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Shifting Capital

The Rise of Financial Centres in Greater China

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Outline

- **Why a report on financial centres in Greater China?**
- **China's financial Landscape and Beijing's Role**
- **Key findings on: Shanghai, Hong Kong, Shenzhen, Taipei**
- **Policy Recommendations**

Why a report on financial centres in Greater China?

- China's financial integration will be the most important structural change in the global economy over the next decade
- The process will result in open capital account and fully convertible currency in China influencing the evolution of global imbalances
- China's strategic focus on developing world class financial centres
- Internationalisation of the RMB

The report focuses on

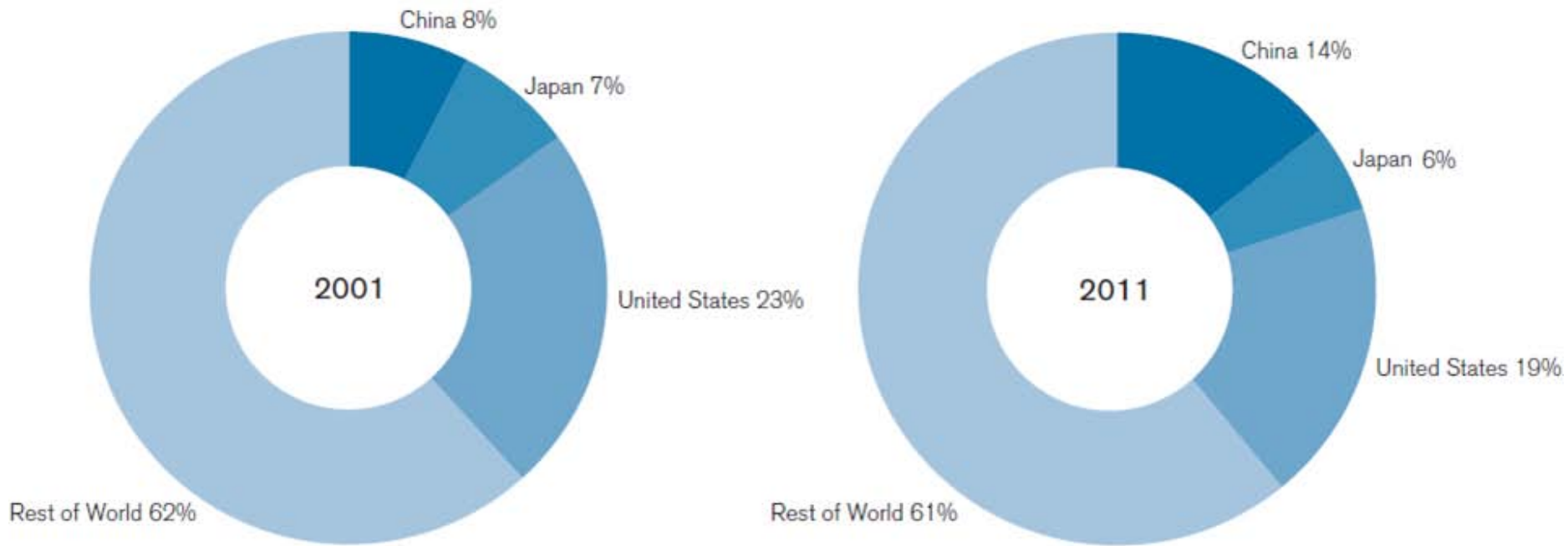
- The steps that China is taking to reform its financial sector and examines these incremental changes as shown in the development of the financial centres
- The Greater China region and so includes the four financial centres in Greater China – Shanghai, Shenzhen, Hong Kong and Taipei.
- How each of these cities fits into the bigger picture of Beijing's overall strategy for mainland China's financial development
- How each of those four cities would interact, evolve and develop in the future.

Main conclusions

- With Beijing setting limits to the external use of the RMB and deciding the pace of the capital account liberalization, the development of these centres will be a policy-driven process and markets will follow the lead.
- China's financial integration will be a process by which it asserts its financial influence in the region and expands its financial periphery.
- The RMB and the process of its internationalisation lie at the heart of this process.
- If and when the policy barriers become less dominant, market forces will ultimately lead capital, business and talent to cities where the market is most efficient, cost-effective and profitable, and where it is most pleasant to live.

