the methodological approach adopted in chapter 8 reflects the fundamental method in economic geography of building theories based upon empirical observation rather than the vice versa (Clark 1998). Developing such an 'on the-ground' perspective is essential for understanding through direct experience the context, interests of and linkages that characterise China's financial centres.

Reference of interviewees was only made to institutional affiliations rather than specific names. This was essential to respect interviewee confidentiality and comply with the ethical

guidelines set out by the Research Ethics Framework of UK's Economic and Social Research Council (ESRC 2015). All interviewees were also covered by a confidentiality agreement with City University of London.

5.3. Conclusion: Benefit of Mixed-method Approach

Chapter 6, 7 and 8 are framed with an introduction and conclusion that highlight their overlaps and thus allow the thesis to emerge as an integrated body of research. The three-paper route is adopted for following reasons. First, the establishment of Hong Kong as a financial center and its interactions with the Chinese financial sector constitute a complex field, encompassing a myriad of institutions, networks, and locations. A comprehensive examination aiming to map the entirety of these elements is beyond the scope of any single investigation. A three-paper design offers the advantage of exploring a series of related but distinct empirical case studies, which are anchored by an overarching conceptual thread. This affords the necessary breadth required for mapping core issues in the still relatively novel research field of financial centre study in non-Anglo-American countries. The three-paper approach adopted in this thesis thus provides the ideal research design to build a conceptual and empirical foundation for future research. Itis hoped that this will provide a roadmap for others to delve into future avenues of enquiry and acquire further depth on the topic at hand.

Whilst the specific methodology varies between chapters, what unites them is their grounding in the systematic triangulation of different data sources. Overall, this thesis brings together the merits of in-depth qualitative inquiry and quantitative cross-verification. The interplay between mainland China and Hong Kong financial market cannot be meaningfully understood through statistical analysis based on existing dataset alone, as research on China's offshore finance remains limited. The emphasis on in-depth qualitative inquiry therefore provides the necessary toolkit to begin investigating a number of core questions.

There are two main research areas that stand to benefit in particular from the mixed-method approach adopted in this thesis. For one, access to the full directories of MNEs' subsidiaries makes it possible to address the notoriously difficult task of drawing samples in global network analyses, since there is no 'universe' from which to draw. Second, the

methodological emphasis on exploring incentives and behavioural practices allows for uncovering both interconnections and disparities between institutions from different geographical settings. In sum, this approach makes it possible able to capture degree of Chinese institutions integrated into global financial market and degrees of Chinese stakeholders' engagement in Hong Kong's formation. The mixed-method approach adopted in this thesis thus enables us to move beyond binary coding of economic outcomes that suggests a 'zero-sum game' of either convergence or divergence with financial centre models draw from Anglo-American countries.

Chapter 6: Global Corporate Structure of Chinese State-Owned Financial Institutions through Hong Kong

6.1. Introduction

The preceding chapters highlighted that, as a growing international power, China requires its financial institutions to support its global ambitions. The Chinese financial system is still largely a banking system, with banks providing about three-fifths of the total credit to the market economy (PBOC 2022a), and is dominated by four state-owned banking groups, each a direct descendant of a planned-economy bank or banks: Bank of China (BOC), Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), and Agricultural Bank of China (ABC). Just like private capital, these leading Chinese banks set up overseas subsidiaries in Hong Kong and build an extensive global network of branches and subsidiaries through them (Cerutti *et al.* 2018; Meyer 2017). Since the early 2000s, the 'big four' banks have established joint-stock companies in Hong Kong, controlled by the Huijin Corporation, an organisation wholly owned by the Ministry of Finance (Yeung 2021). These joint-stock companies operate under Hong Kong's laws and regulations and, as such, are no different from other Hong Kong banks (Haberly and Wójcik 2015; Lai 2012; Meyer 2008; Pan *et al.* 2018). As China is Hong Kong Special Administrative Region's ultimate sovereign, a formal corporate structure can be established in Hong Kong without the mainland parent ceding control. This chapter examines the precise corporate organizational structure adopted by Chinese state-owned banks through Hong Kong. The aim is to investigate how Hong Kong contribute to Chinese banks' global expansion.

The empirical analysis in this chapter shows that Chinese state-owned banks set up far more complicated and convoluted ownership structures in Hong Kong than generally thought. First, as is commonly assumed, Chinese state-owned banks typically set up a 'sandwich' arrangement of holding whereby a mainland company controls a Hong Kong subsidiary. Yet deeper probing reveals the Hong Kong subsidiary holds, in turn, a British Virgin Islands or Cayman subsidiary which, in turn, holds a publicly listed joint-stock company in Hong Kong. The lower-level joint-stock company in Hong Kong serves as the bank's face to the world.

Second, contrary to the theory that Hong Kong acts as a 'gateway' to the world, the lower-level Hong Kong joint-stock company is often used to set up many subsidiaries in the Chinese mainland market. In addition to those surprising patterns of holding, I discovered Chinese state-owned banks tend to establish strings of 'floating' subsidiaries in Hong Kong and beyond (often in other OFCs), with no known equity ties to the parent or to the Hong Kong holding companies.

The results of 'EM' and the following in-depth interviews also suggest the Chinese state-owned banks evolved this complicated arrangement in response to different and sometimes inconsistent sets of policies, interests, and constituencies across different regions. Chinese state-owned banks face a difficult challenge: they must find ways to operate in two separate legal systems, the Chinese and the international banking systems. While doing so, they must find ways to calibrate diverse political goals and respond to different political interests and constituencies inside and outside mainland China. I argue they have responded to diverse policy goals in ways that simultaneously advance those goals while at the same time creating (perhaps unwittingly) a degree of opacity that may, if so desired, be used for illicit purposes. Although I am not able to provide direct evidence of the role of the Chinese state-owned banks in Chinese capital flight, but this chapter do provide evidence of considerable use of non-transparent and highly complicated organisational structures, those typically associated with capital flight and sometimes with tax avoidance (UNCTAD 2016).

In the following sections, I firstly present the corporate organizational structure of the two banks of interest, BOC and CCB, utilizing the 'Equity Mapping' (EM) technology. Subsequent to this analysis, the chapter delves into an examination of the Chinese national strategy within the financial sector, with a specific focus on the context of Hong Kong.

6.2. Chinese state-owned Banks' Internationalization

To access international markets and transact with other international banks, the major Chinese state-owned banks each established a joint-stock company in Hong Kong to serve as headquarters of their foreign operations. In fact, all four large state-owned banks reported their establishment of joint-stock companies with dual listing, first on the Hong Kong Stock

Exchange (HKEX) in 2005, and then on the Shanghai Stock Exchange (SSE) in 2010 (Table 2). The dates are important because they suggest all four banks followed instructions from the centre.

Table 2: 'Big Four' Chinese State-Owned Banks' Initial Public Offerings

Name	Central Government Shareholding	Establishment	Dual Listing	
			HKEX	SSE
Bank of China (BOC)	64.63%	1972	2006	2006
Industrial and Commercial Bank of China (ICBC)	69.59%	1984	2006	2006
China Construction Bank (CCB)	57.31%	1954	2005	2007
Agricultural Bank of China (ABC)	75.69%	1951	2010	2010

Source: IPO Prospectus (BOC 2006; ICBC 2006; CCB 2005; ABC 2010)

Table 2 is based on the analysis of the initial public offering (IPO) prospectuses of the four Chinese state-owned banks. The table reveals an anomaly that sets these banks apart from a pure historical accident scenario model. These state-owned banks invariably set up entities in which the central government is the majority, but not the sole, shareholder. Nonetheless, the picture is not as simple as commonly assumed, there is more to these organisations (detailed picture in Table 3). The inquiry was made regarding the subsequent evolution of these banks, questioning whether they are the mere accidents or if there were intentional factors involved, and if so, what those factors might be. To the best of current knowledge, there are no independent studies of the actual corporate structures created by Chinese state-owned banks in and through Honk Kong. Indeed, very little is known about the actual organisation of multinational enterprises (MNEs) in Hong Kong. Most of the interviewees, some of whom held high ranking positions in these banks, were unaware of the empirical findings presented in this chapter. None had a full picture of the way the banks are organised internationally.

To fill in this gap, I mapped out the subsidiary relationship set up by the four state-owned Chinese banks in Hong Kong. Given the complicated nature of the data, however, in what follows, I focus on findings for only two of these, BOC and CCB.

The rest of this chapter reports the findings for BOC and CCB. As the empirical evidence shown, they both deviated considerably from a pure accident scenario, and they used very similar structures to achieve their aims.

6.3. Equity Mapping of Bank of China (BOC)

BOC has been China's sole foreign exchange bank since 1949 and was the first state-owned financial institution to operate in Hong Kong. With approximately 11,060 domestic branches and subsidiaries in mainland China and 550 branches and subsidiaries throughout the world by the end of 2021, the BOC Group is currently the second-largest state-owned Chinese bank (BOC 2022).

A preliminary analysis of BOC's reports suggests the group did not follow a simple gateway model of internationalisation with one Hong Kong subsidiary standing at the apex of BOC's international operations. Rather, from the outset, BOC set up four listed entities on SSE and HKEX (see Table 3): Bank of China Ltd. (BOC), Bank of China International (China) Co., Ltd. (BOCI China), Bank of China International (China) Co., Ltd. (BOCI China), and Bank of China Aviation Limited.

Table 3: Bank of China Group's Principal Holding Companies

Name	Location	Year of Listing	Listing	Main Business
Bank of China Ltd. (BOC)	Beijing	2006	SSE:601988 SEHK: 3988	Commercial banking
Bank of China International (China) Co., Ltd.	Shanghai	2020	SSE: 601696	Investment banking in mainland China

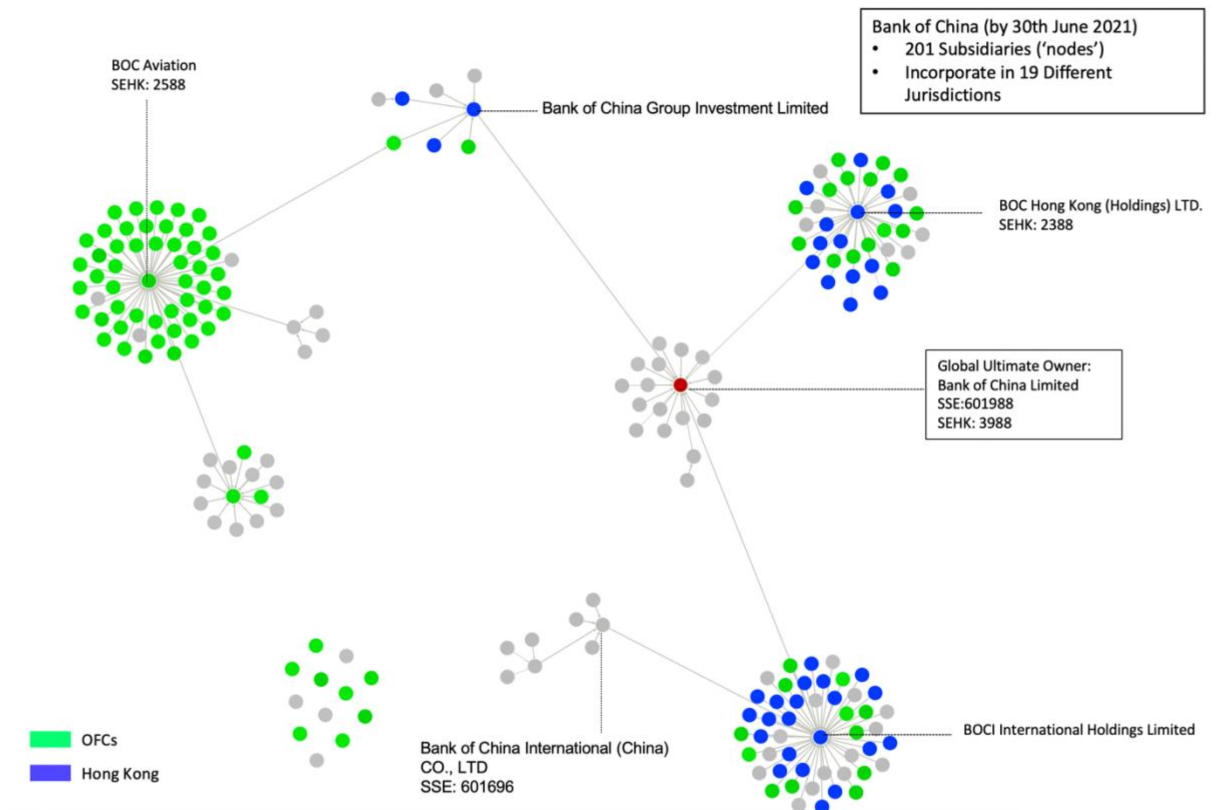
(BOCI China)				
Bank of China Hong Kong (Holdings) Ltd. (BOCHK)	Hong Kong	2002	SEHK: 2388	Commercial banking and investment in Southeast Asia
Bank of China Aviation Limited	Singapore	2016	SEHK: 2588	Commercial aircraft sales and leasing

Source: Hong Kong Stock Exchange (HKEX) and Shanghai Stock Exchange (SSE)

6.3.1. Subsidiaries in BOC Group

Figure 4 presents an EM of BOC's foreign subsidiaries *circa* June 2021. This EM visualisation is based on currently available information on BOC's subsidiaries. The list of subsidiaries draws from the historical disclosure data in IPO prospectuses and bond issue information for BOC and its subsidiaries. BOC's more recent financial reports refer to a different set of subsidiaries. Hence, there are good reasons to believe the EM of BOC represents only a partial list of subsidiaries. BOC's ultimate owner, Bank of China Ltd., is represented by a red dot in the figure. Hong Kong subsidiaries are represented in blue and subsidiaries in other known OFCs in green.

Figure 4: Equity Map of BOC, 2021 based on Best Available Information on BOC's Subsidiaries and Affiliates,



Source: Publicly disclosed information of BOC's four listed companies

The EM reveals BOC has established several investment platforms with multiple layers of ownership structures. The Beijing-based owner directly controls not one, but three gateway entities in Hong Kong; each of these gateway entities controls, in turn, a 'cluster' of corporate entities. One cluster is headed by Bank of China Ltd (SSE: 601988 and SEHK: 3988), a holding company with dual listing since 2006. This holding company and its related subsidiaries are responsible for BOC's China-based commercial banks, including investment banking, insurance, direct investments and investment management, fund management, and aircraft leasing. Given its inward orientation, I do not discuss this holding company and its related subsidiaries in detail. I focus instead on two other holding companies and their related cluster of subsidiaries in Hong Kong: Bank of China Hong Kong (Holdings) Ltd. (BOCHK), and Bank of China International (China) Co., Ltd. (BOCI China). Both are listed on HKEX or SSE and controlled by the BOC Group through investment platforms in Hong Kong

(Figure 4). These two clusters provide vital clues to the way Chinese state-owned banks establish Hong Kong-based holding companies.

BOC's gateway subsidiary in Hong Kong is BOCHK. The subsidiary was incorporated as a holding company on 12 September 2001 and listed on HKEX in 2002. It combined 10 of the 12 Hong Kong banks that originally belonged to the BOC Group – these are represented by the blue dots in the BOCHK cluster.[18] One of BOCHK's predecessor banks became the third note-issuing bank in Hong Kong in 1994 (the other two were HSBC and Standard Chartered), a function that was passed on to BOCHK.[19]

Figure 5 further unpacks the way the BOC Group holds a controlling position in BOCHK (74% of its shares). Bank of China, Beijing, established a Hong Kong special purpose vehicle (SPV) called the BOC (Hong Kong) Group with 100% of shares held by Bank of China, Beijing. The BOC (Hong Kong) Group, in turn, set up an SPV in the British Virgin Islands: BOC (BVI). The BVI SPV holds 65.21% of the BOCHK shares, and Hua

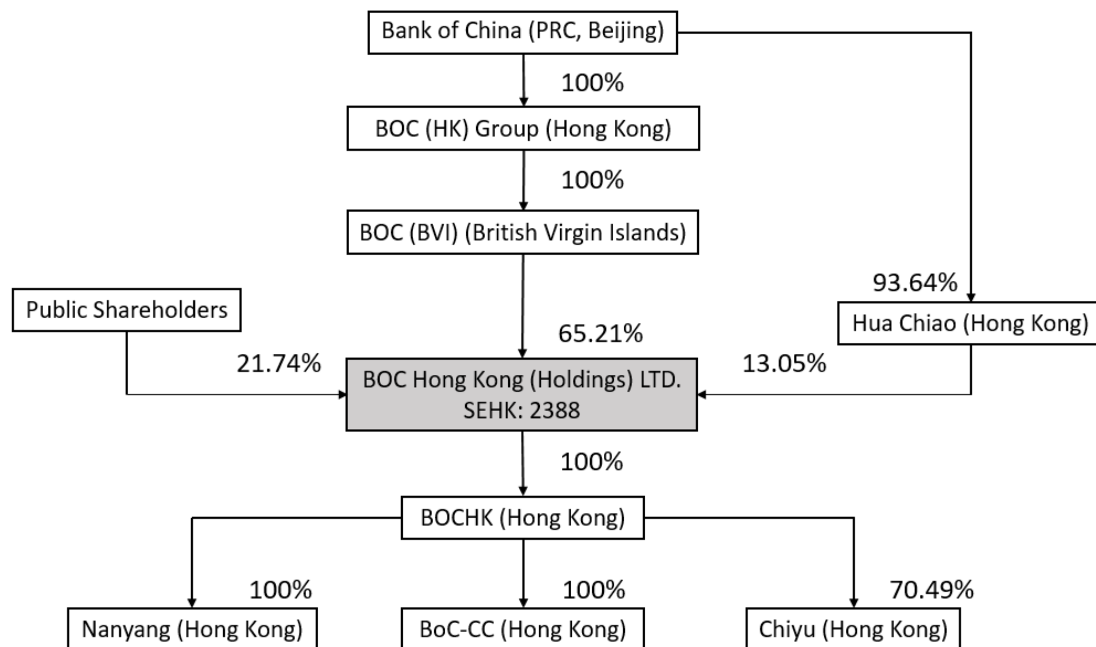
---

[18] The 10 banks include Bank of China Hong Kong Branch and the Hong Kong branches of the seven banks incorporated in mainland China (Kwangtung Provincial Bank, Sin Hua Bank Limited, China & South Sea Bank Limited, Kincheng Banking Corporation, China State Bank Limited, National Commercial Bank Limited, and Yien Yieh Commercial Bank Limited), as well as two locally incorporated banks, Hua Chiao Commercial Bank Limited and Po Sang Bank Limited.

[19] The government, through Hong Kong Monetary Authority (HKMA), has authorised three commercial banks to issue banknotes in Hong Kong: Hongkong and Shanghai Banking Corporation Limited, Bank of China (Hong Kong) Limited, and Standard Chartered Bank (Hong Kong) Limited. This authorisation is accompanied by a set of terms and conditions agreed upon by the government and these three note-issuing banks. Banknotes are issued by the note-issuing banks or redeemed against payment to or from the Exchange Fund in US dollars, at a specified rate of US $1 to HK $7.80 under the linked exchange rate system. Banknotes issued by the note-issuing banks are printed in Hong Kong by Hong Kong Note Printing Limited (HKNPL).

Chiao (Hong Kong),[20] a commercial bank with 93.64% held by Bank of China (Beijing), holds 13.05%.

Figure 5: BOCHK Shareholding Structure, December 2002



Source: BOCHK IPO Prospectus 2002 (Bank of China Hong Kong 2002)

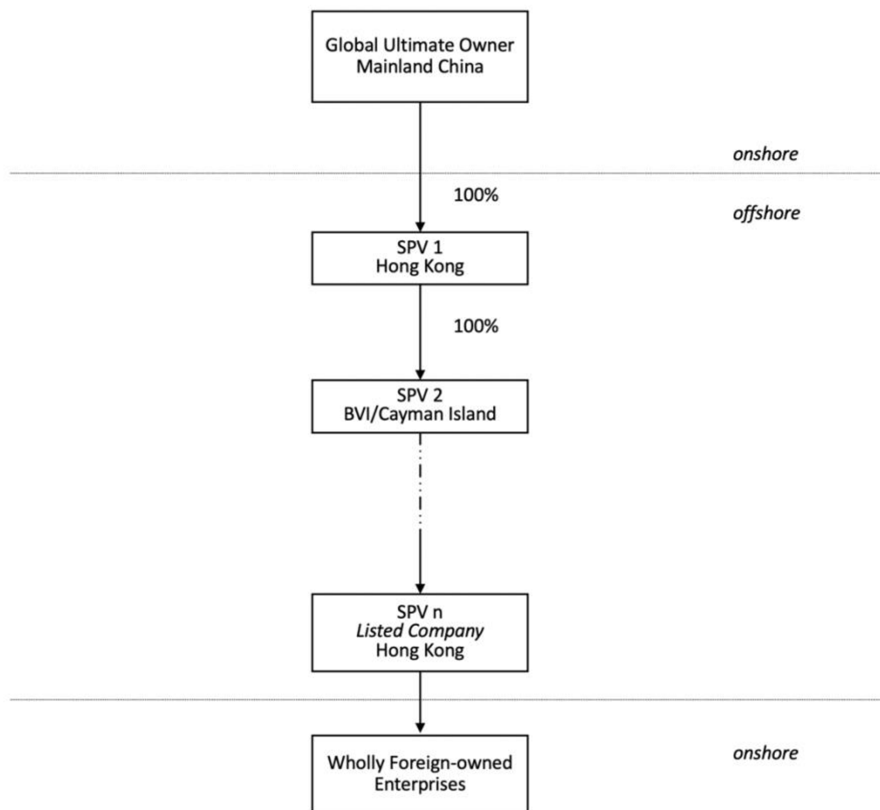
This kind of sandwich arrangement whereby a mainland holding company sets up an HK-BVI-HK owning structure, rather than a simple gateway structure, seems to be the model adopted by other Chinese state-owned banks as well (see Figure 5). Since the two state-owned banks I examine in detail have a similar structure of ownership, the structure cannot

[20] Hua Chiao's businesses, assets, and liabilities were transferred to BOCHK as part of a restructuring and merger. As a result, this entity no longer conducts banking business.

be a pure historical accident scenario, but an arrangement that tells us something about the way Chinese state-owned banks take advantage of the interface of offshore and onshore. There is a logic, of course, to such arrangement. The controlled Chinese onshore company (or companies) (i.e. the lower cluster controlled by BOCHK) is treated in China as a wholly foreign-owned enterprise (WFOE) (Fang and Pan 2021). Because of a comprehensive double taxation agreement (CDTA) signed by mainland China and Hong Kong in 1998 and 2006 (State Administration of Taxation 2007),[21] the Hong Kong companies, in this case BOCHK, can be used as intermediaries to hold Chinese companies, thus reducing withholding tax charged on dividends from 10% to 5% (Ng 2013). The Bank of China Group takes advantage, in other words, of the Chinese-Hong Kong tax treaty to reduce taxes for its businesses in mainland China, and it does so with the help of this convoluted arrangement (Buckley *et al.* 2015). In effect, the Chinese state-owned bank creates a private structure on the mainland. Otherwise stated, Hong Kong serves not only as a gateway to the world but also as a gateway to China whereby Chinese state-owned banks can operate as if they were private companies arbitraging Chinese domestic rules. Furthermore, as the different entities are each treated as an independent legal person, the arrangement can distort financial statistics, creating the impression of a round-tripping effect.

Figure 6: Corporate Organisational Structure of Overseas Listings of Chinese Enterprises

[21] On 11 February 1998, Hong Kong and China signed the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income (a Limited Arrangement) to allocate the right to tax between the two jurisdictions on a reasonable basis to avoid double taxation of income. On 21 August 2006, both parties signed a more comprehensive arrangement titled Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (a Comprehensive Arrangement). The latter arrangement broadened the coverage of income by adding income from immovable property, associated enterprises, dividends, interest, royalties, capital gains, pensions, government services etc.



Source: Authors

It is also observed that multiple layers of BVI SPVs controlled by BOC, sandwiched as it were between two Hong Kong SPVs. The BVI entity or entities in the sandwich offer several advantages to the larger structure. The BVI has gone out of its way to attract Chinese capital, including allowing the use of Chinese characters to name a corporation (Russell 2010). According to the doctrine of forum non-convenience, Chinese courts have no jurisdiction over businesses in OFCs. Shareholders can eliminate their lock-up period and add leverage through the BVI. Shareholders, in this case, the BOC Group, can sign an option agreement with a counterparty through their BVI SPVs, using those shares as assets or collateral. BVI entities often serve as 'project companies' for Chinese banks to undertake specific businesses or hold assets. In one example, aircraft leasing entities, such as BOC

Aviation Limited, tend to use OFCs almost exclusively to register their aircraft. In addition, China does not yet regulate variable interest entities (VIEs). The surprising conclusion is that the BVI registration entity in this sandwich arrangement is employed by state-owned banks to avoid China's financial supervision on their international business!

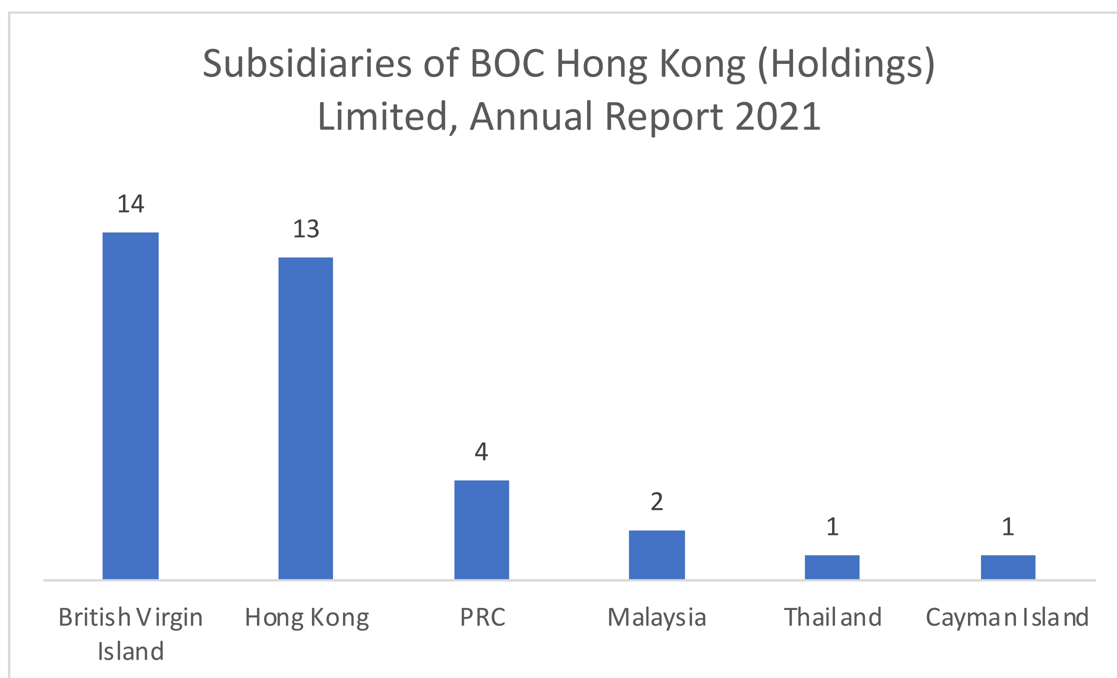
This would explain the mainland-Hong Kong-BVI part of the structure. But as BVI companies cannot list on HKEX, the BVI subsidiary has set up a subsidiary in Hong Kong, completing the sandwich. In other words, the convoluted holding structure set up by the BOC Group through its holding of BOCHK alludes to three important functions of Hong Kong for Chinese capital: a gateway to the world, a tax-mitigating jurisdiction, and a facilitator of round-tripping domestic activities.

In addition to the complex shareholding structure with its parent company in Beijing, BOCHK, the subordinate holding company at the bottom of the convoluted structure, held approximately 180 branches and 44 subsidiaries by December 2021. One branch of BOCHK functions largely as a regional commercial bank whose main operations are centred on Southeast Asia. By the end of 2021, this regional commercial banking arm covered nine countries in Southeast Asia (Thailand, Malaysia, Vietnam, Philippines, Indonesia, Cambodia, Brunei, and Burma).[22] Another branch of BOCHK, which currently contains 35 subsidiaries, provides global financial services in capital markets, including insurance, trustee, credit card, and asset management markets, as well as others. These 35 subsidiaries are located mainly in BVI, Hong Kong, and mainland China. Most of this branch's Hong Kong-based subsidiaries are directly controlled by BOCHK and invest in business worldwide. BOCHK indirectly holds, in addition, 14 BVI entities, each declaring US $1 investment (Figure 7). These entities are mainly designed to work as multiple layers of SPVs in OFCs to take control of the target firms both inside and outside mainland China. According to stakeholder interviews, this kind of corporate structure can be used to shift profit, reduce tax, and especially to hide assets

[22] This refers to the nine Southeast Asian entities: BOC Thailand, BOC Malaysia, Ho Chi Minh City Branch, Manila Branch, Jakarta Branch, Phnom Penh Branch, Vientiane Branch, Brunei Branch, and Yangon Branch. (BOCHK 2022)

offshore to avoid the strict foreign currency control in China. Of course, no detailed explanations were forthcoming in the interviews as to the mechanisms of the state-owned financial institutions' offshore activities.

Figure 7: Subsidiaries of BOC Hong Kong (Holdings) Limited, 2020



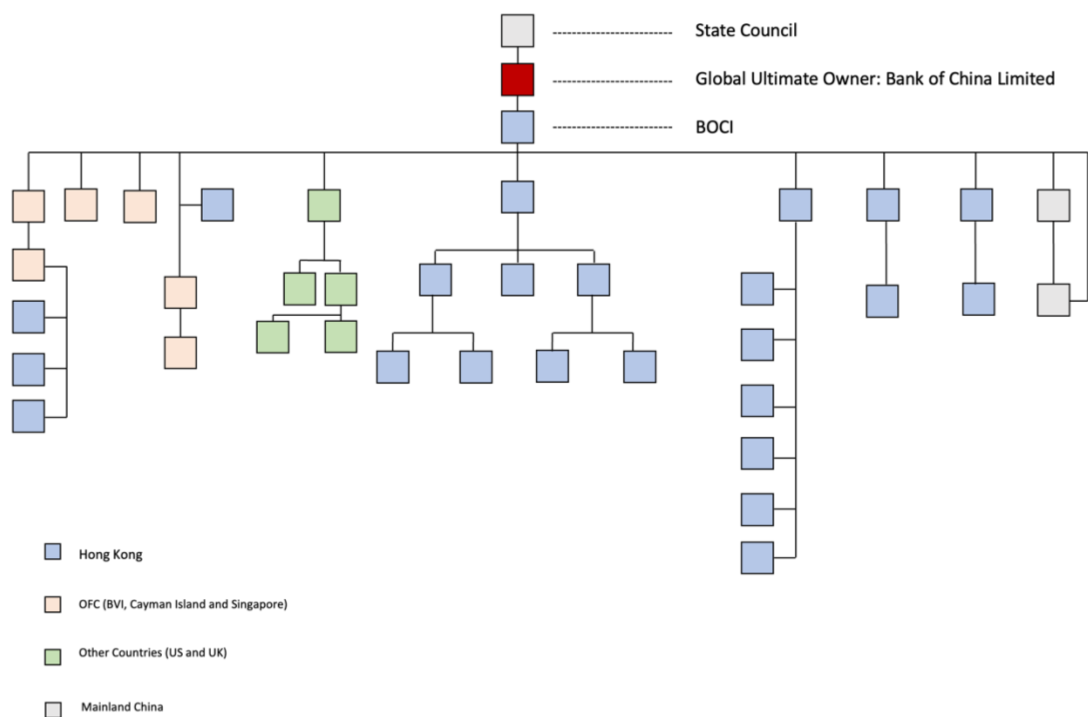
Source: BOCHK Annual Report 2021 (2022)

6.3.2. International Headquarters - BOCI

The second set of holding structures worth examining in detail is the global investment platform, BOC International Holding Ltd. (BOCI, hereafter) of the BOC Group. BOCI is not a publicly listed company but an important alternative controlling structure of a listed BOC holding company, BOCI China. The latter provides securities services for clients in mainland China. Established in Hong Kong in 1998 from China Development Finance Company (HK) Limited, BOCI is the wholly owned subsidiary of Bank of China Limited (Beijing). Over time, BOCI evolved into the global headquarters of the BOC Group's capital market business. From information available on BOCI's website, it appears that by the end of 2021, BOCI directly held 38 subsidiaries around the world, including subsidiaries in Singapore, the

United Kingdom, the United States, mainland China, and elsewhere. BOCI's subsidiaries provide a full range of banking and financial services, including equity financing, advisory services, private banking, securities services, financial products, private equity, commodities, derivatives, and asset management (Figure 8).

Figure 8: Organisational Structure of BOC International Holdings Limited (BOCI)



Source: BOCI Asia Limited Retail Note Programme (BOCI Asia Limited 2004)

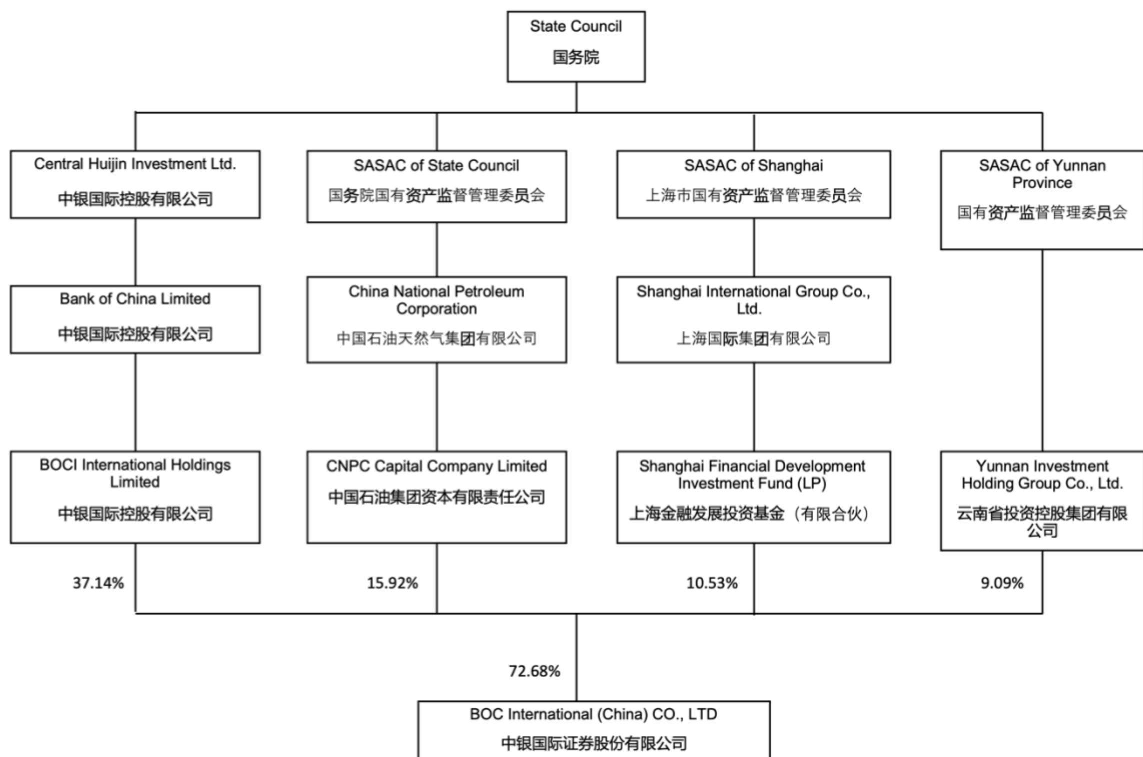
6.3.3. Mainland Headquarter - BOCI China

BOCI, a non-listed Hong Kong holding company controlled from the mainland, established, in turn, a listed company, BOC International (China) CO., LTD (SSE: 601696, BOCI China, hereafter). BOCI China was established in 2002 in Shanghai and publicly listed on SSE on 26 February 2020. Despite the appellation 'international', the business territory of BOCI China is mostly mainland China. BOCI China is currently China's leading investment

bank; its businesses cover most asset management sectors, including securities, funds, and futures. Investment banking is considered central to the economic and national security of China and therefore remains primarily state-owned. People's Bank of China (POC) and CSRC closely control the financing activities of financial institutions, and investments must be approved on a case-by-case basis (People's Bank of China 2020).

An IPO prospectus submitted to SSE in 2020 reveals BOCI China's shareholding structure (Figure 9). China's State Council Bank of China Limited is the largest shareholder of the company, with the remaining ownership directly or indirectly held by the State-Owned Asset Supervision and Administration Commission (SASAC) at different levels. SASAC works as a sovereign wealth fund manager to manage firms through capital market operations. Although an SASAC-corporatized firm is managed by a board of directors, the state, in its capacity as major shareholder, appoints members of the board.

