

The bridging role of Hong Kong for Chinese firms' integrating into global financial networks

Cheng Fang

Faculty of Geographical Science, Beijing Normal
University; Department of Geography, Durham
University, fangcheng0819@foxmail.com

Fenghua Pan

Faculty of Geographical Science, Beijing Normal
University, panfenghua@bnu.edu.cn

January 2021

This working paper is supported by the National Natural
Science Foundation of China (NSFC), grant number:
41871157

Financial Geography Working Paper #28



The bridging role of Hong Kong for Chinese firms' integrating into global financial networks

Abstract

Hong Kong's position as 'a gateway city' or 'a bridge' connecting mainland Chinese cities with overseas cities has been well recognized. However, most existing studies have drawn on the data of trade and FDI to analyze the bridging function of Hong Kong, little evidence has been based on financial activities despite Hong Kong's leading role as an international financial center. Applying the framework of the global financial network, we explore Hong Kong's unique role in connecting Mainland China and global financial networks through the perspective of overseas listings of Chinese firms on the US stock market. First, we find that Hong Kong is a dominant node in global financial networks shaped by Chinese firms' IPOs on the US stock market. Its advantage especially stands out in the core financial sector of the underwriting service by investment banks. Second, many Chinese firms that seek overseas listing on the US stock market prefer to set up special purpose vehicles (SPVs) in Hong Kong, or incorporate in Hong Kong. In this case, Hong Kong also acts as an offshore financial center. According to the empirical results, Hong Kong's status as a brokerage city for overseas listings of Chinese firms is twofold. First, it is a successful financial center with well-developed global networks of financial and business service (FABS), which are mainly forged by the historical legacy of the British colonial era and the economic globalization driven by multinational corporations since the 1980s. Second, Hong Kong's offshore jurisdiction role makes it a strategic gateway for Mainland China to raise capital globally. With the evolving dynamic of global financial networks, Hong Kong will continue to be of vital importance as a brokerage city that smooths China's integration into global financial networks.

Introduction

The recent social unrest in Hong Kong, which began in 2019, that started in 2019, has reignited debates about Hong Kong's future as a financial brokerage between a transitional China and a volatile global economy (Li, 2020; Liu, 2020; Meyer, 2020). Some claim Hong Kong will inevitably lose its bridging role with mainland China as a financial center (Liu, 2020), while dissenters take a clear-cut stand that Hong Kong's function as an international financial center would keep solid as well as irreplaceable for China (Li, 2020; Meyer, 2020). Even before this, Hong Kong's financial brokerage

status has been long under dispute (Rabushka, 1997; Wang et al., 2012). From a financial geography perspective, it is key to have a comprehensive understanding of Hong Kong's bridging role in global financial activities.

Current studies have well recognized Hong Kong's position as a 'gateway city' or 'a bridge' connecting mainland Chinese cities with overseas cities (Haberly & Wójcik, 2015; Lai, 2012; Meyer, 2008; Pan et al., 2018a; Sung & Song, 1991). This bridging function of Hong Kong is mainly acknowledged as a reflection of Hong Kong's international financial center status. As an upper ranked international financial center, Hong Kong provides a conduit for China to raise financial capital as well as knowledge from the global capital market (Wojcik & Camilleri, 2015), and smooths Chinese capital' global expansions (Hall, 2017; Pan et al., 2018b). Its advantages as an international financial center include proximity to the Chinese market (Li, 2020), to well-developed global networks (Meyer, 2020), a politically privileged position in facilitating financial flows (Lai, 2012; Woo, 2015), and a more sophisticated and international-oriented financial market than mainland China (Karreman & Knaap, 2012). While most existing studies have drawn on the data of trade or inward and outward FDI to analyze the bridging function of Hong Kong (Haberly & Wójcik, 2015; Karreman & Knaap, 2012; Lai, 2012; Zhao, 2013), little evidence has been based on real activities of financial and business services (FABS).

Besides, many existing studies bring insights into Hong Kong's nature as a financial brokerage between China and the global market, which highlights the importance of a relational and networked perspective to understand Hong Kong's bridging role. However, while existing literature puts much emphasis on Hong Kong's financial center status, little attention has been paid to its key bridging role as an offshore jurisdiction. As pointed out by financial geographers, the world map of finance can be understood as interconnected networks of financial centers and offshore jurisdictions (Coe et al., 2014; Wójcik, 2018). Hong Kong's bridging role in these networks, however, is a combination of both (Clark et al., 2015).

Inspired by a group of city network research focusing on inter-city financial flows formed by activities of FABS during IPOs (Pan et al., 2017; Pan et al., 2020), this paper investigates the networks of FABS during Chinese firms' overseas listings on NASDAQ and NYSE. This paper aims to propose some novel pieces of evidence for understanding Hong Kong's bridging role with the perspectives of Chinese firms' overseas listings on the US stock market.

This paper contributes to the existing literature on Hong Kong's bridging role in the global economy in three aspects. First, it adopts the global financial network framework to respectively examine Hong Kong's bridging functions as a financial center and as an offshore jurisdiction. As Hong Kong's bridging role in global financial networks is previously considered in an ambiguous overlap of several inter-related concepts about financial centers – including that of a global financial center (Meyer, 2011; 2020), an international financial center (Karreman & Knaap, 2012; Li, 2020; Zhao, 2013), a business center (Meyer, 2008), an offshore financial center (Lai, 2012; Sigler et al., 2019) – this global financial network approach helps to provide a more comprehensive understanding of Hong Kong. Second, this paper

picks a novel angle of Chinese firms' overseas listings on the US stock market to study Hong Kong's bridging role, and presents a dataset of inter-firm networks consists of both listed firms and FABS firms. Although many studies have focused on the Hong Kong Stock Exchange (HKEx) to study Hong Kong's financial center status (Karreman & Knaap, 2012; Pan et al., 2018a), this focus would cause a bias in identifying Hong Kong's bridging role other than a destination of overseas listings. According to our data, Hong Kong's prominence for Chinese firms' overseas listings on NASDAQ and NYSE is also far-reaching. Finally, our study provides a historical and dynamic perspective of studying global financial networks. As the concept of global financial networks is arguably a dynamic framework (Wójcik, 2018), we combined a long-term dynamic analysis of networks to contest Hong Kong's dynamic bridging roles of a financial center and an offshore jurisdiction over the past two decades.

Hong Kong's role in China's integration process into the global economy

Hong Kong's prominence in global financial networks

The global financial networks are 'networks of the financial and business services firms, and their activities linking financial centers, offshore jurisdictions, and the rest of the world' (Wójcik, 2018). In other research, the term 'financial center' in this framework is alternatively referred to as 'world city' thus echoing the world city network literature (Coe et al., 2014). The framework seeks to analyze the spatial dynamic of global financial activities and financial centers around the world from a network perspective. Over the past half-century, Hong Kong has always been a pivotal exchange hub of financial flows in global financial networks (Coe et al., 2014; Wojcik & Camilleri, 2015). Its status is closely combined with its bridging role.

Like Smart and Lee (2003) remarked, during the past decades, none of Hong Kong's economic role has been the primary driving force behind internal demand. After World War II, rapid industrialization through industrial transplantation and relocation from mainland China turned Hong Kong from an entrepôt trade center into a manufacturing and export center (Chan, 2007). Swelling population and prosperous international trade also stimulated Hong Kong's development as an Asian Pacific financial center (Schenk, 2002). As Chan (2007) points out, Hong Kong inherited a market system inherited from the UK, which extensively incorporated Hong Kong into the global system dominated by the alliance between the UK and the US. This laid a solid foundation for Hong Kong's bridging role as a British outpost in Asia at that time.

After China's reform and opening-up started in 1978, a huge market was opening again for the capitalist world. With the relocation of Hong Kong's industrial activities into the Pearl River Delta, Hong Kong's economy started to move toward a service economy (Jayantha et al., 2001). Its advantage in bridging mainland China and the rest of the world have benefited much from the rapid development of its

financial service (Schenk, 2002). Meanwhile, massive foreign direct investment (FDI) was flowing through Hong Kong into mainland China (Meyer, 2008). After the handover to China in 1997, Hong Kong turned from a British colony to a Special Administrative Region (SAR) of China. The city's close ties with mainland China continued to be strengthened, and the rapid economic development of China continuingly fueled the transformation of Hong Kong towards a global-oriented, top financial center like London and New York (Shen, 2003; Meyer, 2008).

