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Hong Kong and Shanghai vie to be China's financial center By Keith Bradsher and David Barboza



Financial buildings in the central business district of Hong Kong. (YM/EPA)

HONG KONG: *Hong Kong and Shanghai are locked in an increasingly public struggle to become the main Chinese financial center as a top-level committee in Beijing prepares to meet this month to map out a national financial regulatory strategy.*

Hong Kong brought out its highest government leaders and its best-known business tycoons to make the city's case at a series of televised conferences and briefings here Monday. They called for Beijing to continue letting the biggest state-owned companies make their initial public offerings here, to allow China's currency to circulate more widely here and to dismantle many of the remaining financial barriers between the mainland and Hong Kong, a former British colony.

Shanghai's efforts have been less public and have been harmed by a corruption scandal that has already led to the arrest of the city's top Communist Party official and a growing number of business leaders. But as the historic center of Chinese business life, Shanghai still has many allies in Beijing and has emerged as the center of Chinese bond trading and a favorite headquarters for Chinese and foreign companies.

The jostling between Hong Kong and Shanghai is coming close to name-calling. Ronald Arculli, the chairman of the Hong Kong stock exchange, said that just as New York was the main financial center for the entire Americas even though Chicago or Toronto might not like it, Hong Kong was poised to become the main international financial center for Asia.

Asked whether he was suggesting that Hong Kong was like New York and Shanghai was like Chicago, Arculli said twice that that was his goal, adding, "We stand a decent shot of making it."

City leaders and academics are happy to point out their biggest advantage: the currency circulating in the streets and markets of Shanghai is the yuan, which foreigners can buy and sell only with difficulty. Hong Kong has its own currency, the Hong Kong dollar, which is pegged to the U.S. dollar and is internationally convertible but cannot be easily exchanged for yuan on the mainland because of China's capital controls.

"The independent monetary system restricts Hong Kong's ambition to become the financial capital of the country," said Pan Yingli, a finance professor in the School of Management at Shanghai Jiaotong University.

Through four back-to-back ceremonies and briefings Monday at the main government offices here and at the city's convention center, Hong Kong officials tried to exploit Shanghai's temporary political weakness and stampede Beijing into making Hong Kong the country's primary financial center.

"If we do not act now, inertia will set in and business will gravitate to established financial centers overseas," warned David Li, chairman of the Bank of East Asia, at a government briefing.

Hong Kong and Shanghai are not just competing with each other. They are also vying with Tokyo and Singapore to become the most important financial center in Asia, the place to which investment banks, hedge funds, insurance companies and other big investors send their best and brightest to oversee trading after the sun sets in New York and before it rises in London.

Each city has its strengths. Tokyo still has the region's largest stock and bond markets, although they have attracted less attention lately because they lack the sex appeal of the Chinese boom. Singapore is the main center for trading oil and other energy products and is an important hub for currency trading.

But the most intense rivalry is between Hong Kong and Shanghai, as each strives to impress businesses and Beijing regulators alike that it is also the best place for Chinese businesses to raise money.

It is one of the oldest rivalries in Asia, dating back more than a century. Hongkong & Shanghai Banking, now known as HSBC, started operations in Hong Kong on March 3, 1865, and in Shanghai exactly one month later.

While Shanghai overshadowed Hong Kong in many ways before World War II, Hong Kong took the lead following the Communist takeover on the mainland, and benefited from the emigration of thousands of Shanghai business people. The rise of the so-called Shanghai Faction of politicians in China, including former President Jiang Zemin, resulted in many policies that favored Shanghai through the 1990s and up until President Hu Jintao gained power in late 2002 and early 2003.

But with Hu trying to limit Shanghai's influence, and with Shanghai struggling with corruption scandals, Hong Kong is trying to seize the initiative again. As Hong Kong's leaders repeated again and again on Monday, Hong Kong has advantages now from the rule of law, extensive

financial expertise, a tradition of strong corporate governance, widespread knowledge of English and close ties to global markets.

Thanks to a series of listings by big Chinese banks and other Chinese institutions, Hong Kong's main stock exchange had a greater volume of initial public offerings last year — \$41.22 billion — than any other single stock exchange, although more money was raised in London over all.

But while Hong Kong aspires to be an international financial center, it is sometimes derided in Asia as a one-legged stool — a juggernaut in equities trading, including a doubling of trading in stocks and derivative warrants last year, but without another leg to stand on.

Close to 200 bond issues are listed here, but local banks and insurance companies tend to buy them when issued and then sit on them for years, with minimal trading. The local government runs a budget surplus, and while it has issued a small volume of bonds to help create a market, these also trade in very low volumes.

While corporate bond trading is still in its infancy in Shanghai as well, the trading of government debt securities there has picked up. The People's Bank of China has been forced to issue tens of billions of dollars worth of notes to sop up the enormous sums in yuan that it is pushing into the market to prevent China's currency from appreciating in value against other currencies.

Hong Kong business leaders are dismissive of Shanghai's stock market. Paul Chow, the chief executive of Hong Kong's stock exchange, said during an interview Friday that it "is predominantly a retail market; Hong Kong is not."

But although Shanghai's stock market is still considerably smaller than Hong Kong's, it is also rising faster and was the world's top performer last year, soaring 130 percent.

Shanghai also is becoming an important center of commodities trading, whereas Hong Kong has little.

Experts said Shanghai was likely to be an increasingly formidable competitor in the years to come and voiced doubt that Beijing would give Hong Kong precedence over its rival to the north. Officials in Beijing are still more likely to think of Shanghai than Hong Kong as a domestic financial market entitled to regulatory favors.

"Shanghai is where it's happening," said Jack Lange, a partner in the Hong Kong office of the law firm Paul, Weiss. "If there is going to be a domestic financial center that gives Hong Kong a run for its money, it's going to be Shanghai."

Keith Bradsher reported from Hong Kong and David Barboza from Shanghai.

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