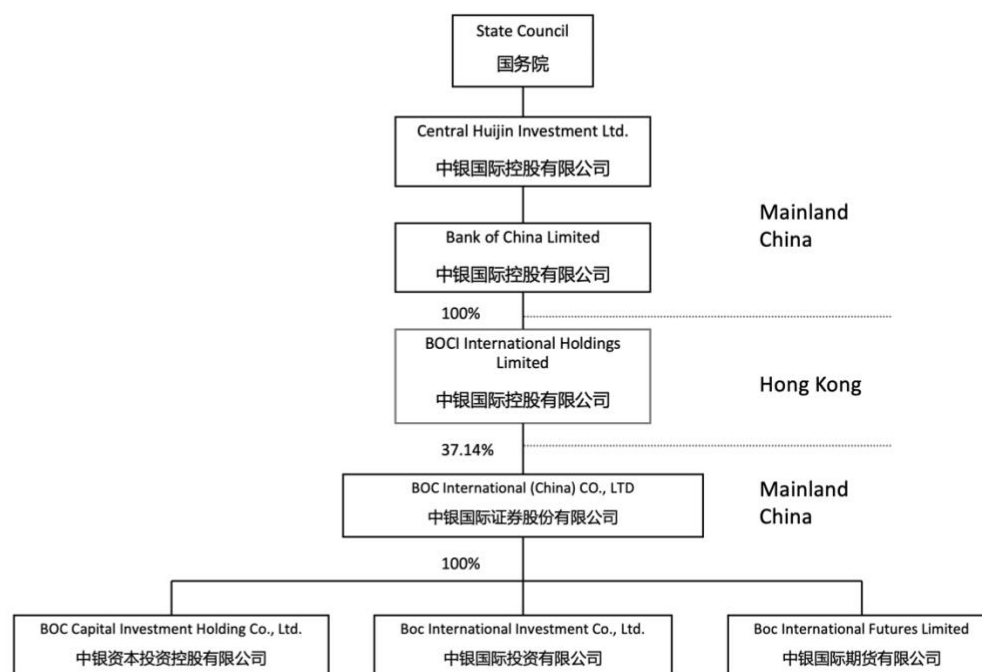
Figure 9: Shareholding Structure of Four Major Shareholders of BOC International (China)



Source: 2020 IPO Prospectus of BOC International (China) CO., LTD

As one of the major subsidiaries in the Bank of China Group, BOCI China undertakes business in the broader asset management industry. It provides clients with financial services in private equity investment, alternative investments, and futures through its wholly owned subsidiaries (BOC Capital Investment Holding Co., Ltd., BOCI International Investment Co., Ltd., and BOCI International Futures Limited). All these entities are categorized as foreign-invested enterprises in the Chinese business administration system, as their major shareholder, BOCI International Holdings Limited (BOCI), is a Hong Kong registered investment company (Figure 10).

Figure 10: Shareholding Structure of BOC International (China) and Its Wholly Owned Subsidiaries



Source: 2020 IPO Prospectus of BOC International (China) CO., LTD

As presented above, BOCI China is held by a non-listed entity, BOCI (Hong Kong), and it, in turn, is controlled by the group's Beijing arm. Although BOCI China and its subsidiaries appear as Hong Kong-held entities, control is exercised both directly and indirectly from mainland China. Thus, the BOC Group is using an international headquarters in Hong Kong to control its mainland subsidiaries; BOCI China is not directly controlled by its global ultimate owner in Beijing. This arrangement is typical of the big four banks' way of operating in China.

The complex corporate structure adopted by the BOC Group, including the set-up of its Hong Kong holding companies, presents a paradox: a state-owned bank, tightly controlled from the mainland, goes out of its way to appear as a Hong Kong-based organisation that closely emulates the Western model of a publicly traded banking group. Furthermore, this state-owned bank adopts many of the techniques of tax and financial regulatory avoidance

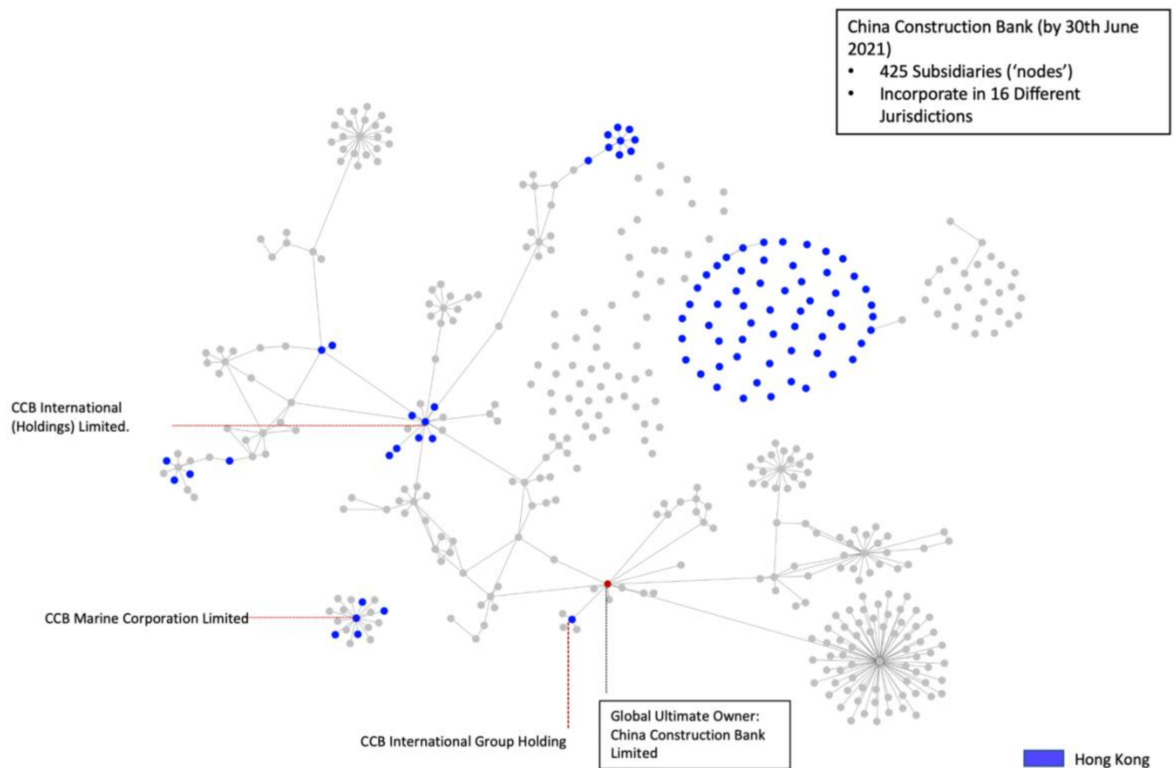
(i.e., avoidance of mainland China financial regulations) used by other Chinese groups. BOC even ensures its asset management services in mainland China are controlled through a Hong Kong holding company. It appears, therefore, that although it is state-owned, BOC is subject to competitive market forces, and its Hong Kong's holding companies perform vital tasks to ensure its ability to compete with the private sector both domestically and internationally.

6.4. Equity Mapping of China Construction Bank (CCB)

CCB is the largest state-owned commercial bank in China with dual listing on HKEX (SEHK: 939) and SSE (SSE: 601939). It currently has 14,510 branches and subsidiaries around the world. By the end of 2021, its market capitalisation reached US$ 175,302 million.[23] By mid-2021, the CCB Group had 425 subsidiaries listed on its consolidated accounts; of these, 179 are overseas entities (CCB 2021). The CCB Group's overseas subsidiaries are held directly or indirectly through three holding firms: CCB International (Holdings) Limited, CCB International Group Holdings Limited, and CCB Marine Corporation Limited. Figure 11 presents an equity mapping of the CCB Group in 2020. The global ultimate owner, China Construction Bank Ltd, is depicted in red, and subsidiaries located in Hong Kong are depicted in blue.

Figure 11: Subsidiaries and Affiliates in Hong Kong, Equity Map of CCB, 2021

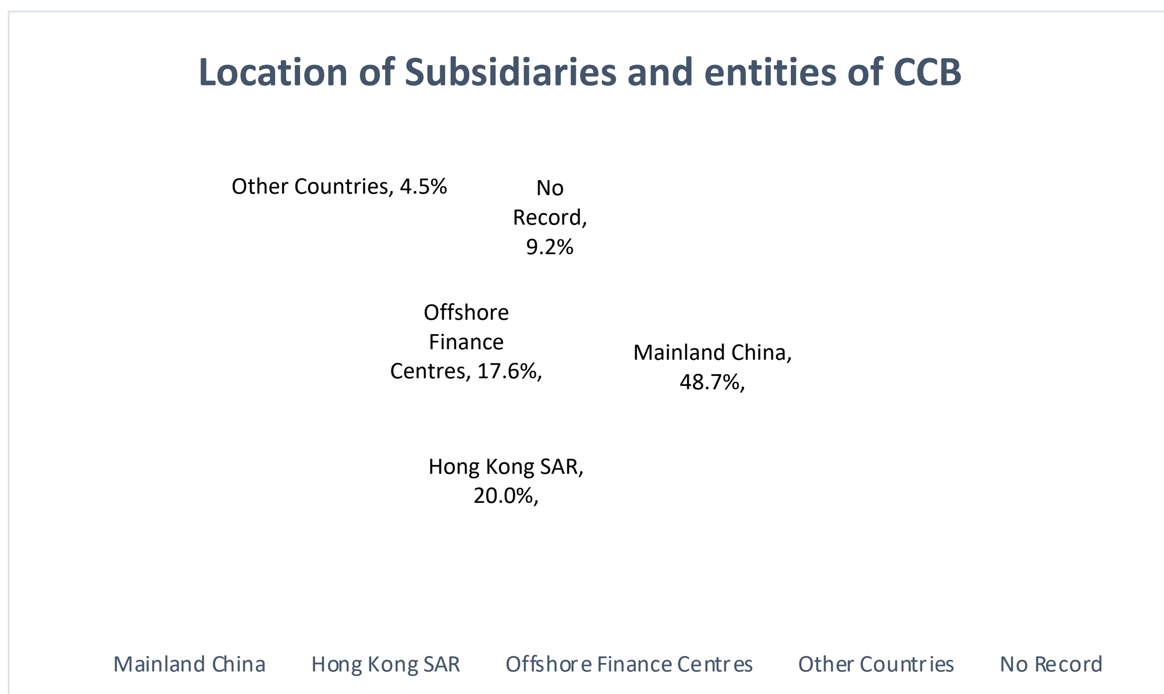
[23] In 2004, CCB was separated into China Construction Bank Corporation and Jianyin. According to the separation procedure under PRC Company Law and the separation proposal approved by CBRC on 8 June 2004, CCB released its separation announcement on 10, 11, and 12 June 2004. Following the final approval by CBRC on 14 September 2004, Huijin, Jianyin, and CCB entered into a separation agreement on 15 September 2004, completed on 17 September 2004. After the separation of CCB, China Construction Bank Corporation was listed on HKSE in October 2005 (stock code: 939) and SSE in September 2007 (stock code: 601939).



Source: List of Consolidated Institutions of China Construction Bank by 30 June 2021(CCB 2021)

OFCs are heavily used by CCB. There are 160 overseas subsidiaries and entities located in OFCs (including Hong Kong), amounting to 37.6% of the total subsidiaries and affiliates of the CCB Group (Figure 12 and Table 4). Amongst the OFC subsidiaries and affiliates, 48.8% (78 in total) have no equity relationship to parent companies (I return to this below).

Figure 12: Location of Subsidiaries and Entities of CCB



Source: List of Consolidated Institutions of China Construction Bank by 30 June 2021(CCB 2021) [24]

Table 4: Affiliates of China Construction Bank (CCB)

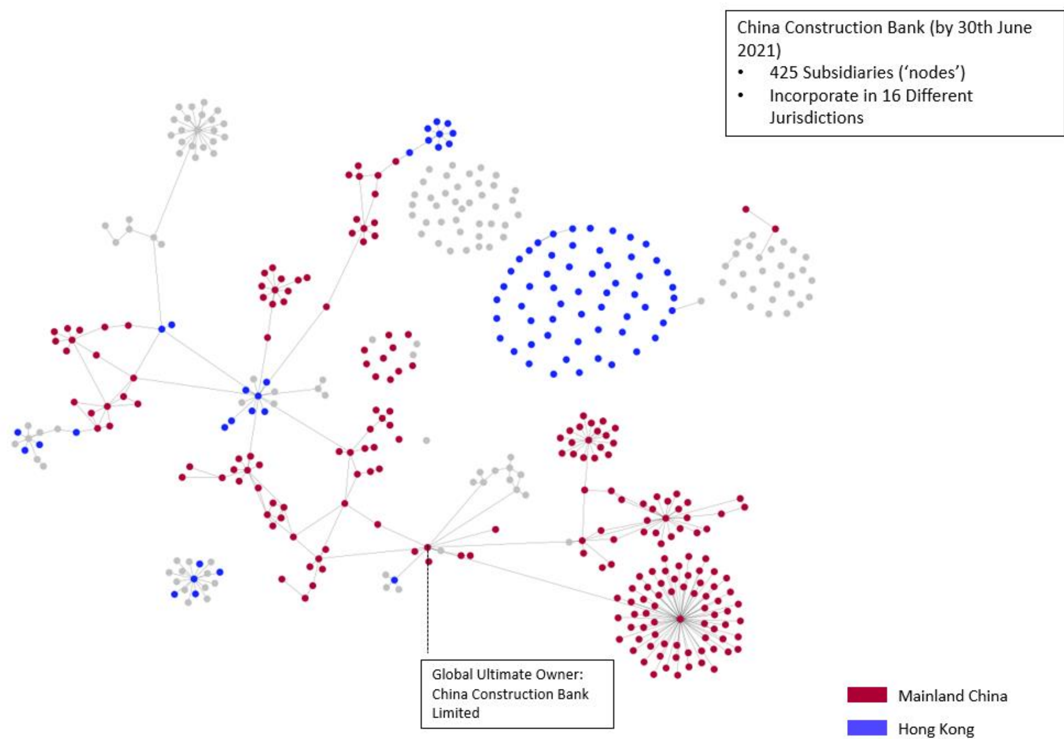
	Mainland China	Oversea			Total
		Hong Kong	Offshore Finance Centres	Other Countries	
Single Location	2	53	20	4	79
Independent	9	2	3	0	14
Equity Controlled	196	30	52	15	293
Total	207	85	75	19	386

[24] Offshore Financial Centres: Luxembourg, Dublin (Ireland), Singapore, Cayman Island, and British Virgin Islands.

Source: List of Consolidated Institutions of China Construction Bank by 30 June 2021(CCB 2021)

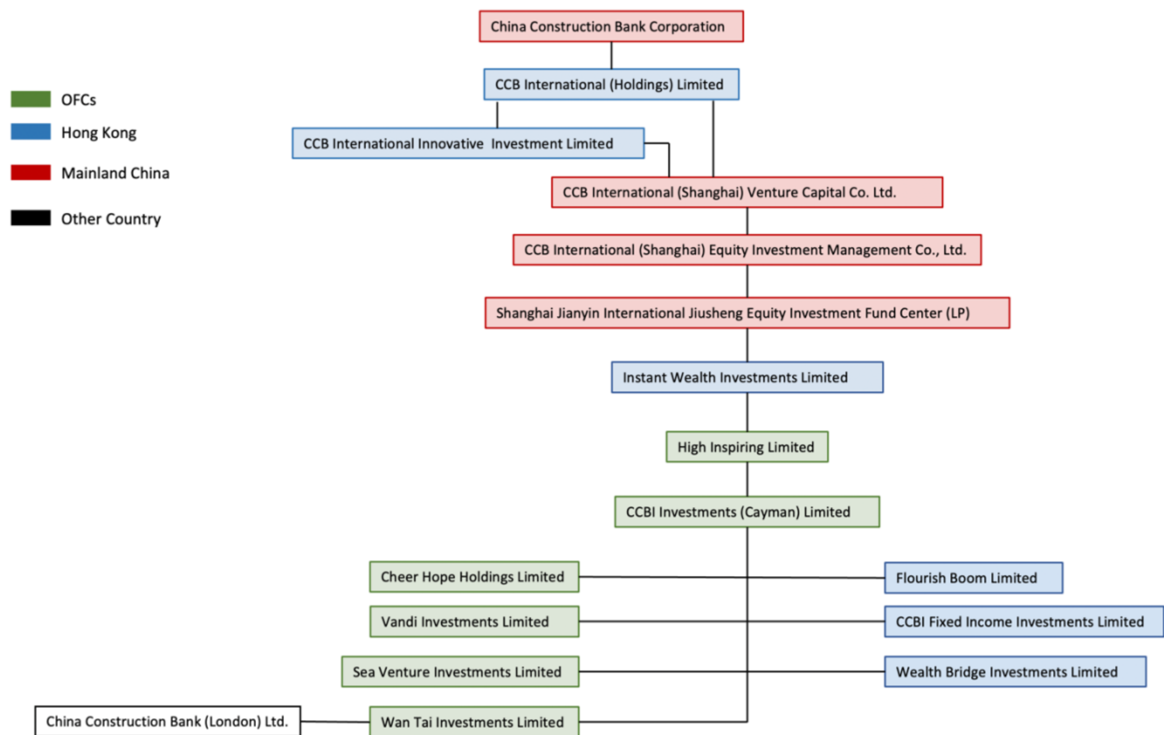
CCB followed BOC's practice of setting up Hong Kong-based investment platforms to hold its mainland subsidiaries (Figure 13). These mainland subsidiaries are principally in the asset management industry. Figure 14 presents a detailed corporate organisational structure of the CCB Group. The first layer is CCB International (Holdings) Limited, a Hong Kong wholly owned subsidiary that controls venture capital and equity investment in mainland China. These mainland investment companies then invest outward from mainland China and set up multiple layers of Hong Kong-BVI structures. These structures are used, in turn, to invest back to Hong Kong and take control of subsidiaries in other countries worldwide (the UK in this case). Thus, both BOC and CCB are using Hong Kong holding companies to control both their foreign and domestic financial activities.

Figure 13: Mainland-Hong Kong-OFC-Hong Kong-UK Structure, Equity Map of CCB, 2021



Source: List of Consolidated Institutions of China Construction Bank by 30 June 2021(CCB 2021)

Figure 14: Detailed Mainland-Hong Kong-OFC-Hong Kong-UK Structure in CCB's Equity Mapping



Source: List of Consolidated Institutions of China Construction Bank by 30 June 2021 (CCB 2021)

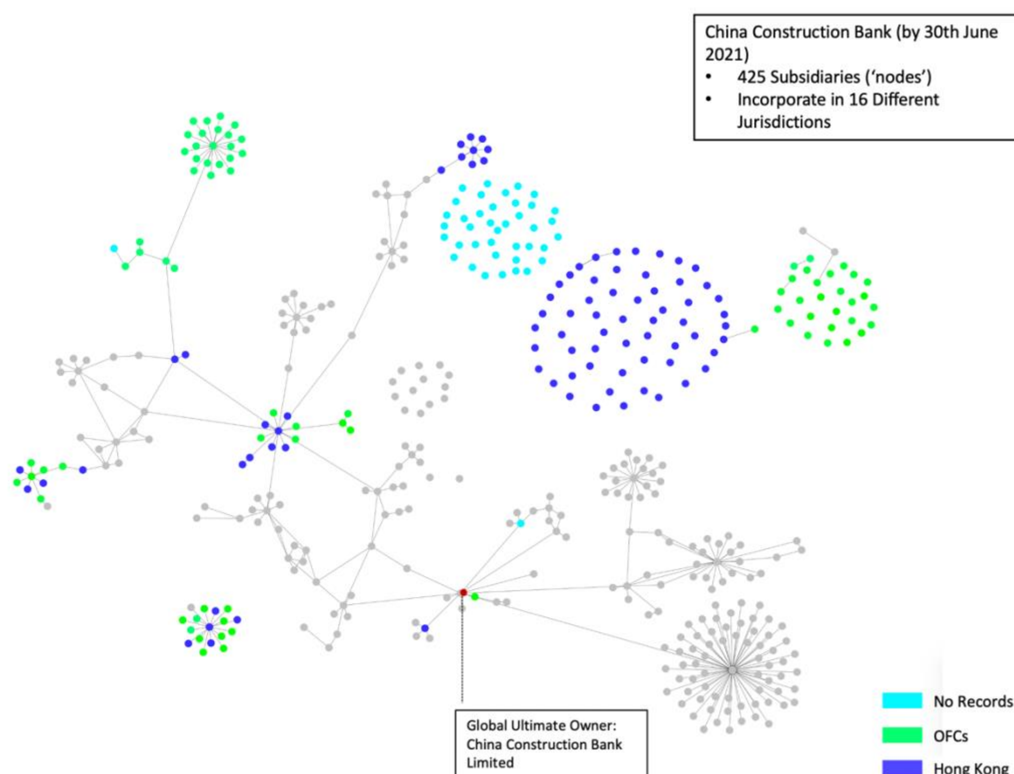
Asset management tasks in mainland China are largely performed through Hong Kong-held companies. Why Chinese state-owned financial institutions deploy such a round-about organisational structure is not entirely clear. However, the economic reform and open-up policy and the liberalisation of the securities sector in 2017 (State Council 2017, 2018, 2019a, 2019b), combined with further removal of restrictions on foreign shareholding in securities, funds, and futures companies, may have incentivized Chinese-owned banks to act as foreign-funded enterprises in the financial sector.

6.5. The Phenomenon of the Floating Subsidiaries

CCB's equity map shows that 132 of CCB's subsidiaries (approximately 31% of its subsidiaries) are floating (Figure 15). They are listed in CCB's consolidated accounts (in 2020) but do not have known equity ties to the parent or to any of the three Hong Kong

holding companies. These floating subsidiaries are nonetheless accounted for, and their operational and financial actives are consolidated into the group's financial statements. Meanwhile, there is a large group of other floating subsidiaries in Hong Kong, represented in blue in Figure 15, with no equity relationship to one another or indeed to the global ultimate owner; in addition, a great many other floating entities in other jurisdictions have no equity relationship to the global ultimate owner.

Figure 15: Floating Subsidiaries and Affiliates in OFCs, Equity Map of CCB 2021



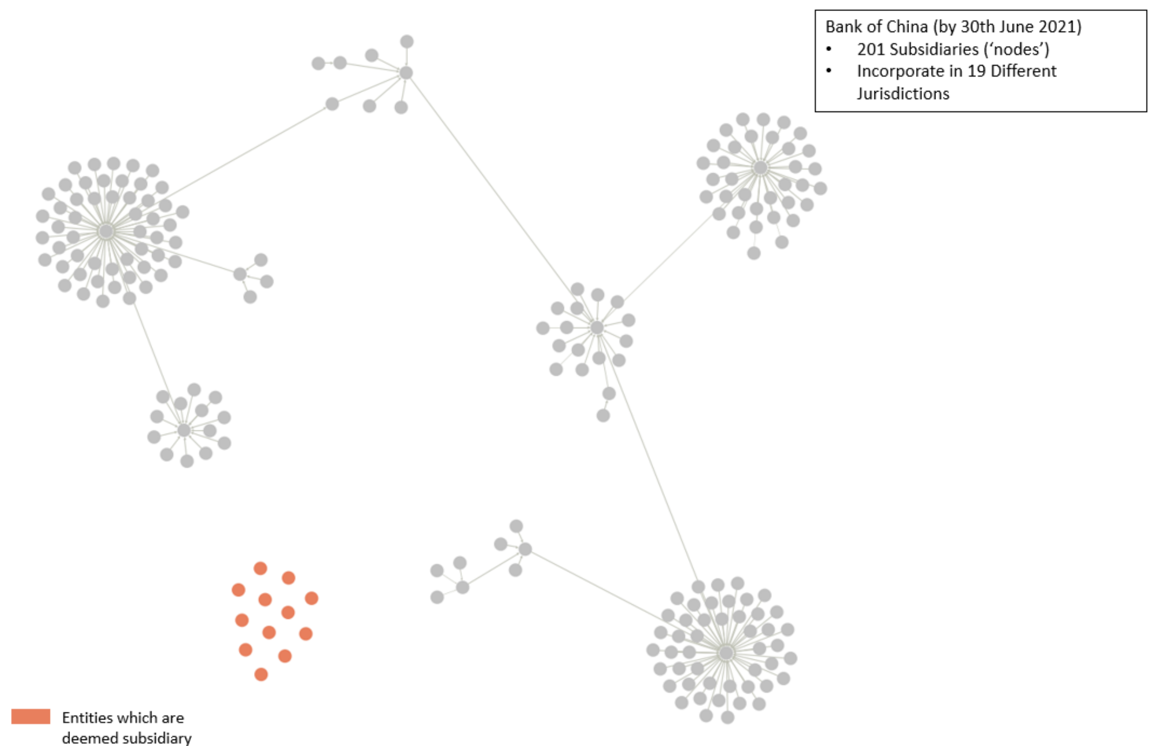
Source: List of Consolidated Institutions of China Construction Bank by 30 June 2021 (CCB 2021)

Of these floating subsidiaries, CCB Marine Corporation Limited, with five Hong Kong-based subsidiaries, is known to be one of CCB's holding companies. Figure 15 also highlights 39 independent entities with no record of when they were established. These independent floating entities give little indication of their relationship to CCB in their

Chinese or English names (these could differ because of intentional or non-intentional translation problems). There is very little information about the history and development of these subsidiaries – this is essentially an information blackout.

Figure 16 highlights a phenomenon similar to the floating subsidiaries in BOC, 'deemed' subsidiary companies. These entities are disclosed in the IPO prospectus of BOC Aviation in 2016. They are deemed subsidiary companies of BOC Aviation, as the group is exposed, or has rights, to variable returns from its involvement with these entities.

Figure 16: 'Deemed' Subsidiary in BOC Group, Equity Map of BOC 2021



Source: Publicly Disclosed Information from Four Listed Companies in BOC Group

The floating subsidiaries embody a distinct form within ownership structure of state-owned enterprises (SOEs) in China. In the case of SOEs, the Chinese state can decide which part of the group is spun off for an IPO and through which 'governing department' (主管部

门) of the industry. Today, the state acts mostly, but not exclusively, as an 'institutional investor', through national and local asset management bureaus or agencies, to maintain a controlling share in publicly listed firms. The IPO firm becomes, as argued above, a separate legal entity, but the rest of the group remains a state-owned enterprise. The state plays a significant role in the strategic decisions of the supposedly independent bank and maintains power as the partial residual claimant of firm profits. For the listed entities spun off from a state-owned bank, the shares in the subsidiary or the holding company are divided among institutional investors and free-floating shares. The institutional shares can be held by a wide variety of owners, including state governing departments (Guthrie *et al.* 2015).

In addition to this formal technique of ownership and control, CCP has long used its own personnel to leverage control in strategic firms. Government-controlled shares of the state-owned banks are greater than 51% of the total outstanding equity. This means the state appoints the board of directors, and CCP personnel run the enterprises. Individual directors are nominated in discussions among the Ministry of Finance, SASAC, and the Organisation Department of the CCP. Discussions take place behind closed doors and are inaccessible to other shareholders. In addition, the CCP Central Committee has the power to appoint financial regulators: PBOC, CSRC, China Insurance Regulatory Commission (CIRC), and the heads of top financial institutions (Chan 2009). Top managers of Chinese stated-owned financial institutions are appointed, therefore, directly by the CCP Organisation Department. Most have an independent powerbase within the party-state system, and some rank high enough in CCP to have a seat on the Central Committee.

This kind of controlling system allows enterprises to create an informal corporate structure in their daily operations. Companies and banks set up independent entities that are not formally linked through equity ownership to a parent yet act as part of the same group. The floating subsidiaries do not weaken central control but are established to complement the weak formal state governance outside mainland China. Yet the monitoring of the activities of, say the 132 CCB floating subsidiaries, all which are formally controlled by different individuals in the organization, may not be as tight as assumed. This kind of corporate

structure could more easily be used for offshore activities like tax avoidance and capital flight, if certain powerful individuals in the organization so desire.

6.5. Conclusions

This chapter get insight into the organizational structure of Chinese-owned banks through Hong Kong. The result has yielded a glimpse into the way these state enterprises operate at the interface of offshore and onshore and respond to various policy goals of their constituencies, while also creating areas of opacity that may facilitate tax leakages and capital flight. The complexity of Chinese state-owned financial institutions' organizational structure reflects the versatility of Hong Kong as a financial centre. As an international financial centre, Hong Kong provides a global financial market and varied financial services to promote Chinese state-owned banks' internationalization. In turn, the advanced experience of the financial market in Hong Kong promotes financial activities and financial reform. Yet the lax financial enforcement in Hong Kong and legal differences in mainland China enable enterprises, including state-owned banks, to establish a layered corporate structure through Hong Kong.

The combination of formal and informal ownership controlling systems downplays the role of agents' strategic choices, and these are important, as they provide bureaucratic entrepreneurs with a major tool, they can use to isolate an enterprise from central authority. The Hong Kong-BVI/Cayman Island structure and the floating subsidiaries are able to retain earnings from Chinese banks' international business in OFCs in a way that makes it difficult for the central government to track. Bureaucrat entrepreneurs working for these banks can easily reinvest funds from their offshore capital pool in their international businesses. At times, these offshore capital pools can act as a foreign exchange reserve.

Ultimately, the complex corporate structure through Hong Kong enables Chinese state-owned financial institutions to achieve a dynamic equilibrium between operating as internationalized modern banks and as national enterprises under bureaucratic control.

In the subsequent chapter, a deeper investigation will be conducted to elucidate the mechanism employed by Chinese state-owned banks for offshore financing through these established corporate structures.

Chapter 7: Unveiling the Mechanism of Offshore Financing Activities through Hong Kong: A Study of the Bond Issuance Structure of Chinese State-Owned Banks

7.1. Introduction

Chapter 6 presents evidence regarding the establishment of complicated and invisible corporate structures by Chinese state-owned banks within Hong Kong and OFCs. This prompts an investigation into the mechanisms by which these corporate structures enable offshore financial activities, along with an examination of the fundamental motives propelling these banks to embrace such corporate configurations. Concentrating specifically on the international bond issuance structure of Chinese state-owned banks and other enterprises, the examination within this chapter is dedicated to unveiling the crucial role played by Hong Kong as an intermediary financial centre that links mainland China with OFCs in offshore financial activities.

After the establishment of HKEx in 1986, Hong Kong became the leading bond hub in Asia, ranking first in terms of arranging Asian international bond issuance. By the end-2022, the aggregate outstanding amount of the bonds in Hong Kong has reached approximately US$ 10.244 trillion (HKD Debt Instruments: US$115.6 billion, Offshore RMB Debt: $137.6 billion, and G3 Currency Bond: US$716.9 billion), which accounts of nearly half of the Asian offshore bond market. Even severely affected by COVID-19 from 2020, the new issuance in the Hong Kong bond market has reached the aggregate amount of US$ 324.7 billion in 2022 (The Central Moneymarkets Unit 2023).

Given that Hong Kong serves as the principal preference for China seeking global fundraising opportunities, its foray into the international bond market there commenced four decades ago, marked by the involvement of the ‘Big 4.’ Following the global financial crisis in 2008, the global financial market became initially accessible to Chinese domestic enterprises beyond centrally controlled SOEs. This significant development has resulted in a substantial increase in activity within the international bond market. China’s ascendant

influence has garnered considerable attention from financial practitioners and scholars. Nevertheless, there is a conspicuous lack of focus on comprehending the mechanisms that underpin Chinese enterprises' international financing activities and the intricate interconnections among mainland China, Hong Kong, and OFCs within the bond market.

This chapter presents Chinese state-owned banks' activities in the international bond market with three perspectives: (i) the development of Chinese state-owned banks' bond issuance structure through Hong Kong and OFCs, and (ii) the currently used bond issuance structure for other Chinese domestic enterprises; and (iii) the crucial role of Chinese state-owned banks as in the international bond market. As such, this chapter focuses on the financing mechanism of Chinese enterprises' overseas corporate structure in international bond issuance rather than the overall picture of the massive scale of the Chinese international bond market and the external factors that affect it.

The following part first introduces background information about the Chinese international bond market in Hong Kong. The empirical findings pertaining to the issuance structure of Chinese state-owned banks and the rationale behind the application of these structures are discussed next. Thirdly, this chapter reveals a concealed issuance structure and explores potential credit enhancement measures applicable to Chinese non-SOEs. Furthermore, the section expounds on the monopolistic role of Chinese state-owned banks in the Chinese international financial market. The chapter culminates by summarising the results and emphasising critical implications.

7.2. Chinese International Bond Market in Hong Kong

Hong Kong has assumed a leading role in facilitating international bonds for Chinese enterprises. The initiation of Chinese fundraising activities through global bond issuance traces back to Chinese state-owned financial institutions based in Hong Kong. In January 1982, CITIC Group, a Chinese state-owned financial group headquartered in Hong Kong, pioneered China's foray into international bond markets by issuing the country's inaugural

foreign currency bond—a 10 billion Yen in Japan, marking the first instance of raising funds outside of China.[25]

Since then, Hong Kong played a pivotal role in contributing a significant portion of foreign debts for mainland China, predominantly through the international bond issuance activities of Chinese state-owned banks. Subsequent to the GFC, the financial liberalisation associated with Chinese financial reform has propelled significant growth in Chinese international bonds in Hong Kong. As of now, the cumulative outstanding amount of Chinese international bonds in HKEx has reached approximately US$900 billion, accounting for almost half of the Asian offshore bond market. The compound annual growth rate of international bond issuances by Chinese enterprises exceeded 30% from 2004 to 2022. This signifies the swift expansion in raising funds from the global bond market by Chinese issuers.

Beyond serving as a venue for the bond financing activities of Chinese enterprises on financial exchanges, Hong Kong provides advanced financial services through financial institutions located there. The city has undergone gradual but significant economic restructuring by way of transformation to a service-based economy. Its primary focus within the financial sector is presently on offering upstream services to the Chinese domestic market. Moreover, leading Chinese state-owned banks have established their overseas headquarters and main subsidiaries in Hong Kong to manage their international business operations. In alignment with this trend, numerous smaller Chinese financial institutions, including regional commercial banks, securities companies, and other financial entities, have participated in offshore financial activities. These financial firms play a role in facilitating a

[25] China International Trust and Investment Company (CITIC), including commercial banks and non-bank financial businesses, is a comprehensive and universal financial holding group founded in 1979. It was established by the businessman and politician Mr. Rong Yiren on instructions of the State Council of the People's Republic of China. The State Council and the People's Bank of China agreed to set up the wholly state-owned limited company in 2002. CITIC Group headquarters was based in Beijing and moved to Hong Kong. In past decades, it has developed both domestic business and built its international banking and capital business financial services brand. It is one of China's biggest state-run conglomerates with one of the world's largest pools of foreign assets.

diverse range of intermediary services through their subsidiaries and representative offices. This includes activities such as dealing and brokering, asset management, investment advisory, mergers and acquisitions, and corporate finance.

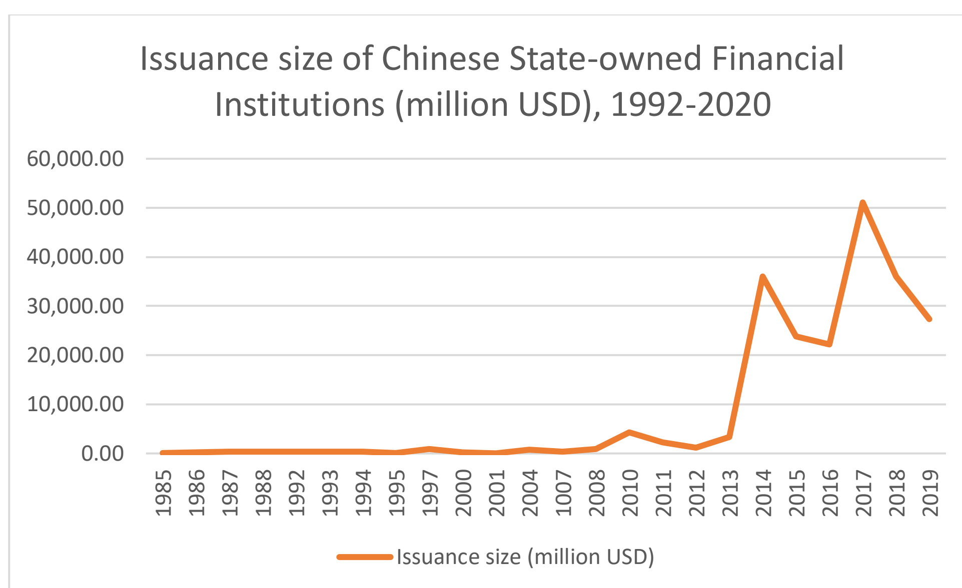
The next section will discuss in detail the Chinese enterprises' bond issuance activities and financial services provided by Chinese state-owned banks in this process.

7.3. Chinese state-owned banks' International Bond Issuance Structure

Chinese state-owned banks have consistently played a prominent role as primary entities issuing international bonds from the initial phase of Chinese economic reform. In November 1984, with official authorisation, the Bank of China embarked on a significant milestone by issuing ¥20 billion in Japan, marking the commencement of the historical trajectory of overseas bond issuance by Chinese banks (BOC 2016). During the period from 1985 to 1997, these banks accounted for 94% of the total cumulative issuance of $3.126 billion in Chinese international bonds. BOC and its 'sister banks', including ICBC, ABC, CBC, BoCom, and Citic Ka Wah Bank Limited, issued a total of 21 overseas bonds across four currencies, namely the mark, U.S. dollar, Japanese yen, and Hong Kong dollar. By January 2020, more than 20 Chinese commercial banks had issued a total of over US$210 billion worth of overseas bonds, covering more than 10 currencies, including US dollars, euros, RMB and Hong Kong dollars.[26] The annual issuance volume of international bonds by Chinese commercial banks experienced a substantial growth, escalating from the equivalent of US$0.49 billion to US$27.362 billion. This growth was characterised by a compound annual growth rate of 45.1% over the period spanning from 1985 to 2020 (Figure 17).