China's growing real economy

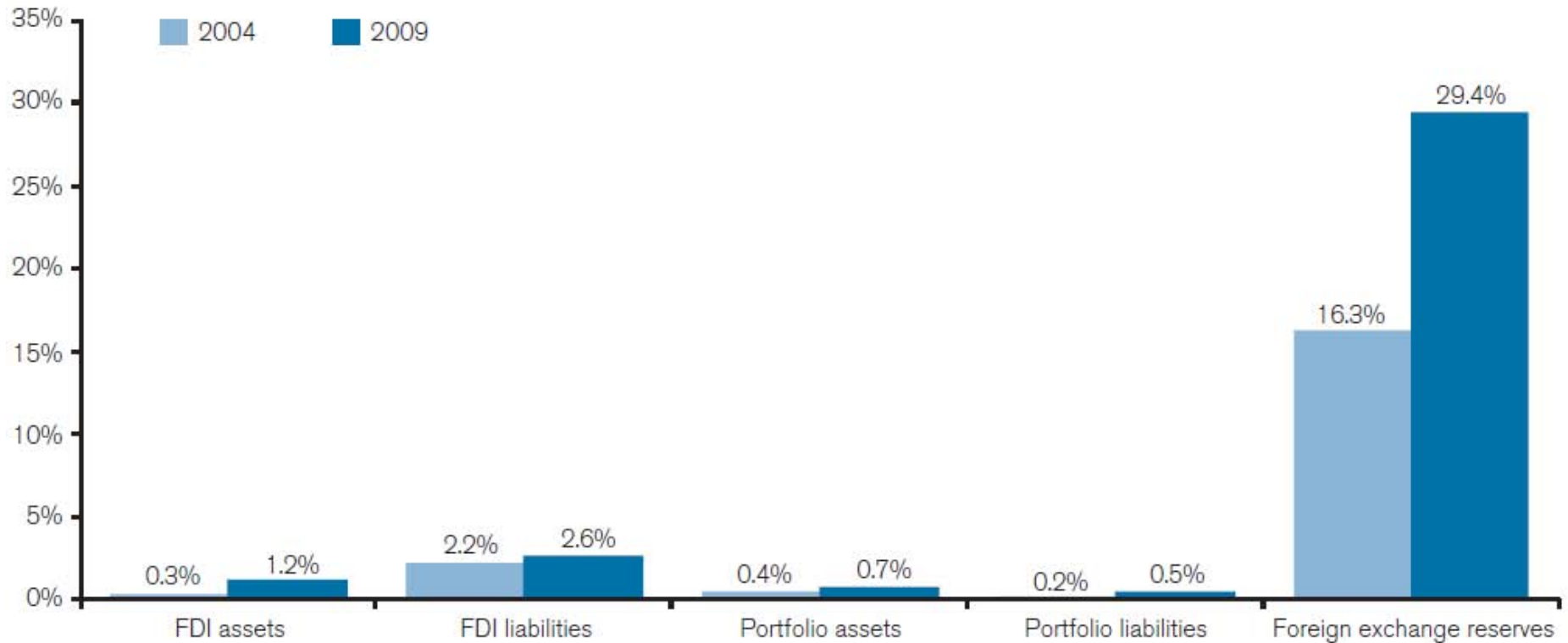
GDP based on purchasing-power-parity (PPP) share of world total (2001, 2011)