From a global financial network perspective, Hong Kong's enduring status is in the intersection of a financial center and an offshore jurisdiction (Clark et al., 2015). First, it is a financial center with well-developed FABS networks globally. Financial centers in global financial networks are featured by their capacities of providing FABS. A vast group of world city network literature has drawn on the interlocking networks of producer service intra-firm relationship to highlight Hong Kong's pre-eminence in network connectivity (Derudder et al., 2018; Derudder & Taylor, 2016; Taylor & Derudder, 2004). These works have demonstrated Hong Kong's advantage as a leading financial center in global financial networks. However, this approach is criticized as solely focusing on intra-firm networks of advanced producer services firms while ignoring inter-firm connections among the same or different sectors (Pan et al., 2017; Yeh et al., 2015). Other studies suggest that, while Hong Kong's global hub status is evident, analyses of diversified economic connections can bring additional insights (Pan et al., 2018a; Pažitka et al., 2019).

Second, Hong Kong makes an important offshore jurisdiction in the global economy. Although relatively less concerned by academia, some studies on offshore financial centers and tax havens have identified Hong Kong's distinctiveness of running China's offshore financial system. A geographical triangle structure of 'Hong Kong – Cayman Islands – British Virgin Islands (BVI)' has been captured to be an important round-tripping of Chinese firm financial flows (Buckley et al., 2015; Haberly & Wójcik, 2015; Martinus et al., 2020; Sigler et al., 2019). In this structure, as a highly autonomous jurisdiction, Hong Kong's laws and regulations rather than its development of the FABS sector, are key to the persistence of this phenomenon (Wójcik, 2013; 2018). However, as this offshore structure is often secret and concealed in operation, current studies mostly draw on the data of FDI or offshore corporations of individual cases (Buckley et al., 2015; Haberly & Wójcik, 2015; Wójcik & Camilleri, 2015), only a few recent studies have analyzed the corporate networks with large firm datasets (Martinus et al., 2020; Sigler et al., 2019).

Chinese firms' overseas listings and China's integration into global financial networks

While Hong Kong has been occupying an important position in global financial networks over the last decades, its major significance lies in a conduit bridging China and Chinese firms' integrations into global financial networks.

Restricted by the lack of advanced local financial systems (Ruan & Zhang, 2012), developing economies like China usually resort to overseas financial services for capital raising (Huang et al., 2015; Jääskeläinen & Maula, 2014). By doing this,

certain regions have thusly linked themselves with global financial networks, and integrating local firms into global financial networks has created a new path for seeking economic development (Pan et al., 2020).

Since the reform by Deng Xiaoping in 1978, China sticks to its opening-up strategy, and has been increasingly integrated into global financial networks (Wojcik & Camilleri, 2015). An important way of integrating is to let more Chinese domestic firms to be listed on the overseas stock market (Wójcik & Burger, 2010; Pan & Brooker, 2014; Wojcik & Camilleri, 2015; Pan et al., 2020). This refers to the overseas listing activity that enables a firm to trade its shares on stock markets outside its home country and get access to financial capital worldwide. According to Pan and Brooker (2014), overseas listings have been very active in China during the past several decades and the destinations of overseas listings have covered many main financial centers in global financial networks.

Hong Kong per se, it's the most common destination for Chinese firms' overseas listings with the largest amount of listing events (Karreman & Knaap, 2012; Pan & Brooker, 2014). It well reflects Hong Kong's financial center function built upon HKEx, which provides an important conduit for Chinese firms' equity financing globally (Pan et al., 2018a). However, Hong Kong's role in bridging overseas listings is bigger than HKEx, as it also facilitates Chinese firms' overseas listings on other destinations. The US stock market is the second-largest market with Chinese overseas-listed firms after Hong Kong. NYSE and NASDAQ, two of the main US stock exchanges based in New York, are respectively ranked first and third around the world in the amount of fund-raising per listing for Chinese firms. As research shows, there is a strong difference as well as complementarity between Hong Kong and the US (Pan & Brooker, 2014). It would therefore be meaningful to examine Hong Kong's role in facilitating Chinese firms' overseas listings on other global stock exchanges like NYSE and NASDAQ, which is a currently overlooked part of investigating Hong Kong's role in global financial networks in the body of existing literature.

Data and Method

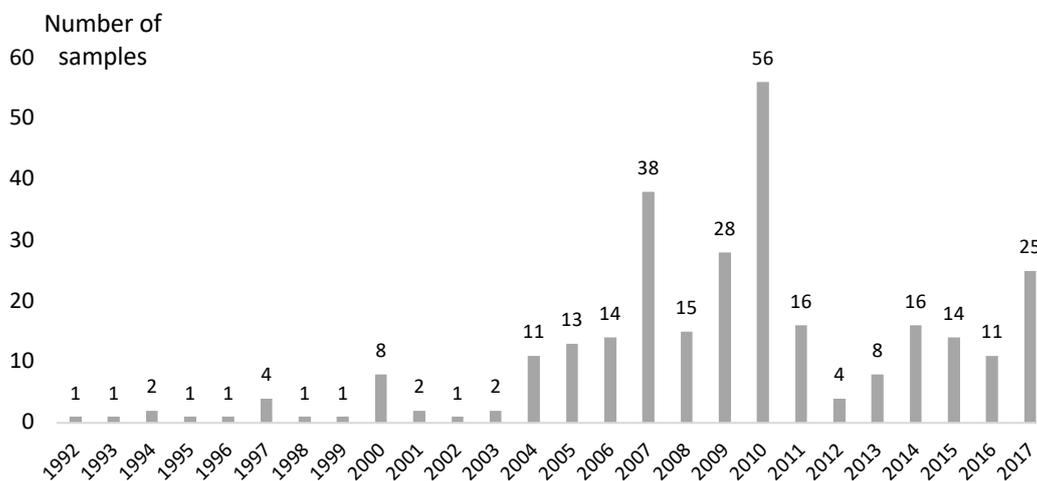
In this study, we focused on Chinese firms' listings on NASDAQ and NYSE from 1992 to 2017 to investigate Hong Kong's role in facilitating this process. To get listed on NASDAQ and NYSE, these firms firstly need to complete the initial public offerings (IPOs). This process is usually carried out by a team of FABS firms including investment banks as underwriters, law firms as legal consults, and accounting firms as experts in accounting and auditing.

Accordingly, we built a dataset of 294 Chinese firms listed on NASDAQ and NYSE, Figure1 shows our sample quantities sorted by year. The list of the 294 firms' names is collected from Zdatabase¹. Other information including stock codes, IPO

¹ A financial database provided by Qingke Group, a leading data company providing detailed information on deals of IPOs and venture capital investments. More details about this database: <https://www.pedata.cn/data/index.html>.

time, headquarter locations, incorporation places is comprehensively drawn from Zdatabase and another financial database named Choice². Another major data source for this research is from the prospectuses of US-listed firms³. These prospectuses are documents with detailed information about these listed firms and their IPO processes. Owing to legal obligations, these documents are audited by authorized experts, and are disclosed to the public on the website of the Securities and Exchange Commission of the US⁴, and are of great reliability and credibility. Through collecting and reading the 266 prospectuses of the 294 firms, we confirmed the organizational structures and specific FABS participations during IPOs of these 266 US-listed Chinese firms. Other supplementary data used are all drawn from open-source data including the database of Qichacha⁵, corporate annual reports and firm websites.

Figure 1 Distributions over time of our samples of Chinese firms listed on NASDAQ and NYSE



Source: authors

The main method we used in this study is to analyze the networks of service provisions to listed firms and collaborations of FABS firms. In this study, we focus on Hong Kong’s changing position in these networks. The specific procedure we used was as follows. First, we used our dataset to build two different kinds of inter-firm networks, service provision networks, and FABS collaboration networks. The service provision networks are based on the number of FABS provisions from different FABS firms to specific US-listed Chinese firms during their IPOs. The FABS collaboration networks are built upon the number of IPO project-based collaborations among FABS firms. For example, a group of FABS firms including investment banks, law firms, and accounting firms is involved in the same IPO project, each two in this

² A financial database provided by East Money Information, a leading Chinese financial and stock information website provider. More details about this database: <http://choice.eastmoney.com/>.