[26] According to the 'Measures for the Implementation of Administrative Licensing Matters for Chinese Commercial Banks of the China Banking and Insurance Regulatory Commission', Chinese commercial banks include large State-owned commercial banks, Postal Savings Bank of China, joint-stock commercial banks and City commercial banks (CBRC 2018).

Figure 17: Issuance size of Chinese State-owned Financial Institutions (million USD), 1992-2020



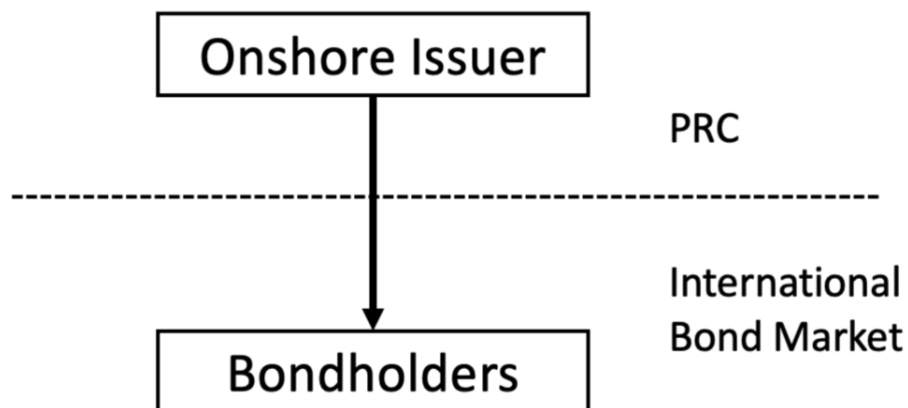
Source: Wind

The involvement of Chinese state-owned banks in the international bond market is intricately tied to the Chinese political economy. Operating under central government ownership, these banks and their overseas subsidiaries adhere to a system characterised by centralised control and unified management of foreign exchange. In its capacity as the financial sector representative of the State, each bond issued by Chinese state-owned banks necessitated approval from the State Council and individualised endorsement from the central bank on a case-by-case basis. Given that these entities did not function as contemporary international financial institutions, they issued senior bonds instead of financial bonds. Furthermore, owing to a lack of transparency, these state-owned banks did not enjoy widespread recognition in the global financial market, and the majority of their bonds did not receive official ratings from international rating agencies. Investors regarded them as alternative sovereign bonds of China, attributing this classification to their state ownership and the actual utilisation of funds.

7.3.1. Direct Issuance Structure

In the initial stages of Economic Reform, the Chinese Central Government implemented stringent central planning measures that imposed restrictions on the majority of funds acquired by Chinese banks from the international financial market. These loans were predominantly designated for working capital, with a specific focus on securing funding for socialist construction instead of being allocated for investment objectives (Tobin 2016). During this period, from 1984 to 1997, the predominant structure employed for the issuance of international bonds by Chinese state-owned banks was the 'Direct Issuance Structure'. This structure facilitated onshore issuers in straightforwardly issuing debt in the global market (Figure 18). The approval process associated with the direct issuance structure was contingent on the ultimate decision of the State Council, restricting its applicability to large-scale SOEs such as state-owned banks. Typically, these bonds were issued directly by the group headquarters on the mainland. By publicising their group name in the international market, Chinese state-owned banks, as issuers, also enhance their reputation in the global financial market for the first time.

Figure 18: Direct Issuance Structure



Source: Author

Following the Asian Financial Crisis in 1997, the State reinstated the issuance of international bonds. This marked the inaugural instance wherein the State regulated the issuance of international bonds and liberalised access to the international debt market for domestic enterprises. On 10 March 2000, the National Planning Commission and PBOC jointly issued a circular titled, ‘Opinions on Further Strengthening the Administration of Overseas Issuances of Bonds’ (SAFE 2000). The legal definition of 'international bonds' in the circular broadened the scope to encompass various domestic entities, including government authorities, financial institutions, other domestic enterprises and institutions, as well as Foreign-Invested Enterprises (FIEs). Subsequently, these entities became eligible to access the international bond market. Despite the existence of intricate examination and approval procedures, domestic issuers are afforded a degree of flexibility in determining issuance costs, selecting markets, and timing their listing.[27]

Since this period, international bond issuance by Chinese state-owned banks has taken on a broader significance beyond merely financing economic reforms. It plays a crucial role in serving the real economy, facilitating international trade and investment, fostering the global expansion of Chinese enterprises, advancing the internationalisation of RMB, promoting the international development of commercial banks, and contributing to the convergence of China’s financial industry with international financial regulations. Simultaneously, in anticipation of China's commitment to open its domestic financial market in accordance with WTO rules, ‘Big 4' have secured foreign partners as shareholders and have undergone listing on HKEx. Since their public listing, the credit rating of ‘Big 4’ from

[27] ‘International Bonds’ is defined by the National Planning Commission and PBOC in the circular title, ‘Opinions on Further Strengthening the Administration of Oversea Issuances of Bonds’, issued in 2000 (SAFE 2000). It signifies the securities constituting a debtor-creditor relationship, denominated in foreign currencies and issued by Chinese domestic institutions in the international financial market. According to the official categorisation, domestic issuers have been classified into three types in terms of international bond issuances: government issuers (mainly MOF acting as the competent authority for the purpose of issuing sovereign bonds on behalf of the State of the PRC), financial institution issuers (especially Chinese commercial and policy banks); corporate issuers (mainly Chinese state-owned and private companies).

S&P, Moody’s and Fitch have witnessed upgrades to Investment grade levels. Subsequently, PRC banks transitioned partially from being integral components of China's domestic capital pool to assuming a role on the international stage. Funds raised from the international bond market are allocated to support enterprise development and investment endeavours.

In parallel, Chinese state-owned banks are adopting strategies similar to those of private enterprises by engaging in the issuance of international bonds. Leveraging their high credit rating and implicit government backing, the global bond market has emerged as a primary avenue for securing financial support for these banks. Additionally, these banks are progressively establishing branches and subsidiaries beyond the mainland, following a strategic approach where funds generated overseas are earmarked for deployment in the international market.

In light of these evolving business strategies, a discernible shift has occurred in recent years, with fewer Chinese state-owned banks opting for a direct issuance structure in the issuance of international bonds. The Direct issuance structure is now primarily reserved for bonds issued with explicit political objectives, notably those aligned with initiatives such as the 'Belt and Road Initiative.' From 2000 to 2013, a total of seven Chinese commercial banks issued a total of 42 foreign bonds, totalling $12.966 billion. Among them, nine international bonds, with an aggregated value of US$ 5,036 million, were issued by the overseas affiliates of Chinese state-owned banks.[28]

Chinese state-owned banks are progressively employing a 'Semi-direct Issuance Structure' by utilising their directly held overseas subsidiaries to issue bonds. Under this framework, these bonds are predominantly issued directly, relying on the credit rating of the parent group for their evaluation and issuance. Similar to directly issued bonds, the Issuance Notice for these bonds lacks guarantee information. However, in some Offering Circular and

[28] CBC, Bank of China, CITIC Bank and China Merchants Bank

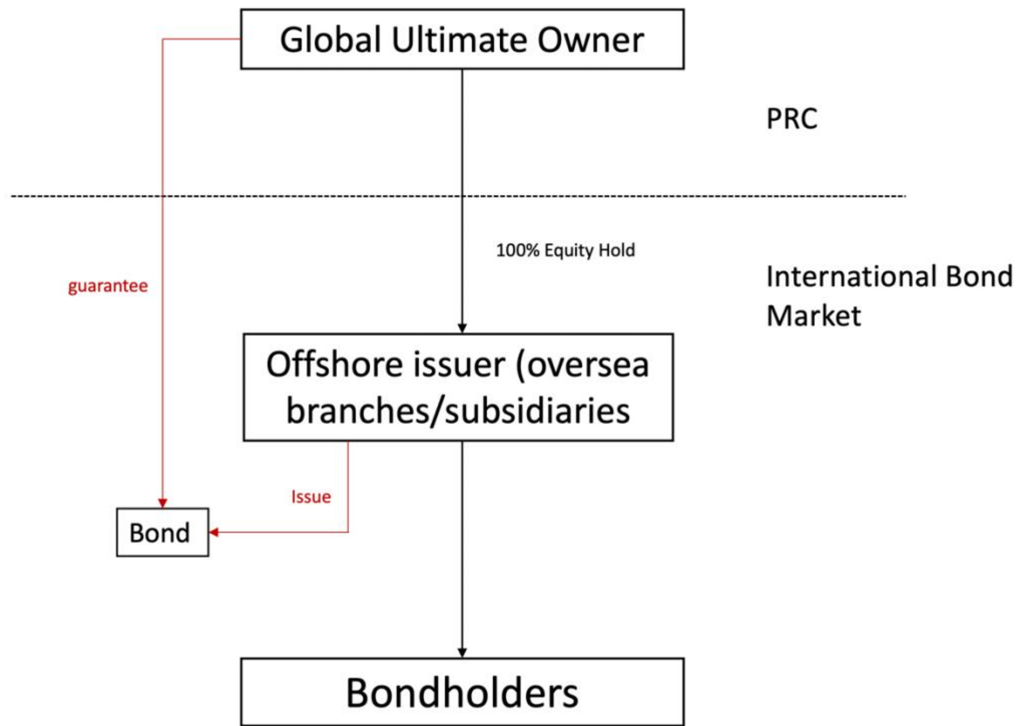
Pricing Supplement documents, these bonds issued by branches and subsidiaries are unconditionally and irrevocably guaranteed by their parent companies (Figure 19).

It bears a resemblance to the 'Outbound Guarantee Issuance Structure', as will be further expounded upon subsequently.

By July 2022, 'Big 4' have collectively issued 172 international bonds utilising Semi-direct Issuance Structure from their directly hold overseas branches and subsidiaries. Given the robust assets, healthy cash flow, and extensive operations (either directly or through subsidiaries) conducted under their group headquarters in the PRC, Chinese state-owned banks are likely to boast a favourable credit rating, thereby facilitating advantageous pricing terms. Consequently, the need for credit enhancement in the context of the semi-direct issuance structure is minimal, resulting in relatively low coupon rates for the bonds.

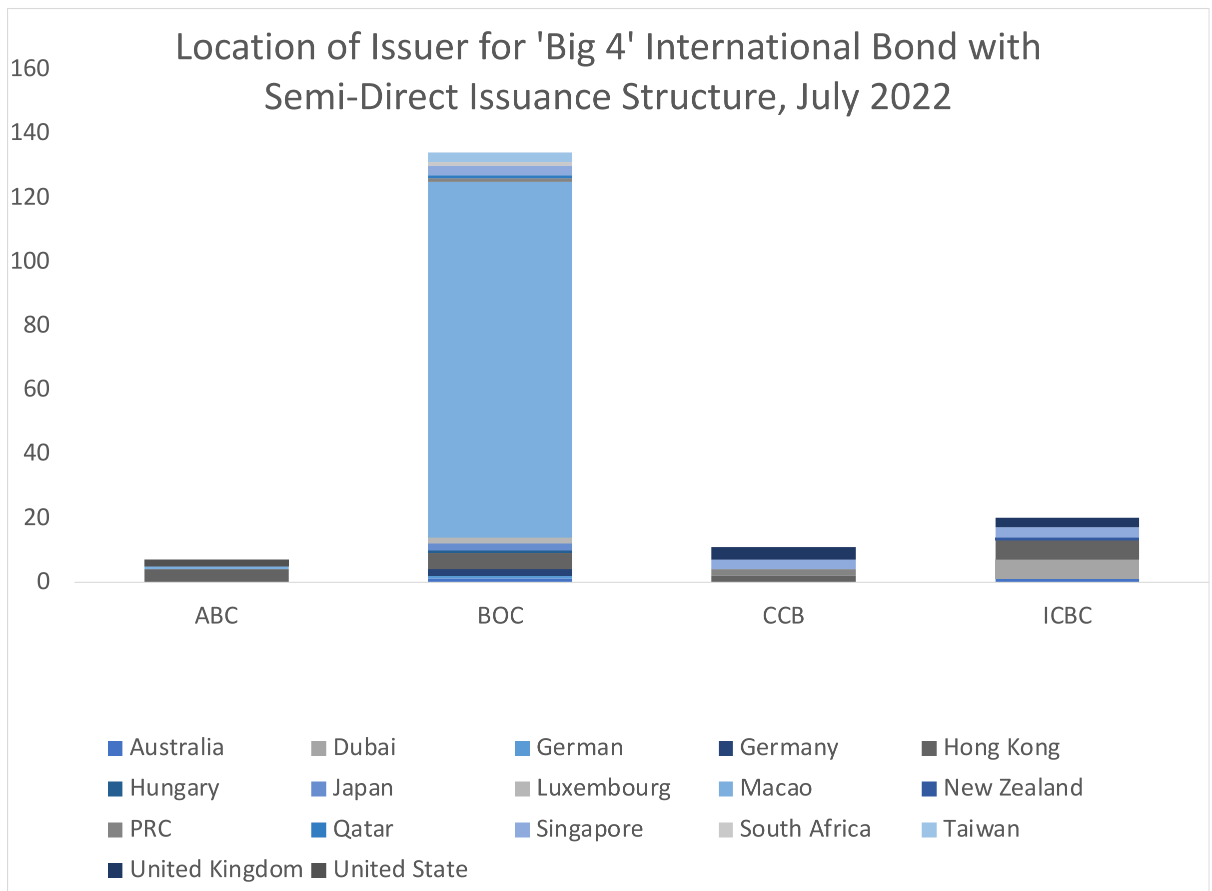
Both the direct and semi-direct issuance structures align with the overarching trend promoted by the central government in advancing Chinese financial internationalisation. This trend encourages creditworthy enterprises to engage in the issuance of bonds in the international market, allowing them to allocate the proceeds within or outside the PRC. In addition, the repatriation of bond proceeds into the PRC is readily facilitated through compliance with the foreign debt registration regime outlined by the State Administration of Foreign Exchange (SAFE), as specified in the NDRC Circular 2044. However, it is noteworthy that funds raised through these bonds are predominantly earmarked for priority utilisation in supporting key projects and investments in strategic sectors within the Belt and Road Initiative (BRI) States and specific regions in the PRC rather than being directed towards the internal operations of Chinese banks themselves.

Figure 19: Semi-Direct Issuance Structure



Source: Author

Figure 20: Location of Issuer for 'Big 4' International Bond with Semi-Direct Issuance Structure by July 2022



Source: Wind

The central challenge inherent in both the direct and semi-direct issuance structures lies in the intricate approval process, hinging on the final endorsement by the State Council. This process is characterised by its complexity, stringent criteria, and time-intensive nature. Nevertheless, due to their role as agents of the central government in the financial sector, Chinese state-owned banks generally find it relatively facile to obtain the requisite permissions for issuing international bonds. That brings us to a question: why do Chinese state-owned banks abandon the direct issuance structure to issue bonds by their Global Ultimate Owner and use their overseas commercial banking branches to raise funds?

A notable drawback specific to the direct issuance structure is the associated tax burden. According to Chinese tax laws and regulations, bonds issued through the direct issuance structure are subject to three taxes in the People's Republic of China (PRC):

withholding tax, value-added tax (VAT), and surcharges. It seems therefore that one of the main reasons is that utilising the semi-direct issuance structure through Hong Kong can lead to reduced tax payments for bondholders by leveraging Hong Kong, a jurisdiction characterised by lower tax rates.

The schemes work as follows: The withholding tax, a type of enterprise income tax in mainland China, applies to international bond issues by onshore issuers. The bondholders of these international bonds, typically located out of mainland China, are considered by Chinese authority as non-PRC tax residents. In accordance with the Chinese tax rules, the Chinese withholding tax on the interest payable on the bonds are deducted from such interest when it is paid to non-PRC tax residents (STA 2007).[29] The withholding tax rate is 10% in the PRC, but it may be reduced to 7% if the beneficial recipient of such interest is a Hong Kong tax resident (Inland Revenue Department Hong Kong 2006; SAT 2006).[30] Thus, using Hong Kong for bond issuance intermediary reduces withholding tax by 3%.

Another applicable tax planning scheme is the VAT and surcharges in the PRC. The interest payable on the bonds held by non-PRC tax residents is subject to the PRC VAT and surcharges, which is 6% (for the VAT) and 0.72% (being 12% of the VAT rate) of the interest. Consequently, the combined rate of VAT and surcharges stands at 6.72% of the interest on the

[29] The PRC Enterprise Income Tax Law, Articles 3 and 4; the Implementation Rules on the PRC Enterprise Income Tax Law, Articles 7, 91, 103 to 108. Non-PRC resident enterprises shall pay the PRC enterprise income tax with respect to the incomes arising from sources within the PRC (including the interest income), and the paying entity is obliged to withhold and deduct the income tax from the payment and pay such tax to the Chinese tax authority on behalf of the non-PRC resident enterprises.

[30] Notice of the State Administration of Taxation on the Interpretations and Implementation of Some Clauses in the Arrangement between the Mainland of China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income, Article 11. If the bondholder is a Hong Kong resident taxpayer (whether corporate or individual), the bondholder may apply for a preferential tax rate of 7% on interest earned in the PRC.

bonds. Considering both withholding tax and the VAT and surcharges[31], the comprehensive tax burden on the interest payable for bonds issued by onshore issuers in the direct issuance structure would be 16.72% of the interest amount.

Typically, an onshore issuer is obligated to gross up the Chinese withholding tax deducted from the interest when it pays the interest to the non-PRC bondholders. This ensures that these bondholders would receive the same amount as if there had been no withholding or deduction. This tax gross-up cost is ultimately borne by the onshore issuer, effectively resulting in a higher de facto interest rate for the bonds. The cost in taxation affects the costs and benefits of choosing the direct issuance structure, and onshore issuers must balance whether the direct issuance structure will reduce the coupon rate and increase the efficiency to such extent that it can offset the increased tax burden.

Overall, therefore, in the semi-direct issuance structure, the issuer comprises the directly-held overseas branches and subsidiaries of the Chinese state-owned bank, with the domestic parent company providing an outbound guarantee to support the issuance. Compared to the direct issuance structure, this structure has an obvious tax advantage in avoiding paying Chinese withholding tax and VAT and surcharges on the interest payable on the bonds in advance. In the event that the Chinese guarantor has to fulfill the guaranteed obligation under the outbound guarantee due to the offshore issuer's inability to meet its payment obligation on the bonds, the guaranteed payment is not subject to Chinese withholding tax or VAT rules. Instead, the offshore issuer is only required to pay withholding tax, capital gains tax, VAT, or similar taxes on the interest in their jurisdiction of issuance, like Hong Kong. In practice, the semi-direct issuance structure is often considered synonymous with the direct issuance structure. It is obvious that Hong Kong intermediaries were able to reduce the overall tax burden on bond issuance. Hence the role of Hong Kong is the offshore jurisdiction to conduct tax arbitrage during this international financing activities.

[31] Withholding tax and VAT in China only apply to the interest accrued on the bonds, not on the principal amount of the bonds.

Hong Kong benefited further due toa series of regulations released in the 2010s relaxed restrictions on Chinese firms' access to overseas financing. The issuance of Circular on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (NDRC 2015) and Notice of the State Administration of Foreign Exchange on Further Promoting the Reform of Foreign Exchange Management and Improving the Verification of True Compliance by SAFE in 2017 (SAFE 2017), the limitation on transfer fund raised by oversea subsidiaries to domestic market has been removed. The issuers can use outbound guaranteed bonds issued in the international bond market to repatriate funds to the domestic territory ("内保外贷"). For Chinese state-owned banks, using semi-direct issuance structure to raise fund for both their domestic and international commercial banking business can reduce their cost by removing Chinese withholding tax and VAT. That might be the reason of widely usage of semi-direct issuance structure to issue their international bonds.

7.3.2. Outbound Guarantee Structure

Based on the experience of Chinese state-owned banks, the state relaxed restrictions on Chinese firms' access to overseas financing after GFC. A series of regulation released by regulators in 2010s to liberalise the international bond market.[32] NDRC issued the NDRC Circular No. 2044 on 14 September 2015 to replace the approval system for decades (NDRC

[32] The Guidance on Issuance of Corporate Bonds by Commercial Banks to Supplement Capital (SFC and CBRC Announcement [2013] No. 39), *《关于商业银行发行公司债券补充资本的指导意见》*, (SFC and CBRC 2013); The Operation Guideline of the Administrative Measures on Foreign Debt Registration [2013] No. 19, *《外债登记管理办法》*, (SAFE 2013); the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debts Filings and Registrations, *《国家发展改革委关于推进企业发行 外债备案登记制管理改革的通知 发改外资 [2015]2044 号 》*, (the "NDRC Circular 2044")(NDRC 2015); and Exchange Reform on 11th August 2015

2015).[33] In accordance with that, all 'debt instruments' borrowed by domestic enterprises and overseas enterprises, or branches controlled by domestic enterprises, denominated in RMB or foreign currencies and with a tenor over one year, are subject to filing with the NDRC. The local competent authority for the specific industry is no longer supposed to enjoy discretionary approval power. Instead, as long as the application documents are in order and the conditions for application are satisfied, NDRC intends to complete the filing process. Meanwhile, it extends the jurisdiction over domestic enterprises, which is NDRC's traditional regulatory power, to not only domestic enterprises but also overseas enterprises or branches controlled by domestic enterprises.

Corresponding to NDRC Circular No. 2044, Chinese domestic enterprises, including Chinese state-owned banks, have designed several complex international bond issuance structures to raise funds for their enterprise operation and investment. By July 2022, only three listed bonds on HKEx are directly issued by the Global Ultimate Owner of 'Big 4'.[34] In addition to the semi-direct issuance structure adopted by most of the remaining bonds, a few bonds issued by subsidiaries are adopting 'Outbound Guarantee Structure' and 'Keepwell Structure'.

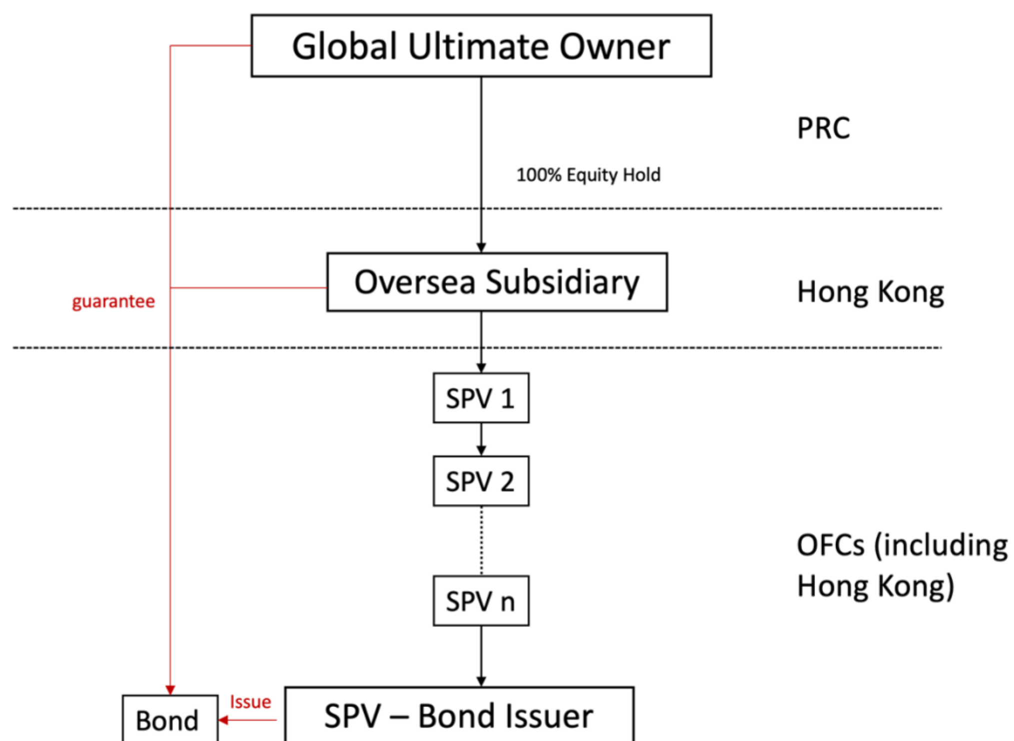
'Outbound Guarantee Structure' is very similar to the 'Semi-Direct Issuance Structure' (Figure 21). Typically, the issuer is a Special Purpose Vehicle (SPV) created specifically for the purpose of issuing bonds in the international market. The domestic enterprise, acting as the direct or indirect parent company of the offshore issuer, offers an outbound guarantee to bolster the issuance. Diverging from overseas branches or subsidiaries engaged in actual business activities in the semi-direct issuance structure, issuers in this context typically lack

[33] The full name of this NDRC circular is the Circular on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (the 'NDRC Circular No. 2044', 国家发展改革委关于推进企业发行外债备案登记制管理改革的通知发改外资[2015]2044 号)

[34] Bank of China, 6.75%, Perpetual Bond, HKEX, Dim Sum Bond (RMB); CCB, 4.9%, B20241112, HKEX, Dim Sum Bond (RMB); CCB, 2.85%, B20320121, HKEX, Kungfu Bond (USD)

significant assets and do not engage in any substantive business activities beyond the offering, sale, or issuance of indebtedness. The capacity of these issuers to fulfill bond payments hinges on receiving punctual remittances from the Guarantor or its subsidiaries. Consequently, the outbound guarantee plays a pivotal role in sustaining the viability of this structure.

Figure 21: Outbound Guarantee Structure

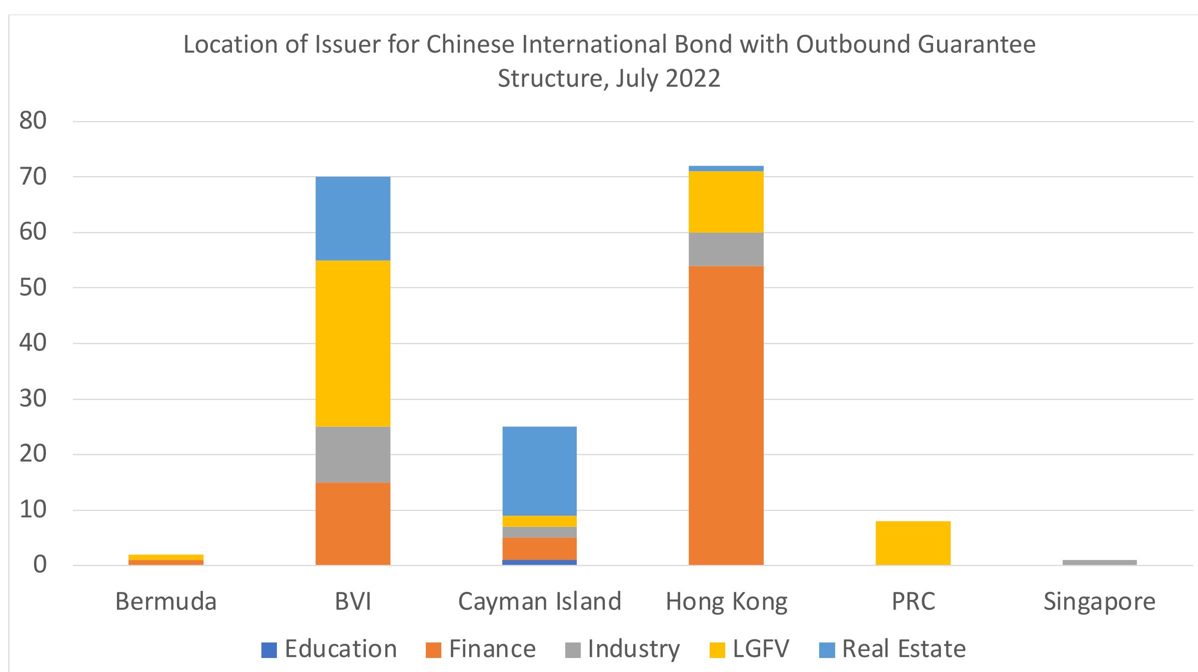


Source: Author

In practice, this type of structure is extensively employed by Chinese enterprises in their business operations. As of July 2022, a total of 178 bonds issued by Chinese enterprises utilises the Outbound Guarantee Structure, with 74 of them being issued by Chinese state-owned financial institutions. Chinese state-owned financial institutions, including banks,

asset management companies, securities companies, and other financial groups, are usually using this structure to raise funds for investment businesses. Another significant adopter of this structure is Local Government Financing Vehicles (LGFV), where 108 bonds are issued by their SPVs located in OFCs.[35]

Figure 22: Location of Issuer for Chinese International Bond with Outbound Guarantee Structure, July 2022



Source: Wind

Compared to the direct and semi-direct issuance structure through Hong Kong, the Outbound Guarantee Structure has a conspicuous tax advantage owing to its complex issuance structure. Within the outbound guarantee structure, Chinese taxes remain inactive as long as there is no default by the offshore issuer under the bonds. Moreover, to evade additional tax from different jurisdictions, the issuer is typically established in tax-friendly OFCs to mitigate other tax obligations, given the absence of capital gains tax or analogous

[35] British Virgin Island, Cayman Islands, Bermuda and Hong Kong

levies on interest in these jurisdictions. This structure usually involves an intricate and multiple-layered corporate structure within OFCs, which can be used to transfer corporate profit, hold assets and even conduct regulation arbitrage.

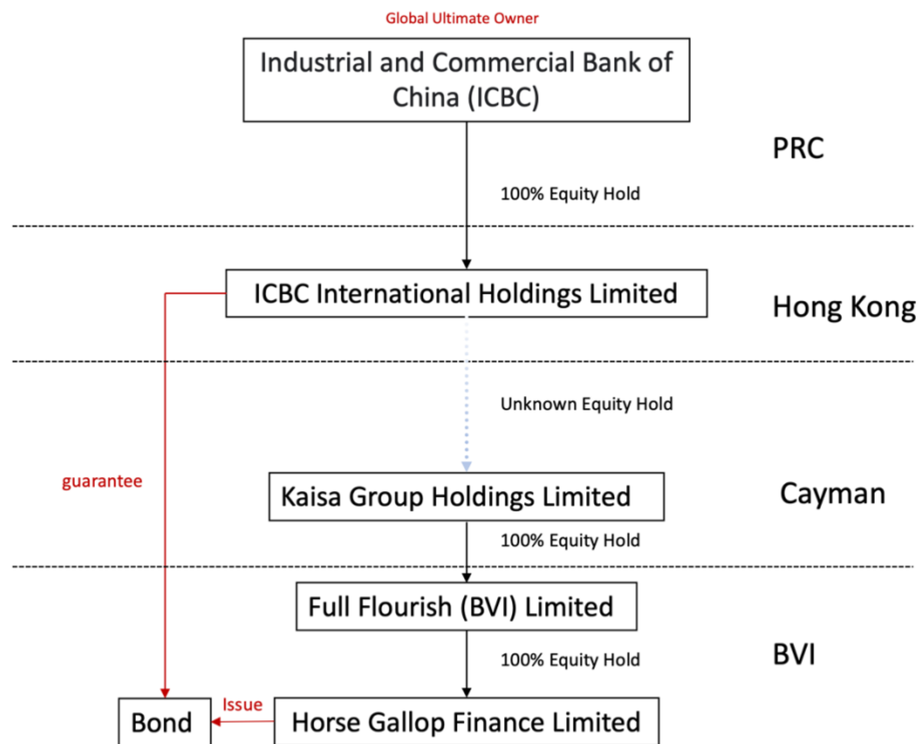
Unfortunately, the detail issuance structure is not mandatory for fully disclosure in Listing Notice or Offering Circular and Pricing Supplement in exchange markets. Therefore, I cannot provide more detailed information about the methods used in Outbound Guarantee Structure to arbitrage tax and regulations through different SPVs located in OFCs. Their multi-layered SPV corporate structures for their international bond issuance can be discerned by examining the listed bonds on the market. Below I examine a case pertains to a bond issued by one of the Chinese state-owned banks utilising the Outbound Guarantee Structure and is listed on the HKEx.

Case study 1: ICBC's HORSE GAL N2407

HORSE GAL N2407 (Stock Code: 40774, listed on HKEX) is a medium-term note issued by ICBC group in 2021.[36] It is disclosed in the Offering Circular and Pricing Supplement disclosed on HKEX in 2017 as the structured financial product established in British Virgin Island (ICBC 2017). The issuer, Horse Gallop Finance, is an indirectly wholly-owned subsidiary of ICBC International Holding Limited. The directors of the issuer, Lai Wan Leung and Ha Leung Man, are non-executive-staff members of ICBC International, a subsidiary of ICBC (see discussion in previous chapter). Even though the circular has suggested the multiple layers of SPVs, the currently disclosed information cannot provide a clear and detailed path to present the relationship between the Issuer and the Guarantor (ICBC International Holding Limited).

Figure 23: Issuance Structure of HORSE GAL N2407, 2017

[36] HORSE GALLOP FINANCE LTD. 1.10% GUARANTEED NOTES 2024 (40774)



Source: (ICBC 2017)

The issuer, Horse Gallop Finance Limited, has no material asset other than amounts due to it from ICBC International or its subsidiaries. Its capability to fulfill payment obligations under the bond is contingent upon receiving timely remittances from the Guarantor or its subsidiaries. The reason for the location of the lower SPVs in BVI can be deduced from BVI's tax rules. There are currently no withholding taxes or exchange control regulations applicable to SPV issuers in the British Virgin Islands. Payments of interest and principal are also not subject to taxation in the BVI, and no withholding will be required on the payment of interest and principal to any holder of the bond. Simultaneously, any gains arising from the disposal of the Notes are not subject to BVI income or corporation tax.

At the same time, the international investment platform of ICBC, situated in Hong Kong, serves to shield the Global Ultimate Owner (meaning ICBC Group) from risks associated with their international debts. The structure is used then as a liability reducing structure (Wei and Palan 2023). Additionally, leveraging the multi-layered and concealed offshore corporate chains that operate through Hong Kong and other OFCs, ICBC can effectively minimise the tax costs associated with this bond issuance.

The use of this structure is not without risk. The Outbound Guarantee Structure continues to carry potential policy risks despite its relative advantages. Its tax advantage could be diminished if the Chinese tax authority provides clarification on the application of withholding taxes and VATs concerning the guarantee payment issued by the Chinese guarantor. In theory, the guarantee payment consists of two parts, one reflecting the principal amount of the bonds and the other reflecting the interest accrued thereon; hence, the interest part of the payment should be taxable. As of now, the Chinese tax authority has not provided clarification on this requirement effectively creating a loophole and in practice, withholding tax or VAT is not applied to the interest portion of such payments. However, if the Chinese tax authority were to clarify this aspect in the future, the attractiveness of the outbound guarantee structure in terms of tax benefits may diminish.

Another potential challenge lies in the possibility that Chinese authorities may consider the offshore issuer, despite being registered as a non-PRC company, to have de facto management organs within the territory of the PRC. Such a classification would essentially categorise the offshore issuer as a Chinese domestic institution for tax purposes, subjecting it to Chinese withholding tax, VAT, and surcharges on the interest payments made to international investors.

Meanwhile, there is an inherent policy and regulation risk associated with the outbound guarantee structure. The intricate nature of the SAFE outbound guarantee registration process may potentially lead to an early redemption event. According to the Cross-border Security Measures issued by the SAFE, an outbound guarantee by a Chinese guarantor for international bonds is permissible only when structured as a downstream guarantee, meaning

the guarantor is the direct or indirect shareholder of the offshore issuer. The Chinese guarantor must complete the SAFE outbound guarantee registration within 15 working days after issuing the guarantee. Given that the bonds come into existence on the issuance date, and the guarantee by the Chinese guarantor is dated on the same day, it is impractical to expect the Chinese guarantor to fulfill the SAFE outbound guarantee registration before the bond issuance. This is why the completion of SAFE outbound guarantee registration in the outbound guarantee structure is listed as a condition subsequent that shall be completed within a certain period. The registration period is usually prescribed between 90 and 120 working days so that the Chinese guarantor has sufficient time to go through this registration process. In practice, the registration process has uncertainty. So, the offshore issuer must redeem the bonds earlier than the scheduled redemption date if the guarantee registration cannot be completed on time.

