

# The brokerage role of Hong Kong in global financial networks: the case of mainland Chinese companies' US Listings

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**ABSTRACT:** This paper explores the prominent and enduring brokerage role of Hong Kong in facilitating mainland Chinese companies' US listings. We argue the brokerage role needs to be interpreted in both global and territorial dimensions. Situating Hong Kong in the global context, it utilises its connectivity in global financial networks, and especially its close tie to the network core, New York, to broker between global and local scales; In its territorial context, Hong Kong's territoriality, configured through its history, socio-economic milieu and regulatory environment, gives it the niche to broker between the western-dominant financial system and the peripheral Chinese local regions.

**KEYWORDS:** brokerage, Hong Kong, global financial networks, overseas listings, the US stock exchanges, China

## INTRODUCTION

Since the 1990s, the number of mainland Chinese companies'<sup>1</sup> listings on overseas stock exchanges has grown rapidly (Wójcik and Burger, 2010; Pan and Brooker, 2014; Zhang and Peck, 2016). This reflects China's continuing integration into global financial markets as it seeks external funds and knowledge necessary for economic development, such as in areas of corporate governance and regulatory reforms (Lai, 2011; Zhang and Peck, 2016; Pan et al., 2020a). In this process, Hong Kong has been an important intermediary between China and global financial markets (Lai, 2012; Meyer, 2018), notably that the Hong Kong stock exchange hosts the largest number of overseas-listed mainland Chinese companies. While Hong Kong's role as a capital market for mainland Chinese companies has been well documented (Karreman and van der Knaap, 2012; Lai, 2012; Meyer, 2018; Pan et al., 2018a), there is limited research into its brokerage role in connecting China with other important overseas stock markets – such as the US stock exchanges. In fact, the US stock exchanges are very significant to the overseas listing strategies of Chinese companies, as the second-largest overseas destination for Chinese companies to issue stocks (Pan and Brooker, 2014). The highly globalised stock exchanges in the US, especially that of New York, enable Chinese companies to access greater pools of capital and a wider range of institutional and private investors (Wójcik, 2011; Pan, 2020). In this paper, we examine Hong Kong's role in facilitating the US listings of Chinese companies, and demonstrate that it performs a vital brokerage role in the global financial networks (GFNs).

The GFN (Coe et al., 2014; Wójcik, 2018) approach conceptualises financial space as interlinked networks of finance and advanced business services (FABS) based in international financial centres, and offshore jurisdictions (Wójcik, 2018). As a prominent node in GFNs, Hong Kong is both a world-leading international financial centre and a Chinese offshore jurisdiction; this gives it distinctive characteristics as a midshore financial centre (Clark et al., 2015; Guo, 2017) and enables particular

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<sup>1</sup> The companies originated and operate largely in mainland China.

brokerage role in the US listings of Chinese companies. Based on the case study of China Mobile's overseas listing, Wójcik and Camilleri (2015) highlight the significant role of Hong Kong in intermediating between mainland China and global financial markets through its competitive FABS and offshore characteristics. In this paper, we extend these insights by investigating 301 US listings of mainland Chinese companies from 1994 to 2020, to provide a longitudinal perspective and more extensive analysis of Hong Kong's role in overseas listings.

In conceptualising Hong Kong's role in these processes, we draw upon a growing literature on the emergence of brokerage cities under contemporary economic globalisation (Martinus et al., 2021; Sigler et al., 2021). These brokerage cities have distinctive functions in intermediating between scales and/or between regions in the world urban-economic system. While there is a large body of research that has drawn upon connectivity in global networks to measure different cities' positions as brokerages (Beaverstock et al., 1999; Taylor and Derudder, 2004; Haberly and Wójcik, 2015), they tend to focus on network ties rather than the actual intermediation processes that underpin such network connectivity and the brokerage roles of cities. Through the lens of the US listings of mainland Chinese companies, we frame Hong Kong's brokerage role as a dual process based on both network and territorial dimensions. In the network perspective, Hong Kong draws upon its connectivity in GFNs and with the network core New York to broker between global and local scales. In the territorial perspective, Hong Kong benefits from its territorial contexts of historical, political, and regulatory, and brokers between the western-dominant financial system and the peripheral Chinese local regions.

This research contributes to further conceptual development of the GFN literature by introducing a brokerage approach to study the roles of cities within GFNs, in bringing together both network and territorial dimensions of cities into GFN analysis. Empirically, this paper also contributes to longstanding debates about Hong Kong's status as an enduring international financial centre (Chan, 2007; Li, 2020; Liu, 2020;

Bennett, 2021; Meyer, 2021), and how its 'gateway' function has evolved over time. The rest of the article is structured as follows. The next section elaborates on the brokerage role of cities within GFNs, from which we generate our analytical framework. We also review existing studies to ground our understanding of Hong Kong's role in China's US listings. The third section outlines our data sources and the methodology in this study. In the fourth section, we present our findings and arguments on Hong Kong's brokerage role in terms of its global and territorial contexts, before concluding with some discussions about the significance of these findings and future research agenda.