Source: IMF, 2011

High trade integration, but low financial integration

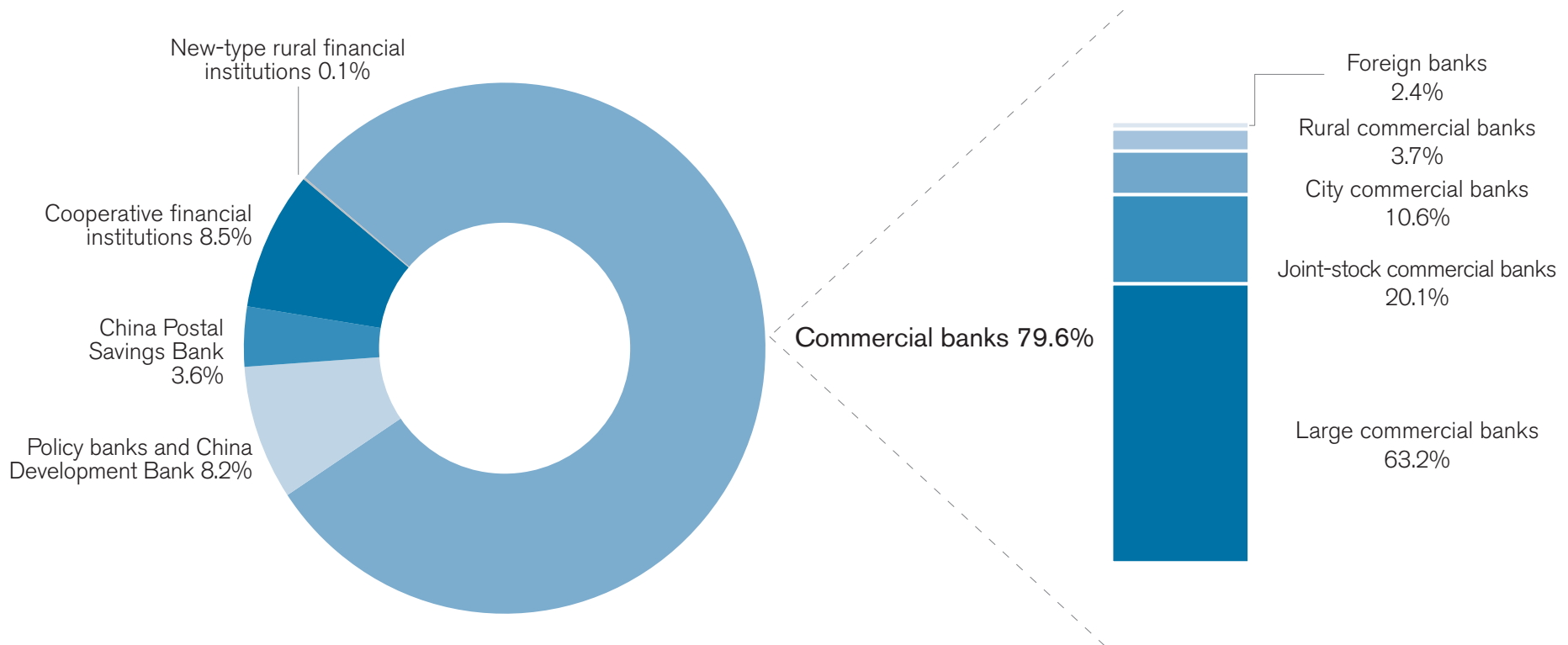
China's International Investment Position (% of global stocks)