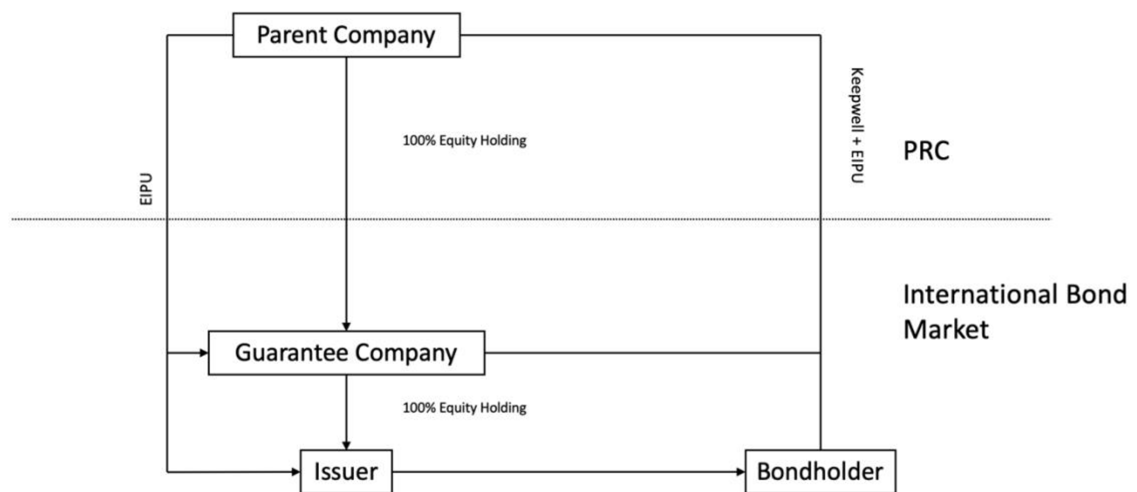
7.3.3. Keepwell Structure, guaranteed by 'Keepwell Deed'

The keepwell structure has been devised to circumvent the Chinese SAFE approval requirement for outbound guarantees. Before 2017, outbound guarantees were subject to individual case approval by SAFE, a process known for its time-consuming nature and challenges, particularly for private enterprises. In response, Chinese financial institutions introduced what had become known as the 'keepwell deed' to maintain the appearance of the Global Ultimate Owner of Chinese enterprises being on the guarantee, offering a level of assurance to bondholders. Strictly, a keepwell deed is not intended to constitute a guarantee, and therefore, it falls outside the purview of the SAFE approval requirement for outbound guarantees. Simultaneously, the keepwell structure enables bypassing the stringent restrictions on the repatriation of bond proceeds into PRC imposed by the outbound guarantee structure, as regulated by the Cross-border Security Measures in 2014.[37] The Keepwell structure take advantage of these regulatory loopholes

[37] 'Circular on Further Reforming the Foreign Exchange Administration and Improving the Truthfulness and Compliance Review' issued by SAFE in 2017 lifted this restriction (SAFE 2017)

In many ways, the Keepwell structure bears resemblance to the outbound guarantee structure discussed above, with the distinction that the parent company engages in a keepwell deed with the trustee (acting on behalf of the bondholders) instead of issuing an outbound guarantee (refer to Figure 24).

Figure 24: Keepwell Structure



Source: Author

The keepwell structure involves the execution of a keepwell deed among the offshore issuer, parent company, and bondholders (typically held through a trustee registered in OFCs). In this arrangement, the parent company commits to ensure the responsible conduct of the offshore issuer throughout the bond issuance and redemption process. This encompasses maintaining shareholding and control of the offshore issuer, extending liquidity support, and assuming other related obligations. A crucial aspect of the keepwell deed is the parent company's commitment to providing liquidity support to the issuer in instances where it lacks the necessary funds to fulfill payment obligations under international bonds, thereby averting default.

Typically, the offshore issuer receives a capital injection or shareholders' loan from its parent company. Nonetheless, it is essential to note the keepwell deed serves as a

commitment letter, and both methods—keepwell and shareholder's loan—are not obligatory guarantees for their parent company. In certain instances, the bond structure may incorporate additional credit enhancement through the inclusion of another document known as the 'equity interest purchase undertaking' (EIPU). In this arrangement, the parent company or a related entity commits to purchasing equity interests held by the issuer in its subsidiaries (the issuer) in an amount at least equivalent to the outstanding principal amount and accrued interest of the bonds.

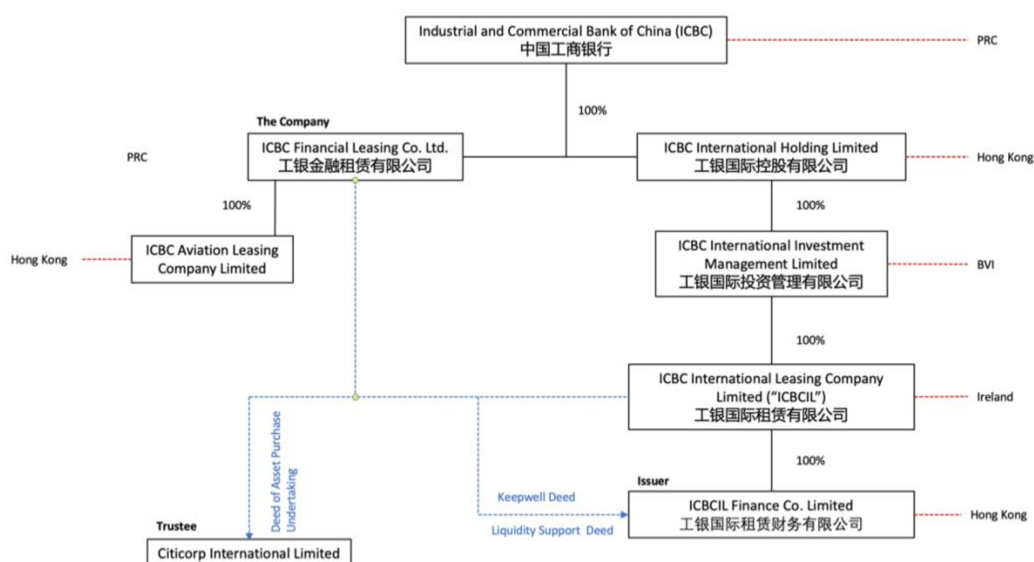
The zenith of the Keepwell structure's popularity occurred during the period spanning from 2014 to 2015. However, the market's interests in the keepwell structure have dropped significantly since 2017. Currently, an estimated 24% of the funds raised by Chinese issuers in the international market are structured under the keepwell arrangement. While it is still utilised, its application has shifted to providing an additional layer of assurance—albeit not a definitive one—to bondholders. This is particularly observed in instances where the issuer or its parent company demonstrates robust financial resilience, resulting in a practically low risk of default. By the mid of 2022, I could find evidence of only 19 bonds applying keepwell structure in the Chinese international bond market, including the three largest Chinese state-owned financial institutions and LGFVs, which have the implicit guarantee and endorsement from the Chinese government.

Case study 2: Keepwell issued by ICBC

An example of a bond featuring the keepwell structure is the bond issued by ICBC Group. A medium Term Note Program (Stock Code:4464 and 4457) is a bond with the keepwell structure listed on HKEx under ICBC Financial Leasing Co., Ltd., which is a major financial leasing subsidiary under ICBC group corporate in PRC. The issuer, ICBCIL Financial Co. Limited, is a Hong Kong subsidiary indirectly held by ICBC Financial Leasing through a complex corporate structure involving OFCs. In this arrangement, ICBC Financial Leasing Co., Ltd., the keepwell provider, and ICBC International Leasing Company Limited have executed an amended and restated keepwell and liquidity support deed (Keepwell and Liquidity Support Deed) and a deed of asset purchase undertaking (Deed of Asset Purchase

Undertaking) with Citicorp International Limited acting as the trustee of the notes. It's crucial to note that neither the Keepwell and Liquidity Support Deed nor the Deed of Asset Purchase Undertaking serves as a direct or indirect guarantee of the debt by ICBC Financial Leasing. Furthermore, these deeds do not confer a debt claim in the event of any insolvency proceedings related to ICBC Financial Leasing (Figure 25).

Figure 25: Issuance Structure of ICBCIL FN N2701



Source: (ICBCIL 2022)

The proceeds from this medium-term note issuance are earmarked for financing the international aviation leasing operations conducted by ICBC Aviation Leasing. As illustrated in the corporate structure above, the issuer is one of the offshore SPVs operating under the international investment platform ICBC International Holding Limited, specifically established for issuing debt. Importantly, the issuer lacks an equity relationship with both the Keepwell company (ICBC Financial Leasing) and the operating company (ICBC Aviation Leasing). As per the service agreement and internal policies of the ICBC group, ICBC Financial Leasing assumes responsibility for managing the business of ICBCIL. Furthermore,

all assets under ICBCIL and its subsidiaries were transferred to ICBC Aviation in 2010. Through its internal management methods and a sophisticated multiple-layer offshore corporate structure, the ICBC group effectively segregates debt from its operating companies, asset holding companies, and overall group structure.

According to the terms outlined in the Keepwell and Liquidity Support Deed, as well as the Deed of Asset Purchase Undertaking, ICBC Financial Leasing is solely obligated to ensure that the Issuer secures, by permissible means under applicable laws and regulations, sufficient funds before the due date or the relevant payment obligations. This is done to enable the Issuer to fully meet its payment obligations as they become due, rather than assuming the payment obligation as would be the case in a traditional guarantee. It's important to note that the performance of ICBC Financial Leasing's obligations is contingent upon approvals from the PRC authorities.

Nevertheless, in order to uphold the international credit rating and reputation of the ICBC group, it is highly unlikely that debts would default except in extreme circumstances. Investors may interpret these deeds as constituting an implicit guarantee from the ICBC group and the Chinese Central government in practical terms.

In general, a significant risk in 'Keepwell Structure' for creditors arises from the uncertainty associated with the loss of control in the legal process across different jurisdictions. The explicit disclaimer of a guarantee in both Keepwell deeds and EIPU precludes the establishment of a priority right for bondholders over other creditors of the parent company. Consequently, in the event of a liquidity crisis for the issuer, the parent company is not directly obligated to make such payments directly to the bondholders. If the parent company in PRC goes bankrupt, regardless of the parent company's strong willingness to fulfil the undertakings outlined in the keepwell deed or EIPU, bondholders may encounter difficulties in obtaining repayment when the Chinese parent company faces bankruptcy.

Once the Chinese court declares the parent company bankrupt, the liquidator assumes control of the bankrupt parent company and has the authority to determine whether to suspend or terminate the performance of any outstanding contracts. According to the PRC

Enterprise Bankruptcy Law, all creditors are required to submit claims for their debts against the bankrupt entity. For bondholders with debts under the Keepwell structure, unless the trustee has already obtained a final judgment or arbitral award related to the Keepwell deed or the EIPU mandating the parent company to pay the judgment debts to the trustee, the liquidator could argue that there is no matured debt owed by the parent company to the bondholders at the time of bankruptcy.

Instances of these situations have occurred in several bond default cases in the market, casting serious doubts on the efficacy of the keepwell structure. Consequently, the keepwell structure cannot attain the same credit rating for the issuer as the outbound guaranteed structure, leading to a higher coupon rate that the issuer must offer to attract investors. Apart from the largest state-owned enterprises, it is presently uncommon to solely rely on the keepwell deed or EIPU from the Chinese parent company. The keepwell structure is typically used to provide an additional layer of comfort to bondholders when both the issuer and its parent company are sufficiently robust, and the risk of default is perceived to be low in practice.

7.3.4. SBLC Structure and Chinese state-owned banks' Advanced Financial Services

In addition to the four issuance structures previously examined, which are widely utilised across diverse enterprises, Chinese financial institutions have strategically formulated diverse bond issuance structures to cater to the specific requirements of Chinese enterprises. In response to the dynamic regulatory environment in the PRC, the innovative 'SBLC Structure' integrates Chinese domestic commercial banks into the sphere of international bond issuance for other domestic enterprises in China, functioning as a means of credit enhancement for these bonds.

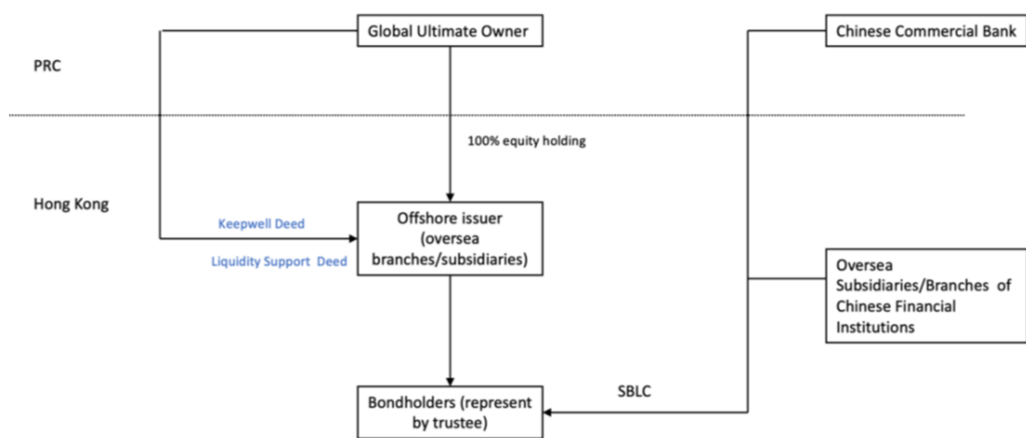
The SBLC structure closely mirrors the outbound guarantee structure, differing only In the involvement of a Chinese commercial bank taking the place of the Chinese guarantor. In this arrangement, the guarantee is replaced by a Standby Letter of Credit (SBLC) issued by banks. SBLCs are frequently employed in the initial international debt issuance by Chinese

enterprises, especially when the parent company lacks a sufficiently high credit rating and is relatively unknown in the international bond market. In such cases, investors might be unwilling to accept guarantees from the parent company. To facilitate a smooth issuance process, the PRC parent company may enlist a Chinese bank to issue an SBLC, providing a guarantee for the offshore issuer’s performance obligations under international bonds. By issuing SBLC, the Chinese bank commits to paying any claims made by bondholders upon the offshore issuer’s failure to fulfill payment obligations. The SBLC effectively represents the credit strength of the issuing bank, transforming the corporate credit profile for the bonds into a bank credit profile.

As part of this structure, the parent company in the PRC typically offers an undertaking to reimburse the Chinese commercial bank after honouring the payment obligation under the SBLC. This undertaking is often secured by mortgages or pledges over the parent company's assets. Additionally, the parent company may provide a keepwell deed to provide a certain level of reassurance to bondholders (see Figure 26). The SBLC structure serves to reduce the potential default risk associated with bonds, leading to a lower coupon rate.

The SBLC structure offers an additional advantage in terms of meeting SAFE's cross-border security regulatory requirements. Given that Chinese commercial banks serve as the actual guarantor for international bonds, the SAFE outbound guarantee registration becomes a streamlined process managed collectively by these banking groups. This differs from the case-by-case registration required when corporate guarantors are involved. The Cross-border Security Measures establish a more lenient regulatory framework for Chinese banks providing outbound guarantees. Chinese banks are exempt from the need to individually apply to SAFE for issuing and registering outbound guarantees. Instead, they simply report information and data related to outbound guarantees to SAFE daily through SAF’'s online capital account transaction system. It's worth noting that Chinese commercial banks will typically charge a fee for issuing the SBLC, and the parent company is required to obtain a credit facility from the bank.

Figure 26: SBLC Structure



Source: WIND

As of mid-2022, a total of 73 Chinese international bonds have been issued with SBLC, consisting of 72 by LGFVs and two by Chinese enterprises with state-owned backgrounds. The SBLCs, in these cases, are primarily provided by the local branches of state-owned commercial banks (refer to Table 5). These banks typically have close ties with government-backed enterprises and, in order to maintain their own credit rating in the international financial market, offer SBLCs exclusively to enterprises with endorsement from the local government.

Table 5: Chinese commercial banks Providing SLBC by July 2022

Bank Type	Count
City Commercial Bank, local branches	42
Joint-stock Commercial Bank, local branches	24
Rural Commercial Bank, local branches	1
State-owned Commercial Bank, local branches	4
Grand Total	71

Source: Wind

In practice, access to SBLC from Chinese banks is only limited to SOEs and LGFVs, acting as representatives for governments. LGFVs and traditional SOEs are state-owned enterprises where the local government holds a predominant or sole shareholder position.[38] Bonds issued by them are frequently referred to as Quasi-municipal bonds due to their direct association with governments. Despite China's Finance Ministry asserting, based on Chinese corporate laws, that local government contingent liabilities should be restricted to guaranteed debt from loans by foreign governments or international organisations, Chengtou bonds, resembling municipal bonds, lead investors to anticipate a potential government 'bailout.' In practice, Chengtou bonds, despite being issued by LGFVs, often carry an implicit government guarantee.

7.4. Non-SOEs' International Issuance Structure

The asymmetrical nature of access to the Chinese international bond market and the resource bias toward SOEs is evident in the SBLC issuance structure for SOEs. From the broader perspective, the offshore bond issuance landscape is unequal for Chinese SOEs and non-SOEs, with SOEs enjoying comparatively easier access to offshore markets. SOEs typically boast assets that are, on average, twice as large as those of other enterprises. Additionally, SOEs have a more substantial presence in offshore bond markets than in onshore markets, enabling them to leverage relatively lower funding costs in the offshore market.

Conversely, non-State-Owned Enterprises (non-SOEs) encounter challenges in securing funds for their business operations, both domestically and internationally. To mitigate the risk of bad debts, Chinese domestic financial institutions typically adhere to an unwritten rule of limiting fund lending to private enterprises without government shareholding. These

[38] As per China's 1994 Budget Law, direct borrowing from capital markets by local governments is prohibited, leading to the establishment of LGFVs as financing platforms for local infrastructure and urban development projects. Chengtou bonds navigate a dual identity, being considered both corporate bonds, as they are issued by state-owned corporations (LGFVs), and municipal bonds, given the influential role of local governments as LGFV shareholders.

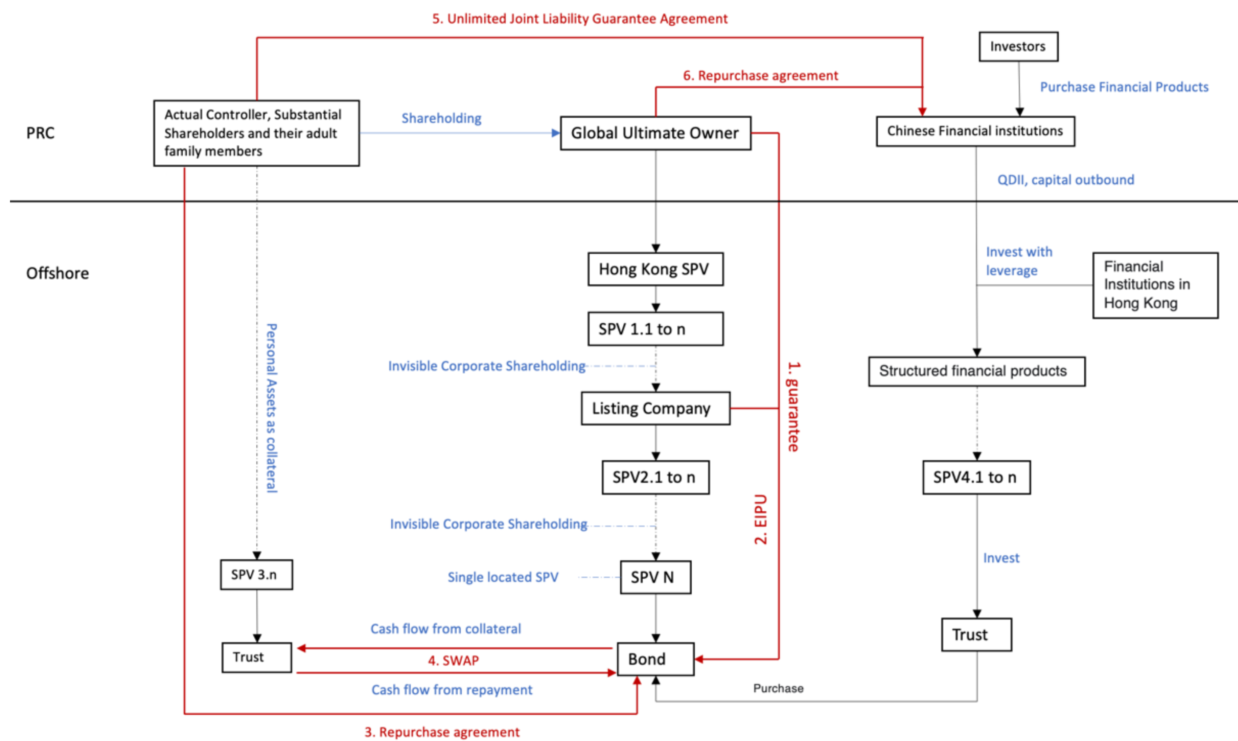
enterprises lack the implicit government guarantee for their financing. In the realm of international bond issuance, non-SOEs continue to face difficulties in raising funds. They contend with higher interest rates, a more cumbersome approval process involving the government, and a diminished likelihood of obtaining loans from the international financial market.

Non-SOEs, such as real estate firms, resort to issuing international bonds at interest rates ranging from 8% to 15% to meet their actual investment needs in mainland China. Notably, official real estate developers, including LGFVs, issue international bonds at significantly lower rates, typically between 2% and 5%. Comparable enterprises from other countries also issue international bonds with rates ranging from 4% to 6%. The elevated cost of debt financing for non-SOEs can be attributed to policy risks stemming from uncertainties in China's economic and political landscape. Furthermore, creditors may face challenges in coercive recovery in the event of defaults, as most of the assets and collateral of non-SOEs are situated in the PRC.

Confronted with these challenges, Chinese state-owned financial institutions are offering non-SOEs solutions in their bond issuance structures, incorporating multi-layered credit enhancement measures and risk isolation. The majority of these issuance structures are situated in OFCs and are characterised by a lack of disclosure information.

Notably, Figure 27 is based on the author's industry experience and does not refer in particular to any listed bond.

Figure 27: The offshore bond issuance structure and credit enhancement measurements of Chinese Non-SOE, 2022



Source: Author

The issuance structure for non-SOEs is grounded in the outbound guaranteed structure, supplemented by various credit enhancement measures contributed by enterprise owners and major shareholders. Given the absence of an implicit government guarantee, it is uncommon for Chinese domestic commercial banks to offer SBLC in the offshore bond issuance of non-SOEs. To secure funds for domestic investment and business operations in the offshore bond market, primarily aimed at bolstering cash flow, these enterprises collaborate with Chinese financial institutions in both domestic and international markets to establish several structured credit enhancement structures, as outlined below.

Similar to the outbound guaranteed structure of Chinese state-owned banks, the main offshore subsidiary, usually registered or even listed in Hong Kong, assumes the responsibility of guaranteeing the bond (measure 1) and usually signs an 'equity interest purchase undertaking' (EIPU) with bondholders (measure 2). In addition to these traditional measurements, the actual controller and substantial shareholders, as well as their family

members, could sign a repurchase agreement with the bondholders in an offshore jurisdiction in their own names (measure 3). The senior executives and their families can also establish SPVs to hold their own assets and sign Swap Agreements with bondholders to provide liquidity support and assume the repayment obligation (measure 4). To enhance credit for bond investors in China's domestic market, an additional Unlimited Joint Liability Guarantee Agreement under senior executives and their family members can be achieved with the Chinese institutional investors (measure 5). The domestic subsidiaries of Global Ultimate Owner can also sign a repurchase agreement with institutional investors (measure 6). Not all these credit enhancement measurements would be used together in one single case.

Armed with multiple credit enhancement measures both onshore and offshore, Chinese domestic institutions' proprietary funds raised through financial products are outbound by QDII[39] to invest in the structured financial products issued by financial institutions in Hong Kong (most of them are overseas subsidiaries of Chinese state-owned financial institutions in Hong Kong). The other financial institutions are usually joining these financial products with leverage (still, most of them are overseas subsidiaries of Chinese state-owned financial institutions in Hong Kong). Next, funds raised would be invested in the bond through the trust scheme located in OFCs.

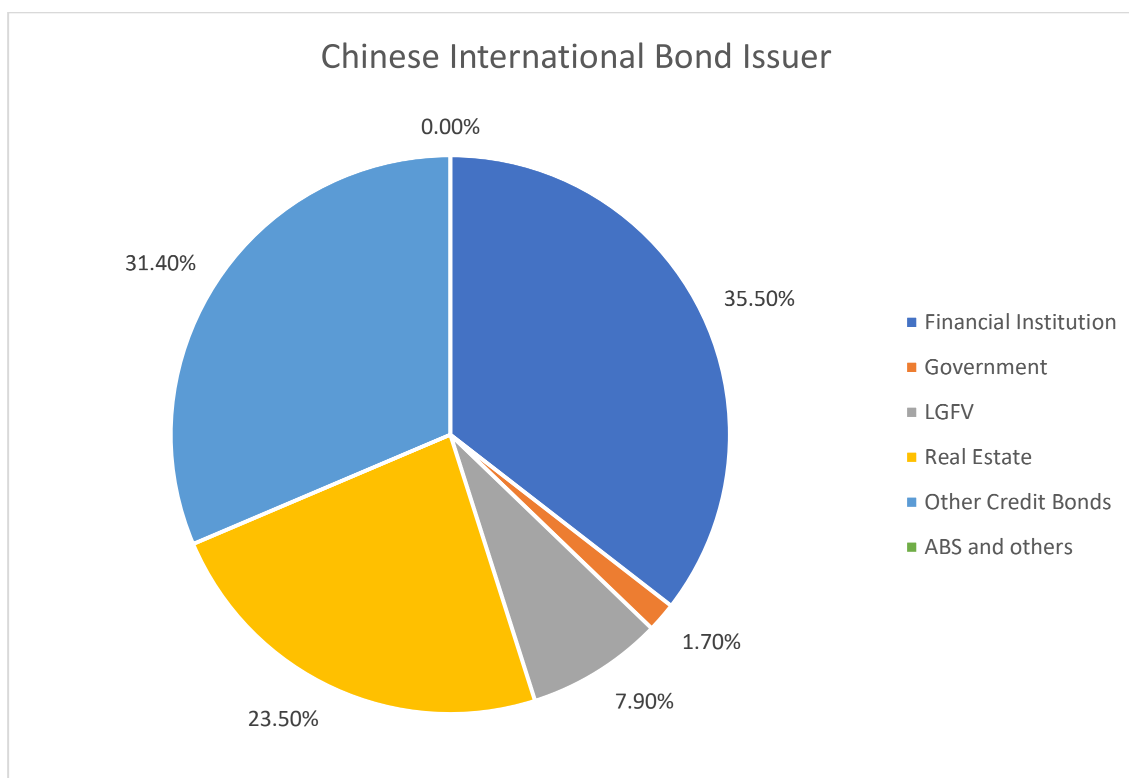
7.5. Monopolized Advanced Financial Services by Chinese state-owned banks

The competitive edge of Chinese financial institutions in Hong Kong stems from their monopolistic position in the Chinese financial sector, coupled with the operational flexibility afforded by their overseas subsidiaries in Hong Kong. As of mid-2022, the distribution percentages of each category of Chinese issuer, encompassing the Chinese government,

[39] Qualified Domestic Institutional Investor (QDII) scheme, which was implemented in 2006, allowed certain domestic financial institutions to invest in foreign bonds and stocks. Similar rules and regulations to those of the QFII scheme have to be fulfilled before qualified domestic institutional investors can invest in offshore markets.

financial institutions, real estate companies, LGFV, and other enterprises concerning the international bond market share, are illustrated in Figure 28. Derived from the aforementioned data, Chinese financial institutions, primarily represented by Chinese banks, exhibit the highest issuance volume of international bonds (35.5%).

Figure 28: Chinese International Bond Issuer, July 2022



Source from: Wind (2022)

In addition to their active participation in financing activities within the international bond market, the overseas subsidiaries of Chinese state-owned banks are based in Hong Kong. As robust financial entities, Chinese banks play a crucial role in offering credit and financing support to Chinese domestic enterprises, where this support is often not readily available from international banks. A significant portion of Chinese foreign portfolio debt is primarily influenced by overseas lending facilitated through Chinese banks' Hong Kong and

other foreign affiliates. Leveraging their intricate corporate network both within and outside China, these institutions can offer a comprehensive suite of financial services to Chinese domestic enterprises. Their adeptness in navigating complex regulatory frameworks across different jurisdictions enables them to assist clients in arbitrage opportunities, particularly between onshore and offshore regions in the PRC.

Furthermore, Chinese state-owned financial institutions, encompassing banks and securities companies, have experienced remarkable growth in their financial services operations in Hong Kong over the past decade. This expansion is primarily attributed to their increasing role in sourcing deals, facilitating the issuance of international bonds by Chinese issuers, and actively engaging with potential investors. The participants in international bond issuance by a Chinese issuer mirror those in other global bond deals, including the issuer, underwriters, and lead or joint lead managers who oversee the entire process.

Chinese domestic enterprises face several disadvantages as outsiders to the international bond market, resulting in higher risks when issuing overseas bonds. Institutional, cultural and economic gaps are the important factors that shape the disadvantages of outsiders. Financial institutions with Chinese background in Hong Kong, which are ultimately held by the Chinese State in equity, are more familiar with their Chinese clients, laws and regulations related to China's cross-border finance and the economic and financial environment in both China and the global market. They leverage their expertise and familiarity with Chinese clients to bridge institutional, cultural, and economic gaps.

In addition to their expertise in the Chinese market, state-owned financial institutions benefit from their monopolistic position within the nation's financial sector in providing services to domestic enterprises in the international financial market. These banks exert control over virtually all legitimate channels for cross-border investments and financing. Therefore, Chinese domestic enterprises, irrespective of ownership structure, are compelled to secure funds internationally by leveraging their domestic and international subsidiaries through diverse methods, including various bond issuance structures.

Another comparative advantage for Chinese state-owned financial institutions is their capacity in managing the default risk of bond issued by domestic enterprises. Upon bond defaults, the involvement of multiple territorial jurisdictions in the issuance structure introduces legal uncertainty. The presence of concealed multiple-layer shell companies in the issuance structure facilitates asset transfer and risk isolation from parent companies. In instances where bonds are acquired through custodians (trustees), overseas investors face difficulties initiating legal claims in their own name, even as ultimate beneficial owners, within the judicial systems of China and other relevant jurisdictions. Furthermore, even if courts mandate repayment to creditors, realising executable assets predominantly situated in mainland China and facilitating offshore repayments proves challenging due to stringent capital controls within the PRC.

Nevertheless, domestic enterprises commonly use a significant portion of their fixed assets as collateral in mainland China's domestic commercial banks. In the case of a bond default, Chinese state-owned banks can retrieve funds by auctioning the domestic assets of the issuers. For enterprises enjoying implicit government guarantees, they can access recovery funds through the disposal of non-performing assets by negotiations that span different levels of government.

Chinese state-owned financial institutions enjoy a more streamlined process for repayment and asset execution, leveraging their domestic affiliations within mainland China. Given their capacity to offer credit unavailable from international banks, Chinese-background banks and securities companies assume a pivotal role in facilitating fundraising endeavors by Chinese clients within the international bond market, naturally assuming heightened significance in this context.

7.6. Conclusion

This chapter gives insight into the development of China's international bond market in Hong Kong by presenting the international bond issuance structure of Chinese state-owned financial institutions, as well as the issuance structure of other Chinese domestic enterprises. Hong Kong, functioning as the principal international financial center throughout this

progression, assumes a pivotal role. Its significance extends beyond being a financial market for fund-raising and the provision of financial services; it serves as an intermediary facilitating Chinese enterprises' tax and regulatory arbitrage through strategically positioned bond issuance structures in OFCs.

The development of international bond financing activities by Chinese enterprises are involving main issuance structure: Direct Issuance Structure, Semi-Direct Issuance Structure, Outbound Guarantee Structure and Keepwell Structure. Chinese state-owned financial institutions have increasingly relied on offshore financial centres in their bond issuance over time. In the past decade, with the liberalisation and deepened reform of China's international bond market, these enterprises are establishing multiple layers of offshore corporate structure with arbitrage purposes in different jurisdictions to issue bonds. In addition to these, this chapter also presents Chinese state-owned financial institutions that have maintained their monopolised position with their advanced financial services in Chinese domestic enterprises' international debt financing. With the implicit guarantee from the local government, the local branches of Chinese state-owned banks (mostly City Commercial banks) are willing to add additional security to bonds issued by local state-owned enterprises ('LGFV' mostly) with their own credit. Financial services in Hong Kong with Chinese background are collaborating with their group subsidiaries in the mainland and designing the SBLC Structure for these enterprises, which connects mainland Hong Kong and OFCs with their corporate networks. For non-SOEs, their debt issuance structure is based on the outbound guaranteed structure with several additional credit enhancement measures provided by enterprise owners and substantial shareholders. These structured credit enhancement measures are conducted through the multiple layers of corporate structure among different OFCs. In addition to financing activities, Chinese state-owned financial institutions provide advanced financial services to other domestic enterprises to arbitrage regulation and tax in their international bond issuance.

The progression of the Chinese international bond market provides a snapshot of China's financial liberalisation. In this evolution, the central government assumes a prominent role by regulating market access for different enterprises and shaping regulations and laws at

various stages. As the market advances in maturity, featuring the engagement of experienced market participants and the development of a solid institutional and financial framework, the state progressively diminishes its involvement and adopts a more limited role. Consequently, there is a relaxation of restrictions on Chinese domestic enterprises' access to overseas financing. The liberalisation of the capital account enables Chinese state-owned banks to pursue profits while fulfilling their political mandates. They are progressively leveraging the distinctive features of both IFCs and OFCs in Hong Kong in international financing activities and exploiting regulatory arbitrage opportunities across various jurisdictions. Simultaneously, Hong Kong is the operational base for Chinese state-owned financial institutions. They can maintain a monopoly position in the Chinese international financial sector by providing advanced financial services to other domestic enterprises, leveraging asymmetric market access and cultural barriers. Furthermore, the persistence of disparities in financing modes between SOEs and non-SOEs in the international bond market mirrors a policy-driven scissor effect.

Additionally, these findings have highlighted the manifestation of China's state power within the state-firm relationships across various enterprises, showcasing its geographical expansion to the global financial market through offshore financing endeavors conducted in Hong Kong. The empirical evidence pertaining to Chinese enterprises' offshore bond issuance structure implies that even with liberalisation in China's international debt account, there is a disproportionate allocation of capital in China's offshore bonds market in favour of state-owned enterprises (SOEs). With implicit government guarantee, Chinese state-owned financial institutions are actively involved in bond issuance and provide the extra guarantee to SOEs with their own credit. In the monopolised international financing environment, inefficient allocation of resources, capital flight, carry-out trade corruption, and fraud are potentially hidden in offshore corporate structures established for bond issuance. Compared to SOEs, non-SOEs, which lack a government background or government connections, tend to find it hard to get approval for issuance or secure a favourable interest rate. The actual owners and substantial shareholders have to apply credit enhancement measurements with their personal assets. Since Chinese-background banks and securities companies are more familiar with their Chinese clients, they may provide credit that would not be available from

international banks. The lack of participation by private enterprises is undesirable in the long term as it stifles competition, limits the long-term potential of the market and creates potential concerns about the waste of resources or unaccountability of SOEs.

The mechanism of Chinese state-owned banks' offshore financing activities reveals Hong Kong's pivotal role as an intermediate financial centre for the Chinese financial sector. Moreover, recent developments in Hong Kong have been notably shaped by the activities of Chinese state-owned banks and the influence of Chinese authorities. This influence is not solely attributed to financial liberalisation policies but is also influenced by the offshore activities undertaken by Chinese state-owned banks.

Nevertheless, the discussion thus far has not delved into how the Chinese political economy has shaped the formation of Hong Kong as an intermediate financial centre. The following chapter will delve into the dynamic interaction between Hong Kong and the mainland, aiming to provide insights into this aspect of the topic.

Chapter 8: Examining the Formation of Hong Kong as an Intermediate Financial Center through Interaction between Hong Kong SAR and China

8.1. Introduction

The preceding chapters have offered valuable insights into the utilization of Hong Kong by Chinese state-owned banks in the pursuit of internationalization. Empirical evidence derived from their global corporate structure and offshore financing activities in the bond market underscores Hong Kong's pivotal role as an intermediary, facilitating connections between mainland China and offshore financial centers. Although they have duly acknowledged the critical intermediary characteristics of Hong Kong, which amalgamate features of both IFC and OFC, the genesis of this phenomenon remains inadequately explored in existing scholarship in the framework of Chinese political economy.

To bridge this existing gap, this chapter endeavors to systematically re-evaluate the formation of Hong Kong as an intermediary financial center. This scrutiny is informed by semi-structured interviews conducted with financial stakeholders situated in Hong Kong and prominent financial centers in China (Beijing, Shanghai, Shenzhen). The elucidation presented herein is predicated upon the first-hand experiences of witnesses deeply embedded in the financial sectors.

The analysis is grounded in the theoretical framework of Global Financial Networks (GFN) and adopts a political-relational approach to systematically investigate the intricate connections between urban entities and the state. The proposition put forth posits that, following the initiation of China's economic reform and open-up policy, Hong Kong undergoes a transformative process, evolving into an intermediate financial center uniquely tailored for the Chinese domestic financial sector. The delineation of its political-economic associations with mainland China is identified as a crucial contributing factor to the establishment of Hong Kong in this capacity.

Throughout the past century, Hong Kong has undergone a remarkable transformation, transitioning from a smuggling center to an intermediate financial centre. The conferred privilege under the 'One Country, Two Systems' framework has substantively and legally affirmed Hong Kong's standing as an intermediate financial center. In this role, Hong Kong plays a pivotal part in shaping the Chinese international financial system through active participation in 'political bargaining' within Chinese financial liberalization schemes. Hong Kong's engagement extends beyond mere participation; it provides crucial support for the internationalization of Chinese financial institutions and actively contributes to the establishment of Chinese financial centers. The efforts invested in promoting Chinese financial liberalization not only foster Hong Kong's development as an intermediate financial center but also tailor its functions to meet the specific needs of the Chinese financial sector. Furthermore, the offshore features of Hong Kong become integral to Chinese international financial activities within this collaborative framework.