## **BROKERAGES CITIES IN GLOBAL AND TERRITORIAL DIMENSIONS**

A brokerage refers to an intermediary actor that facilitates transactions between two parties lacking access to each other (Marsden, 1982: 202). In other words, the brokerage lives on the very existence of various barriers and serves as a mechanism to overcome such barriers to facilitate information and material flows. Barriers in geographical space are common and diverse, such as regional market segmentations, geopolitics, cultural differences, economic development level, and so forth. To intermediate spatial flows between these extensive barriers, some brokerage cities are emerging under contemporary globalisation (Martinus et al., 2021; Scholvin et al., 2021; Sigler et al., 2021). In terms of how these cities develop their brokerage role, recent research argues that these brokerage cities are either brokering between different scales, or brokering between different regions (Sigler et al., 2021).

First, cities undertake their brokerage role by brokering between scales. The research on world cities and global cities has provided substantive insights in this dimension, in demonstrating how particular cities develop as key nodes of command and control in the world economy mainly through global corporate activities and associated financial flows (Friedmann and Wolff, 1982; Sassen, 1991). The economic linkages between these cities constitute a world city network (WCN) to broker between integrated global

markets and other local spaces (Taylor and Derudder, 2015). In this vein, the global network of world cities acts as brokerage between global and local scales, and the cities in this network are strategic places in enabling the geographical transfer of value (Taylor et al., 2014; Derudder and Taylor, 2018; Parnreiter, 2019). However, this approach has been criticised for its narrow focus on how the brokerage role is formed by cities' extra-local and transnational components while developmental processes *within* cities tend to be sidelined (Brenner, 1999; Derudder and Witlox, 2010). While highly revealing in terms of the transnational networks through which commodities and capital are distributed and controlled, such work has arguably been less effective at detailing and explaining the on-the-ground intraregional transformations that are fundamental to how places actually intersect with and shape global economic activities. Such an approach runs the risk of 'subordinating place to the network' (Kelly, 2013: 91) with implicit assumption that the preconditions for a city's intermediary role are automatically pre-established, without acknowledging the complex and dynamic processes (e.g. historical, socio-cultural, political, regulatory) in those sites that has led to brokerage functions (Haberly and Wójcik, 2015; Hall, 2021). In short, the territorial context of a city plays a pivotal role in explaining the strategic role of certain cities in the global economy (Scholvin et al., 2021; Jankowski, 2022), i.e. as a broker role intermediating global flows (Martinus et al., 2021).

This leads us to a second point regarding how cities also perform brokerage roles between different regions in a more territorially specific context. Established accounts emphasize the specific advantages of some cities in mediating between certain closely-connected communities within inter-regional networks (Martinus et al., 2021; Operti and Kumar, 2021; Yang and Zhu, 2021). These network communities to be brokered usually have some hierarchical relationship, such as the network cores and peripheries. For example, Yang and Zhu (2021) find that semi-peripheral cities in financial networks have advantages in brokering between core regions and peripheral regions, and Scholvin et al. (2021) illustrate how cities draw upon their positions in the global value chains to connect downstream hinterlands. While the research on cities brokering

between regions naturally brings their specific territorial contexts into the analysis (Martinus et al., 2021), they tend to be less attentive to the extra-local and transnational network components of cities.

Following Robinson (2005), we conceptualise brokerage cities in terms of “both wider [global] networks and territorialising processes” (p.763). The two processes are distinct but work in tandem to shape the diverse functions of cities under globalisation. Therefore, both a global network perspective and territorial approach are required to understand how the city realises its brokerage functions. Using this dual approach, we view cities brokering between global and local scales as operating through a global networking process, while cities brokering between different regions embody a territorial process. As such, cities should be understood as both nodes within global networks that broker between scales, and territorial entities that brokering between regions.

In this paper, we mobilise the above conceptual framing of brokerage cities to analyse Hong Kong’s brokerage role in GFNs, specifically in terms of the US listings of Chinese companies. By adopting this framework, we argue that key localities (e.g., financial centres, offshore jurisdictions) act as brokerage between scales in GFNs. Various local economies are brokered by these nodes in GFNs to connect with highly integrated global financial markets. For instance, through the case of Linyi, a Chinese prefectural-level city, Pan et al. (2020a) shows how particular cities in GFNs, such as Singapore and Hong Kong, play strategic roles in connecting Linyi’s local economy with global financial markets (Pan et al., 2020a). The brokerage role of GFNs is also deeply embedded in the territorially-specific historical, political, and regulatory contexts (Haberly and Wójcik, 2015; Gemici and Lai, 2020). Different node cities in GFNs broker between the core markets of global finance and other peripheral regions through their particular territorial attributes, which could emerge from place-specific characteristics such as colonial legacies (Haberly and Wójcik, 2015), geographical proximity to regional economies (Gemici and Lai, 2020), regulatory exceptions in the case of offshore

jurisdictions (Clark et al., 2015), or region-specific skills and costs (Haberly et al., 2019).

## **HONG KONG AND CHINESE COMPANIES' OVERSEAS LISTINGS**

The proliferation of overseas listings in certain major international markets is deemed a salient feature of China's corporate economy since the 1990s (Zhang and Peck, 2016). These overseas listings boosted China's regional development by injecting necessary capital and knowledge (Pan et al., 2020a). As mainland China lacked an established and efficient domestic capital market at the end of the 20<sup>th</sup> century (Walter and Howie, 2012), this process was largely facilitated by overseas financial centres and FABS firms within GFNs (Wójcik and Camilleri, 2015). In this process, Hong Kong plays a particularly prominent brokerage role both as a listing destination and through the services of FABS firms based in Hong Kong facilitating further overseas listings on other international stock exchanges.

