
RESEARCH ARTICLE

The Current Situation and Opportunities for the Development of Green Finance in Hong Kong: Taking Green Bonds as an Example

Yuhan Luo

School of Business, Central South University, Changsha 410017, China

Corresponding Author: Yuhan Luo, **E-mail:** lyh1111694986257@outlook.com

ABSTRACT

On 1 July 2022, the sixth Government of the Hong Kong Special Administrative Region took office, and the construction of a more prosperous, stable, and sustainable Hong Kong has become the consensus of many parties, indicating that a new era of Hong Kong's financial and economic development has been established. According to Hong Kong's commitments under the Paris Agreement, the development of the financial industry has already entered a new era - green finance. Green finance is an important step taken in line with the needs of the ecological environment; the purpose is to guide the flow of funds to save environmental resources and protect the ecological environment industry, guide enterprises to pay attention to green environmental protection in production and operation, and guide consumers to form a green consumption concept. This article takes green bonds as an example through the analysis of the development status and advantages of green finance in Hong Kong and then looks forward to the development prospects and opportunities of green finance in Hong Kong.

KEYWORDS

Hong Kong; Green finance; Green bonds; Development advantages; Future outlook

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1. Introduction

Hong Kong, China, is the world's third largest financial center after London and New York and is an important international financial, trade, and shipping center. The Hong Kong Green Finance Association, established in the SAR, has far-reaching influence in the world and has always gathered a large number of financial talents and financial capital. Under the basic national policy of "one country, two systems", Hong Kong's exchanges and communications with international business have made it a well-deserved "financial hub" for the urban agglomeration of the Greater Bay Area, providing a window for the development of the Bay Area to vigorously support and connect with the world. In recent years, the Hong Kong government has implemented a number of measures to vigorously support the development of green finance and launched the green finance certification scheme, green bond issuance scheme, funding scheme, etc., which has increased people's acceptance of green financing; The first government bonds and the "Guangdong-Hong Kong-Macao Greater Bay Area" theme bonds have become shining points, with the diversification of green bond issuers, the diversification of capital uses, and the proportion of low-carbon buildings reaching a record high. At the same time, the development of the green credit market has also mushroomed; not only Hong Kong local enterprises but also more mainland and foreign enterprises have joined Hong Kong to develop green financing projects. Green financial cooperation promotes Hong Kong's integration into the overall situation of national development, helps Hong Kong enhance its international influence, and ensures the sustainable development of Hong Kong's financial economy.

2. Literature Review

So far, the existing research has mainly analyzed Hong Kong's green financial industry products and their development from the perspectives of government policies, its own development advantages, cooperation in the Guangdong-Hong Kong-Macao Greater Bay Area, the "Belt and Road" strategy, and the current market demand. In terms of strategy, such as the 14th Five-Year Plan and

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the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, Hong Kong plays an important role and enjoys a unique position of connecting the mainland and international financial markets, which is suitable for financial institutions. Extremely attractive. In the context of CEPA policy implementation, Hong Kong's green finance has developed rapidly. In terms of development advantages, Hong Kong has a mature capital market system, a sound financial regulatory system, a stable market infrastructure, and internationally recognized green finance professional certification services (Yu et al., 2020). As one of the green financial products, Hong Kong's green bond market has flourished in recent years, and its issuers are diversified, mostly Chinese mainland and overseas institutions. Led by the green building industry, it supports the development of multi-sector green projects. Ensure that green bonds issued by the government meet the requirements of the Green Bond Principles 2018, the Hong Kong Climate Action Blueprint 2030+, the Paris Agreement, etc. (Lu et al., 2021). Wu Feng, 2021). Looking back at the existing research mainly provides a general description of the green finance industry, and the various studies lack a systematic methodology, especially in the research on the development opportunities and directions of green finance in Hong Kong. This paper takes "The Status Quo and Opportunities of Green Finance Development in Hong Kong" as the research center through the method of literature research, makes up for the gaps in existing research, deepens the topics, and provides academic reference for Hong Kong's green finance industry.