In addition to the re-evaluation of Hong Kong’s formation as the intermediate financial centre, the analysis of the interaction between Hong Kong and mainland China has illuminated the pivotal role played by the state in influencing the growth and evolving characteristics of financial hubs. It also underscores the interconnected and mutually beneficial dynamics that exist between financial centres and state apparatuses within the architecture of the Global Financial Network.

8.2. Shift in Political and Economic Status

8.2.1. Smuggling center and Political isolation: 1950-1978

In light of the historical analysis presented in Chapter 4, it becomes evident that Hong Kong maintained a legal separation from the political system of the mainland prior to the 1997 handover. In the age of the planned economy (1949-1978), the dependency relationship between Hong Kong and the PRC was limited to non-governmental exchange. As the British Colony, the British-Hong Kong authority has no official cooperation with the PRC authority or civil society. The official influence of the PRC authority and the domestic market was also negligible in the development of Hong Kong. On the one hand, Hong Kong was a legal

territory as a colony of Britain, which also had ideological differences with the PRC during the Cold War. On the other hand, the PRC was a nation in poverty. Neither the Hong Kong authority nor the civil were able to benefit from the PRC market under strict economic sanctions from the 1950s.

‘From the Chinese perspective at that time, Hong Kong wasn't exactly seen as the financial centre. It was more like the go-to spot for all the sneaky stuff, right smack in the middle of the ideological showdown between the Western countries and the communists. Rather than being a financial hub, it was sort of seen as the central station for all the smuggling activities.’

Interviewee 2, Head of Asset Management Department, Chinese State-owned Securities Company, immigrant from mainland to Hong Kong in the 1970s.

The insights provided by Interviewee 2 are derived not only from her professional endeavors in both Hong Kong and mainland China but also encapsulate the migratory trajectory of her family. Originating from the mainland, the narrative unfolds with her family's relocation to Hong Kong in the 1970s, subsequently transitioning to a repatriation to the mainland in the 2010s. The migratory trajectory notably aligns with the fluctuating political relations between Hong Kong and mainland China. Mainland China had experienced protracted political tumult from 1950s to 1970s, marked by internal upheavals such as the post-Great Leap famine (1959-61) and the Cultural Revolution (1966-76), as well as external isolation stemming from the Sino-Soviet split in 1960 and the United States embargo from 1950 to 1971. Hong Kong, insulated from mainland political dynamics, emerged as a sanctuary for immigrants seeking refuge from the domestic political turmoil within China. The geopolitical context also unveils Hong Kong's strategic role in international politics during this period. Functioning as a shadow area, Hong Kong facilitated covert transactions between the mainland and the global community. Leveraging its free-market environment and capitalizing on legal loopholes, Hong Kong served as a conduit for clandestine dealings, especially in navigating around sanctions imposed by the United States.

During this specified period, Hong Kong played a dual role: serving as a sanctuary for those seeking refuge from domestic political upheavals and operating as a strategic intermediary in international politics. It had yet to assume its later-revered role as a reputational financial center and intermediary between mainland China and the offshore world. This delay can be attributed to Hong Kong's financial infrastructure remained underdeveloped, lacking a fully-fledged financial market. Moreover, Mainland China's commitment to a planned economy, resulting in a negligible demand for capital market services. Hong Kong functioned primarily as a shadowy offshore jurisdiction, distinctively separated from mainland China's political and economic frameworks. Nonetheless, the theoretical potential of Hong Kong's financial role during the period, tempered by the prevailing economic systems and infrastructural limitations that confined its practical implementation.

Concurrently, a cautious disposition was maintained by the authorities in the People's Republic of China (PRC) towards British Hong Kong and its market due to ideological rivalry. However, despite this reserved approach, a discernible interdependence in foreign currency matters became evident between Hong Kong and mainland China. The PRC encountered recurrent periods of domestic austerity and challenging currency shortages. In response, the PRC authorities exercised control over the government's monoband, the Bank of China, directing its Hong Kong branch to shoulder the primary responsibility for coordinating foreign exchange earnings. This strategic move aimed at alleviating domestic currency shortages. The BOC was at the forefront of developments within the international financial system but adopted a cautious approach to its operations. It largely refrained from direct involvement in commercial activities, and its role as an intermediary bank was limited. Its primary business activities revolved around handling currency remittances, distributing PRC products to Chinese-controlled stores, facilitating the shipment of goods, and offering travel services. Its primary clientele consisted of PRC trading companies, Chinese businesses in Hong Kong, small depositors, and individuals remitting funds to mainland China. During this period, Chinese financial institutions had minimal participation in the financial markets, let alone the capacity to exert influence.

8.2.2. Emerging Intermediate Financial Centre and Economic Connection 1978-1997

From the 1970s onward, the ascendancy of local entrepreneurs in Hong Kong, predominantly consisting of Chinese immigrants, and the concomitant surge in financial demands catalysed the establishment of a robust financial market by the indigenous Chinese population in Hong Kong. This development witnessed the simultaneous creation of diverse financial infrastructures, thereby laying the groundwork for Hong Kong's evolution into a prominent financial center, as extensively elucidated in Chapter 3. In the ensuing decades, the territory underwent a remarkable transformation, solidifying its status as a renowned International Financial Centre with an increasingly robust connection to the mainland.

The economic reform from 1978 and the following economic boom undeniably made the mainland an attractive market. Since Hong Kong was still a British colony and legally independent from the mainland, global investors sought a neutral territory as an intermediary port, where Hong Kong fit this role perfectly. Even through Hong Kong is largest source of FDI towards mainland, capital flows primarily regarded it as transit station. Capitalising on its increasingly close economic integration with the mainland China and its high degree of functional specialisation in advanced financial services, Hong Kong became the foremost choice for investors looking to invest in China.[40] By 1997, Hong Kong had emerged as the largest source of investments across a wide spectrum of economic activities and had become the most significant capital market for the PRC.

[40] Comparing to the other two Chinese related territories, Taiwan and Macaw, Hong Kong has the stable political relation with mainland. The political uncertainty was removed by the signing of the Sino-British Agreement over Hong Kong's future in 1984. Secondly, Hong Kong became a credible international financial center from mid-1982. And this comes at a time, the financial industry in Taiwan and Macaw were still mainly servicing local manufacturing and lottery industry, which was unable to meet the needs of international capital in terms of their infrastructure and financial professional.

‘For mainland China, Hong Kong evolved beyond its role as a crucial entrepôt for trade and foreign direct investment (FDI) to assume responsibility for the management and facilitation of nearly all international trade and financial activities associated with mainland China. The financial communities in Hong Kong actively sought to transition their businesses from an Asia-focused investment orientation to a China-focused orientation.’

Interviewee 17, Head of Investment Banking Division at a Boutique Investment Bank in Hong Kong, with 25 years of experience in the Investment Banking sector in Hong Kong

From the perspective of Hong Kong, by continuously transferring its economy, it completed the industrial upgrade from a manufacturing hub towards a business and financial hub. Its financial sector has provided advanced services in various areas for the Asian market since the 1980s. A spatial division of labour emerged, where industrial investment redirected from Hong Kong’s evolving economy was channelled northwards directed northwards to revitalise manufacturing in the mainland by the mid-1990s. This positioning established the city as a critical nexus for the flow of commodities.

For the first time, its intermediary role as a financial center has come to the forefront. With the rapid expansion of production in mainland China, the coordination and management of trade in manufactured goods in Hong Kong also gained significant prominence. Swelling numbers of global nonfinancial firms established their regional headquarters in Hong Kong for the Asia-Pacific, Southeast Asia, East Asia, and China. Concurrently, the economic development of Asia encouraged foreign financial firms to expand their existing operations in Hong Kong, with many new entrants selecting the city as their headquarters in Asia. The expansion of these financial institutions in Hong Kong, along with the growth of supporting corporate services sectors (e.g. law, accounting, management consulting), testified that Hong Kong's pivotal role as the convergency point for Chinese and foreign capital networks. Its intermediary role as a financial center took center stage for the first time.

The metamorphosis of Hong Kong into an intermediate financial center was inevitably guided by the economic reform and open-door policy instituted by the People's Republic of China (PRC) in 1978. Hong Kong adeptly exploited the PRC as its economic hinterland,

consistently enhancing its economic prowess. Concurrently, it assumed a pivotal role as a catalyst, propelling the Chinese economy forward on an accelerated trajectory. However, the symbiotic relationship between Hong Kong and mainland China extended well beyond a mere mutually advantageous economic nexus. Since the 1980s, Hong Kong has actively engaged with China's political economic framework through both proactive and passive mechanisms.

Despite playing a pivotal role in the Chinese economic reform process, Hong Kong, during the initial phase of the reform initiative, maintained the status of a political outsider concerning the mainland's economic system. This raises the question of how, as an outsider to the Chinese political-economic system, Hong Kong became involved in Chinese economic reform.

"In the 1990s, British Hong Kong was regarded as the epitome of a capitalist market by both the People's Republic of China (PRC) and Western nations. Throughout this period, mainland counterparts exclusively nurtured economic connections with Hong Kong," stated Interviewee 4, a journalist with over 30 years of experience in the Media, Press, and Public Relations Department of a Chinese Financial Group based in Hong Kong."

As an advanced economy geographically close to the mainland and with the same cultural background, Hong Kong is the prominent model for PRC policymakers in the context of economic reform and opening up. Hong Kong assumed two principal roles: firstly, it serves as the source region for manufacturing industry shifting and investment, and secondly, it serves as the benchmark for economic reform and open-up policy in a post-planned economy.

The most important connection between Hong Kong and mainland China is the industrial transfer towards coastal SEZs that started in the 1980s. Hong Kong's industrialists began moving into coastal regions for lower raw materials and labour costs. Hong Kong had become a corporate management centre for manufacturing in the mainland. They made the most of Hong Kong’s strength in marketing and design and of the low-cost production in the Pearl River Delta, which made the genuine complementary conditions for industrial

production between Hong Kong and Guangdong. At the same time, drawing on the organisational capacities and capital reserves from overseas Chinese, mainly from Hong Kong, the Yangtze River Delta, and the Pearl River Delta, developed their export-oriented economy by absorbing the manufacturing capacity, investment capital and business expertise.

The catalyst for this occurrence stems from the execution of reform and opening-up policy. To advance the comprehensive economic development of the nation, the central authority established the widespread implementation of promotion competitions among local officials, wherein emphasis is placed on economic performance. Notwithstanding enduring ideological differences, the cooperative initiatives between the economic sectors of Hong Kong and the mainland are directly aligned with the goals of local governments, which prioritize the promotion of GDP growth. For the local government in the mainland, the investment and industrial shift from Hong Kong were the driving factors to the local GDP in this period. At this time, no matter what, the government and civil bodies kept a humble attitude towards Hong Kong businesspeople and simply lapped up all business and industrial models from Hong Kong. Although the inadequacy of the law and regulation in business resulted in a series of business frauds, the manufacturing industry in the mainland copied the Hong Kong model (Taiwan as well). Based on that, it established the initial standardised business environment in the domestic market. In this context, performance-based tournaments among different cities were conducted based on the amount of FDI they attracted from Hong Kong. The entrepreneurs and the owners of capital from Hong Kong and other overseas regions were the key drivers in economic growth in the Chinese IPE environment, and they were not directly involved in the political tournaments.

In addition to assessing Hong Kong's role in the horizontal political competition among Chinese local governments, it is imperative to recognize its pivotal contribution to Chinese vertical administrative policy-making. Hong Kong’s significance transcended its role merely as a source of FDI and an advanced overseas financial centre, filling gaps in the mainland’s financial sector. Given the limited knowledge and experience available, the majority of the open economic policy at both local and central levels was directly adopted from Hong Kong. Indeed, the tradition of Chinese authorities drawing upon Hong Kong’s experience and

advice played a significant part in shaping subsequent decades of China’s policy-making with regard to economic opening.

A noteworthy illustration is the real estate industry in mainland China, serving as a pivotal pillar in the broader economic framework of the country.

‘China's urban land management system, subsequently emerging as the primary source of fiscal revenue for local governments in the ensuing decades, was adopted from Hong Kong during this period. The financialization process observed in the mainland China real estate industry can also be attributed to the developmental model derived from the Hong Kong real estate sector.’

Interviewee 1, Head of Regional Investment Department, China State-owned Real Estate Enterprises

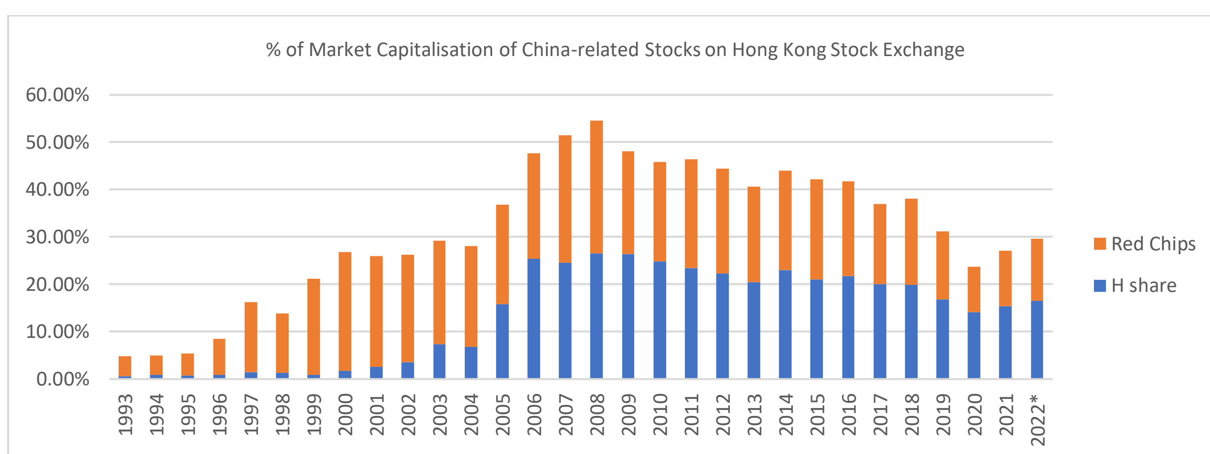
In the early 1980s, Shenzhen Special Administrative Region (SAR) pioneered the adoption of Hong Kong's land grant system and implemented user fees on a portion of the land. This departure from the planned allocation and unpaid use of state-owned land during the planned economy era was a momentous transformation in China's urban land management system. Building upon the success of Shenzhen, the constitutional amendment of 1988 brought about a fundamental change in China's land use system, which has persisted ever since. The revenue generated from the sale of land-use rights became the primary source of local fiscal revenue and played a pivotal role in shaping the pillar industry of China's economy, namely, the real estate sector. In the 2000s, the financialisaton of the real estate sector, marked by a series of issues such as skyrocketing housing prices, bore similarities to the developments observed in Hong Kong's real estate industry.

In addition to Hong Kong’s direct influence on economic development and policy making, it is imperative to highlight those investments, whether directed towards or originating from mainland China, have been strategically leveraging the offshore characteristics of Hong Kong since that period. This business strategy persists prominently in

contemporary times, as indicated by Interviewee 15, the Head of the Investment Banking Division at a U.S. Investment Bank in Hong Kong.

An illustrative example is the offshore legal structure known as the 'Red Chip Structure,' which Chinese domestic enterprises have adopted for their offshore listings since the relaxation of overseas listing rules by the central authorities in China. The Red Chips companies are characterized by a China-controlled entity incorporated outside the PRC. The Red-chip structure emerged as the predominant corporate format for Chinese companies seeking listing on the Hong Kong stock market during the initial phase of Chinese firms' overseas listing endeavors in the 1990s. Despite evolving dynamics, Red Chips continue to play a significant role, representing 13.23% of the market capitalization of the Hong Kong stock exchange as of the end of 2022, with a total of 169 companies adopting this structure (HKEx 2023a). This underscores the enduring importance of Hong Kong as a preferred platform for Chinese companies to access international capital markets and showcases the sustained relevance of the offshore financing model in the mainland China and Hong Kong's financial landscape.

Figure 29: % of Market Capitalisation of China-related Stocks on Hong Kong Stock Exchange, 2022



* As of the end of December 2022

Updated 31st Dec 2022[41]

Source: (HKEx 2023a)

In summary, the period from 1980 to 1997 marked a crucial phase during which Hong Kong transformed into an international financial center. Despite its distinct status outside mainland China's political and economic systems, Hong Kong successfully cultivated a complex and mutually beneficial economic relationship with the mainland. This era witnessed the inception of collaboration between mainland cities and Hong Kong in industrial shifting, and Hong Kong also exerted substantial influence on policymaking at both central and local levels of the Chinese government, particularly in matters pertaining to economic development. This influence continued to grow, particularly within mainland financial sectors.

The emergence of Hong Kong as an intermediate financial center is a key development during this period. On one hand, the flow of investments into and out of China predominantly passed through Hong Kong due to its advanced financial infrastructure. On the other hand, Hong Kong's offshore financial features became instrumental in facilitating international financing activities for Chinese domestic enterprises since the 1990s.

8.2.3. 1997, British Hong Kong to Hong Kong SAR

On July 1, 1997, China resumed its exercise of sovereignty over Hong Kong. On July 1, 1997, China resumed its exercise of sovereignty over Hong Kong. Under the 'One country two system', Hong Kong's role as the intermediate financial centre, instead of being weakened, it's been strengthened.

In the Hong Kong-China context, the geopolitics of sovereignty and unification forms a vital background in conceptualising bilateral relations and identity construction. In the Chinese national imaginary, Hong Kong SAR represents a formerly colonised territory to be

[41] H-share companies is the company incorporated in the mainland and traded on the Stock Exchange of Hong Kong.

fully re-integrated and re-unified with its motherland. The SAR constitutes a 'zone of exception' to normalised Chinese rule, created to generate conditions for its re-absorption into the Chinese sovereign landscape (Ong, 2004). Aligning with their overarching economic reform strategy, the Chinese central authority is employing zoning technologies to foster economic integration among politically fragmented entities, with the ultimate objective of achieving comprehensive political unification.

'Hong Kong holds a privileged political position within the Chinese political system. Distinguished by its economic affluence and superior social infrastructure, Hong Kong stands apart from its mainland counterparts, the provincial administrative regions. The Central Government's heightened attention to Hong Kong further underscores the unique status and importance accorded to the region in comparison to other provincial administrative regions.'

Interviewee 14, Economist, Chinese State Administration of Foreign Exchange.

The prerogatives granted to Hong Kong by the PRC's central government significantly exceed those afforded to Special Economic Zones (SEZs) within mainland China. This disparity is evident in various mainland Chinese policies directed towards Hong Kong, both before and after the 1997 handover. This discrepancy in prerogatives is reflected in various policies adopted by the Chinese government in relation to Hong Kong. These policies encompass areas such as trade, finance, and immigration, where Hong Kong retains a unique status as an international financial centre and a bridge between China and the global economy. Additionally, Hong Kong maintains a separate legal system based on common law principles, further distinguishing it from mainland SEZs.

Hong Kong Special Administrative Regions, Hong Kong is permitted to maintain its capitalist system for fifty years after 1997 (National People's Congress 1990). Operating under the 'one country, two systems' principle, Hong Kong retains its distinct economic, financial, and legal systems. The Basic Law unequivocally commits to the free movement of

capital and prohibits the application of foreign exchange control policies in Hong Kong.[42] Furthermore, Hong Kong authorities have entered into 22 international investment agreements, referred to as 'Investment Promotion and Protection Agreements' (IPPAs), with foreign economies to ensure the continued unrestricted flow of capital and currency convertibility. These IPPAs serve the dual purpose of facilitating bi-directional investment flows and providing added assurance to foreign investors that their investments in Hong Kong are safeguarded while also protecting the interests of Hong Kong investors abroad.

Additionally, alongside its independent economic, legal, and institutional framework as outlined in the Basic Law, the central leadership in Beijing has sought to co-opt Hong Kong's political and financial elites. This has resulted in these elites being granted superior political and economic privileges, including membership in the National Committee of the Chinese People's Political Consultative Conference (CPPCC) and preferential access to mainland markets. Furthermore, free trade agreements, specialised taxation arrangements, and relaxation of tourism restrictions across the Hong Kong-mainland border all further underscore the unique status and advantages that Hong Kong enjoys within the "One Country, Two Systems" framework.

Crucially, subsequent to the 1997 handover, Hong Kong has retained its capitalist system, legal structure, offshore financial features, financial market, and the unimpeded flow of capital. This persistence underscores that the 'One Country, Two Systems' policy has substantively and legally affirmed Hong Kong's standing as an intermediate financial center.

[42] *The Government of the Hong Kong Special Administrative Region shall safeguard the free flow of capital within, into and out of the Region. – Basic law of HKSA of PRC (1990) art 12 (Basic Law):[n]o foreign exchange control policies shall be applying in the Hong Kong Special Administrative Region. The Hong Kong dollar shall be freely convertible. Markets for foreign exchange, gold, securities, futures and the like shall continue.*

8.3. Shape the landscape of the Financial System

At the beginning of the post-handover period, Hong Kong held a distinct advantage regarding its economic scale, industry structure, political status and policy preferences. The city, in conjunction with its political and business elite, was initially not in direct competition with mainland SEZs. However, the series of crises experienced in the early 2000s has enlightened the vulnerability of Hong Kong's economy and the potential risk of recession in facing a financial crisis. The authority realised that the longer-term recovery and further development depended on the more fundamental restructuring of the economy. Meanwhile, the elites in Hong Kong realised its overwhelming superiority towards the mainland economics in the 1997 handover was not a fixed condition.

During this period, the imperative for development in the 21st century extends to mainland China. Despite experiencing substantial economic growth, the financial system in mainland China remained underdeveloped, struggling to meet the escalating demands of economic expansion. Chapter 4 of the thesis delineates the compelling necessity for China to undertake significant reforms in its financial sector during the early 2000s.[43]

Consequently, the Special Administrative Region (SAR) seek to establish itself as a leading international financial centre, leveraging the unparalleled economic growth occurring on the mainland. In fortifying its indispensable role as the financial centre within the Chinese financial market landscape, Hong Kong's authorities and financial communities proactively engage in the imperative of financial liberalization in the mainland market. It assumes the role of an International Financial Center tailored to the specific needs of the Chinese financial sector. The primary objective is to serve as an intermediary, addressing the financial requirements of the mainland market and facilitating connections between mainland China and the global financial markets. This strategic involvement is aimed at securing an exclusive

[43] The commercial banking sector is always in central government's control and has not open to foreign financial institutions and non-SOEs.

position within the Chinese international financial scheme, thereby capitalizing on a first-mover advantage.

Interviewee 6, a Partner in the Commercial Law Department of a Hong Kong-based law firm, emphasized his perspective that the crisis in the early 2000s prompted a swift overhaul of Hong Kong's economic framework, marked by a heightened reliance on the Chinese financial sector. Measures implemented by the Special Administrative Region (SAR) authority further facilitated the integration of Hong Kong into China's economic system.

I concur with this evaluation. From 2000s, in advocating economic reform within mainland China through its sophisticated financial industry, Hong Kong undertook a dual role. It not only positioned itself as the initial overseas financial center to facilitate legal Chinese cross-border capital flows but also assumed the status of a returned territory boasting an advanced financial market actively championing economic reform. This unique political advantage afforded Hong Kong a decade-long monopoly in hosting legal Chinese cross-border financial transactions.

The evolution of Hong Kong into an intermediate financial center customized for the Chinese financial sector can be interpreted from two vantage points. Firstly, the financial landscape in Hong Kong is structured to accommodate the requirements of the Chinese financial sector, with financial infrastructures specifically tailored for Chinese-related financial activities. Concurrently, the Chinese financial landscape is shaped to align with the interests and functions of Hong Kong.

8.3.1. Relocation of the Financial Industry from Hong Kong to Mainland China

The first measures taken by Hong Kong is, the financial sectors' industrial shift to the mainland has. Therefore, Hong Kong has evolved into the coordinating centre for global financial institutions operating within the Greater China region.

During the period of economic difficulties, Hong Kong's financial institutions and other critical business sectors underwent retrenchment. In a manner reminiscent of the manufacturing industry's shifting in the last century, Hong Kong's financial firms commenced

relocating their back-office operations to cities in mainland China that offered more cost-effective office spaces. These back-office positions typically involved white-collar workers performing tasks that did not heavily rely on face-to-face communication. The pace of the shift of back-office jobs across the border picked up around 2001 when Ernst & Young moved into offices in Guangzhou. Within two more years, several major banks, including the Bank of East Asia, HSBC, and Standard Chartered, had established offices in Guangdong Province.

A considerable influx of financial executives originating from Hong Kong's financial sector migrated to the mainland, assuming key managerial positions. Throughout the formative years of the mainland financial industry in the 2000s, the established business practices of Hong Kong bankers became the de facto code of conduct and served as a template for the entire industry. According to insights shared by Interviewee 15, who serves as the Head of the Investment Banking Division at a Chinese State-owned Bank in Hong Kong, the early 2000s witnessed Western banks actively recruiting personnel from mainland industries. Concurrently, financial institutions situated in Hong Kong specialized in providing training programs for bankers from the mainland. This evolution corresponded with the commencement of business operations by Chinese banks. Notably, Chinese state-owned banks in Hong Kong, being among the pioneering financial institutions to engage in internationalization efforts, adopted business practices akin to those of Western banks and actively recruited bankers from these institutions. Individuals hailing from the mainland and had working experiences in financial institutions in Hong Kong assumed pivotal roles in the majority of internationalization projects undertaken by the Chinese financial sector over the subsequent two decades.

The initial phase in the establishment of Chinese financial centres can also be traced back to the relocation of the financial industry from Hong Kong in the early 2000s. Unlike manufacturing enterprises that preferred to build factories in second-tier cities within the Pearl River Delta and Yangtze River Delta regions, financial companies primarily chose to establish their mainland subsidiaries in first-tier cities such as Shanghai and Shenzhen during this period of industrial shifting.

This strategic choice was reinforced by the cooperative efforts between the governments of Hong Kong and the Guangdong province, particularly in expanding into the financial industry. These collaborative initiatives provided assurance to international financial firms, reassuring them about the safety and security of moving sensitive financial information or gaining access to it in mainland China. The establishment of mainland subsidiaries by international financial institutions aligned with the broader trend of financial market opening in mainland China following the country's accession to WTO. It also represented the initial step in constructing the necessary infrastructure for mainland financial centres.

In a bid to attract financial resources from Hong Kong, local governments, especially those in the Shenzhen and Shanghai metropolitan areas, have intensified their efforts to improve the quality of urban infrastructure, construct office buildings, and enhance the sophistication of telecommunications infrastructure. This concerted approach has been pivotal in fostering the growth and development of financial activities in these areas.

8.3.2. 'Political Bargaining' in Mainland China's Financial Liberalization

In addition to indirect influence from the industrial shifting, Hong Kong capitalised on its manoeuvrability within the mainland policymaking process for financial market opening, utilising its political leverage rather than merely accepting policy directives from Beijing. Throughout the endeavour to promote financial opening, Hong Kong authorities have allied with pro-opening constituents on the mainland, such as the governments of financial hubs, financial industries, and central officials. Under the premise of the Central government's policy framework in implementing financial reform, Hong Kong, alongside its allies in the mainland, has embarked on a series of initiatives across diverse domains. During policy deliberations, they adopted a cooperative stance in navigating the complex mainland policymaking process for financial market liberalisation. This strategic approach enabled Hong Kong to influence China's financial policymaking effectively in the context of international liberalisation.

Hong Kong and its Chinese allies have put effort into expanding cross-border finance to the field of the capital market. After the GFC, Hong Kong and the PBOC start to encourage

investment uses of the renminbi beyond China through financial products. Hong Kong has established a comprehensive array of financial infrastructure that adheres to international professional standards. These structures serve as the foundation for facilitating China's legitimate cross-border financial operations while concurrently providing a protective framework for international investors seeking involvement in mainland China's market. These cross-border financial programs encompass bilateral investments in equity, bonds, and financial derivatives that are listed on the stock exchanges of Shanghai, Shenzhen, and Hong Kong.

Crucially, it is imperative to acknowledge that Hong Kong's influence on the policymaking process within the mainland's financial sector significantly diverges from its impact on the manufacturing industry during the 1980s and 1990s. In contrast to the preceding era, wherein the influence on policy formulation in the real economy sector was characterized by a direct emulation of Hong Kong's business model, the post-2000 era witnesses a discernible shift towards a strategy of 'political bargaining' with the central Chinese authority within the financial sector. During this phase, Hong Kong authorities, in collaboration with financial communities therein and their allies on the mainland, actively engage in a concerted effort to submit proposals advocating for financial liberalization to the central Chinese authority. This nuanced evolution underscores a more intricate and negotiated approach employed by Hong Kong in shaping financial policies during the subsequent period.

This observed transition is fundamentally linked to the inherent characteristics of China's centrally controlled financial sector. The centralized nature of mainland China's financial system dictates that reform initiatives must align with decisions originating from the upper echelons of the Chinese Communist Party (CCP).

Nevertheless, within the realm of mainland politics and finance, there exist persistent groups advocating for financial liberalization and the opening up of financial markets. These entities actively promote various schemes aimed at achieving these objectives, despite the overarching authority residing with the top echelons and their ultimate decision-making

power in implementing pertinent policies. This perspective is articulated by Interviewee 7, a Portfolio Manager at a Chinese State-owned Bank in Hong Kong.

Hong Kong's allies predominantly consist of various Chinese administrative entities, including local governments, financial sectors, corporate entities, regulatory bodies, and other stakeholders. While these allies generally align with the broader national agenda, their specific objectives related to financial liberalization may not consistently converge with those of the Central Government. This variance in intentions becomes apparent as diverse stakeholders within mainland China express dissatisfaction with the restricted availability of financial instruments and demonstrate a steadfast commitment to advocating for financial reform.

The trajectory towards financial liberalization unfolds along a complex path, characterized by the introduction of policies that navigate the inherent contradictions between central authorities and various stakeholders. The intricate interplay between the leadership of the Chinese Communist Party (CCP) and Hong Kong, in conjunction with its mainland allies, is evident in their collaborative efforts to advance the cause of financial liberalization in mainland China. This joint initiative serves as a manifestation of the 'political bargaining' inherent to Chinese economic reform within the broader political-economic framework.

Throughout this process, leveraging its first-mover advantage, Hong Kong authorities embarked on a series of infrastructure development initiatives to establish itself as an intermediary financial center tailored for the Chinese domestic market. Simultaneously, it underwent a transformative shift in its political role—evolving from an overseas territory governed by British Hong Kong authority with advanced industries capable of leading economic reform in the mainland to a provincial administrative unit focused on advocating for the central government to open its financial market.

The ensuing sections will explicate the process of political negotiations between Hong Kong and its mainland counterparts, characterized by a dynamic interaction colloquially referred to as 'political bargaining'.' This examination elucidates the intricacies surrounding

the establishment of Hong Kong as the intermediated financial centre tailored for China, and its subsequent integration into the broader Chinese political and economic framework.

8.3.3. Chinese financial institutions' internationalization in Hong Kong

The offshore community in Hong Kong consented to involve mainland brokers and their offshore subsidiaries in the initiative in seeking support from the CSRC. This collaborative approach was intended to garner endorsement from onshore stakeholders during the policy deliberation phase. In the context of various cross-border financial programs, it is noteworthy that the principal and initial participants typically consist of centrally controlled state-owned financial institutions from mainland China. Hong Kong, being the host to these financial institutions, consequently, maintains a monopoly-like position in the realm of Chinese cross-border finance. As a result of its increasing dependence on the Chinese financial system, the market shares of the Hong Kong financial market have been predominantly seized by Chinese state-owned financial institutions over the past decade.

A noteworthy initiative in the realm of exchange liberalisation was undertaken by BOC in collaboration with the local government of Tianjin.[44] BOC International, the subsidiary of the Bank of China based in Hong Kong, emerged as a pioneer in advocating for exchange liberalisation. During their participation in the financial reform and innovation pilot program in Tianjin, they meticulously crafted a pilot scheme in conjunction with the BOC Tianjin branch. Subsequently, this scheme was submitted to central policymakers, as documented by a report in People's Daily in 2007 (People'sDaily 2007).

This offshore initiative garnered substantial support from key regulatory bodies, notably the National Development and Reform Commission (NDRC) and the State Administration of Foreign Exchange (SAFE). These authorities exhibited keen interest in Hong Kong's proposal, seeing it as a potential solution to the rapid accumulation of foreign exchange reserves and as a means to address domestic investment demand amidst an

[44] Tianjin is one of the four municipalities under the direct administration of Chinese central government and is thus under direct administration of the State Council. It is the provincial administrative unit, and

overheating economic environment. In August 2007, SAFE unveiled the 'Pilot Scheme for Introducing Mainland Individual Direct Investment to Overseas Securities Markets,' commonly referred to as the 'through train' (直通车). This initiative enabled Chinese investors to utilise both renminbi and foreign currencies for the acquisition of foreign currencies, stocks, and financial instruments. Tianjin was designated as the primary gateway, serving as the exclusive link to Hong Kong's equity market (SAFE 2007).

SAFE's rationale for this initiative rested on the belief that granting individual access to overseas markets would promote disciplined outbound investments, alleviate the accumulation of foreign reserves, and foster the growth of both mainland China's and Hong Kong's financial markets. Moreover, such access presented mainland investors with attractive opportunities in established offshore markets, thanks to relatively lenient entry requirements and exemptions from longstanding capital control restrictions.

Nonetheless, the initial success enjoyed by Hong Kong, along with the supportive stance of the NDRC and the SAFE, proved to be of short duration. While domestic banks, securities brokers, and municipalities exhibited a strong desire to expand the scale of the scheme, financial regulators and high-ranking party-state officials grew increasingly apprehensive about the substantial capital outflow that ensued, reaching as much as one trillion yuan (US$ 133 billion) following SAFE's announcement. This substantial outflow posed a potential threat to China's financial stability, triggering alarm within the upper echelons of the state apparatus.

On November 4, Premier Wen Jiabao made a public announcement halting the 'through train' initiative, which had significantly eroded China's capital control regime (Caijing 2007). This decision interrupted Tianjin's aspirations to establish itself as an international financial centre. However, the efforts of BOC and Hong Kong were not in vain. Despite the 'through train' project's failure, Chinese state-owned financial institutions operating in Hong Kong subsequently assumed a prominent role in promoting the mainland's financial opening.

Simultaneously, BOC International (BOCI), serving as the pioneer and pilot institution for the 'through train' initiative, ascended to prominence within Hong Kong's financial sector.

They expanded their operations significantly, encompassing the establishment of private banking, asset management, and investment banking divisions.

In following years, Hong Kong maintains a dominant position in Chinese international financial programs and also holds an advantage in hosting the international business operations of most Chinese financial institutions. Internationalisation efforts for Chinese financial institutions are still in their early stages, with a significant portion of their global financial market activities focused on China-related trading. Therefore, for these institutions, Hong Kong is not only the first but potentially the sole financial centre where they establish subsidiaries and affiliates for their international operations. Owing to constraints imposed by financial institutions' policies on internationalization, it is expected that there will be no significant changes in this arrangement in the short term.

8.3.4. Chinese financial centres' Collaboration and the formation of Intermediate Financial Centre tailored for Chinese financial market.

In addition to the active involvement of Chinese financial institutions based in Hong Kong, a significant driving force behind the promotion of Chinese international financial schemes is the existence of major financial centers within mainland China, as emphasized by Interviewee 13, a Portfolio Manager specializing in U.S. Private Equity investments in China.

In light of the considerable expansion of the Chinese market, there is a plausible scenario wherein other financial centers within the mainland may vie for the esteemed position of China's primary financial hub, thereby potentially diminishing the significance of Hong Kong. In response to this prospect, it becomes imperative for Hong Kong to discern and highlight its attributes as a financial center distinct from the mainland market. To underscore the critical importance, Hong Kong has strategically forged a complementary connection with Chinese mainland financial centers. The city proactively assumes a central role in international initiatives, particularly evident in its promotion of Chinese international financial schemes in collaboration with Chinese financial centers. This effort serves to reinforce Hong Kong's distinct position as the intermediary within the evolving Chinese

financial landscape, solidifying its relevance in the face of increasing competition and market dynamics.

Shanghai's primary objective is to leverage the collaboration with Hong Kong in financial internationalization program to enhance its international standing within the financial arena. At the same time, Owing to their close geographic proximity, Shenzhen and Hong Kong are actively engaged in the construction of market integration within the Guangdong-Hong Kong-Macao Greater Bay Area, particularly within the financial sector.

The initial trial centred around the development of overseas exchange-traded funds (ETFs) listed on mainland stock exchanges in mainland financial centres, aimed at providing mainland investors with indirect exposure to Hong Kong equities. The offshore plan gained traction following the signing of two CEPA supplements between Beijing and Hong Kong in 2009 and 2010, focusing on cross-border financial cooperation. ETFs were subsequently introduced in August 2011. Subsequently, with the support of financial centres, Shanghai, Shenzhen and Guangdong, Hong Kong's Financial Services Development Council, a government-sponsored entity, and the Hong Kong Exchanges and Clearing Limited (HKEx), repeatedly proposed the creation of a new Qualified Domestic Individual Investor (QDII2) program. This program would have permitted mainland individuals to invest directly in the offshore market. However, this proposal was put on hold when stemming capital outflows became a paramount concern for China after late 2014.