Source: SAFE, UNCTAD, IMF CPIS, DB Research Institute Analysis

The 'all-mighty' banks

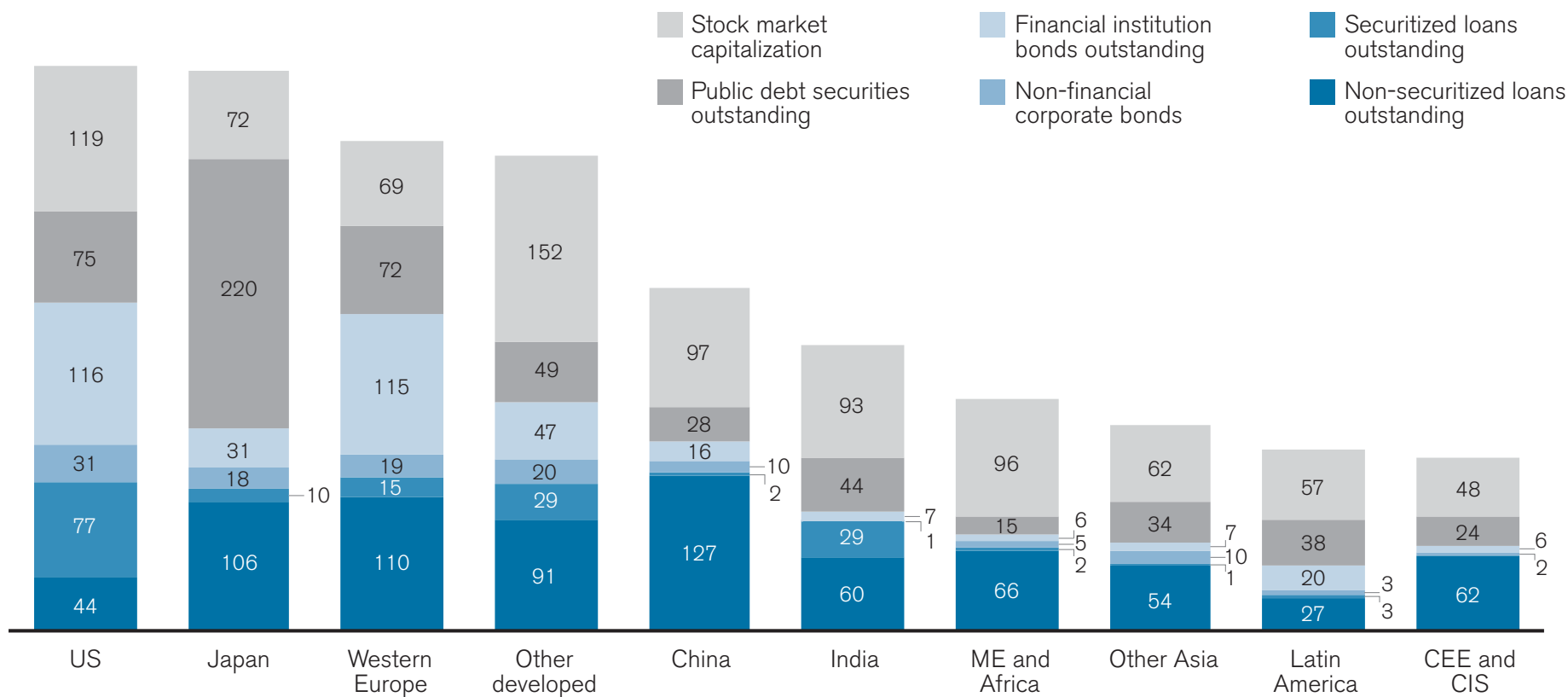
Banking structure in mainland China by % of total banking assets