As an overseas listing destination, Hong Kong houses the most mainland Chinese overseas listed companies and the Hong Kong stock exchange has helped a great number of mainland Chinese companies to raise capital from an international market (Karreman and van der Knaap, 2012; Pan and Brooker, 2014; Pan et al., 2018a). However, the extent to which China's overseas listings in Hong Kong could be regarded as a highly integrated global market remains in question; as Wójcik (2013) noted, 'Global finance starts on Wall Street and in the City of London'.

While Hong Kong has certainly been successful in attracting mainland Chinese companies for overseas listings, New York is more successful in its brokerage role, with the largest number of foreign IPOs and market capitalisation in the world on its two main stock exchanges – New York Stock Exchange (NYSE) and NASDAQ (Pan, 2020). New York has become the second largest destination for mainland Chinese companies in overseas listings (Pan and Brooker, 2014). The first overseas listing from mainland China, that of Brilliance Auto's going public on NYSE, was a landmark event in terms of

China's integration into global financial markets. By the end of 2020, there are over 300 mainland Chinese companies successfully listed in New York, especially for Internet and technology companies, with some very high-profile listings. For example, the Chinese tech company Alibaba Group made the world's largest IPO on NYSE in 2014. A listing on New York's stock markets is an attractive option not only for listed companies, they also present lucrative opportunities for FABS firms—for financial intermediaries it is much more profitable to facilitate the listing of Chinese companies in New York compared to Hong Kong (Lockett et al., 2021).

While there is a large literature focusing on Hong Kong's role as listing destination for Chinese companies (see, for example, Karreman and van der Knaap, 2012; Pan et al., 2018a), few studies examine its role in facilitating China companies' US listings. By focusing on Hong Kong's brokerage role in the US listings of Chinese companies, we seek to provide more substantive insights into the integration of Chinese companies into GFNs and the vital role of Hong Kong in this process.

We regard Hong Kong's competitive strength as a brokerage city as emanating from both global and territorial qualities. First, Hong Kong has well established global network ties with other world leading financial centres (Beaverstock et al., 1999; Taylor et al., 2014; Derudder and Taylor, 2020). Such global networks are vital infrastructures for the integration of local economies into the global economy, and Hong Kong's strong connectivity in these global networks contributes to its brokerage role in the US listings of Chinese companies. Second, Hong Kong is in a privileged position in connecting China with the major international financial markets due to several territorial advantages. As a former British colony, Hong Kong has developed regulatory and legal frameworks, and business environments align well with Western economies and financial markets (Tsang, 2004; Woo, 2016; Meyer, 2018). Under the 'one country, two systems (OCTS)' framework, Hong Kong retained high level of autonomy after its handover back to China, which allowed Hong Kong to maintain a capitalist system distinct from that of mainland China (c.f. Li, 2020, Petry, 2021) but close to the West



(Peck, 2021). In terms of regulation, the Hong Kong SAR government and the mainland authorities have reached a consensus on building Hong Kong into a gateway for foreign capital to enter the mainland (Li, 2018; 2020). That translated into the practice of light regulation and corporate-friendly taxation in Hong Kong, as well as various preferential treatment policies to promote economic linkages between Hong Kong and the mainland.

Besides investigating whether Hong Kong plays an important brokerage role in the US listings of Chinese companies, we also examine any changes in Hong Kong's brokerage role over the past three decades. On the one hand, since the 1990s, China has developed its domestic financial markets greatly. Some mainland Chinese financial centres, such as Shanghai and Shenzhen, have grown in prominence in terms of capital markets and diversity of financial institutions (Lai et al., 2020; Pan et al., 2021), which might rise to challenge Hong Kong's role in connecting China with the world. On the other hand, the development of China's domestic financial markets still progresses along particular pathways that are distinctive from Western-style liberal financial markets, which presents various challenges and limitations for listing firms and investors (Petry, 2021; Alami and Dixon, 2020) but gives prominence to Hong Kong's status as an intermediary (Li, 2018; 2020). Moreover, with the rise of China's economy, its international geopolitics circumstances are also changing rapidly. For example, analysts recently point to worsening political-economic ties between the US and China due to geopolitical tensions (Lockett et al., 2021; Schindler et al., 2021), whilst those ties have been of vital importance in China's previous development and are at the foundation of Hong Kong's brokerage role (Wójcik and Camilleri, 2015). Taken together, these characteristics and developments are shaping the nature and extent of Hong Kong's brokerage role in the US listings of Chinese companies.

## **DATA & METHODS**

To investigate the brokerage role of Hong Kong, we draw upon the data of 301

mainland Chinese companies' IPOs from 1994 to 2020 on NASDAQ and NYSE. This list of companies is compiled from Zero2IPO<sup>2</sup>, a financial database that provides IPO information such as the stock code, listing dates and company information. In addition to company and IPO data, we also compiled information on services provided by FABS firms that facilitated the listings. This part of the data is drawn from the prospectuses of the listed companies, which is available on the US Securities and Exchange Commission website<sup>3</sup>. The prospectuses disclose information of the underwriters (investment banks), legal consultants (law firms), and auditors (accounting firms) who handled the IPOs, which include their firm names and locations. Other supplementary data on the listed companies and FABS firms are drawn from publicly available sources such as company websites, annual reports, and other public reports.