³ The collected prospectuses are SEC 424B# forms.

⁴ <https://www.sec.gov/edgar/searchedgar/companysearch.html>

⁵ Qichacha is an official enterprise credit reference agency that provides enterprise information inquiry in China: <https://www.qcc.com/>

group of FABS firms are considered to have collaborated once with each other. Second, we transformed the inter-firm networks into geographical networks according to firms' located cities. Analyses of two geographical scales were conducted, included inter-city networks and intra-city networks. Third, we investigated the long-term changing dynamics of different networks. As the number of IPO events are accumulating, new samples of service provisions or FABS collaborations were increasingly added into the networks over time. In the following section, we present and interpret the major findings from our analysis.

Hong Kong as a global FABS hub

Hong Kong's financial center function is embodied in its broad capacity of providing FABS. Following the global financial network analytic framework, we are to assess Hong Kong's financial center function by investigating its FABS participations and collaborations in Chinese firms' overseas listings on NASDAQ and NYSE. As Hong Kong is closely involved in the FABS provisions to HKEx listed Chinese firms' IPOs (Pan et al., 2018a), our following analysis shows how this situation goes with those on main US stock exchanges.

Surprisingly, Hong Kong is also found to be quite a prominent FABS provider in facilitating Chinese firms to be listed on the US Stock market. As Table 1 shows, Hong Kong is ranked third in the number of FABS provisions to IPOs of Chinese firms on NASDAQ and NYSE. Its edge on FABS is especially significant in the underwriting transactions, which is thought to be the core department of FABS (Morrison & Wilhelm, 2007; Wójcik, 2018). This is remarkable as Hong Kong is neither the destination of these overseas listings (like New York), nor the main source of these overseas-listed firms (like Beijing and Shanghai), but still got a large share of the whole FABS transactions.

Table 1 FABS provisions for Chinese firms' IPOs on NASDAQ and NYSE

FABS sectors	#	City	Number of FABS provisions
All FABS sectors	1	New York	619
	2	Beijing	208
	3	Hong Kong	197
	4	Shanghai	111
	5	Cayman Islands	97
	6	Los Angeles	50
		other cities combined	522
Underwriting	1	New York	417
	2	Hong Kong	108
	3	Minneapolis	50
	4	London	26
	5	Berlin	25
	6	Toronto	22

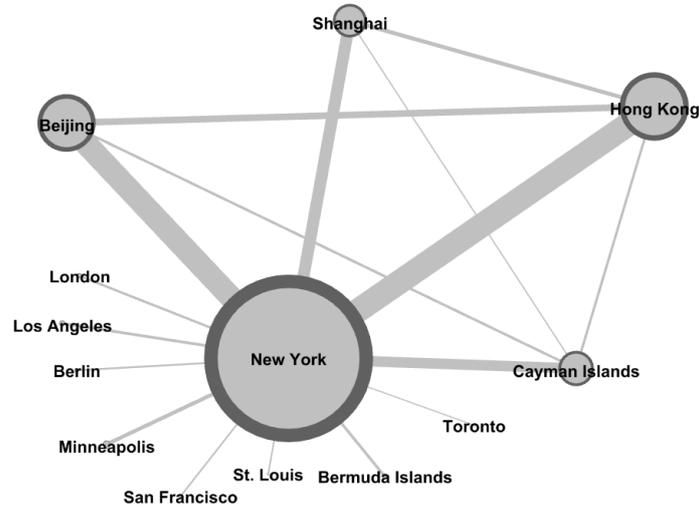
		other cities combined	198
Legal Service	1	New York	158
	2	Beijing	140
	3	Cayman Islands	95
	4	Bermuda Islands	39
	5	Shanghai	38
	6	Hong Kong	31
		other cities combined	145
Accounting	1	Shanghai	70
	2	Beijing	61
	3	Hong Kong	58
	4	New York	44
	5	Amsterdam	8
	6	London	8
		other cities combined	63

Source: calculations by the authors

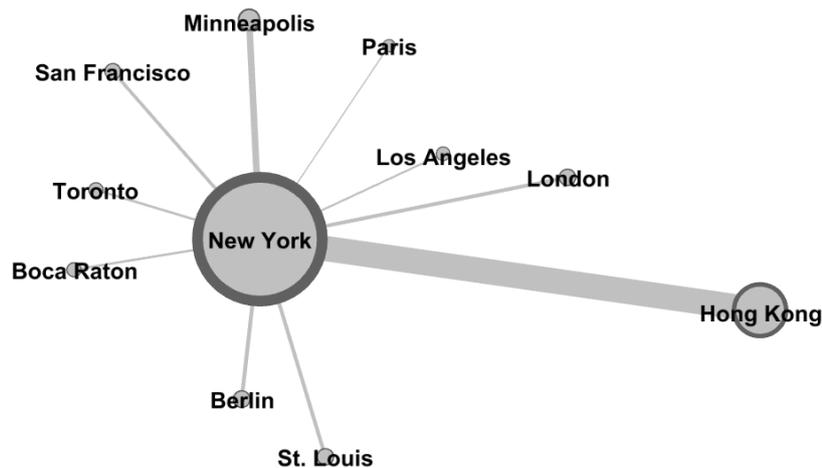
By being one of the main service providers for Chinese firms' going global, Hong Kong makes a hub in this global network of FABS collaborations. It is via connecting with these networks of FABS that Chinese firms listed on the US stock market get integrated into global financial networks. Figure 2(a) shows a backbone structure of this global FABS collaboration network of Chinese firms' IPOs on NASDAQ, which only outlines inter-city linkages of above 60 times of FABS collaborations (10% of the strongest linkage). Hong Kong is ranked the second-highest after New York in terms of inter-city FABS collaborations. The tie between Hong Kong and New York is the strongest link in this network.

As Wójcik (2018) stresses, at the core of the global financial networks lies the global network of securities centers. Figure 2(b) shows the backbone structure of underwriter (undertaken by investment banks) collaborations, which highlights the securities center network shaped during Chinese firms' overseas listings on the US stock market. The strong tie between Hong Kong and New York dominates this network.

Figure 2 Backbone networks of inter-city FABS collaborations (a) and underwriter collaborations (b) in facilitating Chinese firms' IPOs on NASDAQ and NYSE



(a) FABS collaborations⁶



(b) underwriter collaborations⁷

Source: authors

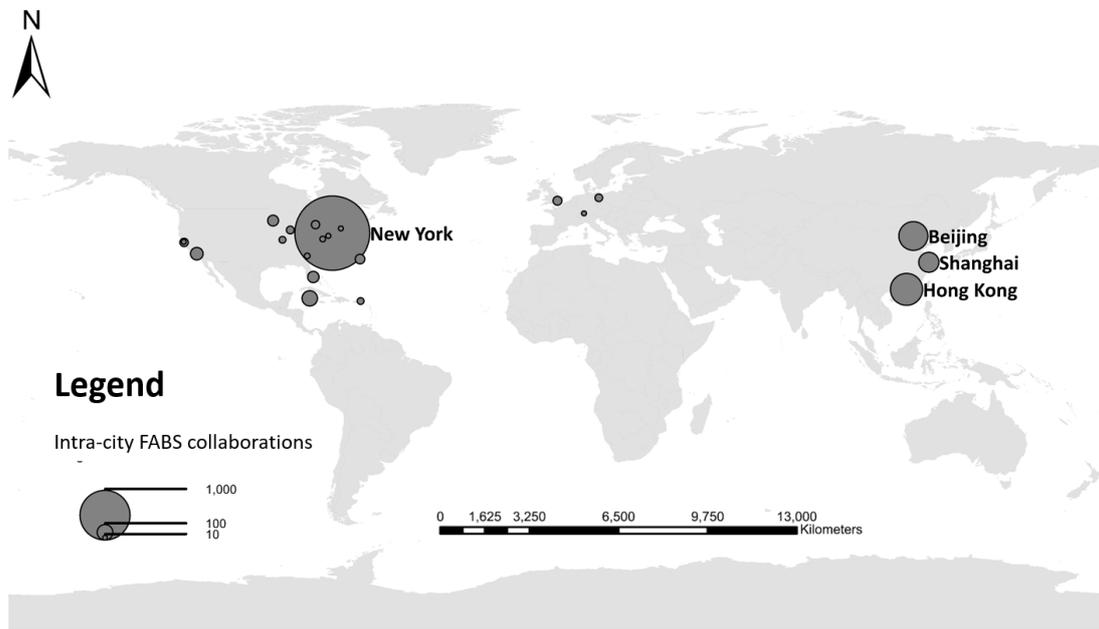
Intra-city networks, like inter-firm networks, are also important in cultivating the economic competence of cities (Gemici & Lai, 2020; Wen et al., 2020). While highly

⁶ The sizes of the points show the number of inter-city FABS collaborations of the city and all other cities. The bigger size shows the higher number of inter-city FABS collaborations. In this figure, the highest is New York (2455) and the lowest is Toronto (61). The line width shows the FABS collaboration frequency between two nodes, wider lines demonstrate higher frequency. In this figure, the highest is between New York and Hong Kong (603) while the lowest is between New York and Toronto (61).