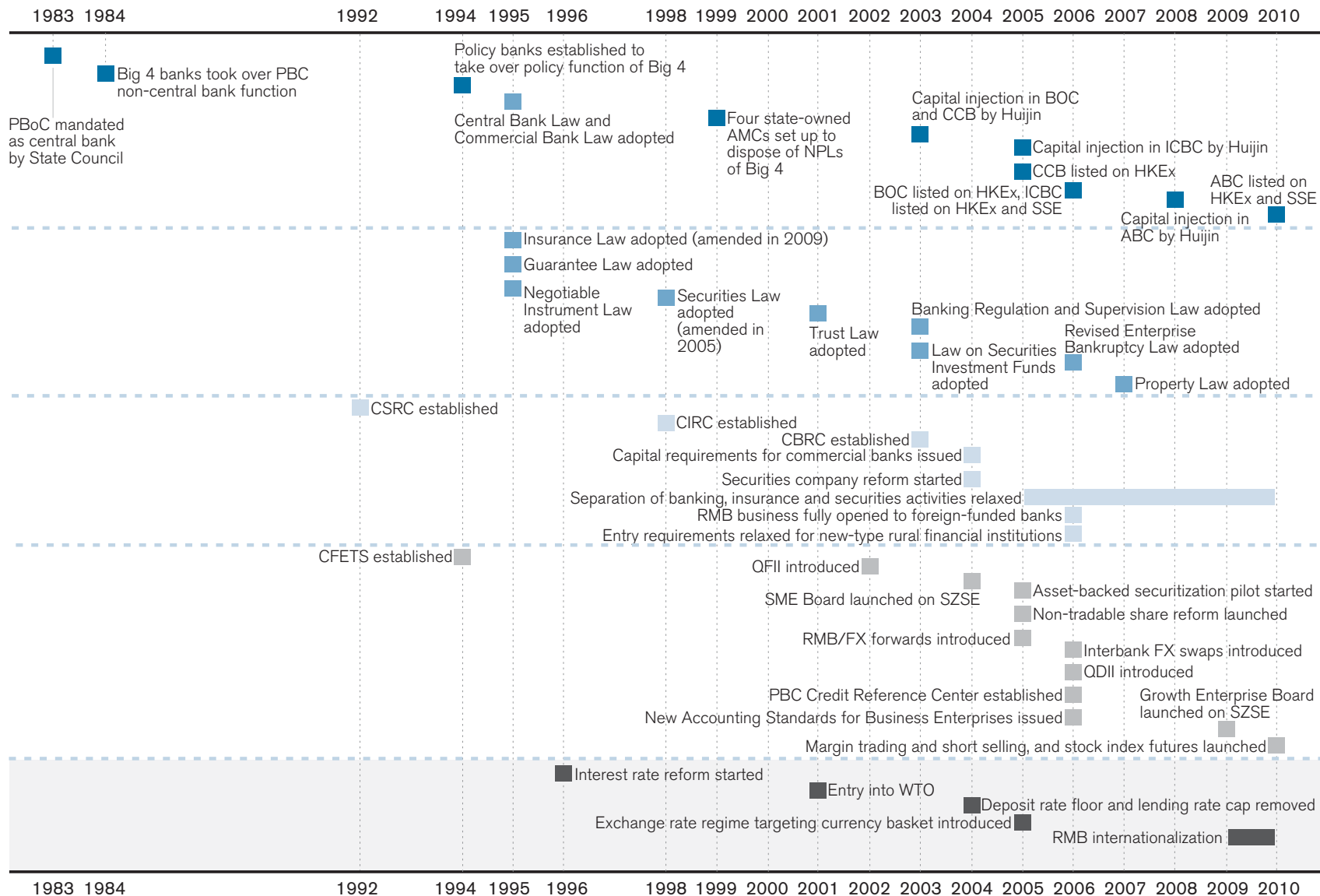
Source: CBRC, PBoC 2010 Annual Report

Next reform: From banks to capital markets

Financial depth, year-end 2010 (% of regional/country GDP)



China's financial reform in progress...



Financial Centres in Greater China

Global Financial Centres Index (GFCI) rankings of major cities

Country/Economy	GFCI 11 Rank	GFCI 10 Rank	GFCI 9 Rank
London	1	1	1
New York	2	2	2
Hong Kong	3	3	3
Singapore	4	4	4
Shanghai	8	5	5
Beijing	26	19	17
Taipei	27	23	19
Shenzhen	32	25	15

Sources: GFCI 11 (2012), GFCI 10 (2011), GFCI 9 (2011)

2010 Global IPOs, by stock exchanges

Top 10 by number of deals

Top 10 by capital raised

Exchange	No. of deals	% of global total	Exchange	Capital raised (USD, million)	% of global total
Shenzhen*	321	23.0	Hong Kong	57,383	20.2
Sydney	92	6.6	Shenzhen*	44,295	15.6
Hong Kong	87	6.2	New York	34,717	12.2
New York	82	5.9	Shanghai	27,879	9.8
NASDAQ	76	5.5	Tokyo	14,268	5.0
Warsaw – New Connect	71	5.1	London	8,861	3.1
Bombay	62	4.4	NASDAQ	8,726	3.1
KOSDAQ	56	4.0	Bombay	8,304	2.9
Toronto Venture	42	3.0	Australia	7,905	2.8
London AIM	40	2.9	Korea	7,750	2.7
All other exchanges	464	33.4	All other exchanges	64,506	22.7

*Shenzhen Stock Exchange includes listings on Mainboard (SME) and ChiNext.

Sources: Dealogic, Thomson Financial, Ernst & Young, Global IPO Trends 2010

Key findings: The role of Beijing

- The development of the four centres is a policy-driven process, where political considerations directly interact with market forces.
- The policies decided by Beijing will shape the development of financial centres in the region.
- For instance, Beijing's RMB strategy in the few years since its launch in 2009 has contributed to redefining Hong Kong's financial sector.
- By integrating China's financial sector into international financial markets, Beijing will also assert and expand its financial influence in the region.