To map the spatial structures of GFNs that facilitate Chinese companies' US listings, we utilise the inter-city network method developed in previous research (Pan et al., 2020b) to deliver the quantitative analysis. We assume that when working on a same IPO project, different FABS firms will have to collaborate with one another in sharing information and expertise. Through projecting these inter-firm collaboration relationship into spatial network structures, we could visualise how cities in GFNs connect with others to promote global financial activities, in this case, capital raising through overseas listings and associated FABS activities.

In addition to the network structures of inter-firm relationships, we also examine the corporate structures of the listed companies, as reported in their IPO prospectuses. In practice, overseas-listed Chinese companies usually have complicated corporate structure due to considerations such as taxation planning, legal and regulatory requirements, and secrecy (Buckley et al., 2015). For most cases, the listed entities are

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<sup>2</sup> A financial database provided by Qingke Group, a leading data company providing detailed information on IPOs and venture capital investments. More details about this database, please see: <https://www.pedata.cn/data/index.html>.

<sup>3</sup> See <https://www.sec.gov/edgar/searchedgar/companysearch.html>

offshore companies incorporated to satisfy the listing requirements from the host stock markets, while the operational entities with economic activities are in mainland China. Between the listed entities and the operational entities, there usually exists a few other corporate entities in the broader corporate structure, which are incorporated in certain offshore jurisdictions. Analysing such corporate structures provide information on how the capital raised from stock markets flow through particular jurisdictions and then to the listed companies' origins. This adds an additional layer of insights into the brokerage role of Hong Kong in facilitating such complex flows and transactions.

In the next section, we present our key findings according to two dimensions. First, we analyse the global network dimension of Hong Kong's brokerage role in connecting Chinese companies to global finance (in US stock markets), focusing particularly on the significance of Hong Kong based FABS firms. Second, we examine the territorial aspect of Hong Kong's brokerage role in bridging the core of the global finance, in this case, the US stock markets, and peripheral regions, which are the listed companies' origins, highlighting its strategic role in structuring a chain of Special Purpose Vehicles (SPVs) in various offshore jurisdictions.

## **FINDINGS**

### ***'GLOBAL' HONG KONG***

To examine whether Hong Kong plays an important brokerage role in Chinese companies' US listings, we investigate the IPO processes of 301 US listings of mainland Chinese companies. Our analysis reveals the significant role of Hong Kong-based FABS in the listing process. FIGURE 1 shows that a large proportion of these IPOs were brokered by the investment banks, law firms or accounting firms in Hong Kong. Over the period of 1994-2020, Hong Kong-based FABS firms have been involved in 52.8% of the IPOs. Amidst some fluctuations over the years, the proportion represented by

Hong Kong FABS firms remains generally high, especially in recent years (2017-2020)<sup>4</sup>. TABLE 1 offers more details regarding the most important cities in providing FABS services for US listings, with Hong Kong playing a particularly important role, second only to New York (expectedly, as the listing destination). The prominence of Hong Kong in underwriting services (offered by investment banks and securities firms) is particularly noteworthy, as these firms plays a leadership role in coordinating the listing process with other FABS firms, marketing to potential investors and financing the deals in some cases (Gemici and Lai, 2020; Morrison and Wilhelm, 2007; Wójcik, 2018). Earlier research highlights that overseas listings require FABS expertise in home and host locations due to factors such as regulatory requirements and local knowledge (Wójcik, 2011), which in the case of Chinese companies' overseas listings would be Beijing, Shanghai, and New York. Given that Hong Kong is neither the home nor host locations of these firms, the prominence of its FABS firms in the overseas listing process is revealing in terms of how it is able to act as strategic intermediary and broker between places and economic actors.

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<sup>4</sup> The recent rise might be due to mainland Chinese FABS firms' increasing business presence in Hong Kong (Lockett and Pong, 2020), whose Hong Kong subsidiaries are competitive in brokering mainland Chinese companies' global financing. Our later analysis on the Hong Kong-based leading FABS firms supports this view.