⁷ See Figure 2 (a) for the legend. In this figure, the highest total number of underwriter collaborations with other cities is in New York (730) and the lowest is in Paris (61). The most frequent underwriter collaborations are between New York and Hong Kong (277) while the lowest is between New York and Paris (61).

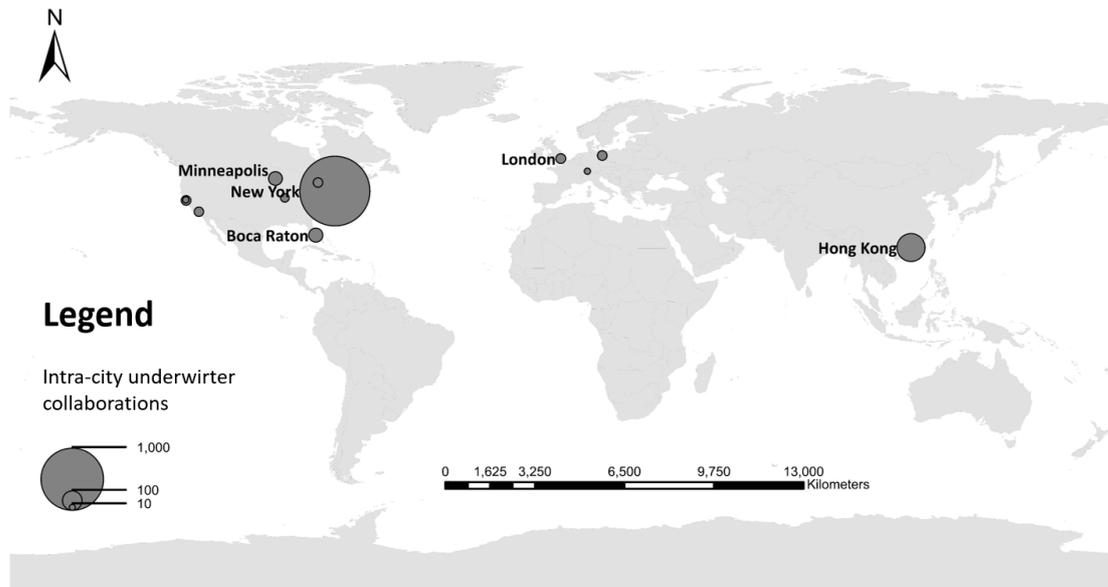
featured in these inter-city global networks, Hong Kong is also an important hub for intra-city FABS collaborations. As Figure 3(a) shows, Hong Kong is the second most intensive place for intra-city FABS collaborations other than New York. The localized FABS team in Hong Kong makes the city a highly advanced agglomeration of knowledge and expertise related to high-end financial activities. Figure 3(b) provides some shreds of evidence from the intra-city collaborations of investment banks. Hong Kong is the only featured hub in Asia. This reveals that Hong Kong’s advantage as a securities center does not just lie in specific firms but also a strong corporate system based on the city.

Figure 3 Frequency of intra-city FABS collaborations (a) and inter-city underwriter collaborations (b) during Chinese firms’ IPOs on NASDAQ and NYSE⁸



(a) intra-city FABS collaborations

⁸ The maps only have marked city samples with over 10 intra-city FABS/underwriter collaborations.



(b) inter-city underwriter collaborations

Source: authors

But how does Hong Kong become a prominent hub of all these networks? We thusly turned into a firm-level analysis to investigate some influential Hong Kong-based FABS firms in this process. According to numbers of FABS provisions as well as collaborations, we identified Hong Kong’s top five important FABS firms (Table 2).

Table 2 Important FABS firms based in Hong Kong that facilitates Chinese firms’ IPOs on NASDAQ and NYSE

FABS firm name	Type	Number of FABS provisions (#)	Number of FABS collaborations (#)	Time of establishments
Goldman Sachs (Asia) LLC	Investment Bank	33 (1)	273 (1)	1993
China Renaissance Securities (Hong Kong) Ltd	Investment Bank	17 (2)	132 (2)	2012
Maples and Calder (Hong Kong) LLP	Law Firm	14 (3)	61 (5)	1995
CLSA Ltd	Investment Bank	10 (4)	110 (4)	1986
CICC (Hong Kong) Ltd	Investment Bank	10 (5)	120 (3)	1997

Source of data: prospectuses of US-listed Chinese firms, firm websites (different years), and the database of Qichacha

Among these five FABS firms, two firms are regional corporate headquarter of western international firms. Goldman Sachs (Asia) is arguably the most important firm player in bridging Chinese firms’ integrations into global financial networks via overseas listings on US stock exchanges. It was established in 1993 as Goldman

Sachs' Asia headquarter, providing securities services to Asian clients. In our dataset, the Goldman Sachs brand as an underwriter has participated in 34 IPOs of Chinese firms in New York. Among them, 33 participations were undertaken by Goldman Sachs (Asia). Maple and Calder (Hong Kong) LLP is the Hong Kong office of the multi-jurisdictional law firm Maple and Calder headquartered in the Cayman Islands. It was established in 1995 to provide Asian clients with advice on the laws of the British Virgin Islands and the Cayman Islands, where the US-listed Chinese firms usually incorporate.

CLSA Ltd is a China-focused global investment bank found by two foreign journalists (respectively from Australia and Canada) in Hong Kong in 1986. Its name CLSA, short for Credit Lyonnais Securities Asia, came from its main shareholder Credit Lyonnais, a French bank. CLSA Ltd was later acquired by CITIC Securities, a Chinese state-owned brokerage in July 2013.

The other two firms are both Chinese investment banks. CICC (China International Capital Corporation) is a Sino foreign joint venture investment bank headquartered in Beijing. Its biggest shareholder, revealed by Qichacha's database, is China's State Council. CICC (Hong Kong) Ltd was launched in 1997 as the offshore intermediate holding company for CICC's overseas businesses. It later became one of the top underwriters for overseas listings of China-based businesses. China Renaissance Securities (Hong Kong) Ltd is a subsidiary of China Renaissance Capital Investment Inc., a Chinese private investment bank on the rise headquartered in Beijing. It was established in Hong Kong in 2012, aiming to be specialized in providing securities services to Chinese firms, and performed well in the business of overseas IPOs of Chinese technology firms.

The variegated backgrounds of these firms shed some light on understanding Hong Kong's development into a global FABS hub. From the angle of bridging Chinese firms' overseas listings on the US market: first, Hong Kong's former status as a British colony leaves a legacy of the cultural, institutional foundation for foreign investors and entrepreneurs to start or extend their business in and to Hong Kong (Chan, 2007; Haberly & Wójcik, 2015). In the context of globalization driven by multinational enterprises since the late 1980s (Dicken, 2011), foreign capital and FABS branches from developed western economies have fostered the FABS competence of Hong Kong. Second, with the rise of local FABS in China, Hong Kong's advantage as closer access to foreign capital market has made it a frontier for Chinese local FABS to integrate into global networks (Pan et al., 2018b). After the handover, the Chinese capital has been increasingly influential in shaping Hong Kong's FABS networks.