Key findings: Outlook of the four financial centres

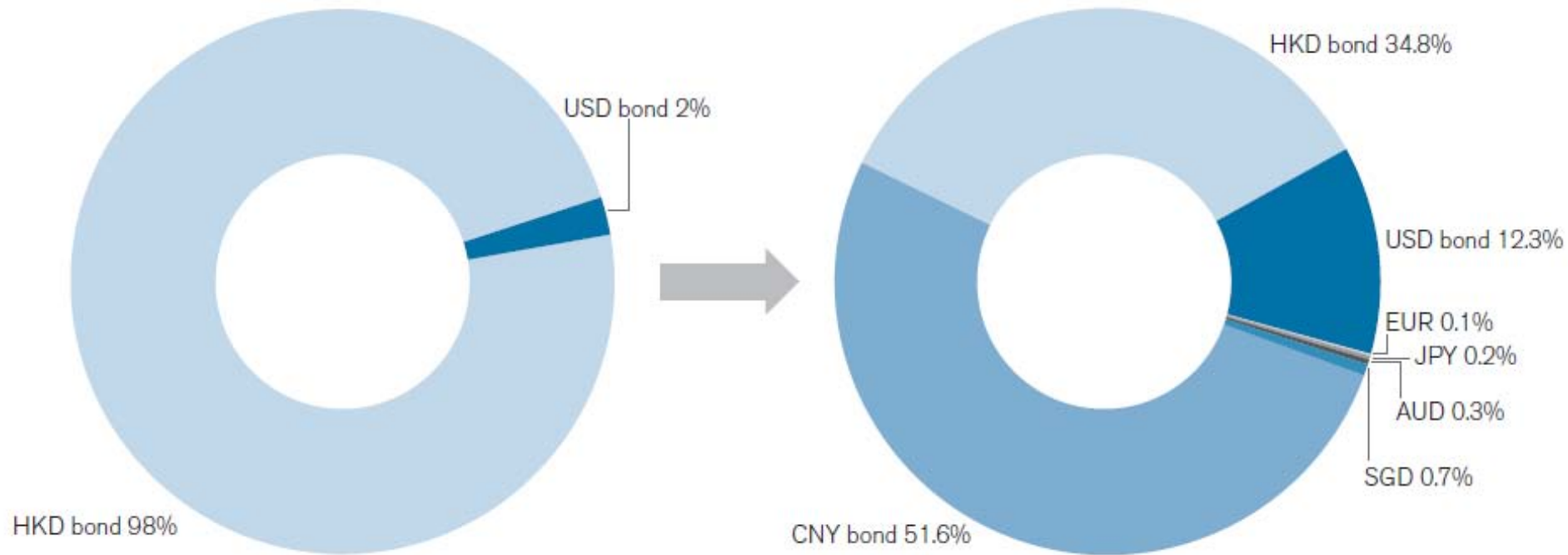
- Hong Kong will remain the dominant international financial centre in the region.
- Despite concerns that Mainland's authorities may expect it to provide traction for Shanghai, Hong Kong will for a long time maintain its competitive edge, which cannot be eroded by policy shifts or decisions.
- Even if Shanghai is unlikely to take over Hong Kong's position in the next few years, China's real economy suggests that the country has ample capacity to accommodate two major international financial centres in the longer term.

Significant rise of RMB business in Hong Kong

Structural change brought by RMB business in HK bond market

Limited diversification of the local bond market (tentative)
Hong Kong bond market before October 2009

Increasing market diversity by CNY bond (tentative)
The rise of RMB offshore bond market October 2009–December 2011