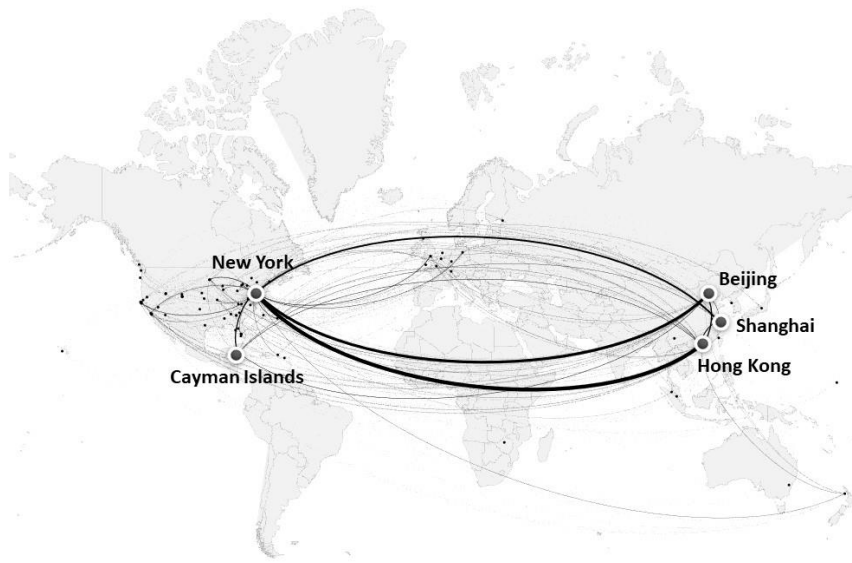


**FIGURE 1** Hong Kong in brokering mainland Chinese companies' US listings

**TABLE 1** Service provision frequency through FABS firms in different sectors

FABS sectors	#	City	Number of FABS provisions	%
FABS in total	1	New York	724	33.97%
	<b>2</b>	<b>Hong Kong</b>	<b>296</b>	<b>13.89%</b>
	3	Beijing	245	11.50%
	4	Shanghai	148	6.95%
	5	Cayman Islands	97	4.55%
#Underwriting services	1	New York	486	47.46%
	<b>2</b>	<b>Hong Kong</b>	<b>178</b>	<b>17.38%</b>
	3	Minneapolis	49	4.79%
	4	London	30	2.93%
	5	Berlin	24	2.34%
#Legal services	1	New York	192	25.33%
	2	Beijing	171	22.56%
	3	Cayman Islands	95	12.53%
	<b>4</b>	<b>Hong Kong</b>	<b>63</b>	<b>8.31%</b>
	5	Shanghai	46	6.07%
#Accounting services	1	Shanghai	99	28.37%
	2	Beijing	67	19.20%
	<b>3</b>	<b>Hong Kong</b>	<b>55</b>	<b>15.76%</b>
	4	New York	46	13.18%
	5	London	9	2.58%

From a GFN perspective, it is the networks of inter-city FABS collaborations that enable financial centre cities to broker between global and local scales. We therefore examine the network structures of inter-city FABS collaborations involved in these US listings and Hong Kong's network positions therein (FIGURE 2). Rather than highlighting cities' positions as FABS providers, these structures shed more light on how cities in GFNs connect with others to promote the overseas listings. In FIGURE 2a, New York takes the lead in accounting for 56.0% of the total intercity FABS collaborations, with Hong Kong coming in second with at 30.4%. The FABS collaborations between New York and Hong Kong alone account for 13.3%. These suggest that the network positions of New York and Hong Kong, as well as the FABS ties between these two cities specifically, comprised a crucial structure in the network. FIGURE 2b maps the core network of investment banking specifically, in which the nexus between Hong Kong and New York shows an unparalleled leading position - New York accounts for 67.7% of the total intercity FABS collaborations. Hong Kong follows by 38.3%. The FABS collaborations between New York and Hong Kong accounts for 23.3%. The two networks embody the structure that brokers the globally integrated financial markets and Chinese regions via local companies' US listings. New York led the formation of such networks. Hong Kong, however, is the networks' most important outreach in Asia. It worked closely with the network core, New York, to undertake the brokerage role.



(a) All



(b) Investment banking

**FIGURE 2** The spatial structures of the global financial networks in Chinese companies' US listings.

To examine the formation of the networks and Hong Kong's enduring brokerage role, we turned to a more fine-grained firm-level analysis. TABLE 2 shows the leading Hong

Kong- based FABS firms in terms of their role in the US listings. Of these top six companies, five are all Hong Kong subsidiaries/branches of FABS firms from mainland China or western countries, with AMTD Global Markets Limited (ranked sixth) as the only Hong Kong company that is locally founded and headquartered. Therefore, Hong Kong's position in the above networks is largely based on its function as a strategic outpost of western and mainland Chinese financial institutions. First, the locational strategies of western international financial institutions have long been a defining feature in forging the 'global' Hong Kong in financial networks (Schenk, 2002; Meyer, 2018). By hiring local talents and keeping close to local and regional the clients, such business presence in Hong Kong enables the western international financial institutions to serve the mainland Chinese markets. For example, among the 46 IPOs (of Chinese companies seeking US listings) underwritten by the Goldman Sachs, 45 were undertaken by its Hong Kong subsidiary. Second, a more recent trend we captured here highlights the rise of Mainland Chinese financial institutions in international capital markets (Lockett and Pong, 2020), whose locational strategies also contributed to impacted Hong Kong's brokerage role (Meyer, 2018; Gemici and Lai, 2020). These mainland Chinese financial institutions typically utilise Hong Kong as a platform to expand their business onto international markets (Pan et al., 2018b). In this case, China Renaissance Securities (Hong Kong) has successfully brokered 26 IPOs only since 2012. CICC (Hong Kong) underwrote 17 IPOs after 2010. While some recent studies emphasized the increasing influence of the capital from mainland China (especially the Chinese state capital) on Hong Kong's economy (Wang-Kaeding and Kaeding, 2019; Lockett and Pong, 2020; Bennett, 2021), our finding further suggests that Hong Kong's brokerage role within GFNs also reflect this trend. Notwithstanding the former accounts' particular attention to the Chinese state capital, our results show that both state-owned (CICC and CLAS) and private-owned (China Renaissance) FABS firms are significant in this process.