Hong Kong as a strategic gateway

Beyond solely focusing on the FABS provisions and collaborations of Hong Kong during Chinese firms' overseas IPOs, we also need to look into its offshore jurisdiction function in bridging Chinese firms' integrations into global financial networks. Buckley et al. (2015) analyzed the organizational structures of three

representative samples out of total of 72 US-listed Chinese firms. Their findings shed light on Hong Kong’s presence as an important offshore corporate location for some overseas-listed firms. While that study was based on very limited cases and put more emphasis on the Cayman Islands and the BVI, in this study, we extend the criteria of samples to a dataset of 294 US-listed Chinese firms, aiming to highlight Hong Kong’s offshore jurisdiction role.

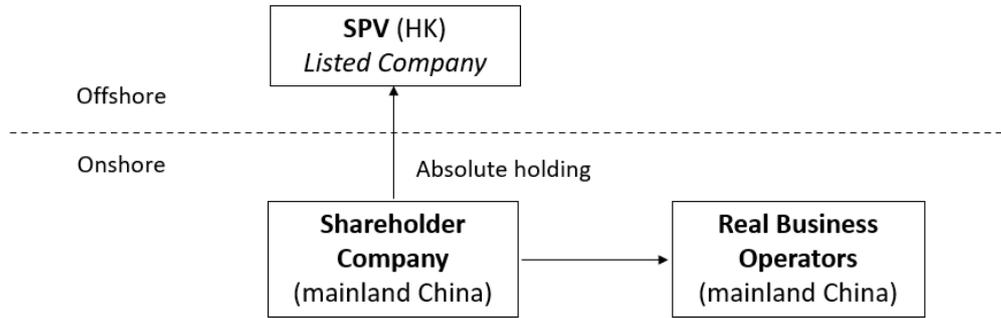
Among our 294 samples, there are four firms directly incorporated in Hong Kong (Table 3), however, their registrations in Hong Kong are obviously for financial vehicle purpose only with little economic substance. This financial vehicle is usually referred to as a Special Purpose Vehicle (SPV). China Mobile (Hong Kong) Ltd, China Unicom (Hong Kong) Ltd and are CNOOC Ltd are three monopoly and state-owned enterprises. Their controlling shareholders are respectively China Mobile Corporation, China United Network Communications Group Company Ltd, and CNOOC (all headquartered in Beijing). Their real-world operations, which are mostly in mainland China, are carried out by other holding companies of these three shareholders (generalized as shown in Figure 4 (a)). China Finance Online Co. Ltd is a private firm set in Hong Kong, it fully holds a company named China Finance Online (Beijing) Co., Ltd, while neither of these two firms is the real operator of the news portal business. The actual operator is Beijing Fuhua Innovation Technology Investment Co., Ltd, which is controlled by China Finance Online (Beijing) via contractual agreements (see Figure 4 (b)). The four cases would help us to understand the following more prevailing model which shares the same nature of using Hong Kong as a financial intermediary.

Table 3 Information of 4 US-listed Chinese firms incorporated in Hong Kong

Firm Name	Stock Code	Year of Listing	Stock exchange	Operations	incorporated location
China Mobile (Hong Kong) Ltd	CHL	1997	NYSE	Telecommunication	Hong Kong
China Unicom (Hong Kong) Ltd	CHU	2000	NYSE	Telecommunication	Hong Kong
CNOOC Ltd	CEO	2001	NYSE	Oil and gas extraction	Hong Kong
China Finance Online Co. Ltd	JRJC	2004	NASDAQ	News portal	Hong Kong

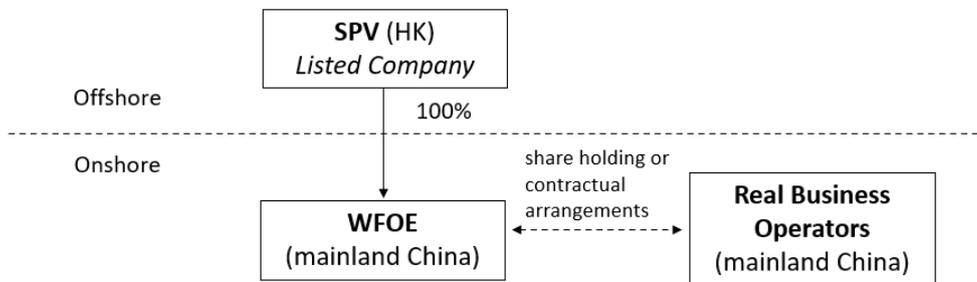
Source of data: prospectuses and ZDatabase

Figure 4 Modes of corporate organizational structures of US-listed Chinese firms incorporated in Hong Kong



Notes
 HK: Hong Kong
 SPV: Special Purpose Vehicle

(a)



Notes
 HK: Hong Kong
 SPV: Special Purpose Vehicle
 WFOE: Wholly Foreign-owned Enterprise

(b)

Source: authors

Interestingly, instead of directly incorporating the listed entity in Hong Kong, more US-listed firms prefer to hold a SPV in Hong Kong as an intermediary in their onshore-offshore corporate organizational structure. According to our statistics, 69.3% of US-listed firms incorporated outside Hong Kong have SPVs in Hong Kong, and 59.4% solely rely on their Hong Kong SPVs to hold their operating companies in mainland China (more details about our data please see in Table 4).

Table 4 Statistics on corporate structures of US-listed Chinese firms incorporated outside Hong Kong

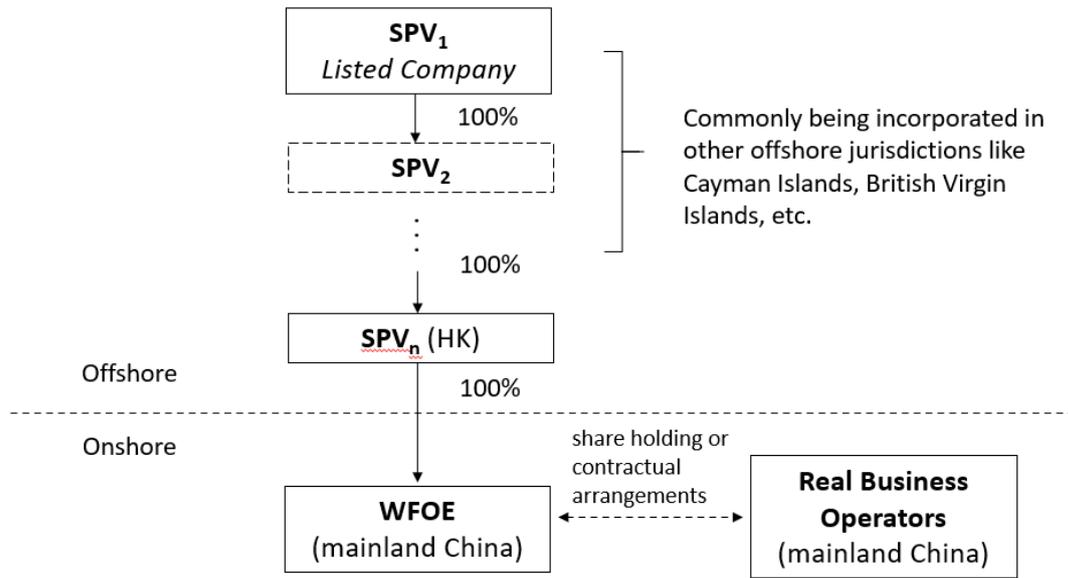
Year	Samples	Samples with corporate structures disclosed	%	Using Hong Kong SPV to		Have Hong Kong SPV but don't solely rely on Hong		No Hong Kong	
				%		%	%		

				hold PRC onshore companies		Kong SPV to hold PRC onshore companies		g SPV	
1992-1994	4	0	0.0%	-	-	-	-	-	-
1995	1	1	100.0%	0	0.0%	0	0.0%	1	100.0%
1996	1	0	0.0%	-	-	-	-	-	-
1997	3	2	66.7%	0	0.0%	1	50.0%	1	50.0%
1998	1	1	100.0%	0	0.0%	0	0.0%	1	100.0%
1999	1	1	100.0%	0	0.0%	0	0.0%	1	100.0%
2000	7	4	57.1%	2	50.0%	0	0.0%	2	50.0%
2001-2003	4	0	0.0%	-	-	-	-	-	-
2004	10	9	90.0%	3	33.3%	0	0.0%	6	66.7%
2005	13	8	61.5%	2	25.0%	3	37.5%	3	37.5%
2006	14	11	78.6%	3	27.3%	1	9.1%	7	63.6%
2007	38	27	71.1%	7	25.9%	3	11.1%	17	63.0%
2008	15	10	66.7%	3	30.0%	1	10.0%	6	60.0%
2009	28	18	64.3%	13	72.2%	0	0.0%	5	27.8%
2010	56	42	75.0%	25	59.5%	9	21.4%	8	19.0%
2011	16	11	68.8%	8	72.7%	2	18.2%	1	9.1%
2012	4	3	75.0%	2	66.7%	0	0.0%	1	33.3%
2013	8	8	100.0%	8	100.0%	0	0.0%	0	0.0%
2014	16	16	100.0%	14	87.5%	1	6.3%	1	6.3%
2015	14	10	71.4%	9	90.0%	0	0.0%	1	10.0%
2016	11	8	72.7%	7	87.5%	0	0.0%	1	12.5%
2017	25	22	88.0%	20	90.9%	0	0.0%	2	9.1%
	290	212	73.1%	126	59.4%	21	9.9%	65	30.7%