Another noteworthy example involves Shenzhen's proclivity to integrate the collaborative initiative with Hong Kong into the broader financial experiment unfolding in the Qianhai District. Shenzhen has engaged in extensive collaboration with offshore financial institutions, resulting in the metamorphosis of the Qianhai District into an experimental hub for innovative renminbi-related businesses and financial products. A notable development in early 2015 was the introduction of a "two-way loan" facility, enabling the provision of renminbi from onshore sources to offshore entities and vice versa. This marked a departure from the interest rate controls enforced by Beijing and had the dual effect of stimulating the

utilisation of offshore renminbi funds and enhancing the interconnectedness of the renminbi markets.

Following these developments, Hong Kong initiated discussions with the Shenzhen financial community to investigate the feasibility of instituting a comparable program aimed at connecting their respective stock markets. These deliberations eventually became an integral component of the long-term strategic planning for both the Shanghai and the broader Guangdong Free Trade Zone. The State Council granted approval for the Shenzhen-Hong Kong Stock Connect program in August 2016, with trading operations commencing in December of the same year. The launch of the Shenzhen-Hong Kong Stock Connect program marked a significant milestone in the development of Chinese cross-border finance. For the first time, mainland investors were able to trade nearly all stocks listed on the Hong Kong Exchanges and Clearing Limited (HKEx) using the Renminbi (RMB). Simultaneously, global investors gained access to purchase 88 Shenzhen-listed equities, many of which were in the new economy and high-growth sectors. Following that, in 2017, a pilot scheme known as 'Bond Connect' was introduced in Hong Kong. This initiative granted international investors "northbound" access to trade corporate bonds with Belt and Road Initiative (BRI) themes, as well as other bonds within the Chinese bond market, including the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE). The successful launch of the Stock Connect programs and Bond Connect inspired the Hong Kong Exchanges and Clearing Limited (HKEx) and the Financial Services Development Council to propose more ambitious liberalisation initiatives to Beijing's financial policymakers. These initiatives encompassed mutual market access arrangements that spanned primary markets, including initial public offerings (IPOs), exchange-traded funds (ETFs), and derivatives. A new initiative, known as Swap Connect, was introduced in May 2023, focusing on mutual access between interest rate swap markets in Hong Kong and mainland China (HKEx 2023b).

In this context, a series of financial infrastructures have been developed in Hong Kong, Shanghai, and Shenzhen to support this interconnectedness, including trading and settlement mechanisms and related regulations. It is important to highlight the dominant role played by Hong Kong in this trading chain, acting as a crucial financial product settlement hub and

serving as a supervised conduit for capital flow to the PRC. The cross-border financial programs, namely Stock Connect, Bond Connect, and Swap Connect, collectively referred to as "Northbound" trading, operate through a "request for quotation" mechanism facilitated between eligible foreign investors and mainland underwriters within the China Foreign Exchange Trade System (National Inter-bank Lending Center 2017).[45] International investors seeking exposure to the mainland Chinese market often find it preferable to conduct their trading and settlement activities in Hong Kong rather than directly within mainland China. This trend has further enhanced Hong Kong's role as an intermediate capital transfer hub. To date, no other financial centre possesses a comparable infrastructure capable of competing with Hong Kong in this regard.

In summary, contrary to the commonly held perception of a competitive dynamic between Hong Kong and Chinese financial centers, a comprehensive examination of cross-border financial initiatives reveals the significant influence on the internationalization of Chinese finance arising from collaborative endeavors between these entities. A notable achievement resulting from the cooperative efforts of Hong Kong and its Chinese financial centres in financial liberalization throughout the 2010s was the establishment of the first-ever connection between mainland capital markets and the global financial landscape. Additionally, these effort also contribute significantly to the establishment and future development of Chinese financial centers, with Shanghai and Shenzhen relying heavily on collaboration with Hong Kong for their advancement in the realm of international finance. The international characteristics of these Chinese financial centers are intricately tied to their interconnection with Hong Kong through cross-border financial programs. Although Shanghai and Shenzhen have witnessed remarkable growth in trading volumes in recent years, they would remain incomplete international financial centres without access to the global financial market through Hong Kong. Hong Kong seizes this opportunity in Chinese

[45] The financial products (bonds, equity and derivate products) thus acquired are registered in the name of HKMA and held in the onshore nominee accounts opened by the CMU in the SCH or the CCDC. The CMU members then settle the bond transactions on behalf of onshore investors through CMU.

financial internationalization to reinforce its role as the intermediate financial center, holding a dominant position in Chinese cross-border finance.

From the perspective of the Chinese political economy, Chinese financial international schemes represent significant accomplishments resulting from collaboration between Hong Kong and its mainland partners. The cross-border programs solidify Hong Kong's indispensable role in cross-border investment schemes and the PRC's financial internationalisation. Additionally, they strengthen the connection between Hong Kong and mainland financial sectors. On the other hand, the innovation of financial opening maintains the central government's absolute control over the financial system while incorporating the subjective initiatives of local governments into the financial market. These achievements also embody a compromise reached between central and local governments in the context of financial decentralisation. The central government of China demonstrates its willingness to delegate authority to lower levels of government while maintaining overall control. Chinese financial agents, such as financial centres in Shanghai and Shenzhen, form alliances with Hong Kong to leverage the reverse transmission of pressure to the central government, thus facilitating decentralisation in the financial sector.

8.3.5. Offshore Features Embedded in Chinese Financial Sector

The preceding section has unveiled the dynamic interplay between Hong Kong and mainland China since the initiation of China's financial liberalization, resulting in the integration of Hong Kong into the Chinese international financial system in its capacity as an intermediate financial center. It is noteworthy that, alongside its esteemed reputation in the international financial system, Hong Kong possesses a storied history of accommodating offshore business activities, frequently operating discreetly beneath conventional scrutiny. During the Cold War, when sanctions were imposed on socialist states, Hong Kong emerged as a critical hub for smuggling due to its highly flexible regulatory environment under the English legal system. Both official and civilian entities in Asia took advantage of Hong Kong to evade legal sanctions and regulations from various regions. This period's collaboration with the mainland in underground business activities laid the groundwork for Hong Kong's

offshore financial business. Importantly, these activities have continued to the present day, even as Hong Kong has evolved into a leading global financial centre.

‘Different from other OFCs, Hong Kong's intermediary attributes have synergized its offshore characteristics with a rigorously standardized international financial system.’

Interviewee 9, Commercial Lawyer in Hong Kong.

Hong Kong is highly esteemed for its high-standard financial industry, commitment to the rule of law, and independent judiciary. This status is the deliberate result of meticulous infrastructure planning arising from the collaborative efforts between Hong Kong's authorities and its financial community. Commencing in the 1980s, Hong Kong's authorities systematically introduced offshore financial features through institutionalized legal mechanisms, further contributing to its distinguished position in the global financial landscape. This strategic approach has nurtured a harmonious coexistence of transparency and discretion within Hong Kong's financial sector. It has endowed Hong Kong with the ability to adeptly respond to changes, demonstrate flexibility, and thereby consolidate its position as a dynamic and resilient intermediate financial centre within the global financial landscape.

The consistent choice made by Chinese enterprises to engage in offshore financial activities through Hong Kong is not a coincidence but a result of Hong Kong's distinctive feature of combining a reputation for high-quality financial markets with offshore financial capabilities. As discussed in previous sections, after the Chinese economic reform, Hong Kong integrated the infrastructure of Chinese international schemes into its existing financial system architecture and established a dominant position globally. For the PRC, despite the gradual reduction in systematic differences between the international financial market and the mainland resulting from reforms initiated after 1978, China's pursuit of a secure point of access to global markets has remained a consistent feature of its development. Hong Kong naturally became the gateway for Chinese international business due to its reasonable regulatory framework, efficient administration, transparent and consistent economic policies,

and low taxation environment. Additionally, it was the first overseas financial market that Chinese enterprises were familiar with.

In the context of stringent restrictions on cross-border finance imposed by the central government, Hong Kong emerged as the exclusive avenue for Chinese enterprises to partake in international financing activities. This involvement encompasses endeavors such as international listings in Hong Kong or the inflow of Foreign Direct Investment (FDI) from offshore locations. This perspective is shared by Interviewee 6, a Portfolio Manager in the Chinese Trust Overseas Investment Department.

Nevertheless, this circumstance has also led Chinese enterprises to engage in offshore financial services when utilizing Hong Kong as their gateway for internationalization. In the 1990s, Chinese enterprises commenced involvement in offshore financial networks through Hong Kong, and these discreet financial activities have proliferated among various entities operating outside government oversight. The connection between Hong Kong and the offshore world is likely to yield practical advantages, including opportunities for tax and regulatory arbitrage across different jurisdictions, as well as the freedom of capital flows that bypass capital controls in mainland China. The prevalent use of concealed offshore structures through Hong Kong undoubtedly introduces invisible systemic risks to the Chinese financial market. However, the authorities in the People's Republic of China (PRC) neither prohibit Chinese enterprises from utilizing offshore financial structures nor do establish laws and regulations explicitly address this matter, despite the increased attention on offshore financial activities. Financial institutions with Chinese backgrounds also tend to adhere to this pattern for their clients when initiating business activities through Hong Kong. Presently, Hong Kong serves as both a financial center providing efficient and high-standard financial services and a location offering the lowest financing costs within the permissible scope set by the authorities for mainland enterprises.

It is also the irreplaceable characteristics of Hong Kong compared to other financial centres. Even though the rise of Shanghai and Shenzhen under the liberalisation of the Chinese domestic financial market, Chinese enterprises are still looking for the opportunity to

go abroad for their business needs. The path dependence on offshore financial centres requires advanced financial services to provide special insight into both China and the offshore financial network, which is Hong Kong's speciality. The fast-rising mainland financial centres, Shanghai and Shenzhen, cannot have sufficient connection with the offshore financial network under the central-controlled financial system, even though the central government has established a series of preferential policies, including tax relief in bonded zones.[46] Compared to other offshore financial centres, like Singapore, Hong Kong's policy advantage with PRC winning more business related to the Chinese market. In addition, Hong Kong's market structure, where its offshore features are covered by highly standard financial infrastructure, drives enterprises to set up multiple-layer corporate structures through it and OFCs. Although weakness in its market, like the commodity market and Islamic Finance, brings business to other financial centres, enterprises still conduct this business through the intermediate corporate layers in Hong Kong.

8.4. Conclusion

This chapter examines the development of Hong Kong towards a financial centre and its relationship with the mainland from the perspective of the Chinese political economy. In chronological order, Hong Kong has experienced changes from an overseas territory with industrial advantage to the IFC, which led to China's financial opening and complementary to the mainland financial market. The historical significance of Hong Kong was significantly related to geopolitics and China's volatile domestic political environment. Since its inception, Hong Kong, functioning as an enclave characterised by restricted governmental oversight, has engaged in offshore business activities, encompassing transactions with mainland China and other Asian nations. The bidirectional political influence between Hong Kong and the PRC at that time was negligible. The situation changed along with PRC economic reform and opening up in 1978. Hong Kong and the mainland have both experienced economic transformation under the industrial shift from Hong Kong since then. Until the 2000s, the Asia Financial Crisis, the 1997 Handover, and SARS conspired, and Hong Kong authorities'

[46] Shanghai Free Trade Zone

development strategy turned to dependence on the mainland market. Hong Kong authority has allied with pro-opening constituents on the mainland, such as the governments of financial hubs, financial industries, and central officials. It has engaged in concessionary moves during policy deliberation when navigating the mainland policymaking process of financial opening with its political leverage. That makes Hong Kong successfully manoeuvre China's financial policymaking in international liberalisation and gain a monopoly in hosting legal Chinese cross-border financial programs. These efforts have significantly bolstered Hong Kong's leading position as a global IFC. The integration of Chinese international schemes with its pre-existing financial infrastructure has further solidified its role as an intermediate financial centre.

At the same time, since Hong Kong was granted the privilege in China's political system, it is not involved in the 'political tournaments' within the mainland. Instead, it is a collaborator with its mainland allies. In this process, Hong Kong promotes the establishment of a liberalised financial system in mainland China. In addition, it assists the mainland financial centres' construction in the international finance sector, Shanghai and Shenzhen, and they are creating a financial industry chain centred by these financial centres for PRC and Asia. The intrinsic offshore attributes of Hong Kong as an intermediary financial centre have decisively shaped the utilisation of offshore financial networks by Chinese enterprises since the inception of their internationalisation endeavours.

Chapter 9: Conclusion

9.1. Introduction

This thesis investigates the rise of Hong Kong as the intermediate financial centre serving the Chinese financial system. Work on this research project began in 2019 when media coverage of Hong Kong lost its position as the International Financial Centre as the series of protests caused political tension between Hong Kong and Mainland China. The debate on Hong Kong's future didn't curb Chinese enterprises' enthusiasm for financing through the Hong Kong financial market. In 2020, there were a total of 154 companies newly listed on HKEx and raised HKD 392,446 million (USD$50.9 billion) through IPO, which accounts for a 25.5% increase compared to HK$314,241 million in 2019 (HKEx 2020b). That year, HKEx was an equity exchange with the highest amount raised in the world's primary market fundraising league. Meanwhile, the Global Financial Centres Index assesses Hong Kong's future competitiveness and ranking among 121 financial centres worldwide, where it consistently holds the 3rd or 4th place, trailing behind New York, London, and Singapore (GFCI 2023a, 2023b). This sparked my interest in Hong Kong's formation as the financial centre and its relationship with China's accelerated financial market opening since 1978.

The overarching objective of this research project was to understand the features and driving forces that shape the characteristics of Hong Kong as the financial centre of China's rising financial sector. To this end, after the literature review (Chapter 2), this thesis provided essential background information on Hong Kong and the Chinese financial system, as well as related literature in Chapters 3 and 4. Following that, I introduce three original research chapters that explore Hong Kong's role as the intermediate financial centre connecting the global financial network with the mainland with its offshore finance features and, in turn, explain how the growing Chinese capital market and the political environment behind it influence Hong Kong's formation as the financial centre.

What united the three independent chapters was the objective to shed light on the interplay between political and economic underpinnings of the formation of the financial centre with the lens of Hong Kong and the Chinese financial sector. All of them proceeded

from an IPE-driven understanding of financial centres. This design allowed for connecting interrelated but often separately treated firms, states, network linkages and territorial settings. They emphasise how state and firm actors shape the formation of financial centres in non-Western contexts. The mixed-method approach adopted in this thesis provided the toolkit required for realising these goals. The methodological emphasis on data triangulation afforded a robust way of measuring Hong Kong by combining in-depth qualitative inquiry with quantitative verification based on database analysis.

The findings showed that Chinese enterprises are using Hong Kong as the intermediate hub to set the multi-layer 'sandwich' corporate structures and informal corporate structures in OFCs. These corporate structures are servicing Chinese enterprises' offshore financing activities with the purpose of regulation arbitrage and tax avoidance. Furthermore, I find the process of devolution in the Chinese financial sector simultaneously led to the rise of Hong Kong as a Chinese financial centre. In turn, as the provincial administrative unit of the mainland, Hong Kong actively promotes the mainland's financial liberalisation by arbitraging its political impact with mainland allies through 'political bargaining'. The common desire for financial opening forms an interdependent relationship between Hong Kong and the mainland financial sector and shapes the landscape of Hong Kong as the intermediate financial centre.

The remainder of the chapter is divided into three parts. Section 9.2 summarises the findings and highlights their critical contributions to the literature. Section 9.3 spells out the theoretical implications for studying how politics shape the formation of financial centres. Section 9.4 shifts attention to the practical implications that can be gleaned from this thesis. The final section discusses the limitations of this thesis and highlights avenues for future research.

9.2. Restatement of findings

The critical role of Hong Kong in producing and shaping the geographies of China's financial centres has been thoroughly understood (Lai 2012; Taylor *et al.* 2014a; Wójcik and Camilleri 2015; Meyer 2015). However, a historical scholarship has left us uninformed about the political and social underpinnings of Hong Kong's formation as a financial centre in the

context of China’s rise. This thesis demonstrated that the Chinese political environment has a decisive impact on the creation and subsequent development of Hong Kong as a financial centre. China's central government-dominated financial system is also gradually mutually integrated into Hong Kong’s financial architecture. This research focus thus fills an analytical void.

The first substantive chapter of this thesis (Chapter 2) summarises the evolving approaches to financial centres from a geography and international political economy (IPE) perspective, which developed a theoretical framework to investigate Hong Kong from various perspectives. The current body of financial centre theories generally originates from the neoliberal practices in developed countries after the end of the Bretton Woods System in the mid-1970s, especially based on the success of London and New York in the post-Fordism era. It also demonstrates the dramatic impact of the global financial crisis of 2008–2009. These approaches have been well-developed in existing studies of developed economies. In contrast, existing studies of financial centres with Chinese background show limitations in theoretical substance. Meanwhile, due to the invisibility of offshore activities, the studies in offshore financial centres are engaged with few approaches in empirical ways. The study of Hong Kong, as the financial centres with both characteristics, address these gaps and enhance understanding of financial centres.

Understanding the formation of Hong Kong as the financial centre in the context of mainland China’s rise after 1978 required unravelling the political and economic dynamics between Hong Kong and the rest of the world in the financial market. The mainstream view considers Hong Kong as a member of the Anglo-American world in terms of its institutions, history, language, and networks as the financial centre. Although it is currently a part of China politically, it is a separate entity in terms of economy and finance. However, the financial centre literature lacks a systemic review of Hong Kong’s historical development and the Chinese political economy environment. Chapter 3 and Chapter 4 of this thesis, therefore, provide essential background information about Hong Kong and China’s financial system. Chapter 3 provides the key factors of the formation as the financial centre chronologically and demonstrates its tight connection with the mainland since the birth stage. Chapter 4 puts

emphasis on political intervention in Chinese financial reform with its philosophy of crossing the river by feeling the stones after 1978, and the central government dominated the financial system in the mainland. This provided the grounded foundation for linking Hong Kong with the Chinese political economy environment for studies in the following chapters.

In Chapter 5 of this thesis, the synthesis of the literature review and survey chapters is provided. Additionally, the chapter introduces the dual research design, encompassing both micro and macro perspectives, and outlines the mixed-method approach that will be applied in the subsequent chapters.

Chapter 6 and 7 shift the research focus to the offshore financial centre features of Hong Kong. These two chapters present empirical findings in Chinese enterprises' offshore activities within the offshore financial network through Hong Kong, including the corporation structure and the bond issuance structure hidden in offshore jurisdictions. Chapter 6 maps out the corporate structure of two big Chinese state-owned banks, Bank of China (BOC) and China Construction Bank (CCB) and find their multiple-layer 'sandwich' structure connecting mainland- Hong Kong-OFCs. In addition, these Chinese banks establish a dual pattern of ownership organisations through personal links and named trusted directors to build an informal structure with 'floating' subsidiaries in offshore financial centres. Chapter 6 gets insight in to how these corporate structures work in Chinese enterprises' debt financing activities. Taking use of offshore corporate structures, Chinese enterprises have developed a series of bond issuance structures to accommodate different regulatory needs. The differences between SOEs and non-SOEs in financial market access determine the more complex structure for non-SOEs' financing activities hidden in OFCs.

The main characteristics of Hong Kong in these structures are its role both as the gateway in hosting the facade of internationalised Chinese enterprises and the intermediate place to connect the mainland and the offshore world through complex corporate structures. At the same time, China's asymmetrical nature of financial market access in SOEs and non-SOEs has determined their international business mode through Hong Kong. Political interference in SOEs enables the state to manage the multiple-layer subsidiaries in OFCs,

ignoring the equity relationships. Meanwhile, in the mainland's central controlled financial system, the State provides implicit government guarantees to SOEs in their financing activities through its state-owned financial institutions in Hong Kong, and these financial institutions, in turn, monopolise Chinese enterprises' international financing environment by controlling market access and advanced financial services.

Due to the concealment nature of offshore activities, Offshore Jurisdictions are one of the puzzles lacking investigation in the study of financial centres. The findings from both chapters provide empirical evidence to highlight Hong Kong's offshore features to facilitate offshore financial activities under its role as the leading global IFC. In addition to its own characteristics, such as a low tax rate and few legal restrictions, the primary mission of Hong Kong is to act as the intermediator to connect economies with the offshore world and hide these relationships through its advanced financial architecture. The mandatory disclosure requirements from the Chinese central government enable this study to get a glimpse into offshore financing activities through Hon Kong and offshore financial networks by observing Chinese enterprises.

Chapter 8 answers the research question proposed in Chapter 1 about the relationship between the formation of Hong Kong as the intermediate financial centre and political economy environment during the past decades. To this end, an in-depth survey of relevant secondary literature was conducted in both English and Chinese literature. It was also merged with the news, official documents and first-person narratives to constitute memory interview records from financial participants in Hong Kong and Mainland China. Blending literature with Chinese primary sources allowed me to survey Hong Kong and the Chinese financial sector's development from a non-Anglo-American perspective. The combination of Western and Chinese sources also enabled the study to remain sensitive to context-specific social features that underpin China's financial system. The findings in this chapter suggest Hong Kong have been gradually involved in the PRC's economic and political system to promote the mainland's financial opening accompanying its development process into an intermediate financial centre tailored for Chinese financial sector. The offshore financial features of Hong Kong are progressively integrated into Chinese financial architecture during this process.

Chinese financial reform and opening present strategic alignment between the central authority, Hong Kong, and its mainland allies. The relationship with Hong Kong provides the stakeholders in China with a competitive edge in financial policy games. However, the bargaining dynamics in international financial schemes show an increasing bifurcation of interests in different stakeholders. It explains the circuitous formation of Hong Kong as a Chinese financial centre and the patchy integration of the Chinese financial sector into Hong Kong's financial architecture in past decades.

In general, from the perspective of the financial centre, the formation of Hong Kong since the 2000s is one of the results of the liberalization of China's financial sector. In this process, Hong Kong has transferred its role from the overseas metropolitan financial centre to a member of the Chinese financial centre cluster. It has developed a dependence relationship with its mainland allies and other Chinese financial centres. Connected by Chinese political economy links and backed by the growing Chinese financial market, the alliance between Hong Kong and PRC financial centres is creating a financial industry chain centred by these financial centres for Chinese cross-border finance.

9.3. Theoretical implications

This section spells out the wider theoretical implications of the findings. This thesis provides a concrete step for a cross-country comparative study. Also, it contributes to innovation in Anglophone economic geography by focusing beyond Anglo-American economies and pursuing 'engaged pluralism', as suggested by (Barnes and Sheppard 2010). Returning to the structural benchmark introduced at the outset of this thesis, the section highlights critical implications at the micro-level (state-firm relationship) and macro-level of analysis (Financial Centres).

At the Micro-level, this thesis has important implications for studying the state-firm relationship in non-Wester countries by exploring how the state shapes Chinese enterprises' expansion in the global financial market. On the surface, it is tempting to view the Chinese state and State-owned Enterprises (SOEs) as 'uniform' agents, given that financial regulation is centrally administered in China. This may lead us to assume that Chinese state-owned

enterprises (SOEs) have a convergence of interest in their global business expansion. Contrary to this logic, the findings highlighted that driven by profit and other business benefits, Chinese SOEs emulate Western funds that commonly use OFCs in their international business to maximise their benefits. In turn, the personnel control from Chinese authorities enables Chinese SOEs establish the informal corporate structure without equity control in OFCs, which might have potential risks for Chinese financial system. Although there is the conflict of interest between Chinese authorities and SOEs, the state-firm relationship with disproportionate allocation of political and financial resources to SOEs have extended to their financial activities in the global financial market. Therefore, the centralised Chinese financial system monopolised Chinese enterprises' international financing activities through Chinese state-owned financial institutions in Hong Kong. Combined, these insights suggest the hierarchy of China's political and economic environment is embedded in global financial networks with Chinese enterprises' international business.

The findings make a crucial conceptual intervention in the study of GFN. They highlight that the changes in established network linkages are not simply the result of business interaction between different network layers such as 'state' and 'firms'. Such changes also reflect the dynamic relationships within a particular network layer. China's financial network may appear 'stable' as formal linkages between network layers remain intact, but they can still undergo substantial functional adaptation that changes the logic behind these linkages. It is therefore necessary to further disintegrate seemingly homogenous actors such as 'firms' and 'state'. These insights have important implications for the literature on Global Financial Networks and business studies in MNEs. Chinese state-firm relationship and their business behaviour in practice may not lend themselves to broader generalisations, but they highlight a more inclusive approach to interpreting GFN.

The findings also extend the understanding of 'multinational enterprises' corporate structure. It highlights that equity links between the parent company and its affiliates/subsidiaries are not single corporate structures existing. The form of ownership can include the political tiers and individual connections in MNEs' corporate structure. As the analysis of the corporate structure of Chinese state-owned banks showed, these MNEs with a

Chinese central government background are operating in the global financial market under corporate ownership with political connections to achieve their strategic goals. These findings make two essential additions to a more nuanced perspective on international business: They identify important new channels through which MNEs feed into global financial networks and clarify that politics can function as a power resource in its own right in business.

In sum, this thesis advances the literature on GFN and business systems by demonstrating how internal differences within seemingly homogenous actors, such as the 'state,' shape financial activities in the financial centres. The findings clarify that focusing solely on firms' behaviour on the surface is not sufficient in this respect. It is necessary to specify the conditions under which firm actors are mobilised across different jurisdictions and translate into actual influence over financial market outcomes. This requires paying close attention to the interdependent relationship between the state and various firms, multi-level governance structures, as well as timing and external context.

At the Macro-level, the broader implication is not simply the rise of emerging markets that give rise to variegated roles of the state in the formation of financial centres. The interplay between the existing financial centre and the state matters for their common development in the financial sector. This has important implications for how we evaluate the formation of financial centres. Rather than view the development of a financial centre is resulting from the synergy effect from the rise of a major economy, they are best understood as the economic reforming experiments that bridge conflicting strategies interests among different stakeholders and thus inherent political instability.

This thesis emphasises the financial centre as one of the political stakeholders involved in the bargaining between political layers intersects with multiple economic layers. Global financial network emerges as the outcome of deliberations involving various levels of government, corporations, and political stakeholders. Throughout this process, comprehensive, all-encompassing financial centres in major metropolitan areas are gradually supplanted by specialised financial centre clusters integrated within the GFN. The findings also showed that it was a combination of external crises and internal learning effects that

triggered shifts in the power constellations of China's GFN. In turn, these surfs paved the way for new cross-border network linkages to emerge. This reference point of the formation of financial centres applies to GFNs anywhere in the world, irrespective of their economic system.

At a broader level, this thesis challenges the 'politics against markets' thesis proposed by Espin-Andersen (Esping-Andersen 1985). It argues that to comprehend the landscape of Chinese international finance and its financial centres, one must recognise the intricate interplay between politics and markets. By highlighting their inherently intertwined nature, this thesis underscores the need for future research in finance to extend beyond the confines of financial economics. Instead, it advocates a shift in focus towards a relational perspective that explores how political stakeholders, situated in diverse locations, 'allocate' resources through their political relationships. In this way, the thesis makes a meaningful contribution to a long-standing question that has intrigued economic geographers: how to systematically evaluate the 'geographies of power' (Allen 2003).

9.4. Policy implications for financial regulation

A number of practical policy implications follow from the findings. These concern the opportunities and risks emanating from national and supranational financial regulation and how this impacts the financial market. The remainder of this section spells out these implications in greater detail.

Chapter 6 and 7 present empirical evidence revealing that the offshore features of Hong Kong facilitate discreet connections between onshore and offshore financial networks. Chinese policymakers have historically emphasised stringent capital controls due to concerns about the potential risks posed by 'hot' money and capital flight, which could destabilise the financial markets. As a result, access to international financial markets is primarily allocated to State-Owned Enterprises (SOEs) controlled by various levels of government rather than profit-driven non-SOEs. However, SOEs actively engage in international financing activities in offshore financial centres to maximise their benefits and exploit regulatory, taxation, and jurisdictional differences, including those within mainland China. This highlights a paradox:

despite benefiting from policy preferences, SOEs' financing demands and profit motives can lead them to adopt business models similar to Western enterprises, participating in offshore financial activities (e.g., shadow banking) without regard for national interests. Corporate management, driven by government administrative instructions, encourages these enterprises to hide such activities. For non-SOEs, the overly stringent state control over legal financing channels hampers their developmental potential. The increasing demand for financing drives them to utilise shadow banking services in both domestic and international financial markets. Taken together, strict financial regulations within the Chinese financial system can inadvertently promote shadow banking activities, contrary to the initial goal of maintaining financial stability. Therefore, aligning state-firm interests and promoting financial liberalisation becomes essential for Chinese policymakers to achieve their long-term goal of modernising its financial system to meet the demand for its economic reform.

At the global level, the finding suggests enhancing collaboration of cross-regional regulations in the field of offshore finance is necessary for global financial stability. Chinese enterprises are not the single case with the multiple-layer corporate structure hidden in offshore financial centres for regulation arbitrage. The mature financial service chain, including law firms, accounting firms, consulting services, investment banks and even government departments, has been established in Hong Kong and is expanding to other major financial centres through the Global Financial Network. The findings are equally instructive for Western policymakers of other major economies, such as the United States and the United Kingdom. Similar to Hong Kong, Advanced Financial Services in other global leading International Financial Centres such as New York and London are actively providing offshore financial services to multinational enterprises (MNEs). However, China's state-led approach to controlling offshore financial activities by limiting MNEs' international market access cannot easily be transferred to Western countries. The liberal market context that they are embedded in operates free from comparable levels of state control. Nonetheless, Chinese central authorities' compulsory disclosure measurements in enterprises' offshore subsidiaries might be equally instructive for financial regulators in Western countries.

9.5. Limitations and Avenues for Future Research

This thesis is not without shortcomings. This section discusses its conceptual and empirical limitations and suggests ways to overcome them in future research.

In the study of Chinese state-owned banks' global corporate structures, Chapter 6 proceeded from the assumption that 'the state' and 'firms' are multi-layered rather than cohesive agents. We have attuned to the difference between Chinese state-owned banks and the central government in internationalisation strategy by getting insight into their hidden offshore financial activities. Yet, the discussion of the Chinese party-state's internal fragmentation has been limited to the central level of government and SOEs under its control. This is because financial policy is centrally administered in China. However, this is set to change. City-level financial centres, Shanghai and Shenzhen, are dominating new cross-border financial activities. Limiting the analytical focus to China's central government may thus create misleading impressions of uniformity and cohesion. Future research would, therefore, do well to unpack the increasingly important regional dynamics that underpin Chinese enterprises' offshore financial activities.

One promising research avenue could be to investigate the role of Shanghai and Shenzhen in Chinese domestic enterprises' offshore financial activities. From the interviews in this project, offshore financial services firms are gathering in Shenzhen with specific target Chinese clients. More investigation and empirical analysis can be conducted based on these facts. Further, combining the state-led GFN framework with insight from the Chinese financial system's decentralisation would present a suitable conceptual foundation from which to unearth these dynamic connections among Chinese financial centres, Hong Kong and offshore financial centres.

Another limitation concerns the research design used to analyse the offshore features of Hong Kong as the financial centre. The single case of Chinese enterprise's experience does not lend itself to broader generalisations about offshore financial activities in IFCs. It is thus important to acknowledge that the findings are tied to contingent generalisations based on particular conditions. From the fieldwork in Hong Kong, a few enterprises from surrounding

emerging economies in East and South Asia, such as India and Vietnam, are establishing their offshore corporate networks through Hong Kong with similar methods. The conclusions in this thesis do not concern all other enterprises that currently conduct their business in Hong Kong; they are specifically confined to the context of mainland China. Future research examining offshore features of Hong Kong will thus need to take into account the different political and economic contexts within which these enterprises are embedded.

The final limitation relates to the broader concern that financial systems, financial centres and Global financial networks are constantly changing. As such, this thesis presents a snapshot of the current condition of Hong Kong and its relationship with mainland China. As the Chinese capital market continues to mature, reliance on the financial market in Hong Kong might weaken or strengthen. Such changes in political and economic context would then require re-evaluating the findings presented in this thesis.

Despite the above limitations, it is important to remember that any global network analysis remains a simplification of a complex world. Simplifying requires considerable abstraction and exclusion. Whilst this thesis is no exception, it does not change the fact that its insights provide a foundation for future research on financial centres. By simplifying the complex interrelationship between political, economic and cultural drivers, this thesis was able to isolate specific interactions and mechanisms across different scales. The research design of this thesis, therefore, contributes to building a social scientific theory on the formational of financial centres in a non-Western context.

Appendix A: List of Interviews (2021-2023)

Date	Position	Organization	Location
2021.12.29	Head of Investment Department	Global Investment Department, China State-owned Real Estate Enterprises	Shanghai
2022.01.15	Head of Asset Management Department	Asset Management Department, Chinese State-owned Securities Company	Beijing
2022.01.27	Financial Journalist of Media Department	Media, Press and Public Relations Department, Chinese Financial Group	Hong Kong
2022.02.07	Trader of Fixed Income Department	Fixed Income Department, Chinese Financial Group (Hong Kong)	Hong Kong
2022.02.11	Partner of Commercial Law Department	Law Firm	Hong Kong
2022.02.16	Portfolio Manager	Chinese Trust Overseas Investment Department	Shanghai
2022.02.18	Investment Manager	China Telecom Hong Kong Company Limited	Hong Kong
2022.02.18	Public Relationship Manager	Bank of China, Hong Kong	Hong Kong
2022.02.19	Senior Lawyer	Law Firm	Hong Kong
2022.03.03	Senior Manager of Asset Management Department		Shenzhen
2022.03.05	Associate of Investment Banking Division	Investment Banking	Hong Kong
2022.03.16	Portfolio Manager	U.S. PE in China	Shanghai
2022.03.16	Macro-Economist	State Administration of Foreign Exchange	Beijing
2022.06.18	Head of Investment Banking Division	Investment Banking	Hong Kong
2022.07.07	Trader of Commodity Department	U.S. Financial Group, Hong Kong	Hong Kong
2022.07.15	Head of Investment Banking Division	Hong Kong Boutique Investment Bank	Hong Kong
2022.07.25	Analyst	Virtual Currency Trading Platform	Hong Kong

Appendix B: Ethical Approval

City, University of London

Dear Xinyi

Reference: ETH2021-2218

Project title: The development of Hong Kong as an intermediate Financial Centre after 1978, by studying Chinese State-owned Banks in Hong Kong

Start date: 20 Dec 2021

End date: 31 Dec 2023

I am writing to you to confirm that the research proposal detailed above has been granted formal approval from the IP Departmental Research Ethics Committee. The Committee's response is based on the protocol described in the application form and supporting documentation. Approval has been given for the submitted application only and the research must be conducted accordingly. You are now free to start recruitment.

Please ensure that you are familiar with City's Framework for Good Practice in Research and any appropriate Departmental/School guidelines, as well as applicable external relevant policies.

Please note the following:

Project amendments/extension

You will need to submit an amendment or request an extension if you wish to make any of the following changes to your research project:

- Change or add a new category of participants;
- Change or add researchers involved in the project, including PI and supervisor;
- Change to the sponsorship/collaboration;
- Add a new or change a territory for international projects;
- Change the procedures undertaken by participants, including any change relating to the safety or physical or mental integrity of research participants, or to the risk/benefit assessment for the project or collecting additional types of data from research participants;
- Change the design and/or methodology of the study, including changing or adding a new research method and/or research instrument;
- Change project documentation such as protocol, participant information sheets, consent forms, questionnaires, letters of invitation, information sheets for relatives or carers;
- Change to the insurance or indemnity arrangements for the project;
- Change the end date of the project.

Adverse events or untoward incidents

You will need to submit an Adverse Events or Untoward Incidents report in the event of any of the following:

a) Adverse events

b) Breaches of confidentiality

c) Safeguarding issues relating to children or vulnerable adults

d) Incidents that affect the personal safety of a participant or researcher

Issues a) and b) should be reported as soon as possible and no later than five days after the event. Issues c) and d) should be reported immediately. Where appropriate, the researcher should also report adverse events to other relevant institutions, such as the police or social services.

Should you have any further queries relating to this matter, please do not hesitate to contact me. On behalf of the IP Departmental Research Ethics Committee, I do hope that the project meets with success.

Kind regards

Or Rosenboim

IP Departmental Research Ethics Committee

City, University of London

Ethics ETH2021-2218: Miss Xinyi Wei (Low risk)

Appendix C: Participant Information Form and the Informed Consent

REC reference number, date and version of information sheet

Participant Information Sheet

Title of study

The development of Hong Kong as an intermediate Financial Centre after 1978, by studying Financial Institutions in Hong Kong

Name of principal investigator/researcher

Xinyi Wei

Invitation

We would like to invite you to take part in a research study. Before you decide whether you would like to take part it is important that you understand why the research is being done and what it would involve for you. Please take time to read the following information carefully and discuss it with others if you wish. Ask us if there is anything that is not clear or if you would like more information. You will be given a copy of this information sheet to keep.

Purpose of this study:

This research project will attempt to account for the recent development of Hong Kong as IFC and OFC, with a specific focus on financial institutions operating in Hong Kong. To achieve it, this project will draw qualitative interviews to financial institutions in Hong Kong and mainland China, to explore the relationship in between Hong Kong, mainland China and the rest of the world, and their influence on Chinese domestic financial market.

Why have I been invited to take part?

The participants are chosen based on their professional history. Interviewees should have experience in working together with financial institutions in Hong Kong before 2019. The interview will be anonymous and confidential, which will have no effect on your employment or promotion prospects.