**TABLE 2** Important Hong Kong based FABS providers for China's US listings

Rank	Firm	Sector	Number of IPOs	Company information
1	Goldman Sachs (Asia) LLC	Investment Bank	45	The Asian regional headquarter of Goldman Sachs. Goldman Sachs is a global leading investment bank headquartered in New York. Goldman Sachs (Asia) was established in 1994 and oversees Goldman Sachs' business in Asian markets.
2	Maples and Calder (Hong Kong) LLP	Law Firm	38	The Hong Kong office of the multi-jurisdictional law firm Maple and Calder headquartered in the Cayman Islands. The Hong Kong branch was established in 1995 to provide Asian clients with advice on the laws of the British Virgin Islands and the Cayman Islands.
3	China Renaissance Securities (Hong Kong) Ltd	Investment Bank	26	A subsidiary of China Renaissance Capital Investment Incorporation, a privately-owned Chinese investment bank headquartered in Beijing. The subsidiary was established in Hong Kong in 2012, aiming to provide securities services for Chinese companies' global financing.
4	CICC (Hong Kong) Ltd	Investment Bank	19	An offshore intermediate holding company for CICC's overseas businesses established in 1997. Its parent company, CICC (China International Capital Corporation), is a leading Chinese state-owned investment bank headquartered in Beijing.
5	CLSA Ltd	Investment Bank	15	CLSA Ltd was previously a subsidiary of Credit Lyonnais, a historic French bank. It was later acquired by CITIC Securities, a leading Chinese state-owned investment bank, in 2013.
6	AMTD Global Markets Limited	Investment Bank	9	A Hong Kong local financial institution founded by the Hong Kong business magnate, Mr. Li Ka Shing in 2003. Its parent company, CK Hutchison, is under Mr. Li's family group.

Sources: The authors, based on company websites and annual reports

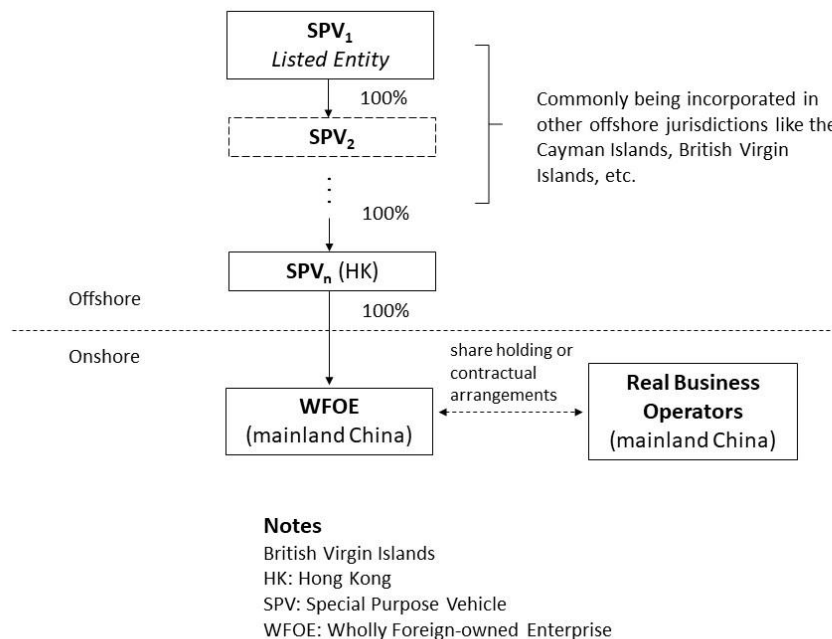
As Meyer (2018: 133) pointed out, 'Hong Kong's firms focus on the global market'. By exploring the case of Chinese companies' listings on the US stock markets—arguably the most globalised stock markets (Wójcik, 2011; Pan, 2020)—we see that Hong Kong based FABS firms give the city a prominent position in mediating international capital flows. However, we argue that this pro-eminence of Hong Kong's brokerage role between global and local scales should be understood as a specific global networking process led by New York. Based on home-regions and global reach, previous studies have identified several different globalisation and corresponding networking processes (Taylor et al., 2013; Haberly and Wójcik, 2015; Derudder and Taylor, 2020). In the context of this research, as the most globalised stock markets are dominated by

the US stock exchanges, New York plays an exceptional leading role in the formation of such global financial markets and networks. Hong Kong's colonial history has left an institutional and cultural legacy much closer to the western model, which includes free market economy, free exchange control, and a conducive environment to English speakers in terms of language and business culture (Schenk, 2002; Chan, 2007; Ramón-Berjano et al., 2011; Meyer, 2018). These features remain after the handover under China's OCTS policy, and enable the continuation of Hong Kong's brokerage role in GFNs, as underpinned by financial globalisation processes dominated by western markets and institutions. In this sense, although some studies suggest that the recent rise of mainland Chinese FABS sector may reconfigure Hong Kong's brokerage role, it does not challenge New York's network core position or change Hong Kong's brokerage role in such networks.