Source: calculations by the authors

A typical model of these firms' corporate structures is accordingly generalized as in Figure 5. Firstly, the listed firm would set a SPV as the entity of equity financing. This SPV is usually incorporated in offshore jurisdictions, in this case, mostly in the Cayman Islands or the BVI. Then, the listed entity SPV would continue to hold other SPVs in offshore territories until it controls a Hong Kong SPV. This Hong Kong SPV would furtherly hold a Chinese onshore company. At last, the onshore company, marked as WFOE, would use shareholding or contractual arrangements to control the actual business operators. Although this structure on the offshore end varies in every different case, a common ground is that Hong Kong is always at the very gateway position linking onshore mainland China and the wider offshore world. Using a Hong Kong SPV to hold the onshore company is key to this model.

Figure 5 The typical model of corporate organizational structures of US-listed Chinese firms



Notes

- British Virgin Islands
- HK: Hong Kong
- SPV: Special Purpose Vehicle
- WFOE: Wholly Foreign-owned Enterprise

Source: authors

It's no news that investors incline to benefit from offshore jurisdictions' advantages including loose taxation policy and good confidentiality (Palan et al., 2013), but why is Hong Kong always the 'last stop' of the offshore structures? From the perspective of the listed firms, the reason is quite straightforward, that this provides an optimal holding structure to minimums their tax burdens (Buckley et al., 2015). With the tax arrangement (CDTA) signed between mainland China and Hong Kong, using Hong Kong companies as intermediaries to hold Chinese companies reduces the withholding tax charged on dividends from 10 percent to 5 percent (Ng, 2013).

However, from the perspective of policy-making, it can be much owing to China's 'opening up' strategy that uses Hong Kong as a strategic financial gateway. On the one hand, the Chinese government sticks to an open attitude to welcome global investments; on the other hand, however, it is looking for a balance in taxation administration and anti-avoidance legislation between attracting foreign financial capital. It turns out that SAR Hong Kong brings a balancing point position here, as it is with both a well-established offshore financial jurisdiction system (Lai, 2012) and political closeness to China (Woo, 2015). This strategic gateway of Hong Kong leaves an efficient conduit for foreign investment entering and in the meantime, the flexibility to adjust when 'governance fails' as suggested by Wójcik (2013). Hong

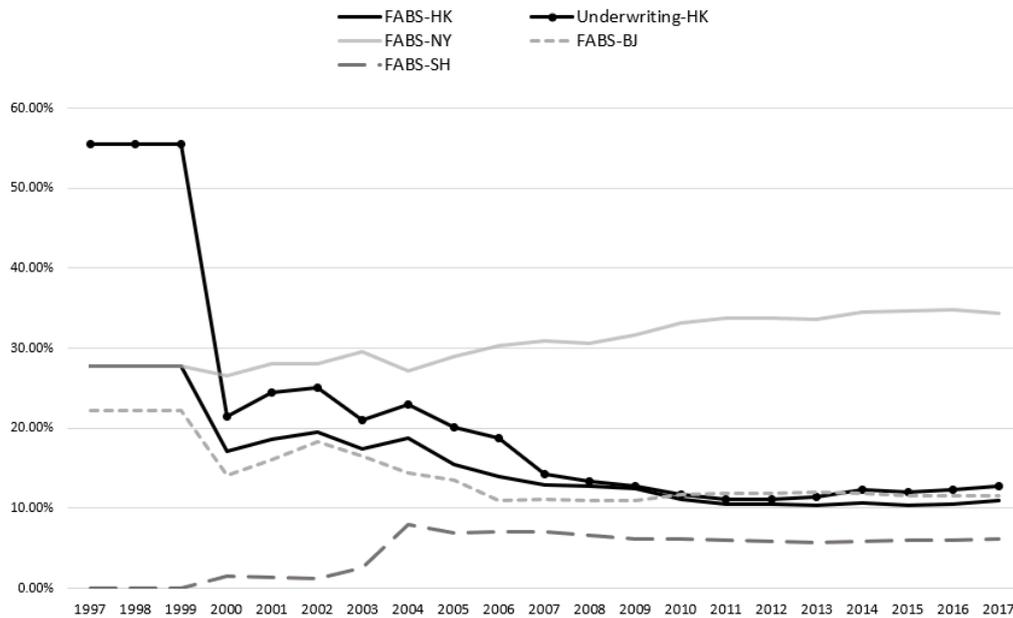
Kong's SAR status, relationship with mainland China and strategic gatekeeper role have distinguished it from other important offshore jurisdictions.

The bridging role of Hong Kong within global financial networks

Hong Kong's financial bridging role was formed and maintained in a fast-changing dynamic of the global economy, which can be seen from the brief historical review in the previous section. Radical structural changes have been happening in both Hong Kong and the important external economies it connects during the past decades. For example, financial services (and the broader FABS) were developing into a dominating industry in Hong Kong's economic structure (Ramón-Berjano et al., 2011; Schenk, 2002; Smart & Lee, 2003). In the meantime, many Chinese cities with close ties to Hong Kong are rapidly integrating into world city networks (Taylor et al., 2014), new waves of globalization shaping today's global economic landscape are showing new features (Derudder & Taylor, 2020). Chinese firms' integrations into global financial networks are closely related to this fast-changing dynamic, which are also reflecting Hong Kong's shifting bridging role.

Our study argues that Hong Kong's bridging role as a financial center is evidently losing some importance to Chinese firms' overseas listings on NASDAQ and NYSE. Based on an inter-city level analysis of FABS activities, sharp declines have been observed in the ratio of both its FABS provisions and its underwriting provisions (Figure 6). Interestingly, the lost share of Hong Kong is not replaced by the rise of Chinese mainland financial center cities like Beijing and Shanghai, however, it is largely taken by FABS firms in New York. At the early stage, when Chinese overseas listing firms and underdeveloped FABS sector are unfamiliar with the operations of the foreign capital market, Hong Kong's proximity to China gives its FABS sector a competitive advantage compared to other foreign financial centers. With Chinese firms' continuing to go global to raise financial capital, Chinese firms have accumulated more experience and knowledge on the global financial market, and the latter has also attained more acknowledgment of China. Overseas listing firms in China are getting incline to seeking FABS providers globally according to their needs on financial expertise, but with fewer considerations of overcoming the obstacles of unfamiliarity. As Figure 6 shows, after 2010 Hong Kong's service provisions start to maintain at a stable level. This is still at a very high level, which matches Hong Kong's actual competitiveness as a leading financial center, but not as high as before.