3. Development Status and Advantages of Green Finance in Hong Kong

3.1 The Development Status of Green Finance

Green and low-carbon development is a long-term task and an inevitable trend in the comprehensive transformation of a country's economic and social development. In September 2020, China clearly proposed a "carbon peak" in 2030 and "carbon neutrality" in 2060. "The goal, whether in the Chinese mainland or the Hong Kong SAR, is to embark on a far-reaching economic transformation across the board." This also puts forward higher requirements for social and enterprise development than before. Green finance is environmental protection, energy saving, clean energy, transportation, construction, and other fields of project investment and financing, project operation, risk management, and other financial services; in recent years, Hong Kong's green finance development has achieved initial results, Hong Kong's green finance policy framework continues to improve, a variety of green financial products in practice continue to mature, whether we can seize the opportunities brought by sustainable development and transformation and upgrading, Hong Kong needs to be clear about the current situation and advantages of its own green finance. Exploring green bonds from the perspective of information disclosure, green standards, product innovation, etc., will help financial market participants understand emerging markets and actively participate in green investment and financing (Fu & Liu, 2020).

In the process of achieving the strategic goals of "carbon peaking" and "carbon neutrality", green finance is gradually becoming important support and guarantee for the low-carbon development of Hong Kong's green economy. Taking the current development of green bonds as an example, the HKSAR Government introduced the Government Green Bond Scheme in the 2018-19 Budget, which is expected to be capped at HK\$100 billion. The Government's Green Bond Scheme includes Climate Action in Hong Kong, Pollution Prevention and Control, Renewable Energy, Energy Efficiency and Conservation, Water and Wastewater Management, Green Buildings, Clean Transport, etc. (He et al., 2018; Lu et al., 2021). It demonstrates Hong Kong's determination and perseverance in low-carbon development and also provides an industry standard for green bond products in the financial market. It has promoted Hong Kong's financial economy to conform to the trend of the times and achieve sustainable development. Significant and efficient results have been achieved so far. Hong Kong's fertile land has attracted large green bond issuers from different countries and regions, with rich content and high amounts. With the development of society, the green financial system is in the process of continuous improvement.

In 2021, green and sustainable debt issued from Hong Kong reached US\$14 billion; The size of the green debt that meets CBI's green definition reached \$10.4 billion, up fourfold year-on-year and the highest annual issuance on record. At the same time, the Hong Kong market is also actively exploring other types of labeled themed debt, including sustainable development bonds and transformation finance products. In terms of where the financing arrangements are made, the amount of green and sustainable debt finance arranged and issued in Hong Kong reached nearly US\$57 billion in 2021, a fourfold year-on-year increase; Green and sustainable bonds totaled US\$31.3 billion, accounting for one-third of the Asian market; Loans totaled US\$25.4 billion. On the other hand, the final issuance of the first batch of green retail bonds was HK\$20 billion, making it the largest green retail bond in the world to date (Lu & Yu, 2022). People usually prefer an investment with stable returns, and if this investment can be conducive to green and low-carbon development, it is actually a two-pronged approach. Therefore, the government's first green retail bonds can meet people's investment needs and provide an excellent choice. For Hong Kong, this initiative will not only promote the development of the local retail bond market but also expand the range of its green financial products.

According to the Hong Kong government's budget for the 2022-2023 fiscal year, Hong Kong will take a series of measures to stimulate the economy in the future, and considering the improvement of the epidemic situation in Hong Kong, continuing to issue additional government green bonds is a necessary measure for long-term development. The funds raised by the Government

through the issuance of green bonds will be invested in related projects such as government infrastructure projects that meet the green requirements, and these green financial measures will give citizens the opportunity to achieve their financial goals and protect the environment, further making Hong Kong stand as the world's premier green finance hub.

3.2 Hong Kong has Obvious Advantages in the Development of Green Finance

In May 2021, the Hong Kong Government launched a three-year Green and Sustainable Finance Subsidy Scheme, which has enabled the wider use of Hong Kong's financing platforms and professional services, and the growing prosperity of green finance activities in Hong Kong, making Hong Kong a regional business hub and recognized by more financial product service providers and review bodies. Hong Kong's green and sustainable debt market has grown rapidly over the past few years and has become one of the largest and most dynamic green and sustainable financial markets in Asia. Hong Kong is a top issuer of green and sustainable bonds, with about one-third of Asia's bonds arranged for financing and issuance. The desired results were achieved in both the breadth and depth of the process. With the introduction of favorable policy measures and the further integration of the Greater Bay Area, Hong Kong will assume a greater role as the center of the Guangdong-Hong Kong-Macao Greater Bay Area. Green finance will be further developed due to its unique advantages in promoting cross-border green and sustainable investment and other developments.