Do I have to take part?

Participation in the project is voluntary, and you can choose not to participate in part or all the projects. You can withdraw at any stage of the project without being penalised or disadvantaged in any way. It is up to you to decide whether to take part. If you do decide to take part, you will be asked to sign a consent form. If you decide to take part, you are still

free to withdraw at any time and without giving a reason. Once the data has been anonymised/published participants will no longer be able to withdraw their data.

What will happen if I take part?

- You are expected to take part in one interview lasting 60 minutes. The interview can be chosen to be conducted with English or Mandarin.
- This interview will take 60 minutes.
- The interview will be recorded, and a transcript will be produced after the interview.
- The interview will be anonymous and confidential.
- You will be sent the transcript that given the opportunity to correct any factual errors.
- The actual recording will be destroyed after the transcript completed.
- Data will be stored in the password protected computer files at City for 10 years.
- The interview data will be used in Xinyi Wei's Ph.D. thesis, as well as for any publication (e.g. journals, magazine articles, books, blog posts) and presentations (e.g. conferences, seminars) that may develop from the research.
- This project will end on 31 Dec 2023

What are the possible disadvantages and risks of taking part?

There are any risks associated with your participation, but you have the right to stop the interview or withdraw from the research at any time.

Data privacy statement

City, University of London is the sponsor and the data controller of this study based in the United Kingdom. This means that we are responsible for looking after your information and using it properly. The legal basis under which your data will be processed is City's public task.

Your right to access, change or move your information are limited, as we need to manage your information in a specific way in order for the research to be reliable and accurate. To safeguard your rights, we will use the minimum personal-identifiable information possible (for further information please see https://ico.org.uk/for-organisations/guide-to-data-protection/guide-to-the-general-data-protection-regulation-gdpr/lawful-basis-for-processing/public-task/

City will use your name and contact details to contact you about the research study as necessary. If you wish to receive the results of the study, your contact details will also be kept for this purpose. The only people at City who will have access to your identifiable information will be Xinyi Wei. City will keep identifiable information about you from this study for 10 years after the study has finished.

You can find out more about how City handles data by visiting https://www.city.ac.uk/about/governance/legal. If you are concerned about how we have processed your personal data, you can contact the Information Commissioner's Office (IOC) https://ico.org.uk/.

Will my taking part in the study be kept confidential?

- The interview will be recorded, and a transcript will be produced after the interview.
- The transcript of the interview will be analysed by Xinyi Wei as research investigator.
- Access to the interview transcript will be limited to Xinyi Wei and academic colleagues and researchers with whom she might collaborate as part of the research process.
- Any summary interview content, or direct quotations from the interview, that are made available through academic publication or other academic outlets will be anonymized so that you cannot be identifies, and care will be taken to ensure that other information in the interview that could identify yourself is not revealed.
- The actual recording will be destroyed after the transcript completed.
- Data will be stored in the password protected computer files at City for 10 years.

- The interview data will be used in Xinyi Wei's Ph.D. thesis, as well as for any publication (e.g. journals, magazine articles, books, blog posts) and presentations (e.g. conferences, seminars) that may develop from the research.

What will happen to the results?

Participants will have the chance to choose if they would like to be sent a copy of the interview transcript after the interview to correct any factual errors.

The interview data will be used in Xinyi Wei's Ph.D. thesis, as well as for any publication (e.g. journals, magazine articles, books, blog posts) and presentations (e.g. conferences, seminars) that may develop from the research.

What will happen when the research study stops?

The interview record will be produced into a transcript, and the actual recording will be destroyed after the transcript completed. The transcript data will be stored in the password protected computer files at City for 10 years.

What if there is a problem?

If you have any problems, concerns or questions about this study, you should ask to speak to a member of the research team. If you remain unhappy and wish to complain formally, you can do this through City's complaints procedure. To complain about the study, you need to phone 020 7040 3040. You can then ask to speak to the Secretary to Senate Research Ethics Committee and inform them that the name of the project is [The development of Hong Kong as an intermediate Financial Centre after 1978, by studying Chinese State-owned Banks in Hong Kong]

You can also write to the Secretary at:

Anna Ramberg
Research Integrity Manager
City, University of London, Northampton Square
London, EC1V 0HB
Email: Anna.Ramberg.1@city.ac.uk

Further information and contact details

Xinyi Wei

City, University of London
Northampton Square
London EC1V 0HB
United Kingdom

Email: xinyi.wei@city.ac.uk

Professor Andrew Jones

City, University of London
Northampton Square
London EC1V 0HB
United Kingdom

Email: andrew.jones.3@city.ac.uk

Professor Ronen Palan

City, University of London

Northampton Square

London EC1V 0HB

United Kingdom

Email: ronen.palan.1@city.ac.uk

Thank you for taking the time to read this information sheet.

Interview Consent Form

Name of principal investigator/researcher

Xinyi Wei

REC reference number

ETH2021

Title of study

The development of Hong Kong as an intermediate Financial Centre after 1978, by studying financial institutions in Hong Kong

		Please tick or initial box
1	I confirm that I have read and understood the participant information dated [INSERT DATE AND VERSION NUMBER] for the above study. I have had the opportunity to consider the	

	information and ask questions which have been answered satisfactorily.	
2.	I understand that my participation is voluntary and that I am free to withdraw without giving a reason without being penalised or disadvantaged.	
3.	I understand that I will be able to withdraw my data up to the time of anonymised transcription.	
4.	I agree to the interview being audio or video recorded.	
5.	I agree to maintain the confidentiality of the interview.	
6.	I agree I will be sent the transcript that given the opportunity to correct any factual errors. I understand my contact detail will be retained for this purpose.	
7.	I understand the interview data will be used in Xinyi Wei's Ph.D. thesis, as well as for any publication (e.g. journals, magazine articles, books, blog posts) and presentations (e.g. conferences, seminars) that may develop from the research. Access to the transcript of the interview will be limited to Xinyi Wei and academic colleagues and researchers with whom she might collaborate as part of the research process.	
8.	I understand any summary interview content, or direct quotations from the interview, that are made available through academic publication or other academic outlets will be anonymized so that you cannot be identifies, and care will be taken to ensure that other	

	information in the interview that could identify yourself is not revealed.	
9.	I agree to City recording and processing this information about me. I understand that this information will be used only for the purpose(s) explained in the participant information and my consent is conditional on City complying with its duties and obligations under the General Data Protection Regulation (GDPR).	
10.	I understand I have been able to ask any questions I might have, and I understand that I am free to contact the researcher with any questions I may have in the future.	
11.	I agree to take part in the above study.	

____________________	____________________________	______________
Name of Participant	Signature	Date
____________________	____________________________	______________
Name of Researcher	Signature	Date

Appendix D: Interview Questions

A. Personal Information

1. How is your working experience in Hong Kong? Do you have any working experience related to financial industry?

2. Have you have ever had any working experience with financial institutions in different regions? How do you think of difference among them?

B. General Question: Hong Kong as financial centre

3. How do you think of the advantage and disadvantage of Hong Kong as the leading financial centre?

4. Could you tell me some similarity or difference between Hong Kong and other International Financial Centres (like, New York, London, Singapore, Shanghai, etc.)?

C. Financial Market in Hong Kong

5. How do you think of the legal system and regulatory on financial market in Hong Kong? How does it form Hong Kong as IFC? Could you give us some examples?

6. As the free trade port in financial industry, do you think there is any influence on Hong Kong from Chinese authority in past decades?

7. How is the travel restriction of COVID-19 affecting Hong Kong's financial industry in past 2 years?

8. How do you think some financial institutions are leaving Hong Kong, for example, BOA?

9. Do you think other financial centres can replace Hong Kong?

Bibliography

Aalbers, Manuel B. (2019) 'Financial geography II: Financial geographies of housing and real estate', *Progress in human geography* 43(2): 376–387.

Aalbers, Manuel B. (2020) 'Financial geography III: The financialization of the city', *Progress in human geography* 44(3): 595–607.

ABC (2010) 'ABC IPO Prospectus', *HKEX* available at https://www1.hkexnews.hk/listedco/listconews/sehk/2010/0630/ltn20100630013.pdf (accessed 2021, April 16).

ABC (2020) '农行集团并表机构名单及使用总行商标的未并表机构名单', 农行集团并表机构名单及使用总行商标的未并表机构名单.

Alami, Ilias and Adam D. Dixon (2023) 'Uneven and combined state capitalism', *Environment & planning A* 55(1): 72–99.

Alami, Ilias, Adam D. Dixon, and Emma Mawdsley (2021) 'State Capitalism and the New Global D/development Regime', *Antipode* 53(5): 1294–1318.

Alford, Matthew and Nicola Phillips (2018) 'The political economy of state governance in global production networks: change, crisis and contestation in the South African fruit sector', *Review of International Political Economy* 25(1): 98–121.

Allen, Franklin, Jun Qian, and Meijun Qian (2005) 'Law, finance, and economic growth in China', *Journal of financial economics* 77(1): 57–116.

Allen, John (2003) *Lost geographies of power*, Blackwell Pub.

Allen, John and Michael Pryke (1994) 'The Production of Service Space', *Environment and planning. D, Society & space* 12(4): 453–475.

Amin, Ash and Nigel Thrift (1992) 'Neo-marshallian nodes in global networks', *International journal of urban and regional research* 16(4): 571–587.

Amsden, A.H. and Wan-Wen Chu (2003) *Beyond Late Development*, Cambridge, MA: The MIT Press.

Amsden, Alice (2001) *The Rise of "The Rest": Challenges to the West From Late-Industrializing Economies*, Oxford University Press.

Ang, J.S. and Y. Ma (1999) 'Transparency in Chinese stocks: A study of earnings forecasts by professional analysts', *Pacific Basin Finance Journal* 7(2): 129–155.

Anon (2009) *The Future of the Dollar*, Cornell University Press.

Avery, Martha, Min Zhu, and Jinqing Cai (2011) *China's Emerging Financial Markets: Challenges and Global Impact*, John Wiley & Sons.

Babic, Milan (2023) 'State capital in a geoeconomic world: mapping state-led foreign investment in the global political economy', *Review of International Political Economy* 30(1): 201–228.

Babic, Milan, Javier Garcia-Bernardo, and Eelke M. Heemskerk (2020) 'The rise of transnational state capital: state-led foreign investment in the 21st century', *Review of International Political Economy* 27(3): 433–475.

Bank of China Hong Kong (2002) 'Bank of China Hong Kong Limited Global Offering Prospectus 6 July 2002', *Bank of China Hong Kong* available at https://www.bochk.com/en/aboutus/ir/finreport.2002.1.html (accessed 11 November, 2021).

Barnes, Trevor J. and Eric Sheppard (2010) '"Nothing includes everything": towards engaged pluralism in Anglophone economic geography', *Progress in human geography* 34(2): 193–214.

Bassens, David, Reijer Hendrikse, and Michiel V. Meeteren (2018) 'The Appleization of finance: Charting incumbent finance's embrace of FinTech', *Finance and Stochastics*.

Beamish, Paul W. and John C. Banks (1987) 'Equity Joint Ventures and the Theory of the Multinational Enterprise', *Journal of International Business Studies* 18(2): 1–16.

Bell, Stephen and Hui Feng (2013) *The rise of the people's bank of China*, London, England: Harvard University Press.

Berger, Allen N., Iftekhar Hasan, and Mingming Zhou (2009) 'Bank ownership and efficiency in China: What will happen in the world's largest nation?', *Journal of Banking & Finance* 33(1): 113–130.

Bhattacharya, Anindya K. (2011) 'The Feasibility of Establishing an International Financial Center in Shanghai', *Journal of Asia-Pacific Business* 12(2): 123–140.

BIS (2015) 'Regulatory Consistency Assessment Programme (RCAP) Assessment of Basel III risk-based capital regulations– Hong Kong SAR', *Bank for International Settlements* available at chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.bis.org/bcbs/publ/d313.pdf.

BOC (2006) 'Bank of China IPO Prospectures', available at https://www.boc.cn/invester/ir2/200809/P020081218632269332239.pdf (accessed 2021, April 12).

BOC (2016) '加大外资利用，发行国际债券（1979 年－1992 年）', *Bank of China* available at https://www.boc.cn/aboutboc/ab7/200809/t20080926_6897.html (accessed 14 November, 2022).

BOC (2022) '2021 Annual Report (A share)', available at https://www.boc.cn/investor/ir3/202204/t20220429_21077898.html (accessed 2 May, 2022).

BOCHK (2022) 'BOC Hong Kong (Holdings) Limited, Annual Report 2021', available at https://www.bochk.com/en/aboutus/ir.html (accessed 2 May, 2022).

BOCI Asia Limited (2004) 'BOCI Asia Limited US$500,000,000 Retail Note Programme', available at https://www.sfc.hk/sfc/doc/EN/cfd/ordinance/unlisted/boci/eng_issue_24%20sept_cover.pdf (accessed 6 February, 2021).

Boddy, Martin (1983) 'Central-local government relations: theory and practice', *Political Geography Quarterly* 2(2): 119–138.

Bradshaw, Mark, Guanmin Liao, and Mark Ma (2019) 'Agency costs and tax planning when the government is a major Shareholder', *Journal of Accounting and Economics* 67(2): 255–277.

Brenner, Neil and Nik Theodore (2012) *Spaces of Neoliberalism: Urban Restructuring in North America and Western Europe*, Wiley & Sons, Limited, John.

Brødsgaard, Kjeld Erik (2002) 'Institutional Reform and the Bianzhi System in China', *The China quarterly* 170: 361–386.

Brown, E.H. Phelps (1971) *Hong Kong: the industrial colony - a political, social and economic survey*, Keith Hopkins, ed., Hong Kong: Oxford University Press.

Brown, Kerry (2016) *CEO, China: The Rise of Xi Jinping*, London and New York.: Bloomsbury Academic.

Bruton, Garry D. and David Ahlstrom (2003) 'An institutional view of China's venture capital industry: Explaining the differences between China and the West', *Journal of Business Venturing* 18(2): 233–259.

Bryant, Ralph C. (1984) *Eurocurrency Banking: Alarmist Concerns and Genuine Issues*, Brookings Institution.

Buckley, Peter J., Dylan Sutherland, Hinrich Voss, and Ahmad El-Gohari (2015) 'The economic geography of offshore incorporation in tax havens and offshore financial centres: the case of Chinese MNEs', *Journal of Economic Geography* 15(1): 103–128.

Budd, Leslie (1998) ‘Territorial Competition and Globalisation: Scylla and Charybdis of European Cities’, *Urban studies* 35(4): 663–685.

Burns, Michael J. and James McConvill (2011) ‘An Unstoppable Force: The Offshore World in a Modern Global Economy’, *Hastings Business Law Journal* 7(2): 205.

Caijing ‘港股直通车“缓行”影响乍现’. *Caixin*, November 5.

Cao, Yuqiang, Zhuoan Feng, Meiting Lu, and Yaowen Shan (2021) ‘Tax avoidance and firm risk: evidence from China’, *Accounting and Finance* 61(3): 4967–5000.

Carney, Michael, Eric Gedajlovic, and Xiaohua Yang (2009) ‘Varieties of Asian capitalism: Toward an institutional theory of Asian enterprise’, *Asia Pacific Journal of Management* 26(3): 361–380.

Carney, Richard W. (2015) ‘The stabilizing state: State capitalism as a response to financial globalization in one-party regimes’, *Review of International Political Economy* 22(4): 838–873.

Carroll, Toby and Darryl Jarvis (2022) ‘Understanding the state in relation to late capitalism: A response to “new” state capitalism contributions’, *Antipode* 54(6): 1715–1737.

Cassis, Youssef (2012) *Capitals of capital: A history of international financial centres 1780-2005*, Cambridge, England: Cambridge University Press.

Castells, Manuel (1996) *The Rise of the Network Society: The Information Age: Economy, Society and Culture Vol. I*, Cambridge, MA: Blackwell.

CBRC (2018) ‘中国银行保险监督管理委员会令（2018 年第 5 号）’, *China Banking and Insurance Regulatory Commission* available at http://www.gov.cn/zhengce/zhengceku/2018-12/31/content_5450141.htm (accessed 18 October, 2022).

CBRC (2020) ‘China Banking and Insurance Regulatory Commission investigated and punished two large banks for illegal activities’, *China Banking and Insurance Regulatory Commission* available at https://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=925591&itemId=915&generaltype=0 (accessed 26 July, 2021).

CBRC (2022) ‘2021 年银行业总资产、总负债（月度）’, *China Banking and Insurance Regulatory Commission* available at https://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1026346&itemId=954&generaltype=0 (accessed 8 September, 2022).

CCB (2005) ‘CCB IPO Prospectus’, available at https://www1.hkexnews.hk/listedco/listconews/sehk/2005/1014/ltn20051014000.htm (accessed 6 May, 2021).

CCB (2021) ‘建行集团并表机构及使用总行商标的未并表机构名单’, *China Construction Bank* available at http://www1.ccb.com/chn/2021-06/16/article_2021061611502433654.shtml (accessed 7 July, 2021).

CCP (1978) ‘中国共产党第十一届中央委员会第三次全体会议公报’, 中国共产党历次全国代表大会数据库 available at http://cpc.people.com.cn/GB/64162/64168/64563/65371/4441902.html.

CEBD (2024) ‘Hong Kong in Global Trade’, *Commerce and Economic Development Bureau* available at https://www.cedb.gov.hk/en/trade-and-investment/hong-kong-in-global-trade.html.

Censu and Statistics Department, Hong Kong (1978) *Hong Kong's overseas merchandise trade for the years 1951- 1978*, Hong Kong Censu and Statistics Department.

Census and Statistics Department, Hong Kong (1969) *Hong Kong Statistics 1947-1967*, Hong Kong: Hong Kong Census and Statistics Department.

Cerutti, Eugenio, Catherine Casanova, and Swapan-Kumar Pradhan (2018) ‘The Growing Footprint of EME Banks in the International Banking System’, *BIS Quarterly Review*.

Chan, Hon S. (2009) ‘Politics over markets: Integrating state-owned enterprises into Chinese socialist market’, *Public administration and development: a journal of the Royal Institute of Public Administration* 29(1): 43–54.

Chen, Xiaohong and Paul Wohlfarth (2019) ‘Drivers of bank loan growth in China: government or market?’, : 37.

Cheung, Kui Yin and Chengze Simon Fan (2001) ‘Hong Kong investment in China and income distribution of Hong Kong’, *Journal of Economic Integration* 16(4): 526–544.

Chey, Hyoung-Kyu (2013) ‘Can the Renminbi Rise as a Global Currency?: The Political Economy of Currency Internationalization’, *Asian survey* 53(2): 348–368.

Chin, Gregory (2014) ‘China's Rising Monetary Power’, in Eric Helleiner and Jonathan Kirshner, eds., *The Great Wall of Money: Power and Politics in China's International Monetary Relations*, 184–212, Cornell University Press.

Chinese National People's Congress (2021) ‘中华人民共和国国民经济和社会发展第十四个五年规划和 2035 年远景目标纲要’, *The Government of People's Republic of China* available at https://www.gov.cn/xinwen/2021-03/13/content_5592681.htm (accessed 13 December, 2023).

Christophers, Brett (2014) ‘The territorial fix: Price, power and profit in the geographies of markets’, *Progress in human geography* 38(6): 754–770.

Christophers, Brett (2015) ‘Geographies of finance II: Crisis, space and political-economic transformation’, *Progress in human geography* 39(2): 205–213.

Christophers, Brett (2016) ‘Geographies of finance III: Regulation and “after-crisis” financial futures’, *Progress in human geography* 40(1): 138–148.

Christophers, Brett (2017) ‘The geographical political economy of money and finance after the great crisis: beyond “market discipline”’, in Ron Martin and Jane Pollard, eds., *Handbook on the Geographies of Money and Finance*, 51–68, Edward Elgar Publishing.

Clark, G.L. (1997a) ‘Pension Funds and Urban Investment: Four Models of Financial Intermediation’, *Environment & planning A* 29(7): 1297–1316.

Clark, Gordon L. (1997b) ‘Rogues and Regulation in Global Finance: Maxwell, Leeson and the City of London’, *Regional studies* 31(3): 221–236.

Clark, Gordon L. (1998) ‘Stylized Facts and Close Dialogue: Methodology in Economic Geography’, *Annals of the Association of American Geographers. Association of American Geographers* 88(1): 73–87.

Clark, Gordon L. (2002) ‘London in the European financial services industry: locational advantage and product complementarities’, *Journal of Economic Geography* 2(4): 433–453.

Clark, Gordon L. (2005) ‘Money flows like mercury: the geography of global finance’, *Geografiska annaler. Series B, Human geography* 87(2): 99–112.

Clark, Gordon L., Karen P.Y. Lai, and Dariusz Wójcik (2015) ‘Editorial introduction to the special section: Deconstructing offshore finance’, *Economic geography* 91(3): 237–249.

Clark, Gordon L. and K. O’Connor (1997) ‘The informational content of financial products and the spatial structure of the global finance industry’, in Kevin R. Cox, ed., *Spaces of Globalization: Reasserting the Power of the Local*, Guilford Press.

Clark, Gordon L. and Dariusz Wójcik (2007) *The Geography of Finance: Corporate Governance in the Global Marketplace*, Oxford: Oxford University Press.

Clift, Ben and Cornelia Woll (2012) ‘Economic patriotism: reinventing control over open markets’, *Journal of European Public Policy* 19(3): 307–323.

Coble, Parks M. (2003) 'The Rong Family Industrial Enterprises and the War', in Parks Coble, ed., *Chinese Capitalists in Japan's New Order: The Occupied Lower Yangzi, 1937-1945*, 114–139, *University of California Press*, University of California Press.

Coe, Neil M., Martin Hess, Henry Wai-Chung Yeung, Peter Dicken, and Jeffrey Henderson (2004) '"Globalizing" Regional Development: A Global Production Networks Perspective', *Transactions of the Institute of British Geographers* 29(4): 468–484.

Coe, Neil M., Karen P.Y. Lai, and Dariusz Wójcik (2014) 'Integrating Finance into Global Production Networks', *Regional studies* 48(5): 761–777.

Coe, Neil M. and Henry Wai-Chung Yeung (2015) *Global Production Networks: Theorizing Economic Development in an Interconnected World*, Oxford: Oxford University Press.

Cohen, Benjamin J. (2015) *Understanding Monetary Rivalry*, Princeton University Press.

Combes, Pierre-Philippe (2000) 'Economic Structure and Local Growth: France, 1984–1993', *Journal of urban economics* 47(3): 329–355.

Conlé, Marcus (2011) 'Towards a New C-System of Innovation', in Cornelia Storz and Sebastian Schäfer, eds., *Institutional Diversity and Innovation: Continuing and Emerging Patterns in Japan and China*, 154–217, London: Routledge Studies in Global Competition.

Cradock, P. (1994) *Experiences of China*, John Murray.

Crook, Richard C. (2003) 'Decentralisation and poverty reduction in Africa: the politics of local-central relations', *Public administration and development: a journal of the Royal Institute of Public Administration* 23(1): 77–88.

Crouch, Colin, Patrick Le Galés, Carlo Trigilia, and Helmut Voelzkow, eds. (2001) *Local Production Systems in Europe: Rise or Demise?*, Oxford: Oxford University Press.

Crouch, Colin, Martin Schröder, and Helmut Voelzkow (2009) 'Regional and sectoral varieties of capitalism', *Economy and society* 38(4): 654–678.

CSRC (2022) '合格境外机构投资者（QFII）投资额度审批情况表（停止更新）', *State Administration of Forign Exchange* (accessed 5 March, 2023).

Desai, Mihir A., C. Fritz Foley, and James R. Hines (2006) 'The demand for tax haven operations', *Journal of public economics* 90(3): 513–531.

Dicken, Peter (2015) *Global Shift: Mapping the Changing Contours of the World Economy*, London: Guilford Press.

Dicken, Peter, Philip F. Kelly, Kris Olds, and Henry Wai-Chung Yeung (2001) 'Chains and networks, territories and scales: towards a relational framework for analysing the global economy', *Global Networks-A Journal Of Transnational Affairs* 1(2): 89–112.

Ding, Yuan, Eric Nowak, and Hua Zhang (2010) 'Foreign vs. domestic listing: An entrepreneurial decision', *Journal of Business Venturing* 25(2): 175–191.

Dixon, Adam D. (2014) *The New Geography of Capitalism: Firms, Finance, and Society*, Oxford: Oxford Academic.

Dufey, Gunter and Ian H. Giddy (1994) *The international money market*, 2nd ed. Upper Saddle River, NJ: Pearson.

Elliott, Douglas J. 'Building a Global Financial Center in Shanghai Observations from Other Centers'.

Engelen, Ewald, Rodrigo Fernandez, and Reijer Hendrikse (2014) 'How finance penetrates its other: A cautionary tale on the financialization of a dutch university', *Antipode* 46(4): 1072–1091.

Engelen, Ewald and Michael H. Grote (2009) 'Stock exchange virtualisation and the decline of second-tier financial centres—the cases of Amsterdam and Frankfurt', *Journal of Economic Geography* 9(5): 679–696.

England, Vaudine (1998) *The Quest of Noel Croucher*, Hong Kong: Hong Kong University Press.

Enright, M.J., E. Scott, and K. Chang (2005) *Regional powerhouse: the greater Pearl River Delta and the rise of China*, Singapore: Wiley.

Esping-Andersen, Gøsta (1985) *Politics Against Markets: The Social Democratic Road to Power*, Princeton University Press.

ESRC (2015) *Research Ethics Framework*, London: Economic & Social Research Council (ESRC)}.

Evans, Peter (1995) *States and Industrial Transformation*, Princeton University Press.

Evans, Peter B., Dietrich Rueschemeyer, and Theda} Skocpol, eds. (1985) *Bringing the State Back In*, Cambridge University Press.

Fang, Cheng and Fenghua Pan (2021). 'The bridging role of Hong Kong for Chinese firms' integrating into global financial networks', FinGeo Working Paper Series.

Feng, Shizheng (2012) ‘中国国家运动的形成与变异: 基于政体的整体 性解释’, in Zhou, Xueguang, Shiding Liu, and Xiaoye She, eds., 国家建设与政府行为, 33–70, Beijing: 中国社会科学出版社.

French, Shaun, Andrew Leyshon, and Nigel Thrift (2009) ‘A very geographical crisis: the making and breaking of the 2007–2008 financial crisis’, *Cambridge Journal of Regions, Economy and Society* 2(2): 287–302.

Frenken, Koen, Frank G. van Oort, Thijs Verburg, and Ron A. Boschma (2005) ‘Variety and Regional Economic Growth in the Netherlands’,.

Friedmann, John (1986) ‘The world city hypothesis’, *Development and change* 17(1): 69–83.

Fu, Xiaoqing (maggie) and Shelagh Heffernan (2009) ‘The effects of reform on China’s bank structure and performance’, *Journal of banking & finance* 33(1): 39–52.

Garcia-Bernardo, Javier, Jan Fichtner, Frank W. Takes, and Eelke M. Heemskerk (2017) ‘Uncovering Offshore Financial Centers: Conduits and Sinks in the Global Corporate Ownership Network’, *Scientific reports* 7(1): 6246.

García-Herrero, Alicia (2011) ‘Hong Kong as an International Banking Center: Present and Future’, *Journal of the Asia Pacific Economy* 16(3): 361–371.

Gereffi, Gary, John Humphrey, and Timothy Sturgeon (2005) ‘The governance of global value chains’, *Review of International Political Economy* 12(1): 78–104.

GFCI (2015) ‘Global Financial Centres Index Historical Data’, *Long Finance* available at https://www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index/gfci-34-explore-the-data/gfci-34-rank/ (accessed 21 October, 2023).

GFCI (2023a) ‘The Global Financial Centres Index 33’, *Z/Yen Group Limited* available at https://www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index/gfci-33-explore-the-data/gfci-33-rank/ (accessed 16 October, 2023).

GFCI (2023b) ‘The Global Financial Centres Index 34’, *Z/Yen Group Limited* available at https://www.longfinance.net/publications/long-finance-reports/the-global-financial-centres-index-34/ (accessed 16 October, 2023).

Glaeser, Edward L., Hedi D. Kallal, José A. Scheinkman, and Andrei Shleifer (1992) ‘Growth in Cities’, *The journal of political economy* 100(6): 1126–1152.

Goodstadt, Leo F. (2005) *Uneasy Partners: The Conflict Between Public Interest and Private Profit in Hong Kong*, Hong Kong University Press.

Green, Stephen and Jenna Ho (2004) 'Old stocks, new owners: Two cases of ownership change in China's stock market', *Journal of Chinese Economic and Business Studies* 2(3): 267–280.

Grote, Michael H. (2009) 'Financial Centers Between Centralization and Virtualization', in Alberto Zazzaro, Michele Fratianni, and Pietro Alessandrini, eds., *The Changing Geography of Banking and Finance: The Main Issues*, 277–294, Boston, MA: Springer US.

Guthrie, Doug, Zhixing Xiao, and Junmin Wang (2015) 'Stability, Asset Management, and Gradual Change in China's Reform Economy', in Barry Naughton and Kellee S. Tsai, eds., *State Capitalism, Institutional Adaptation, and the Chinese Miracle*, 75–101, Cambridge: Cambridge University Press.

Haberly, Daniel and Dariusz Wójcik (2015) 'Regional blocks and imperial legacies: Mapping the global offshore FDI network', *Economic geography* 91(3): 251–280.

Haberly, Daniel and Dariusz Wójcik (2022) *Sticky Power: Global Financial Networks in the World Economy*, Oxford: Oxford University Press.

Haggard, Stephan (1990) *Pathways from the periphery: The politics of growth in the newly industrializing countries*, Ithaca, N.Y.: Cornell University Press.

Hale, Galina and Cheryl Long (2010). 'What are the Sources of Financing of the Chinese Firms?', Hong Kong Institute for Monetary Research available at https://ideas.repec.org/p/hkm/wpaper/192010.html (accessed 9 November, 2021).

Hall, Sarah (2007) '"Relational Marketplaces" and the Rise of Boutiques in London's Corporate Finance Industry', *Environment & planning A* 39(8): 1838–1854.

Hall, Sarah (2011) 'Geographies of money and finance I: Cultural economy, politics and place', *Progress in human geography* 35(2): 234–245.

Hall, Sarah (2012) 'Geographies of money and finance II: Financialization and financial subjects', *Progress in human geography* 36(3): 403–411.

Hall, Sarah (2017) 'Rethinking international financial centres through the politics of territory: renminbi internationalisation in London's financial district', *Transactions* 42(4): 489–502.

Hamilton, Gary G. and Cheng-Shu Kao (2017) *Making money: How Taiwanese industrialists embraced the global economy*, Stanford: Stanford University Press.

Harrison, Bennett, Maryellen R. Kelley, and Jon Gant (1996) 'Specialization Versus Diversity in Local Economies: The Implications for Innovative Private-Sector Behavior', *Cityscape* 2(2): 61–93.

Harvey, David (1982) *The Limits to Capital*, London: Blackwell.

Harvey, David (1989) *The Condition of Postmodernity: an enquiry into the origins of cultural change*, London: Blackwell.

He, Canfei, and Hao Liu (2013) '银行业改革与国有商业银行网点空间布局——以中国工商银行和中国银行为例', 地理研究 32(1): 111–122.

Heep, Sandra (2014) *China in Global Finance*, Switzerland: Springer Cham.

Helleiner, Eric and Anton Malkin (2012) 'Sectoral Interests and Global Money: Renminbi, Dollars and the Domestic Foundations of International Currency Policy', *Open Economies Review* 23(1): 33–55.

Hendrikse, Reijer, Michiel van Meeteren, and David Bassens (2020) 'Strategic coupling between finance, technology and the state: Cultivating a Fintech ecosystem for incumbent finance', *Environment & planning A* 52(8): 1516–1538.

Hendrikse, Reijer P. and James D. Sidaway (2014) 'Financial wizardry and the Golden City: tracking the financial crisis through Pforzheim, Germany', *Transactions of the Institute of British Geographers* 39(2): 195–208.

Hennart, Jean-Francois (1988) 'A Transaction Costs Theory of Equity Joint Ventures', *Strategic Management Journal* 9(4): 361–374.

HKEX (1984) 'Listing of Overseas Issuers', *Hong Kong Stock Exchange* available at https://www.hkex.com.hk/Listing/Rules-and-Guidance/Listing-of-Overseas-Companies?sc_lang=en.

HKEX (1998) 'The Hong Kong Dollar Link', *Hong Kong Monetary Authority* available at https://www.hkma.gov.hk/eng/news-and-media/speeches/1998/03/speech_030398b/.

HKEX (2001) 'HKEX Industry Overview 1990-2000', *HKEX news* available at http://www.hkexnews.hk/listedco/listconews/sehk/20020524/0064/f111.pdf.

HKEX (2016) 'History of HKEX and its Market', *HKEX* available at https://www.hkexgroup.com/About-HKEX/About-HKEX/History-of-HKEX-and-its-Market?sc_lang=en (accessed 4 July, 2023).

HKEX (2018) 'The Inclusion of China into Global Bond Indices: Current Status and Future Development',.

HKEX (2019) 'Bond Connect and Outlook for Further Opening up of the Mainland Bond Market',.

HKEx (2020a) ‘HKEX QFII and RQFII Refresher’, *HKEx* available at https://www.hkex.com.hk/eng/InvestChinaA/document/QFIIandRQFIIrefresherJan2020.pdf.

HKEx (2020b) ‘HKEX in 2020: Year in Review’, *Hong Kong Exchanges and Clearing Limited (HKEx)* available at https://www.hkex.com.hk/News/News-Release/2020/201217news?sc_lang=en (accessed 16 October, 2023).

HKEX (2022) ‘Enhanced Currency Swap Agreement between People’s Bank of China and’, *Hong Kong Monetary Authority* available at https://www.hkma.gov.hk/eng/news-and-media/press-releases/2022/07/20220704-5/ (accessed 29 March, 2023).

HKEx (2023a) ‘China Dimension’, *HKEx* available at https://www.hkex.com.hk/Market-Data/Statistics/Consolidated-Reports/China-Dimension?sc_lang=en (accessed 16 January, 2023).

HKEx (2023b) ‘HKEX Celebrates Launch of Swap Connect’, *HKEx* available at https://www.hkex.com.hk/News/News-Release/2023/230515news?sc_lang=en (accessed 7 June, 2023).

HKMA (1997) ‘Hong Kong Monetary Authority - Monetary Stability 10’, *Hong Kong Monetary Authority* available at https://www.hkma.gov.hk/eng/publications-and-research/annual-report/1996/031.shtml.

HKMA (1998) ‘Hong Kong Monetary Authority - Hong Kong Monetary Authority Annual Report 1997’, *Hong Kong Monetary Authority* available at https://www.hkma.gov.hk/eng/publications-and-research/annual-report/1997/ch04.shtml.

HKMA (2011) ‘Hong Kong Monetary Authority, Regulatory & Supervisory Framework’, *Hong Kong Monetary Authority* available at https://www.hkma.gov.hk/eng/key-functions/banking/banking-regulatory-and-supervisory-regime/regulatory-supervisory-framework/.

HKMA (2012) ‘Renminbi : A New Era and the Role of Hong Kong’, *Hong Kong Monetary Authority* available at https://www.hkma.gov.hk/eng/news-and-media/speeches/2012/05/20120523-1.

HKMA (2017) ‘The Hong Kong Monetary Authority’s Legal Mandate’, *The Hong Kong Monetary Authority* available at https://www.hkma.gov.hk/media/eng/publication-and-research/annual-report/2017/05c_About_the_HKMA.PDF.

HKMA (2023) ‘Milestones of Monetary Reform’, *Hong Kong Monetary Authority* available at https://www.hkma.gov.hk/eng/key-functions/money/linked-exchange-rate-system/milestones-of-monetary-reform/.

HKMA (2024a) ‘Renminbi Real Time Gross Settlement (RTGS) system’, *Hong Kong Monetary Authority* available at https://www.hkma.gov.hk/eng/key-functions/international-financial-centre/financial-market-infrastructure/payment-systems/.

HKMA (2024b) ‘Linked Exchange Rate System’, *Hong Kong Monetary Authority* available at https://www.hkma.gov.hk/eng/key-functions/money/linked-exchange-rate-system/.

HKSA (2024) ‘Multilateral Agreements - Hong Kong SAR’, *Department of Justice - External Affairs - The Government of The Hong Kong Special Administrative Region* available at https://www.doj.gov.hk/en/external/treaties.html.

Hong Kong Government Information Centre (2002) ‘Hong Kong, The Economy 1997-2002’, in Government Information Centre, Hong Kong, ed., *The report on the first five years of the Hong Kong Special Administrative Region of the People’s Republic of China*,.

Hong Kong Legislative Council (1979) ‘Official Report of Proceedings’,.

Hoyler, Michael and Peter J. Taylor (2012) *International Handbook of Globalization and World Cities*, Ben Derudder, Michael Hoyler, Peter J. Taylor, and Frank Witlox, eds., Edward Elgar.

Huang, Yasheng (2008) *Capitalism with Chinese Characteristics: Entrepreneurship and the State*, Cambridge: Cambridge University Press.

Hudson, Alan C. (1998) ‘Placing trust, trusting place: on the social construction of offshore financial centres’, *Political geography* 17(8): 915–937.