Figure 6 Accumulative ratios of FABS and underwriting services provided by Hong Kong for Chinese firms listed on NASDAQ and NYSE since 1997⁹

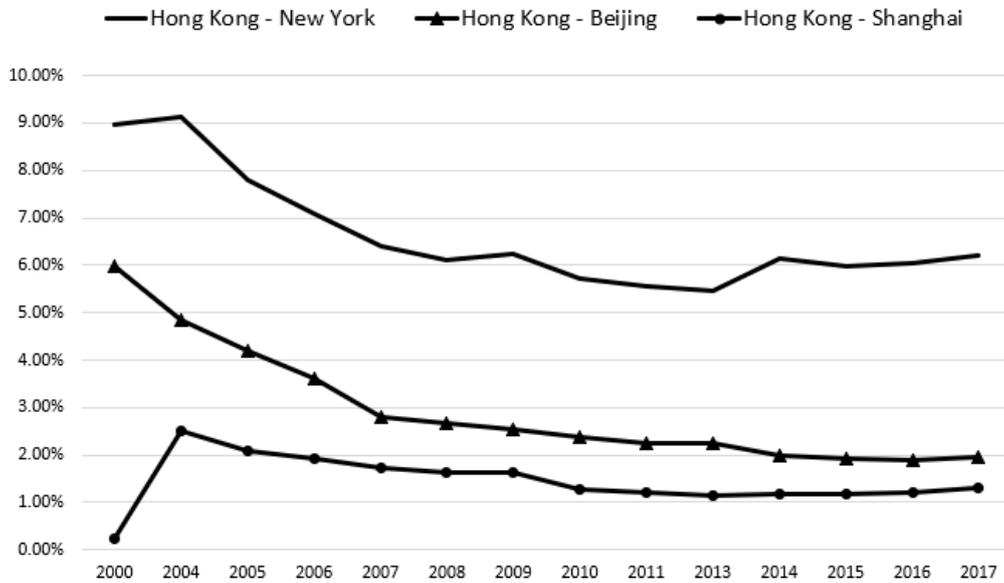


Source: authors

The changing pattern of collaboration networks of FABS firms has added some more evidence for this argument (Figure 7). The tie between Hong Kong and New York is the core axis for Chinese firms to integrate into global financial networks via US listings, it shows a quick decline during the first decade of the century. Although the Hong Kong - New York is still the most important dyad (see in Figure 2), this shifting reflects a remarkable re-configuration process of global financial networks shaped by Chinese US listing firms over time. Other important ties between Hong Kong and other financial centers also witness a reduction of importance, and the declining trend continues until around 2010 when these global financial networks came into a stable period. It indicates that Hong Kong's financial center function for bridging Chinese firms' integrations into global financial networks differed by stages.

⁹ Our statistics start from 1997 as in 1997 Hong Kong's FABS for the first time participated in Chinese firms' IPOs on NASDAQ or NYSE according to our dataset.

Figure 7 Accumulative ratios of FABS collaborations between Hong Kong and other cities



Source: authors

Although Hong Kong’s importance as a financial center is reduced in facilitating Chinese firms’ US listings, its offshore jurisdiction function role is stable. Under the ‘One Country, Two System’ framework, Hong Kong’s economic system is different from mainland China, but the economic ties between them are closed. In 1998 right after the handover, the Chinese government and the Hong Kong SAR government signed a Comprehensive Double Tax Arrangement (CDTA). This arrangement largely reduced the operation cost of Hong Kong firms in mainland China, which motivates the US-listed Chinese firms to set offshore SPVs in Hong Kong. As Hong Kong became the most important location for China’s inbound investments, this CDTA is five-time amended, respectively in 2006, 2008, 2010, 2015, and 2019. Contrary to other increasingly strict regulations on tax-avoidance of SPVs from other offshore jurisdictions since 2006 (Ng, 2013), the treaty benefits to Hong Kong were maintained after every amending. It reflects the official’s partial attitude of connivance upon the using of offshore SPVs in Hong Kong among US-listed firms and has furtherly strengthened Hong Kong’s advantages as an offshore jurisdiction over others. In the latest released *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area* approved by China’s state council in February 2019¹⁰, it clearly claimed to continually ‘improve Hong Kong’s status as an international financial center’ and to ‘support mainland cities to collaborate with Hong Kong and Macao’s financial institutions to develop offshore financial business under regulations’. This development plan is an important part of China’s long-term national strategy, thusly can well represent the attitude of the authorities.

In general, the prominence of Hong Kong’s offshore jurisdiction role lies in its political and economic relationship with mainland China, which according to the study of our case, unlikely to be changed soon. For Hong Kong, competition advantages of

¹⁰ http://www.gov.cn/zhengce/2019-02/18/content_5366593.htm#1

offshore finance and proximity to China are key reasons for its previous economic success (Lai, 2012; Meyer, 2008), which is natural to stick to. For the Chinese state, Hong Kong's gateway status is closely combined with China's national strategy, which needs Hong Kong to maintain a pre-eminent offshore jurisdiction.

Conclusions and discussions

Hong Kong is commonly acknowledged as a gateway city or a bridge connecting mainland Chinese cities with overseas cities. From a financial geography perspective, its bridging role can be understood as in an intersection of financial centers and offshore jurisdictions (Clark et al., 2015). In this paper, we investigate Hong Kong's bridging role in the Chinese economy's integration into global financial networks based on the Chinese firms' overseas listings on the US stock market.

Our analysis of Chinese firms' overseas listings has identified Hong Kong's surprisingly outstanding role in bridging Chinese firms' integrations into global financial networks. As a financial center, Hong Kong stands as a key FABS hub to facilitate Chinese firms to be listed on the US stock market. It is a main service provider in the FABS provision networks, a highly connected node in the networks of FABS collaborations, and have constructed highly developed networks of expertise and talents in the city. As an offshore jurisdiction, Hong Kong is one of the most important gateway cities for Chinese firms to raise financial capital globally. Most firms are either incorporated in Hong Kong, or they set a Hong Kong SPVs as a conduit between their offshore and onshore corporate structures. Our findings have echoed other research's understanding of Hong Kong's bridging role (Lai, 2012; Meyer, 2008), and have added some further empirical evidence to demonstrate how do the strategic nodes in global networks like Hong Kong profoundly involved in shaping the dynamic global economic landscape (Taylor et al., 2014).

This paper proposes a global financial network understanding of Hong Kong's enduring global competitiveness by studying Chinese firms' overseas listings. According to our analysis, this competitiveness stands on two points, that it is both a leading financial center and an irreplaceable offshore jurisdiction for China. The former should be largely owned to the legacy from the British colonial era and the globalization of multinational enterprises, and the latter lies in its political and economic relationship with mainland China.

This study indicates that the global financial network framework could be applied to analyze the role of a single city and its dynamic in the global financial markets. The results show that Hong Kong as a brokerage city within networks of varied scales is a strategic place for organizing global financial flows and shaping the global financial landscape. In particular, its bridging function to connect mainland China and the outside world is well revealed based on the real financial activities, which unpacks the real strength of Hong Kong as an international financial center and offshore financial jurisdiction. It also provides practical implications for Hong Kong to sustain its competitiveness as a financial center.

From a dynamic view, Hong Kong's bridging role has been changing over time. When Chinese firms started to explore overseas listing in the US to integrate into global financial networks, Hong Kong had been playing an extremely high-priority financial center to facilitate this process. As this phenomenon moved into a more stable stage, Hong Kong's role declined to some extent, but it is still a momentous promoter. More importantly, its offshore jurisdiction role keeps irreplaceable of Chinese firms' integrating into global financial networks, which is highly related to the Chinese central government's strategy. This echoes the calling for a more politically sensitive approach to studies global financial networks in further studies (Töpfer, 2018; Lai et al., 2020).

References

- Buckley, P. J., Sutherland, D., Voss, H., & El-Gohari, A. (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.
- Chan, T. (2007). Hong Kong as Asia's World City: Development Trends after the 1997 Handover. *Taiwan International Studies Quarterly*, 3(4), 177-216.
- Clark, G. L., Lai, K. P. Y., & Wójcik, D. (2015). Editorial introduction to the special section: Deconstructing offshore finance. *Economic Geography*, 91(3), 237-249.
- Coe, N. M., Lai, K. P., & Wójcik, D. (2014). Integrating finance into global production networks. *Regional Studies*, 48(5), 761-777.
- Derudder, B., & Taylor, P. (2016). Change in the world city network, 2000–2012. *The Professional Geographer*, 68(4), 624-637.
- Derudder, B., & Taylor, P. J. (2020). Three Globalizations Shaping the Twenty-first Century: Understanding the New World Geography through Its Cities. *Annals of the American Association of Geographers*. DOI: 10.1080/24694452.2020.1727308
- Derudder, B., Cao, Z., Liu, X., Shen, W., Dai, L., Zhang, W., Caset, F., Witlox, F., Taylor, P. J. (2018). Changing Connectivities of Chinese Cities in the World City Network, 2010–2016. *Chinese Geographical Science*, 28(2), 183-201.
- Dicken, P. (2011). *Global Shift: Mapping the Changing Contours of the World Economy (Sixth Edition)*. New York: Guilford Press.
- Gemici, K., & Lai, K. P. Y. (2020). How 'global' are investment banks? An analysis of investment banking networks in Asian equity capital markets. *Regional Studies*, 54(2), 149-161.
- Haberly, D., & Wójcik, D. (2015). Regional blocks and imperial legacies: Mapping the global offshore FDI network. *Economic Geography*, 91(3), 251-280.
- Hall, S. (2017). Rethinking international financial centres through the politics of territory: renminbi internationalisation in London's financial district. *Transactions of the Institute of British Geographers*, 42(4), 489-502.
- Huang, X., Kenney, M., & Patton, D. (2015). Responding to uncertainty: syndication partner choice by foreign venture capital firms in China. *Venture Capital*, 17(3), 215-235.
- Jääskeläinen, M., & Maula, M. (2014). Do networks of financial intermediaries help reduce local bias? Evidence from cross-border venture capital exits. *Journal of Business Venturing*, 29(5), 704-721.
- Jayantha, W. M., Lau, S. S., & Ganesan, S. (2001). The impact of a rapidly expanding service sector on private office property: the case of Hong Kong. *Review of Urban & Regional Development Studies*, 13(3), 221-243.

