

unrecognized and in the thousands—because of diplomatic machinations is the biggest tragedy of the Great War. And later, the lack of success of these nations to form a real and human organization of mutual respect, led to disparate kinds of government—the lack of support for China, for example, made it ripe for communism. This notable example shows the impact of diplomatic actions.

A Financial Centre for Two Empires: Hong Kong's Corporate, Securities and Tax Laws in its Transition from Britain to China. By DAVID C. DONALD, with contributions by JIANGYU WANG and JEFFERSON P. VANDERWOLK. Cambridge: Cambridge University Press, 2014. 279 pp. \$137 (cloth)

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Written by legal experts and practitioners, this book might be expected to be a formal and technical exploration of specialized domains written in inaccessible legalese. Instead, the work deftly illuminates the larger political and economic dynamics that underlay Hong Kong's adaptation and transformation under two political masters and in two drastically different historical epochs. Central to the volume is the examination of how the institutional framework of Hong Kong, a relatively small and open economy, evolved after the colonial era, and how the territory tried, with mixed success, to strike a delicate balance between international economic competitiveness and the welfare, cohesion, and equality of the local population. Such a theme makes the book valuable to Asia specialists who might be looking for a systematic review of the city's development challenges, and to students of political economy who might be interested in understanding the challenges a high-income economy like Hong Kong faced during its transition.

These issues are inseparable from the historical context dissected in Chapter 1 of the book. To their credit, instead of restating clichéd wisdom about the virtues of the rule of law, the authors trace the territory's dependence on the hybrid system devised in Britain but implemented in a Chinese setting. Although this system advanced the British commercial interests of the time, the colonial governance toolkit became an outmoded template that was detached from the needs of the mass public. Caretaker-style governance was staunchly defended by the elites, but was far from sufficient to meet the expectations of a society demanding that the government address pressing challenges like rising inequality and a lack of inclusive participation in political affairs. Time-honored non-interventionist principles veiled inconvenient realities of an increasingly unequal distribution of wealth. Newspaper headlines of socio-economic problems and the inertia of the authorities ran alongside those trumpeting the city's tenuous success.

Chapter 2 navigates Hong Kong's economic structure and focuses on the mode of corporate control. In-depth examinations of the flagships of key economic sectors reveal the preponderance of substantial shareholders who owned a small set of corporate groups that dominated the local economy. The chapter goes on to discuss how this risked internal governance problems like power abuses at the expense of minority investors. The ascent of mainland Chinese enterprises as major market players and the diverse places of incorporation among publicly traded companies are also discussed, and it is shown that this added to the complexity of effectively regulating the capital market and ensuring a level playing field for stakeholders.

Chapters 3 to 5 survey the landscape of Hong Kong's corporate and securities laws, tax regime, and their enforcements. Most of these laws and practices were alien to the city, having been transplanted from foreign jurisdictions (most notably the UK and US) as and when needs arose, but the book charts how they demonstrated their effectiveness—despite the incongruities of origin and local context.

Although this demonstrated the adaptability of local institutional frameworks, two major challenges were becoming ever more salient. The colonial legacy had served Hong Kong's business community well, but it remained unclear whether it could comfortably sit alongside a new political master and mainland business interests that were poised to eclipse the influence of homegrown companies. Corporate governance issues internal to the city did not command sufficient attention and intervention from the government, which might have compromised Hong Kong's reputation in the long term. This is considered in Chapter 5, where the market regulatory frameworks are mapped out and the track record of public and private enforcement is assessed. It shows a fragile (and often tilted) balance between the boosting of market competitiveness and the protection of ordinary investors' interests.

Chapter 6 examines the broader question of how Hong Kong's standing as an international financial center has been shaped by the handover to China, and it analyzes major capital market developments from legal and policy angles. In scrutinizing the listing of SOEs and the takeoff of offshore renminbi businesses since the 2000s, the authors tease out three dynamics—integration, competition and erosion—that they see as having complicated Hong Kong's position. While the city was blessed by preferential policy treatments from central mainland authorities, the resultant cross-border economic integration elicited challenges from onshore financial hubs (notably Shanghai), and generated perennial concerns that a shrinking economic distance would expose Hong Kong to economic and political risks from China. The expanding presence of the offshore arms of the red capitalists also heightened the prospect of interventions in Hong Kong's regulatory affairs by the party-state that might erode Hong Kong separation from the mainland economy. To sustain its niche, the authors conclude that the city should tread a path that plugs Hong Kong into the Chinese economic orbit but retains its distinct rule of law—a vestige of British rule that makes the city distinctive from both its onshore and offshore peers.

This book provides a rigorous and historically grounded account of the making of Hong Kong as an international financial center. At a time when the city is experiencing much self-doubt about its position relative to China and the global economy, and facing political-economic challenges from both within and without, the volume's insights should be heeded not just by academic audiences but also by policymakers and concerned members of the public.

Notwithstanding these merits, readers would benefit from a better synergy between the chapters written by different authors that concern corporate and securities laws, taxation policies, and their enforcement. Further, the trenchant analysis of the defects of Hong Kong's caretaker governance in Chapter 1 might have been recapped and elaborated upon alongside the description of the tensions brought about by mainlandization and internationalization that feature in the last chapter.

Ultimately, successful financial power abroad begins with strong supports at home. Hong Kong has unfortunately overlooked this Achilles' heel in the past, but it is time now, if it is not too late, to meet the challenge with the city's proven agility and adaptability.