“China dimension” in the Hong Kong equity market

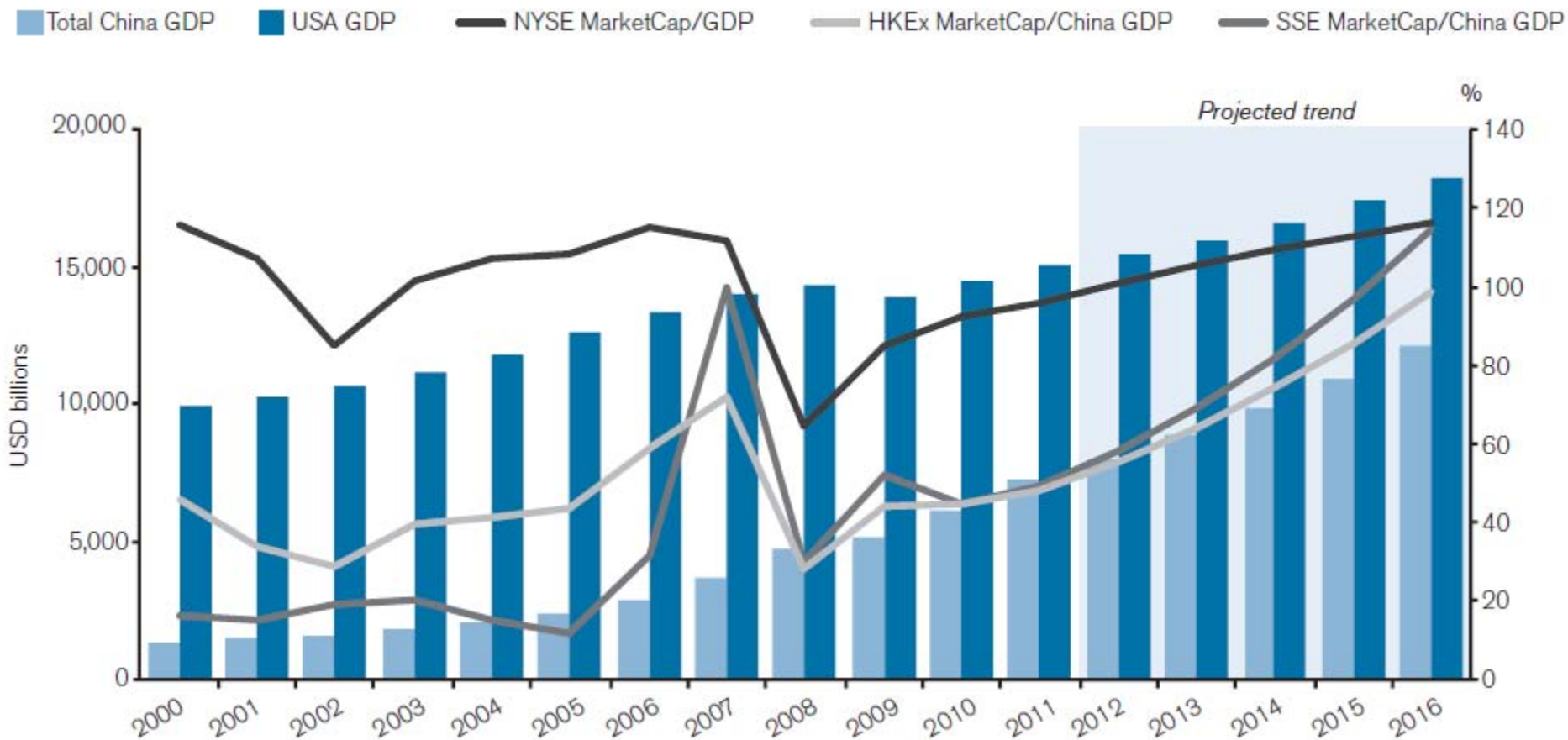
Top 10 largest IPOs in Hong Kong (1986 to end 2011)

Rank	Company	IPO funds raised (HKD, billions)	Year listed
1	AIA Group Ltd.	159.08	2010
2	Industrial and Commercial Bank of China Ltd. (H shares)	124.95	2006
3	Agricultural Bank of China Ltd. – H shares	93.52	2010
4	Bank of China Ltd. (H shares)	86.74	2006
5	Glencore International plc	77.75	2011
6	China Construction Bank Corporation (H shares)	71.58	2005
7	China Unicom Ltd.	43.61	2000
8	China CITIC Bank Corporation Ltd. (H shares)	32.92	2007
9	China Mobile Ltd.	32.67	1997
10	China Minsheng Banking Corp., Ltd. (H shares)	31.23	2009

Source: HKEx, Market Statistics 2011

Positive 5-Year growth of the equity market in Hong Kong and Shanghai

Five year projection on Market Cap/GDP (NYSE, SSE, HKEx)



Goals for Shanghai's financial sector during the 12th Five-Year Plan period (2011–15)