Advantages of the current development of green finance in Hong Kong:

(1) The system of "one country, two systems". In the past 25 years since its implementation in Hong Kong, it has ensured the prosperity and stable development of all aspects of Hong Kong. Both other industries and today's green finance have long been firmly supported by the state. The Chinese mainland has a huge financial market, providing a broad space for the survival and development of Hong Kong's green financial products. In addition, Hong Kong's legal system is sound and perfect, with strong protection from the Constitution, the Hong Kong Basic Law, and the National Security Law, which provides it with important legal protection. On the other hand, under the guarantee of the "two systems", Hong Kong implements a capitalist system, a completely open financial market, and a high degree of openness in entry and exit can ensure the free flow of goods and funds and has a huge international commercial market. This is undoubtedly the biggest advantage in the development of green financial products in Hong Kong.

(2) Unique geographical location. Located at the southern tip of the East Asian continent, along the coast of the South China Sea, Hong Kong is a natural deep-water haven and an important transportation hub with a curved coastline conducive to the development of the maritime economy. Having both land and sea and backing the hinterland of the mainland of the motherland is also conducive to expanding the coastal economy and international market and providing the necessary geographical conditions for its long-term development. The rapid development of all walks of life has also laid a solid material foundation for Hong Kong to become a financial and commercial center in Southeast Asia and even the world and an important hub in the world. Since 2015, the number of green financial bonds issued in Hong Kong has continued to grow.¹ The belt and road and the construction and development of the Guangdong-Hong Kong-Macao Greater Bay Area have also brought great development space and opportunities for green finance; international investors have been optimistic about Hong Kong's financial market, and many large international financial institutions have decided to make full use of Hong Kong's advantages, expand the business and increase investment in Hong Kong, in order to seek their own further development.

(3) Hong Kong is an international financial center, which has long been shouldered with New York and London. With foreign banks as the core, such as HSBC Group and Bank of China Group; The banking institutions are extremely dense, maintain close economic and trade exchanges with most countries and regions in the world, and are highly open in the economy. The Asian regional headquarters of many multinational consortiums are located here, and they have an unshakable position in the Asia-Pacific region. Hong Kong has become an important international capital market, with a sound financial system and infrastructure. Attracting talents from all over the world, a variety of financial information is gathered here, with strong financial innovation and research and development capabilities. The variety of green financial products is becoming more and more abundant, which has made indelible contributions to low-carbon development.

In the process of global economic transformation and low-carbon sustainable economic development, Hong Kong should give full play to its advantages as a financial centre and take the initiative to assume a pivotal role by virtue of its favorable conditions in many aspects. At the same time, it is necessary to continue to expand and guide international funds to match high-quality green projects, actively serve the "carbon peak" and "carbon neutrality" strategies formulated by the state, and make every effort to promote Hong Kong's low-carbon goals, develop green and sustainable finance, and promote green economic transformation.

4. Future Outlook for Green Finance in Hong Kong

Based on Hong Kong's timetable under the Paris Agreement and Hong Kong's commitments to climate and environmental protection, in the Hong Kong Climate Action Blueprint 2030+ report clearly pointed out Hong Kong's carbon emission reduction goals and plans by 2030: by 2030, carbon emissions will be reduced by 65% to 70% from the 2005 level. That is, the total carbon emissions will be reduced by 26% to 36%, and per capita emissions will reach 3.3 to 3.8 tons in 2030. To support Hong Kong's transformation into a low-carbon economy and reduce the impact of climate change on Hong Kong's environment, the Hong Kong Government's bureaux and departments have implemented a number of measures and issued policy documents on key environmental issues in Hong Kong, formulating a blueprint for low-carbon and sustainable development (Xiong, 2022).

Over the past few years, the Hong Kong government has launched various initiatives to support green finance. The demand for green financial products is expected to grow exponentially, driven by increasing investment opportunities, supportive policies, and infrastructure under development. Over the next five years, Hong Kong plans to issue a variety of green bonds in value, totaling more than HK\$170 billion. In the future, we will continue to work closely with the mainland of the motherland to enhance Hong Kong's attractiveness as a one-stop platform by providing financial services such as green financing to mainland enterprises. Among them, securities companies in Hong Kong, as important participants in domestic and foreign capital markets, should play their own irreplaceable role and contribute their own strength to the development of green finance (Zhang, 2021).