- Karreman, B., & van der Knaap, B. (2012). The geography of equity listing and financial centre competition in mainland China and Hong Kong. *Journal of Economic Geography*, 12(4), 899-922.
- Lai, K. P. (2012). Differentiated Markets: Shanghai, Beijing and Hong Kong in China's Financial Centre Network. *Urban Studies*, 49(6), 1275-1296.
- Lai, K. P., Pan, F., Sokol, M., & Wójcik, D. (2020). New financial geographies of Asia. *Regional Studies*, 54(2), 143-148.
- Li, V. Y. (2020). The Irreplaceable Outpost? Whither Hong Kong in China's Financial Future. *China Review*, 20(3), 261-278.
- Liu, K. (2020). Hong Kong: Inevitably irrelevant to China? *Economic Affairs*, 40(1), 2-23.
- Martinus, K., Sigler, T., Iacopini, I., & Derudder, B. (2020). The brokerage role of small states and territories in global corporate networks. *Growth and Change*. DOI: <https://doi.org/10.1111/grow.12336>
- Meyer, D. R. (2008). Structural Changes in the Economy of Hong Kong since 1997. *China Review*, 8(1), 7-29.
- Meyer, D. R. (2011). Small-world job mobility integrates Hong Kong with global financial centers. *Asian Geographer*, 28(1), 51-63.
- Meyer, D. R. (2020). The Hong Kong protests will not undermine it as a leading global financial centre. *Area Development and Policy*. DOI: 10.1080/23792949.2020.1738249
- Morrison, A. D., & Wilhelm, W. J. (2007). *Investment banking: Institutions, politics, and law*. Oxford: Oxford University Press.
- Ng, C. Y. (2013). International tax planning considerations and strategies-investing into and out of China. *International Tax Journal*, 39(2), 23-34.
- Palan, R., Murphy, R., & Chavagneux, C. (2013). *Tax havens: How globalization really works*. London: Cornell University Press.
- Pan, F., & Brooker, D. (2014). Going global? Examining the geography of Chinese firms' overseas listings on international stock exchanges. *Geoforum*, 52, 1-11.
- Pan, F., Bi, W., Lenzer, J., & Zhao, S. (2017). Mapping urban networks through inter-firm service relationships: The case of China. *Urban Studies*, 54(16), 3639-3654.
- Pan, F., Bi, W., Liu, X., & Sigler, T. (2020). Exploring financial centre networks through inter-urban collaboration in high-end financial transactions in China. *Regional Studies*, 54(2): 162-172.
- Pan, F., He, Z., Fang, C., Yang, B., & Liang, J. (2018a). 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, F., He, Z., Sigler, T., Martinus, K., & Derudder, B. (2018b). How Chinese financial centers integrate into global financial center networks: An empirical

- study based on overseas expansion of Chinese financial service firms. *Chinese geographical science*, 28(2), 217-230.
- Pan, F., Yang, C., Wang, H., & Wojcik, D. (2020). Linking global financial networks with regional development: A case study of Linyi, China. *Regional Studies*, 54(2), 187-197.
- Pažitka, V., Wojcik, D., & Knight, E. R. (2019). Construct validity in world city network research: From office location networks to inter-organisational projects in the analysis of intercity business flows. *Geographical Analysis*. DOI: 10.1111/gean.12226.
- Rabushka, A. (1997). *Freedom's fall in Hong Kong*. Stanford: Hoover Institution on War, Revolution and Peace at Stanford University.
- Ramón-Berjano, C. B., Zhao, S. X., & Ming, C. Y. (2011). Hong Kong's Transformation into a Service Hub: Regional Development within "One Country, Two Systems". *Asian Survey*, 51(4), 584-609.
- Ruan, J., & Zhang, X. (2012). Credit constraints, clustering, and profitability among Chinese firms. *Strategic Change*, 21(3 - 4), 159-178.
- Schenk, C. R. (2002). Banks and the emergence of Hong Kong as an international financial center. *Journal of International Financial Markets, Institutions and Money*, 12(4), 321-340.
- Shen, J. (2003). Cross-border connection between Hong Kong and mainland China under 'two systems' before and beyond 1997. *Geografiska Annaler: Series B, Human Geography*, 85(1), 1-17.
- Sigler, T., Martinus, K., Iacopini, I., & Derudder, B. (2019). The role of tax havens and offshore financial centres in shaping corporate geographies: an industry sector perspective. *Regional Studies*. DOI: 10.1080/00343404.2019.1602257
- Smart, A., & Lee, J. (2003). Financialization and the Role of Real Estate in Hong Kong's Regime of Accumulation. *Economic Geography*, 79(2), 153-171.
- Sung, Y., & Song, E. (1991). *The China-Hong Kong connection: The key to China's Open-Door policy*. Cambridge: Cambridge University Press.
- Taylor, P. J., & Derudder, B. (2004). *World city network: a global urban analysis*: Routledge.
- Taylor, P. J., Derudder, B., Hoyler, M., Ni, P., & Witlox, F. (2014). City-dyad analyses of China's integration into the world city network. *Urban Studies*, 51(5), 868-882.
- Töpfer, L. M. (2018). China's integration into the global financial system: Toward a state-led conception of global financial networks. *Dialogues in Human Geography*, 8(3), 251-271.
- Wang, J., Zhu, J., & Dou, F. (2012). Who plays the key role among Shanghai, Shenzhen and Hong Kong stock markets? *China & World Economy*, 20(6), 102-120.
- Wen, H., Zhang, Q., Zhu, S., & Huang, Y. (2020). Inter-and intra-city networks: how networks are shaping China's film industry. *Regional Studies*. DOI: 10.1080/00343404.2020.1807492

- Wójcik, D. (2013). Where governance fails: Advanced business services and the offshore world. *Progress in Human Geography*, 37(3), 330-347.
- Wójcik, D. (2018). The Global Financial Networks. In G. L. Clark, M. P. Feldman, M. S. Gertler & D. Wójcik (Eds.), *The New Oxford Handbook of Economic Geography*. Oxford: Oxford University Press.
- Wójcik, D., & Burger, C. (2010). Listing BRICs: Stock Issuers from Brazil, Russia, India, and China in New York, London, and Luxembourg. *Economic Geography*, 86(3), 275-296.
- Wójcik, D., & Camilleri, J. (2015). 'Capitalist tools in socialist hands'? China Mobile in global financial networks. *Transactions of the Institute of British Geographers*, 40(4), 464-478.
- Woo, J. J. (2015). Beyond the neoliberal orthodoxy: alternative financial policy regimes in Asia's financial centers. *Critical Policy Studies*, 9(3), 297-316.
- Yeh, A. G. O., Yang, F. F., & Wang, J. (2015). Producer service linkages and city connectivity in the mega-city region of China: A case study of the Pearl River Delta. *Urban Studies*, 52(13), 2458-2482.
- Zhao, S. X. (2013). Information exchange, headquarters economy and financial centers development: Shanghai, Beijing and Hong Kong. *Journal of Contemporary China*, 22(84), 1006-1027.