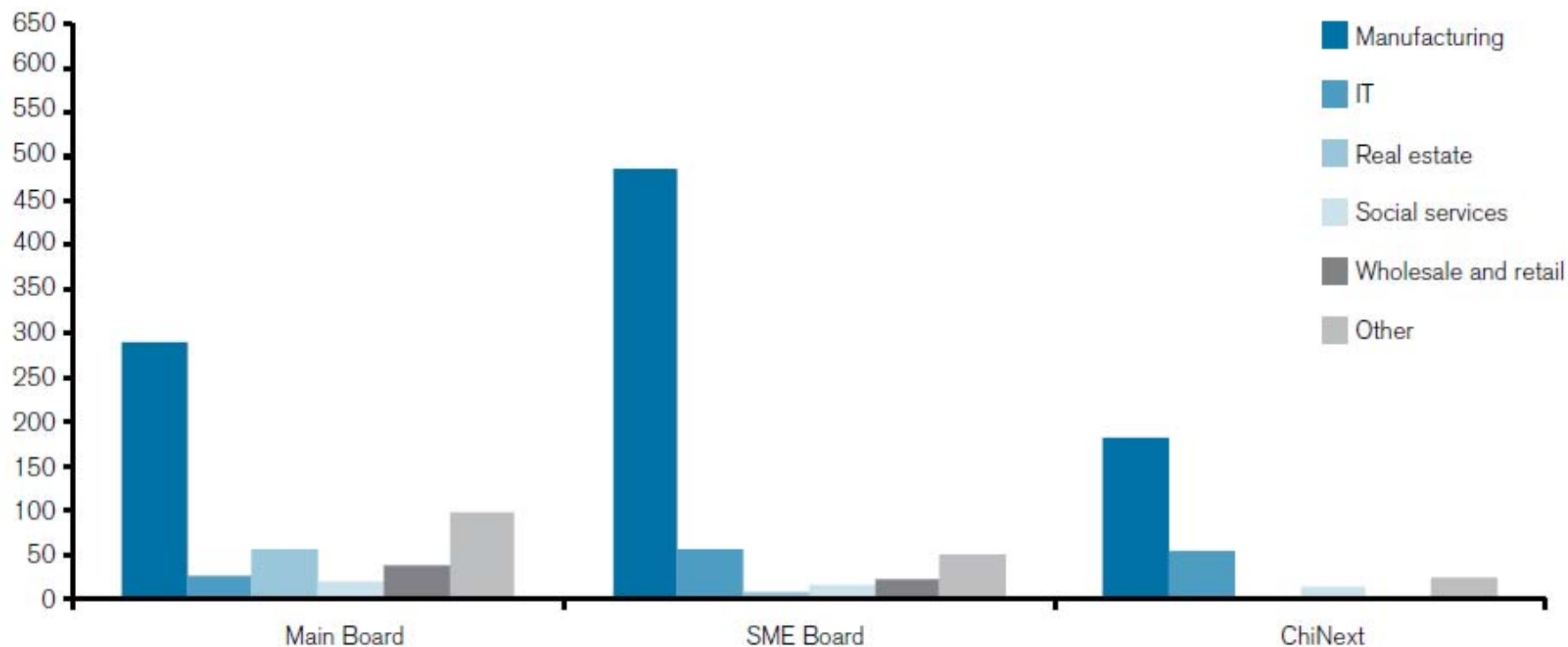
	Item	2010	2015
Size of financial markets	Total transaction volume of Shanghai's financial markets (excluding foreign exchange market)	RMB386.2 trillion	RMB1,000 trillion
	Total volume of the balance of securities deposit	Global No. 5	Global top 3
	Total transaction volume of Gold Spot Trading	Global No. 1	Global No.1
	Total transaction volume of financial derivatives	N/A	Global top 5
	Total insurance premium	RMB69.5 billion	RMB140 billion
	Total interbank card transaction	RMB10 trillion	RMB25 trillion
Market connectivity and diversity	Overseas investor	Limited market participation	Significant market participation
	Global influence	Limited overseas market influence	Promote international market influence through listing major indices in Shanghai Stock Exchange and developing RMB-denominated commodity future prices
Market depth	Direct financing as % of total financial markets	16.70%	22%
	Financial Assets Under Management (AUM)	RMB15 trillion	RMB30 trillion
Financial environment	Total no. of professional financiers	245,000	320,000
	Global competitiveness	National No. 1	Adopt international standards for stable legal and regulatory financial environment

Key findings: Outlook of the four financial centres

- Shenzhen will be a domestic financial centre serving small and medium-sized enterprises (SMEs) and start-ups that are located in Guangdong and currently lack adequate credit facilities through the banking sector.
- Taipei can benefit from its experience with high-tech SMEs in the Asia region to target SMEs at a relatively advanced stage of growth.
- Further cross-strait cooperation in the financial sector, along with mainland China's financial reform, will provide Taipei with new opportunities as a complementary regional financial centre.

Shenzhen as a regional financial centre

Number of SZSE-listed companies by board and sector



Source: SZSE, 2011

Recommendations

- Moderate government intervention
- Accelerate the reform of the banking sector
- Develop capital markets and reduce reliance on the banking sector for the financing requirements of the economy
- Increase Hong Kong's exposure to the financial systems of the BRICs and other emerging-market economies
- Promote greater cooperation and coordination between Hong Kong and Shanghai
- Develop Shenzhen as a regional financial centre
- Carve out a niche for Taipei in response to Beijing's strategies