liberal studies

Globalisation Modern China HK today

Hong Kong-Shanghai Stock Connect: opportunity or threat?

Both, actually: the connect, which opened last month, brin gs important business to Hong Kong for now, but because of this and other moves by Beijing, there may be cause for concern l ater on

News

When the Hong Kong-Shanghai Stock Connect opened on November 17, the mainland took another step towards opening itself to the global financial arena. The problem is, it's far from a "free market", as only certain chosen Shanghai-based stocks are for sale.

Other stocks on the Shenzhen market are banned altogether. Those that may be bought have strict limits on the daily level of trade, and the buys have to be made through brokers, who take a commission.

Activity in these stocks has been slow, with most of the buys being made from Hong Kong. Even so, the opening of the scheme is important. In the short term, it has benefits because it brings new business through Hong Kong. But in the longer term, it is another key step in the development of financial markets on the mainland, and that means it could threaten Hong Kong as an international financial centre. So opinions are divided on what the long-term result will be.

To explore them further, you need to understand that this is just one step in Beijing's long-term strategy to establish Shanghai as a leading global financial centre by 2020.

Issues

As Asia's newer financial markets grow, Hong Kong is in a delicate position. On a global scale, it is in competition with London, New York and Tokyo. When Alibaba recently decided to launch in New York rather than Hong Kong, it showed that Hong Kong cannot always count on attracting business from the mainland. In Asia, it is competing with Singapore, Shanghai and, sometimes, Shenzhen.

The Hong Kong-Shanghai Stock Connect has already shown that Hong Kong's financial sector needs to cooperate as well as compete with the mainland – especially Shanghai – to continue in its money-making role as the "middle man" between Western investors and the mainland. But there are serious risks involved.

Money moves fast, and investors can easily take offence (if, for example, they are threatened with higher taxes) or even leave (if, for example, there seems to be a threat to political stability). So, the future is uncertain. Those who see the upside say the link with Shanghai could make Hong Kong a st tronger go-between. But if things go badly, this could just be a step towards replacing Hong Ko ong with mainland firms and dealers.

Until 1949, Shanghai wa as Asia's dominant financial centre, until the c civil war between the Communists and the Natio onalists peaked and knocked it out, moving all t the business to Hong Kong. As Professor D Darryl Jarvis of the Hong Kong Institute of Edu ucation sees it, Shanghai's loss became Ho ong Kong's gain.

The colony gave a new h home to talented mainlanders, who brought t with them social and business networks tha at made the city a profit-making banking com mmunity.

Today, Shanghai is behi nd Hong Kong in the way its financial infrastruc cture is developed. But it's ahead in two impor rtant respects over the longer term: it stands a at the head of a huge national market, and it has had the backing of the Chinese leader rship since its Securities Exchange was set up in 1990. Its focus now is on getting forei gn banks and multinationals to set up headquarters there. It is also developing the insurance and shipping sectors. The goal is to become a major global financial centre by 2020.

Hong Kong's other rival, Singapore, is an independent city-state with a high reputation for its legal and business environment, political stability and ecological credentials.

Being both "inside" and "outside" China could be Hong Kong's main negative in the future

In today's competitive and quickly changing world, what matters is reputation for things like stability, friendliness towards business, the ability to provide a wide range of services, security in the future, and the rule of law.

On the one hand, Shanghai has advantages that Hong Kong cannot match: it has government backing and the gateway it can provide to mainland production and markets.

Shanghai has disadvantages also, but the weaknesses in its legal and business environment can be fixed over time with firm decision and actions – all of which rest in the hands of the mainland's leadership in Beijing.

The decision to develop a Free Trade Zone and the recent opening up to foreign law firms that will work with Chinese partners are two factors that seem to show that a steady process of reform is under way.

On the other hand, Singapore may seem the better bet to firms preferring to do business outside the mainland. In recent years, Hong Kong's unique situation – being both "inside" and "outside" China at the same time – has been its main advantage. The danger is that, in the future, it will become Hong Kong's main negative, especially if tension and conflicts continue over the Umbrella Movement and Hong Kong's constitutional future.

Therefore, for Shanghai, cooperation with Hong Kong is a stepping stone to Asian leadership, but for Hong Kong it is a lead-up to decline.

say it

skim off (phr v) 撈走	credentials (n) 憑據
middle man (n) 中間人	stepping stone (n) 踏腳石
go-between (n) 媒介	innovative-driven (adj) 驅使創意

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Resources

AmCham (American Chamber of Commerce in Shanghai), *Achieving 2020: An Assessment of Shanghai's Plan to Become an International Financial Centre by 2020*, 2012 (in English and Chinese)
Arner, Douglas, et al, *Assessing Hong Kong as an International Financial Centre*, 2014, ssrn.com/abstract=2427609
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European Union Chamber of Commerce in China, *European Business in China: Asia-Pacific Headquarters Study*, 2011, www.iberglobal.com/Archivos/Roland_Berger_Asia_Pacific_Headquarters.pdf
Darryl Jarvis, *Race for the Money*, Lee Kuan Yew School of Public Policy, Singapore, 2009, papers.ssrn.com/sol3/papers.cfm?abstract_id=1413524##
World Bank, *Doing Business 2015: Going Beyond Efficiency*, Washington DC, 2014
World Economic Forum, *Global Competitiveness Report, 2014-2015*, Geneva, 2014

hong kong's future

Voices

"Hong Kong and Shanghai are serving different customers. The growth of Shanghai trade and financial businesses could also help Hong Kong growth as long as our companies can offer the services and products to capture the opportunities."
Norman Chan Tak-lam, chief executive of Hong Kong Monetary Authority

"If we want to have a say in the world of finance, we need to rely on Shanghai."
Deng Xiaoping (鄧小平) in 1991

Bonus point

445

Number of multinational corporations with headquarters in Shanghai in December 2013

Classroom activities

- Divide into small groups. Using the European Chamber of Commerce's comparative survey of Asia-Pacific headquarters as a source (see Resources), prepare presentations for either a bank or a large multinational company (MNC) to support one of these proposals:
  1 We should move our headquarters from Hong Kong to Singapore.
  2 We should move our headquarters from Hong Kong to Shanghai.
  3 We should move our headquarters from Shanghai to Hong Kong.
  4 We should move our headquarters from Singapore to Hong Kong.
- Compare the results. What would probably happened in the long term?
- Follow-up written assignment: If a bank or MNC is thinking of setting up headquarters in Asia, where should it go: Hong Kong, Singapore, or Shanghai?
- For independent study: Hong Kong vs Singapore

China's economy and financial sectors will continue to grow. So, the issue for Hong Kong, as Norman Chan (see Voices) says, is whether it can respond to the opportunities created.

According to World Economic Forum's *Global Competitiveness Report, 2014-2015*, Hong Kong ranks seventh overall in global competitiveness. Good, but Singapore ranks higher (second only to Switzerland).

Worryingly, Hong Kong is behind in relation to higher education (22nd) and innovation (26th, down three places this year). In the latter category, the quality of its research institutions (32nd) and the limited availability of scientists and engineers (36th) remain the two key issues to be addressed. In building a truly innovation-driven economy, Hong Kong does well by ranking fifth in high degree of technological readiness.

In the World Bank's *Doing Business* report, Hong Kong ranks third, but Singapore is first.

Both of these sources are downloadable free of charge. Use them as a starting point, along with the other sources above, to build up a systematic comparison of Hong Kong and Singapore, and track changes in China's business environment.

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