### ***HONG KONG IN ITS TERRITORIAL CONTEXT***

While the previous section unpacked Hong Kong's brokerage role in facilitating China's US listings by understanding it as a global process, our analysis in this section turns to Hong Kong's brokerage role in its territorial context. In overseas listings, the financial capital raised will typically flow through some offshore jurisdictions and then enter the issuer origins (Buckley et al., 2015; Haberly and Wójcik, 2015). To trace the territorial pathways, one method is to investigate listed companies' corporate structures (Buckley et al., 2015). It is common to find special purpose vehicles (SPVs) in such corporate structures, which are entities set up with little economic substance but for capital transfer purposes. We analysed the corporate structures of 243 US-listed Chinese companies out of 301 with available data, and found that that nearly three-quarters of the sample companies have set up Hong Kong SPVs. Figure 3 shows a generalised corporate structure that is use by two-thirds of this sample when listing on the US stock markets. In this setup, the listed company would first incorporate a SPV<sub>1</sub> as the listed entity in the Cayman Islands or the British Virgin Islands. Second, the listed entity would then transfer the raised financial capital to other SPVs (e.g. SPV<sub>2</sub>, SPV<sub>3</sub>...) and ultimately inject it into its Hong Kong SPV. Finally, the Hong Kong SPV brings

the foreign capital into mainland China for subsequent business operations. It is particularly notable that Hong Kong is always at the very gateway position linking the onshore mainland Chinese companies and the offshore world in such structures.

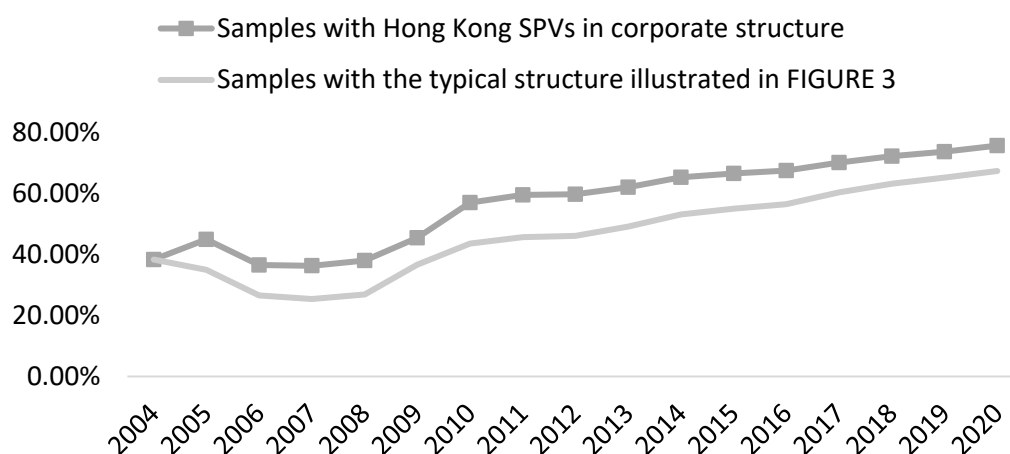


**FIGURE 3** A typical corporate structure of Us-listed Chinese companies

Source: The authors

Our findings highlight several important territories charged with bringing foreign investment into mainland China, including Hong Kong, the Cayman Islands, and the British Virgin Islands. While the significance of these offshore jurisdictions has been noted in other studies (see Haberly and Wójcik, 2015; Martinus et al., 2021), these accounts shed little light on the distinctions between the jurisdictions. Our analysis of US listings from China provided richer evidence on a one-way trajectory of international financial capital, in which Hong Kong clearly stands as the crucial gateway to the mainland. We argue that this gateway position of Hong Kong reflects its territorial brokerage role between the core of the global financial system (e.g., the overseas listing destination) and peripheral regions (i.e., the listed companies' origins). According to the statistics in FIGURE 4, this brokerage role of Hong Kong shows strong

continuance. Over the years, the use of Hong Kong SPVs has been increasingly popular among mainland Chinese companies that went public in the US, and a steady proportion of them is relying upon Hong Kong as the final gateway to bring international capital inflows.



**FIGURE 4** Accumulative makeups of the corporate structures<sup>5</sup>

Placing Hong Kong in its territorial context, its brokerage role identified here may be explained in the following three aspects. **First**, Hong Kong’s history as a Chinese city formerly under British colonial rule gives it a privileged position in connecting the western-led global financial system and mainland Chinese local regions on the periphery of the system. At the same time, as a Chinese city, Hong Kong’s close social-economic tie to the mainland has never diminished, even during the colonial period from 1842 to 1997. Historically, Hong Kong’s industries grew by receiving large-scale industrial relocation from the mainland after China’s civil war ended in 1949, and many of the labour-intensive industries later moved back to the mainland in the 1980s (Xue, 1997). These underpin the active industrial and trade ties that continue to connect Hong Kong and the mainland. To western capital, Hong Kong is a convenient conduit

<sup>5</sup> Since there are only 4 samples with available corporate structure data listed before 2004, the presented statistics here start from 2004 in order to reduce the potential statistical error from too few samples.

to expand their markets in Asia, especially to mainland China. To mainland China, Hong Kong is close to the core of the global financial system, and presents important opportunities and learning models for its own financial markets and institutions (Lai, 2011). For these reasons, Hong Kong becomes a transfer hub for western financial capital to seek profits in mainland China, as well as a bridge for the mainland to access the core global financial market.