Direction of Green Finance in Hong Kong:

(1) Adhere to the concept of green finance and promote the practice of green development: low carbon has been a worldwide topic for a long time, which requires everyone's efforts. Individual behavior can also have a great impact on the environment, and everyone should do their best to contribute to greenhouse gas emission reduction, resource conservation, and environmental protection. The society is fully publicized and mobilized, enterprises provide support and take action, and citizens form a green consumption concept and participate in a green lifestyle. As an advocate of green finance, the government provides opportunities for all to participate in green development; As the forerunner of green development, enterprises help the whole society achieve the goal of carbon peaking and carbon neutrality, enhance the transformation ability of the green financial services industry, and let green be realized in development practice; The public should actively understand the direction of green development, invest rationally, pay attention to the construction of the ecological environment, and participate in ecological practice.

(2) Tilting more financial resources towards green projects: At present, Hong Kong has made great progress in green projects, and further financial resources need to be provided. Many banking and insurance institutions have increased their investment in all aspects of green finance, and more talents have served products and business models. With the goal of focusing on low-carbon development, we will support green and low-carbon circular finance to make great progress and development. However, there are still gaps between different institutions, especially small and medium-sized financial institutions, whose development is hindered and restricted and whose ideas are not novel and effective enough. All kinds of financial institutions should fully grant the rights of responsible persons and relevant departments, focus on the development of green-oriented finance, allocate more resources for them, strengthen the training of employees and workers, and cultivate talents in finance. In addition, it is also necessary to establish and improve business standards and rules and regulations, control and govern green finance data, improve management methods, establish an effective evaluation and assessment system, and reward workers who can innovate and strive to make progress, so as to ensure that green finance can be effectively carried out and sustainable development.

(3) Actively carry out green financial product innovation: Enterprises have a multi-faceted demand for green financial products in the low-carbon transformation, and more green new products have a broad market space. The innovative development of green financial products can effectively solve the current development difficulties of small and medium-sized environmental protection enterprises, such as large investment amounts, tight funds, unknown risks, and long project construction periods. In terms of innovation, with the goal of enhancing and realizing the value of green products, we provide a full range of financial services, and can innovate new credit products such as carbon sink pledge loans and ecological loans, and can also carry out diversified businesses such as green mergers and acquisitions, green asset securitization, and green insurance through the issuance of green bonds.

(4) Achieve cross-regional and field cooperation: Strengthen financial cooperation in the Guangdong-Hong Kong-Macao Greater Bay Area with Hong Kong as the center, and build a world-class green financial market. It is necessary to fully recognize its own advantages, integrate into the overall situation of national development, seize the major opportunities of the strategic development of the Greater Bay Area, and actively carry out all-round exchanges and cooperation. Hong Kong's high degree of openness, internationalization, the rule of law, and diversification provide the necessary conditions and advantages for its development, and the most circulating information and huge capital flows are all things that mainland cities in the bay do not have. Hong Kong should give full play to its role as an international financial centre and take the lead in seizing the opportunity

of the rapid development of green products (Feng, 2022). As China's unique international two-way investment and financing platform, it should not only become a domestic financial center but also develop into a global green financial center, further enhancing Hong Kong's status and influence in international finance.

Hong Kong is determined and capable of becoming a green financial centre in the Guangdong-Hong Kong-Macao Greater Bay Area, East Asia, and the world. In the future, we should control the global low-carbon trend and opportunities and strive to make Hong Kong's green finance industry at the forefront of the world on the basis of realizing its own target value and helping China achieve green economic transformation and achieve more long-term development.

5. Conclusion

Thanks to the Hong Kong government's efforts to develop green finance, various green product markets have performed well. In particular, the green bond market is larger, the growth rate is significantly faster, and the currency is more abundant. Other financial products also have broad prospects, such as the gradual increase in the scale of green loans. Hong Kong is also ushering in new opportunities; China's mainland has huge financing needs, and the Greater Bay Area is also taking Hong Kong as the leader; under the opportunity of the "Belt and Road", Hong Kong can connect the development of green industries between the mainland and the world, play a bridge role, and help the transformation and development of the mainland's green economy and finance. Under the protection of a variety of sound legal systems, Hong Kong can use its mature capital market to expand the service targets of green finance to a wider global scope, enjoy a more important position in the world, and provide funds and green projects for its investors, and achieve global green "connectivity". In the future, Hong Kong needs to focus on multiple aspects, play a variety of roles, make efforts in regulatory and innovation, and build on the green finance experience of developed countries to achieve more rapid development. The Hong Kong government should have a clear and unambiguous standard, improve the framework of the financial system, and ensure the transparency of green financial transactions in order to obtain a larger market size. In general, Hong Kong's green finance industry has immeasurable prospects, and the road to development is full of opportunities and challenges.

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