ICAC (2023) ‘Brief History of The Independent Commission Against Corruption (ICAC)’, *The Independent Commission Against Corruption (ICAC)* available at https://www.icac.org.hk/en/about/history/index.html (accessed 27 June, 2024).

ICBC (2006) ‘ICBC IPO Prospectus’, available at https://www1.hkexnews.hk/listedco/listconews/sehk/2006/1016/ltn20061016000.htm (accessed 6 April, 2021).

ICBC (2017) ‘Publication of the Offering Circular and Pricing Supplement - Horse Gallop Finance Limited - U.S.600,000,000 1.10 per cent. Guaranteed Notes due 2024 issued under the U.S.4,000,000,000 Medium Term Note Programme unconditionally and irrevocably guaranteed by ICBC International Holdings Limited’, *HKEX* available at https://www1.hkexnews.hk/search/titlesearch.xhtml?lang=en (accessed 26 October, 2022).

ICBCIL (2022) ‘Publication of Offering Circular and Pricing Supplements - Issue of USD700,000,000 2.125% Notes due 2025 and USD500,000,000 2.70% Notes due 2027 under ICBCIL Finance Co. Limited’s USD20,000,000,000 Medium Term Note

Programme', *HKEX News* available at https://www1.hkexnews.hk/search/titlesearch.xhtml?lang=en (accessed 15 October, 2022).

IMF (2000) 'Offshore financial centers: IMF background paper',.

IMF (2012) 'The Exchange Fund (Amendment) Ordinance, Hong Kong', *IMF* available at https://dsbb.imf.org/sdds/dqaf-base/country/HKG/category/AAB00.

IMF (2021) 'People's Republic of China, Hong Kong Special Administrative Region, Financial System Stability Assessment', *International Monetary Fund* available at https://www.imf.org/-/media/Files/Publications/CR/2021/English/1HKGEA2021001.ashx#:~:text=FSAPs%20assess%20the%20stability%20of,resilience%20to%20shocks%20and%20contagion.

Inland Revenue Department Hong Kong (2006) 'Comprehensive Double Taxation Agreements', *The Government of the Hong Kong Special Administrative Region of the People's Republic of China* available at https://www.ird.gov.hk/eng/tax/dta_inc.htm (accessed 24 October, 2022).

IOSCO (2006) 'IOSCO Board', *IOSCO* available at https://www.iosco.org/v2/about/?subsection=display_committee&cmtid=11.

Jones, Andrew (2020) 'The nexus of professional service practices in Chinese financial centres', *Regional studies* 54(2): 173–186.

Karreman, Bas and G.A. van der Knaap (2010) 'The Geography of Equity Listing and Financial Centre Competition in Mainland China and Hong Kong', *Journal of Economic Geography* 12(ERS-2010-033-ORG).

Kato, Takao and Cheryl Long (2006) 'Executive Compensation, Firm Performance, and Corporate Governance in China: Evidence from Firms Listed in the Shanghai and Shenzhen Stock Exchanges', *Economic development and cultural change* 54(4): 945–983.

Kindleberger, Charles Poor (1973) 'The formation of financial centers: a study in comparative economic history',.

Kirshner, Jonathan (1997) *Currency and Coercion: The Political Economy of International Monetary Power*, Princeton University Press.

Kogut, Bruce (1988) 'Joint ventures: Theoretical and empirical perspectives', *Strategic Management Journal* 9(4): 319–332.

Krause, Theresa and Doris Fischer (2020) 'An Economic Approach to China's Social Credit System', in Oliver Everling, ed., *Social Credit Rating: Reputation und Vertrauen beurteilen*, 437–453, Wiesbaden: Springer Fachmedien Wiesbaden.

Kueh, Y.Y. and Christopher Howe (1984) 'China's International Trade: Policy and Organizational Change and their Place in the 'Economic Readjustment'', *The China quarterly* 100: 813–848.

Lai, Karen (2012) 'Differentiated Markets: Shanghai, Beijing and Hong Kong in China's Financial Centre Network', *Urban studies* 49(6): 1275–1296.

Lai, Karen P.Y. (2010) 'Marketization through contestation: reconfiguring China's financial markets through knowledge networks', *Journal of Economic Geography* 11(1): 87–117.

Larner, Wendy (2000) 'Neo-liberalism: Policy, Ideology, Governmentality', *Studies in Political Economy* 63(1): 5–25.

Lee, Yong-Sook, Inhye Heo, and Hyungjoo Kim (2014) 'The role of the state as an inter-scalar mediator in globalizing liquid crystal display industry development in South Korea', *Review of International Political Economy* 21(1): 102–129.

Leitner, Norbert (1990) *Lohnsteuer*, Vienna, Austria: LexisNexis ARD ORAC.

Leyshon, Andrew (1995) 'Geographies of money and finance I', *Progress in human geography* 19(4): 531–543.

Leyshon, Andrew (1997) 'Geographies of money and finance II', *Progress in human geography* 21(3): 381–392.

Leyshon, Andrew and Nigel Thrift (1998) 'Money/Space: geographies of monetary transformation', *Capital & Class* 22(2): 182–185.

Leyshon, Andrew, Nigel Thrift, and Caroline Tommey (1989) 'The rise of the British provincial financial centre', *Progress in planning* 31: 151–229.

Li, Hongbin and Li-An Zhou (2005) 'Political turnover and economic performance: the incentive role of personnel control in China', *Journal of public economics* 89(9): 1743–1762.

Li, Yu-Wai Vic (2020) 'The Irreplaceable Outpost? Whither Hong Kong in China's Financial Future', *China Review* 20(3): 261–278.

Liao, L., B. Liu, and H. Wang (2014) 'China's secondary privatization: Perspectives from the Split-Share Structure Reform', *Journal of financial economics* 113(3): 500–518.

Lieberthal, Kenneth and Michel Oksenberg (1988) *Policy Making in China: Leaders, Structures, and Processes*, Princeton University Press.

Lin, Justin Yifu and Guofu Tan (1999) 'Policy Burdens, Accountability, and the Soft Budget Constraint', *The American economic review* 89(2): 426–431.

Lin, Xiaochi and Yi Zhang (2009) 'Bank ownership reform and bank performance in China', *Journal of Banking & Finance* 33(1): 20–29.

Liu, Kerry (2020) 'Hong Kong: Inevitably irrelevant to China?', *Economic affairs* 40(1): 2–23.

Lu, Haitian, Yi Tan, and Hong Huang (2013) 'Why do venture capital firms exist: An institution-based rent-seeking perspective and Chinese evidence', *Asia Pacific Journal of Management* 30(3): 921–936.

Lu, Longjie (2019) 'Bankers' remuneration and political incentives in Chinese state-owned commercial banks: regulation and practice', *Journal of Corporate Law Studies* 19(2): 451–503.

Martin, Ron (1999) *Money and the Space Economy*, Wiley.

McCarthy, Ian S. (1985) 'Hong Kong - Emerging Financial Centers Legal and institutional Framework', in International Monetary Fund, ed., *Emerging Financial Centers Legal and institutional Framework*, International Monetary Fund.

Mcnally, Christopher A. (2013) 'The evolution and contemporary manifestations of Sino-capitalism', in *The BRICs and Emerging Economies in Comparative Perspective*, 67–92, Routledge.

McNally, Christopher A. (2019) 'Theorizing Sino-capitalism: implications for the study of comparative capitalisms', *Contemporary Politics* 25(3): 313–333.

Meyer, David R. (2000) *Hong Kong as a global metropolis. Cambridge studies in historical geography*, Cambridge University Press.

Meyer, David R. (2008) 'Structural Changes in the Economy of Hong Kong since 1997', *China Review* 8(1): 7–29.

Meyer, David R. (2009) 'Hong Kong's Transformation as Financial Centre', in Catherine R. Schenk, ed., *Hong Kong SAR's Monetary and Exchange Rate Challenges: Historical Perspectives*, 161–188, London: Palgrave Macmillan UK.

Meyer, David R. (2014) 'Despite Occupy protests, Hong Kong's financial centre status is assured', *South China Morning Post* available at https://www.scmp.com/comment/insight-opinion/article/1667728/despite-occupy-protests-hong-kongs-financial-centre-status (accessed 4 November, 2021).

Meyer, David R. (2015) 'The world cities of Hong Kong and Singapore: Network hubs of global finance', *International journal of comparative sociology* 56(3–4): 198–231.

Meyer, David R. (2017) 'Bank of China International in Hong Kong: Social Status and Network Access', in Jane Nolan, Chris Rowley, and Malcolm Warner, eds., *Business Networks in East Asian Capitalisms*, 43–67, Elsevier.

Meyer, David R. (2018) 'Hong Kong, Shanghai, and Beijing: China's Contenders for Global Financial Centre Leadership', in Youssef Cassis And Wojcik, ed., *International Financial Centres after the Global Financial Crisis and Brexit*, Oxford: Oxford University Press.

Meyer, David R. (2020) 'The Hong Kong protests will not undermine it as a leading global financial centre', *Area Development and Policy* 5(3): 256–268.

Miller, Byron (1994) 'Political empowerment, local—central state relations, and geographically shifting political opportunity structures: Strategies of the Cambridge, Massachusetts, Peace Movement', *Political geography* 13(5): 393–406.

Ministry of Commerce People's Republic of China (2004) 'Mainland and Hong Kong Closer Economic and Partnership Arrangement', *Ministry of Commerce People's Republic of China* available at http://fta.mofcom.gov.cn/topic/enhongkong.shtml.

Ministry of Foreign Affairs of China (2000) '中国政府恢复对香港行使主权', *Ministry of Foreign Affairs of China* available at https://www.mfa.gov.cn/web/ziliao_674904/wjs_674919/2159_674923/200011/t20001107_7950073.shtml.

Morgan, Glenn (2012) 'Supporting the City: economic patriotism in financial markets', *Journal of European Public Policy* 19(3): 373–387.

Mukkala, Kirsi (2004) 'Agglomeration economies in the finnish manufacturing sector', *Applied economics* 36(21): 2419–2427.

National Inter-bank Lending Center (2017) '全国银行间同业拆借中心"债券通"交易规则(试行)', available at https://www.chinamoney.com.cn/chinese/rdgz/20180831/1004646.html (accessed 6 June, 2022).

National People's Congress (1990) '中华人民共和国香港特别行政区基本法', *The Central People's Government of the People's Republic of China* available at https://www.gov.cn/test/2005-07/29/content_18298.htm.

Naughton, Barry (2007) 'TheChineseEconomy: TransitionsandGrowth', *Cambridge, MA: MITPress*.

NDRC (2015) '国家发展改革委关于推进企业发行 外债备案登记制管理改革的通知 发改外资[2015]2044 号', *The State Council* available at http://www.gov.cn/xinwen/2015-09/16/content_2932877.htm (accessed 26 October, 2020).

Nee, Victor (1992) 'Organizational Dynamics of Market Transition: Hybrid Forms, Property Rights, and Mixed Economy in China', *Administrative science quarterly* 37(1): 1–27.

Ng, Christina Y.M. (2013) 'International tax planning considerations and strategies-investing into and out of China', *International Tax Journal* 39(2): 23.

Nishimura, Shizuya (2012) 'The Hongkong and Shanghai Banking Corporation, 1870–1913', in Shizuya Nishimura, Toshio Suzuki, and Ranald C. Michie, eds., *The Origins of International Banking in Asia: The Nineteenth and Twentieth Centuries*, Pages 112-123, Oxford University Press.

O'Brien, Kevin J. and Lianjiang Li (1999) 'Selective Policy Implementation in Rural China', *Comparative politics* 31(2): 167–186.

Otero-Iglesias, Miguel and Mattias Vermeiren (2015) 'China's state-permeated market economy and its constraints to the internationalization of the renminbi', *International Politics* 52(6): 684–703.

Overholt, William H. (2011) 'Hong Kong's financial vitality continues', *Hong Kong Journal*(21).

Palan, Ronen (2010) 'International Financial Centers: The British-Empire, City-States and Commercially Oriented Politics', *Theoretical Inquiries in Law* 11(1): 149–176.

Palan, Ronen, Richard Murphy, and Christian Chavagneux (2009) *Tax Havens: How Globalization Really Works*, Cornell University Press.

Palan, Ronen, Richard Murphy, and Christian Chavagneux (2010) 'Tax Havens and the Developed World', in *Tax Havens*, 153–171, *How Globalization Really Works*, Cornell University Press.

Palan, Ronen and Anastasia Nesvetailova (2013) 'The governance of black holes of the world economy', *Handbook of Global Economic Governance*.

Pan, Fenghua, Ziyun He, Cheng Fang, Bofei Yang, and Jinshe Liang (2018) 'World City Networks Shaped by the Global Financing of Chinese Firms: A Study Based on Initial Public Offerings of Chinese Firms on the Hong Kong Stock Exchange, 1999-2017', *Networks and Spatial Economics* 18(3): 751–772.

Pan, Fenghua, Simon X.B. Zhao, and Dariusz Wójcik (2016) 'The rise of venture capital centres in China: A spatial and network analysis', *Geoforum; journal of physical, human, and regional geosciences* 75: 148–158.

Pardo, Ramon Pacheco, Jan Knoerich, and Yuanfang Li (2019) 'The Role of London and Frankfurt in Supporting the Internationalisation of the Chinese Renminbi', *New Political Economy* 24(4): 530–545.

Park, Y.S. (1982) 'The Economics of Offshore Financial Centers', *The Columbia journal of world business* 17(4): 31.

Pauly, Louis W. (2011) 'Hong Kong's International Financial Centre: Retrospect and Prospect', *Hong Kong: Savantas Policy Institute*.

PBOC (2003) 'People's Bank of China Announcement No.16 of 2003', *People's Bank of Chin* available at http://www.pbc.gov.cn/english/130733/2830281/index.html (accessed 21 March, 2023).

PBOC (2004) 'PBC Approves the use of Mainland Bank Card in Hong Kong', *The People's Bank of China* available at http://www.pbc.gov.cn/english/130721/2831047/index.html.

PBOC (2022a). 'Annual Report of the People's Bank of China 2020' available at http://www.pbc.gov.cn/chubanwu/114566/115296/4462676/4463188/index.html (accessed 16 April, 2022).

PBOC (2022b) 'Total assets of financial institutions reached 381.95 trillion yuan at end-2021', *The People's Bank of China* available at http://www.pbc.gov.cn/en/3688247/3688978/3709143/4509019/index.html (accessed 5 September, 2022).

Peck, Jamie and Nik Theodore (2007) 'Variegated capitalism', *Progress in human geography* 31(6): 731–772.

Peck, Jamie and Adam Tickell (2002) 'Neoliberalizing space', *Antipode* 34(3): 380–404.

Peck, Jamie and Heather Whiteside (2016) 'Financializing Detroit', *Economic geography* 92(3): 235–268.

Peck, Jamie and Jun Zhang (2013) 'A variety of capitalism … with Chinese characteristics?', *Journal of Economic Geography* 13(3): 357–396.

Peng, Mike W. (2003) 'Institutional Transitions and Strategic Choices', *Academy of management review. Academy of Management* 28(2): 275–296.

People's Bank of China (2020) '中国人民银行令（〔2020〕第 4 号）金融控股公司监督管理试行办法_2020 年第 33 号国务院公报', available at http://www.gov.cn/gongbao/content/2020/content_5565830.htm (accessed 29 April, 2022).

People'sDaily '1980 年，国务院批准深圳、珠海、汕头、厦门 4 个城市建立经济特区'. *People's Daily*.

People'sDaily (2007) '中行董事长肖钢首次披露港股直通车内幕_财经_凤凰网', *ifeng* available at https://finance.ifeng.com/news/domestic/200709/0910_193_219905.shtml (accessed 23 March, 2023).

Perez, M. Fabricio, Josef C. Brada, and Zdenek Drabek (2012) 'Illicit money flows as motives for FDI', *Journal of comparative economics* 40(1): 108–126.

Phillips, Richard, Hannah Petersen, and Ronen Palan (2021) 'Group subsidiaries, tax minimization and offshore financial centres: Mapping organizational structures to establish the "in-betweener" advantage', *Journal of International Business Policy* 4(2): 286–307.

Picciotto, Sol (1999) 'Offshore: The State as Legal Fiction', in Mark P. Hampton and Jason P. Abbott, eds., *Offshore Finance Centres and Tax Havens*, 43–79, West Lafayette: Palgrave Macmillan.

Porteous, David J. (1995) *The Geography of Finance: Spatial Dimensions of Intermediary Behaviour*, Aldershot: Avebury.

Porteous, David J. (1999) 'The development of financial centres: Location, information externalities and path dependence', in Ron Martin, ed., *Money and the Space Economy*, Chichester: Wiley.

Porter, Michael E. 'The Competitive Advantage of Nations'. *Harvard Business Review*, March 1.

Porter, Michael E. (1998) 'Clusters and the New Economics of Competition', *Harvard business review* 76(6): 77–90.

Pryke, Michael (2011) 'Geographies of Economic Growth II: Money and Finance', in Andrew Leyshon, Roger Lee, Linda McDowell, and Peter Sunley, ed., *The SAGE Handbook of Economic Geography*, SAGE Publications Ltd.

Pryke, Michael and Roger Lee (1995) 'Place Your Bets: Towards an Understanding of Globalisation, Socio-financial Engineering and Competition within a Financial Centre', *Urban studies* 32(2): 329–344.

Qi, Daqing, Woody Wu, and Hua Zhang (2000) ‘Shareholding structure and corporate performance of partially privatized firms: Evidence from listed Chinese companies’, *Pacific-Basin Finance Journal* 8(5): 587–610.

Qu, Wenzhou, Shaoqing Kang, and Lihong Wang (2020) ‘Saving or tunnelling: value effects of tax avoidance in Chinese listed local government-controlled firms’, *Accounting and Finance* 60(5): 4421–4465.

Redding, Gordon and Michael A. Witt (2010) *The Future of Chinese Capitalism: Choices and Chances: Choices and Chances*, Oxford University Press.

Reszat, Beate (2000). ‘Culture and finance in a globalised world – An uneasy relation’, Hamburg Institute of International Economics (HWWA) available at https://ideas.repec.org/p/zbw/hwwadp/26268.html.

Richardson, Grant, Bei Wang, and Xinmin Zhang (2016) ‘Ownership structure and corporate tax avoidance: Evidence from publicly listed private firms in China’, *Journal of Contemporary Accounting & Economics* 12(2): 141–158.

Rigby, David L. and Michael J. Webber (1996) *The Golden Age Illusion: Rethinking Postwar Capitalism*, New York: Guilford Press.

Roberts, Susan M. (1995) ‘Small Place, Big Money: The Cayman Islands and the International Financial System’, *Economic geography* 71(3): 237–256.

Robertson, Justin (2015) *Localizing Global Finance: The Rise of Western-Style Private Equity in China*, New York: Palgrave Pivot.

Rose, Nikolas (1999) *Powers of Freedom: Reframing Political Thought*, Cambridge: Cambridge University Press.

Russell, George W. (2010) ‘Paradise lost? Beijing is taking a harder line on offshore structures and the tax advantages they offer’, *China Business Law Journal*.

SAFE (2000) ‘关于进一步加强债券境外发行管理的意见’, *State Administration of Foriegn Exchange* available at http://m.safe.gov.cn/safe/2000/0223/5603.html (accessed 2022).

SAFE (2007) ‘引入内地个人直接投资海外证券市场的试点方案’, *State Administration of Foreign Exchange* available at http://www.gov.cn/govweb/fwxx/sh/2007-08/21/content_722516.htm (accessed 23 March, 2023).

SAFE (2013) ‘外债登记管理办法’, *State Administration of Foreign Exchange* available at http://www.safe.gov.cn/safe/2013/0502/5640.html (accessed 31 October, 2022).

SAFE (2017) '国家外汇管理局关于进一步推进外汇管理改革完善真实合规性审核的通知', *State Administration of Foreign Exchange* available at https://www.safe.gov.cn/safe/2017/0126/6821.html (accessed 26 October, 2022).

SASAC (2007) '国有股东转让所持上市公司股份管理暂行办法（国资委令第 19 号）', *The Central People's Government of the People's Republic of China* available at https://www.gov.cn/ziliao/flfg/2007-07/09/content_677959.htm (accessed 16 September, 2023).

SASAC (2020) '关于印发《有限合伙企业国有权益登记暂行规定》的通知', *The State Council, The Preople's Republic of China* available at http://www.gov.cn/zhengce/zhengceku/2020-02/11/content_5477516.htm (accessed 21 April, 2022).

Sassen, Saskia (1991a) *The Global City: New York, London, Tokyo*, Princeton University Press.

Sassen, Saskia (1991b) 'Elements in a Global Hierarchy', in *The Global City*, 168–192, *New York, London, Tokyo*, Princeton University Press.

Sassen, Saskia (2011) *Cities in a World Economy*, Los Angeles [i.e. Thousand Oaks, Calif.]: SAGE Publications.

Sassen, Saskia (2013a) 'When Territory Deborders Territoriality', *Territory, Politics, Governance* 1(1): 21–45.

Sassen, Saskia (2013b) 'Global Finance And Its Institutional Spaces', in Karin Knorr Cetina and Alex Preda, eds., *The Oxford Handbook of the Sociology of Finance*, 13–32, Oxford: Oxford Academic.

SAT (2006) '内地和香港特别行政区关于所得避免双重征税和防止偷漏税的安排', *State Taxation Administration* available at http://www.chinatax.gov.cn/n810341/n810765/n812183/n812821/c1195512/content.html (accessed 24 October, 2022).

Saxenian, Annalee (1996) *Culture and Competition in Silicon Valley and Route 128, With a New Preface by the Author*, Harvard University Press.

Sayer, Andrew and Richard Walker (1992) *The new social economy*, London, England: Blackwell.

SFC (2006a) 'SFC Annual Report 2005-2006', *The Securities and Futures Commission (SFC)* available at https://www.sfc.hk/en/Published-resources/Corporate-publications/Annual-reports#.

SFC (2006b) ‘Report of the Survey on Hedge Funds Managed by SFC Licensed Managers 2005-2006’, *The Securities and Futures Commission Hong Kong* available at https://www.sfc.hk/web/EN/files/ER/PDF/hedge_fund_report_20061018.pdf.

SFC and CBRC (2013) ‘关于商业银行发行公司债券补充资本的指导意见’, *The State Council The People's Republic of China* available at http://www.gov.cn/gongbao/content/2014/content_2574756.htm (accessed 31 October, 2022).

Sharman, J.C. (2006) *Havens in a Storm: The Struggle for Global Tax Regulation*, 1st ed. Cornell University Press.

Sharman, J.C. (2012) ‘Chinese capital flows and offshore financial centers’, *The Pacific Review* 25(3): 317–337.

Sheppard, Eric (2011) ‘Geographical political economy’, *Journal of Economic Geography* 11(2): 319–331.

Sheppard, Eric and Helga Leitner (2010) ‘Quo vadis neoliberalism? The remaking of global capitalist governance after the Washington Consensus’, *Geoforum; journal of physical, human, and regional geosciences* 41(2): 185–194.

Silverwood, James and Craig Berry (2023) ‘The distinctiveness of state capitalism in Britain: Market-making, industrial policy and economic space’, *Environment & planning A* 55(1): 122–142.

Skalamera Groce, Morena and Seçkin Köstem (2023) ‘The dual transformation in development finance: western multilateral development banks and China in post-Soviet energy’, *Review of International Political Economy* 30(1): 176–200.

Smith-Doerr, Laurel and Walter W. Powell (2010) ‘Networks and Economic Life’, in Neil J. Smelser and Richard Swedberg, eds., *The Handbook of Economic Sociology [Second Edition]*, 379–402, Princeton University Press.

So, Alvin Y. (1986) ‘The Economic Success of Hong Kong: Insights from a World-System Perspective’, *Sociological perspectives: SP: official publication of the Pacific Sociological Association* 29(2): 241–258.

SSE (2021) ‘Shanghai Stock Exchange (SSE)’, *Shanghai Stock Exchange* available at http://english.sse.com.cn/aboutsse/overview/ (accessed 2 September, 2022).

STA (2007) ‘中华人民共和国企业所得税法’, *State Taxation Administration* available at http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c28479830/content.html (accessed 24 October, 2022).

State Administration of Taxation (2007) '关于印发内地和香港避免双重征税安排文本并请做好执行准备的通知', *State Taxation Asministration* available at http://www.chinatax.gov.cn/n810341/n810765/n812183/n812821/c1195512/content.html (accessed 4 May, 2022).

State Council (1986) '关于深化企业改革增强企业活力的若干规定》(国发［1986］103号文）', *China Institute for Reform and Development* available at http://www.reformdata.org/1987/0319/17519.shtml (accessed 24 September, 2023).

State Council (2017) '国务院关于促进外资增长若干措施的通知（国发〔2017〕39号）_政府信息公开专栏', *The State Council The People's Republic of China* available at http://www.gov.cn/zhengce/content/2017-08/16/content_5218057.htm (accessed 9 May, 2022).

State Council (2018) '外商投资证券公司管理办法发布 我国将允许外资控股合资证券公司', *The State Coucil The People Republic of China* available at http://www.gov.cn/xinwen/2018-04/30/content_5286974.htm (accessed 9 May, 2022).

State Council (2019a) '证监会公布 9 项对外开放措施的具体内容', *The State Council The People's Republic of China* available at http://www.gov.cn/xinwen/2019-06/15/content_5400452.htm (accessed 9 May, 2022).

State Council (2019b) '关于进一步扩大金融业对外开放的有关举措', *The State Council The People's Republic of China* available at http://www.gov.cn/xinwen/2019-07/21/content_5412293.htm (accessed 9 May, 2022).

State Council (2020) '关于金融支持粤港澳大湾区建设的意见', *The Government of People's Republic of China* available at https://www.gov.cn/xinwen/2020-05/15/content_5511907.htm (accessed 13 December, 2023).

State Council (2023a) '2022 年社会融资规模增量统计数据报告', *State Council People's Republich of China* available at https://www.gov.cn/xinwen/2023-01/23/content_5738573.htm (accessed 26 September, 2023).

State Council (2023b) '2022 年金融市场运行情况', *The State Council People's Republic of China* available at https://www.gov.cn/xinwen/2023-01/21/content_5738362.htm (accessed 24 September, 2023).

Storper, Michael and Anthony J. Venables (2004) 'Buzz: face-to-face contact and the urban economy', *Journal of Economic Geography* 4(4): 351–370.

Storper, Michael and Richard Walker (1989) *The capitalist imperative*, London, England: Blackwell.

Streeck, Wolfgang (2010) 'E Pluribus Unum? Varieties and Commonalities of Capitalism', in M. Granovetter and R. Swedberg, eds., *The Sociology of Economic Life*, 419-455., Boulder: Westview.

Su, Xiaobo and Kean Fan Lim (2022) 'Capital accumulation, territoriality, and the reproduction of state sovereignty in China: Is this "new" state capitalism?', *Environment & planning A*: 0308518X221093643.

Sun, Q. and W.H.S. Tong (2003) 'China share issue privatization: The extent of its success', *Journal of financial economics* 70(2): 183–222.

Swyngedouw, E. and K. Cox (1997) 'Neither global nor local: "glocalization" and the politics of scale', in *Spaces of Globalization: Reasserting the Power of the Local*, 137–166, London, England: Guilford Press.

SZSE (2022) 'Shenzheng Stock Exchange (SZSE)', *SHENZHENG STOCK EXCHANGE* available at https://www.szse.cn/English/ (accessed 2 September, 2022).

Taylor, Peter, Ben Derudder, Michael Hoyler, Pengfei Ni, and Frank Witlox (2014a) 'City-Dyad Analyses of China's Integration into the World City Network', *Urban studies* 51(5): 868–882.

Taylor, Peter J. (2005) 'Leading World Cities: Empirical Evaluations of Urban Nodes in Multiple Networks', *Urban studies* 42(9): 1593–1608.

Taylor, Peter J. (2011) 'The Interlocking Network Model', in *International Handbook of Globalization and World Cities*, Edward Elgar Publishing.

Taylor, Peter J., Ben Derudder, James Faulconbridge, Michael Hoyler, and Pengfei Ni (2014b) 'Advanced producer service firms as strategic networks, global cities as strategic places', *Economic geography* 90(3): 267–291.

The Central Moneymarkets Unit (2023) '2022 年香港債券市場概況', available at https://www.cmu.org.hk/tc/news-and-events/id/2739 (accessed 10 October, 2023).

The Government of Hong Kong (1982) 'Sino-British Negotiations and the Sino-British Joint Declaration', *The Basic Law, The Government of Hong Kong* available at https://www.basiclaw.gov.hk/filemanager/content/en/files/anniversary-reunification15/anniversary-reunification15-ch1-2.pdf.

The Government of the Hong Kong Special Administrative Region (2004) 'Hong Kong 2003 - The Economy', *Hong Kong Year Book* available at https://www.yearbook.gov.hk/2003/english/chapter03/03_00.html.

The New York Times 'Jardine of Hong Kong Planes Shift to Bermuda'. *The New York Times*, March 29, 4.

The People's Bank of China (2017) '中国人民银行令（〔2017〕第 1 号）内地与香港债券市场互联互通合作管理暂行办法', *The State Council The People's Republic of China* available at http://www.gov.cn/gongbao/content/2017/content_5234532.htm (accessed 6 June, 2022).

The State Council (1993) '国务院关于金融体制改革的决定 国发（1993）91 号', available at http://www.reformdata.org/1993/1225/23288.shtml (accessed 5 September, 2022).

Thelen, Kathleen (2012) 'Varieties of Capitalism: Trajectories of Liberalization and the New Politics of Social Solidarity', *Annual Review of Political Science* 15(1): 137–159.

Thrift, N.J. (1994) 'On the social and cultural determinants of international financial centres: the case of the City of London', in *Money, Power and Space*, 327–355, London, England: Blackwell.

Thrift, N.J. (1995) 'A hyperactive world', in *Geographies of Global Change. Remapping the world in the late twentieth century*, 18–35, London, England: Blackwell.

Thrift, N.J. (2000) 'Pandora's Box: cultural geographies of economies', in G. L. Clark, M. P. Feldman, and M. S. Gertler, eds., *The Oxford Handbook of Economic Geography*, 689–704, Oxford University Press.

Tobin, Damian (2016) 'Continuity and Pragmatism: How Chinese State-Owned Banks Adapted to Hong Kong's Free Market (1949–1978)', *Journal of contemporary Asia* 46(2): 267–285.

Tobin, Gary and Keith Walsh (2013) 'What makes a country a tax haven? An assessment of international standards shows why Ireland is not a tax haven', *The Economic and social review* 44(3, Autumn): 401–424.

Tong, James (1995) 'Chinese Politics in the Twentieth Century', *The China Journal* 34: 275–277.

Töpfer, Laura-Marie (2017) 'Institutional change in Chinese cross-border finance: foreign investors, the party-state and power resources', *Review of International Political Economy* 24(1): 144–175.

Tsang, Shu-Ki and Yuk-Shing Cheng (1997) 'The economic link-up of Hong Kong and Guangdong : structural and development problems',.

Tsang, Steve (2004) *A Modern History of Hong Kong*, Hong Kong: Hong Kong University Press.

Tsang, Steve Yui-Sang (1989) *Democracy Shelved: Great Britain, China and Attempts at Constitutional Reform in Hong Kong, 1945–52*, Hong Kong and Oxford: Oxford University Press.

UNCTAD (2016). ‘World Investment Report 2016: Investor Nationality - Policy Challenges’United Nations Conference on Trade and Development (UNCTAD) World Investment Report (WIR), United Nations Conference on Trade and Development available at http://www.un-ilibrary.org/international-trade-and-finance/world-investment-report-2016_9d7da2eb-en (accessed 2 May, 2021).

UNCTAD (2023) ‘International Investment Agreements, Hong Kong, China SAR’, *UNCTAD Investment Policy Hub* available at https://investmentpolicy.unctad.org/international-investment-agreements/countries/93/hong-kong-china-sar (accessed 7 July, 2024).

Volz, Ulrich (2014) ‘All politics is local: The Renminbi’s prospects as a future global currency’, in Leslie Elliott Armijo and Saori N. Katada, eds., *Financial statecraft of emerging powers: Shield and sword in Asia and Latin America*, 103–137, Houndmills, Basingstoke: Palgrave Macmillan.

Wang, Danny Tan, Simon Xiaobin Zhao, and Donggen Wang (2007) ‘’Information Hinterland’ ? A Base for financial centre development: The case of Beijing versus shanghai in China’, *Tijdschrift voor economische en sociale geografie = Journal of economic and social geography = Revue de geographie economique et humaine = Zeitschrift fur okonomische und soziale Geographie = Revista de geografia economica y social* 98(1): 102–120.

Wang, Jian, Junfeng Zhu, and Feifei Dou (2012) ‘Who plays the key role among shanghai, Shenzhen and Hong Kong stock markets?’, *China & World Economy* 20(6): 102–120.

Wei, Xinyi and Ronen Palan (2023) ‘Global corporate structure of Chinese state-owned financial institutions through Hong Kong’, *Journal of International Relations and Development*.

Witt, Michael A. and Gordon Redding (2014) ‘China’, in Michael Witt and Gordon Redding, ed., *The Oxford Handbook of Asian Business Systems*, Oxford University Press.

Wójcik, Dariusz (2011) ‘The Global Stock Market: Issuers, Investors, and Intermediaries in an Uneven World’,.

Wójcik, Dariusz (2013) ‘The Dark Side of NY–LON: Financial Centres and the Global Financial Crisis’, *Urban studies* 50(13): 2736–2752.

Wójcik, Dariusz and James Camilleri (2015) ‘“Capitalist tools in socialist hands”? China Mobile in global financial networks’, *Transactions* 40(4): 464–478.

Wong, Siu-Lun (1988) *Emigrant entrepreneurs : Shanghai industrialists in Hong Kong*, Hong Kong: Oxford University Press.

Woo, J.J. (2015) ‘Beyond the neoliberal orthodoxy: alternative financial policy regimes in Asia’s financial centers’, *Critical Policy Studies* 9(3): 297–316.

World Bank (2020) *World Development Report 2020: Trading for Development in the Age of Global Value Chains*,.

World Bank (2021) 'Domestic credit to private sector (% of GDP) - United States', *Workd Bank* available at https://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS?locations=US (accessed 5 September, 2022).

Wu, Wei, Weidong Liu, and Yi Liu (2007) '中国地区银行业金融系统的区域差异', 地理学报 62(12): 1235–1243.

Xinhua (2023) '中国证监会统筹一二级市场平衡 优化 IPO、再融资监管安排', *Xinhu News* available at http://www.news.cn/fortune/2023-08/27/c_1129827623.htm (accessed 21 September, 2023).

Yeung, Godfrey (2009) 'Hybrid Property, Path Dependence, Market Segmentation and Financial Exclusion: The Case of the Banking Industry in China', *Transactions of the Institute of British Geographers* 34(2): 177–194.

Yeung, Godfrey (2016) 'The operation of Global Production Networks (GPNs) 2.0 and methodological constraints', *Geoforum; journal of physical, human, and regional geosciences* 75: 265–269.

Yeung, Godfrey (2021) 'Chinese state-owned commercial banks in reform: inefficient and yet credible and functional?', *Journal of Chinese Governance* 6(2): 198–231.

Yeung, Godfrey, Canfei He, and Hao Liu (2012) 'Centralization and marginalization: The Chinese banking industry in reform', *Applied geography* 32(2): 854–867.

Yeung, Henry Wai-Chung (2005) 'The firm as social networks: An organisational perspective', *Growth and change* 36(3): 307–328.

Young, Simon N.M. (2021) 'The Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region', *International legal materials* 60(1): 1–17.

Zhang, Jun and Jamie Peck (2016) 'Variegated Capitalism, Chinese Style: Regional Models, Multi-scalar Constructions', *Regional studies* 50(1): 52–78.

Zhao, Dingxin (2016) '国家合法性和国家社会关系', 学术评论 48(8): 166–178.

Zhao, Simon X.B. (2003) 'Spatial Restructuring Of Financial Centers In Mainland China And Hong Kong: A Geography of Finance Perspective', *Urban affairs review* 38(4): 535–571.

Zhao, Simon X.B. (2013) ‘Information Exchange, Headquarters Economy and Financial Centers Development: Shanghai, Beijing and Hong Kong’, *Journal of Contemporary China* 22(84): 1006–1027.

Zhao, Simon X.B., Zhang Li, and Christopher J. Smith (2011) ‘China’s Emerging Financial Centers: Shanghai, Beijing and Hong Kong’, in *Gateways to Globalisation*, Edward Elgar Publishing.

Zhao, Simon X.B., Li Zhang, and Danny T. Wang (2004) ‘Determining factors of the development of a national financial center: the case of China’, *Geoforum; journal of physical, human, and regional geosciences* 35(5): 577–592.

Zhou, Li’an (2017) 转型中的地方政府 : 官员激励与治理 （第二版）, Shanghai: 格致出版社.

Zhou, Li’an (2018) ‘"官场+市场’与中国增长模式’, 社会 2(38): 1–45.

Zhou, Xueguang (2008) ‘基层政府间的“共谋现象”- 一个政府行为的 制度逻辑 Collusion among local governments: the institutional logic of a government behavior’, 社会学研究(6): 1–21.

Zhou, Xueguang (2012) ‘运动型治理机制- 中国国家治理的制度逻辑再思考’, 开放时代 9: 105–125.

Zoromé, Ahmed (2007) ‘Concept of offshore financial centers: In search of an operational definition’, *IMF Working Papers* 07(87): 1.