**Second**, Hong Kong's political status as an independent jurisdiction under OCTS enables it to be a compromised solution to mediate state ideological differences. The contemporary global financial system is fundamentally built on the US structural power in money and finance (Emmenegger, 2015; Potts, 2020). On the one hand, China has been mobilising state-interventionist tools domestically to resist this hegemonic order (Petry, 2021). On the other, China has benefited much from the west-led globalisation over past decades, and its economy is intrinsically tied up with contemporary globalisation and overseas capital (Schindler et al., 2021). Against this background, Hong Kong stands out as a vital buffer space. While financial centres on mainland China still substantially limit the market participation of foreign capital, Hong Kong is the Chinese financial centre with a fully open capital account. In view of this, the Chinese central government has correspondingly designed favourable policies that enable capital in Hong Kong to enter the mainland. In the context of our research, the most direct reason for the listed companies to incorporate a Hong Kong SPV for its mainland entity is for tax planning purposes (Buckley et al., 2015). According to Ng (2013), under the Comprehensive Double Tax Arrangement (CDTA) initially signed between the Chinese central government and Hong Kong SAR in 1998, and the unification of Enterprise Income Tax Laws for Chinese domestic and foreign enterprises in 2008, using Hong Kong SPVs as intermediaries to control entities in mainland China could reduce the withholding tax charged on dividends from 10 percent to 5 percent. This presents significant advantage for Hong Kong even if listed companies also use SPVs in other offshore jurisdictions, and enables specific brokerage role in aligning a chain of SPVs for overseas listings.

**Third**, the regulatory framework implemented in Hong Kong is geared towards the purpose of building a gateway for both inward and outward investment. Although China has CDTAs with most major economies in the world, they lack the same regulatory climate as in Hong Kong, which includes light-touch regulation on companies, a simple taxation system, and low taxation rates (Clark et al., 2015). This regulatory framework is secured under the OCTS principle, and continues to draw both sides into closer economic relationships. For example, in the latest development plan of the Greater Bay Area of Guangdong-Hong Kong-Macao<sup>6</sup>, the central government demonstrates commitment to support Hong Kong's status as an international financial centre and to support cities in mainland China to collaborate with Hong Kong in offshore financial business (also see in Peck, 2021). Territorial processes underpinning the formation of the Great Bay Area, especially in economic ties, labour flows and policy dimensions, and set in the wider context of national and regional development, are important for understanding Hong Kong function in brokering core markets of global finance and more peripheral regions.

## **CONCLUSION**

In examining Hong Kong's role in mainland Chinese companies' US listings, we found that Hong Kong played a prominent and enduring brokerage role in facilitating this process over the past few decades. In our analysis, Hong Kong's brokerage role is twofold. First, it utilises its connectivity in GFNs, and especially its close tie to the network core, New York, to broker between global and local scales. Second, its territoriality, configured through its history, socio-economic milieu and regulatory environment, gives it the niche to broker between the western-dominant financial system and the peripheral Chinese local regions.

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<sup>6</sup> The Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area is available at: [http://www.gov.cn/zhengce/2019-02/18/content\\_5366593.htm#1](http://www.gov.cn/zhengce/2019-02/18/content_5366593.htm#1)

By placing Hong Kong in its global context, we argue that its brokerage role via connectivity in GFNs is closely connected to the very globalisation process that leads to the network formations, which in our case, the extensive globalisation of the US financial markets (Derudder and Taylor, 2020). That again echoes the earlier western-centric critics to the research of world and global cities (Godfrey and Zhou, 1999; Robinson, 2002), and supports the research efforts in putting a more prudent focus on identifying different globalisation strategies in analysing top-down generated global networks (Taylor et al., 2013; Derudder and Taylor, 2020). In this vein, while lots of established studies produce rich insights through unpacking the overall patterns of global economic flows (Haberly and Wójcik, 2015; Taylor and Derudder, 2015; Sigler et al., 2021), there can be explanatory deficiencies in the formation of such patterns as they are driven by various and overlapped globalisation processes. Our research indicates the possibility to draw on specific globalisation processes, such as China's integration into the US stock markets, to scrutiny the thereafter formulated networks.

By placing Hong Kong and its brokerage role in its territorial context, we illustrate how GFNs are embedded in local and regional dynamics, and the importance of subnational and intra-regional processes in shaping how places and actors connect to GFNs. It indicates the growing importance of exploring the key geographical units in GFNs, including the international financial centres and offshore jurisdictions, from both the global network and territorial perspectives. While the previous GFN research tends to deploys a firm-centric analysis (Coe et al, 2014; Wójcik, 2018; Haberly et al., 2019), our research highlights the importance of further research to incorporate crucial territorial actors, such as the state, into the relational analysis of cities and strategic nodes in GFNs (Töpfer, 2018).

Although there has been a notable growth of mainland Chinese FABS firms and its domestic financial markets, Hong Kong's brokerage role in the US listings of Chinese companies has stayed largely consistent and prominent. This has developed on the basis of China's increasing integration in GFNs amidst the US-led financial globalisation

process, as well as the distinctive territorial processes formed and preserved in Hong Kong. Future threats to Hong Kong's pre-eminence as a brokerage city could be caused by increasing geopolitical and geoeconomics tensions between China and the US, as seen in the trend of increasing US-listed Chinese companies returning to Hong Kong or mainland stock exchanges (Lockett et al., 2021). However, these tensions remain uncertain and hard to forecast future directions. The analysis in this paper is based on investigating a western-led financial globalisation process, and does not consider the implications of the emerging growth and importance of China in shaping such networks and processes (see, for example, Derudder and Taylor, 2020; Lai et al., 2020). The increasing significance of Chinese cities in global networks and the growth of Asian economies more broadly could present opportunities for exploring changing configurations of Hong Kong's brokerage role in the coming decades.

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