

Workshop I

“Capital without Borders” Greater China Financial Cooperation

In March 2009, China’s State Council announced plans to make Shanghai an international financial hub by 2020. Was it the opening bell of a boxing match between the mainland city and Hong Kong?

Not according to a workshop on 21 January at the Asian Financial Forum 2010 in Hong Kong, which featured, among other speakers, officials of the stock exchanges of Hong Kong and Shanghai. It was agreed that, instead of competition, cooperation would be the way to go.

The workshop, sponsored by Deloitte Touche Tohmatsu, the Forum’s Diamond Sponsor, explored the integration of financial markets in Greater China (the mainland, Hong Kong and Taiwan) under the theme Greater China Financial Cooperation.

Strength in Numbers

Charles Li, the new Chief Executive of Hong Kong Exchanges and Clearing, said that if the Hong Kong and Shanghai bourses could be combined, “the Greater China market would . . . be ranked second in the world.”

“If we look at equity turnover, if we were to include Taiwan, we would be third,” he continued. “In terms of funds raised, Greater China would be the highest in the world. And if we look at IPO funds raised, the Greater China market, if combined, would definitely be number one in the world. Hong Kong is actually already first . . . The Greater China area has raised more funds through IPOs than anywhere else combined in the world.”

Although Shanghai and Hong Kong operate in different jurisdictions, with different regulations and competitive edges, Mr Li said, both markets depend on China’s economy, and these differences could become complementary. “So I’m very confident about the future of Hong Kong and I’m really committed to future cooperation with Shanghai.”

Representing the Shanghai Stock Exchange was its President, Zhang Yujun, who carried on the theme of cooperation, noting that two days earlier, the two exchanges had signed

an agreement to work together on regulatory issues and jointly develop financial products. He said Shanghai could learn a lot from Hong Kong.

“The better the development of the domestic market, the better growth will be achieved in Hong Kong,” Dr Zhang said. “So I believe, in future, as long as economic development is sound and stable and fast in the mainland, then the Hong Kong market will definitely have greater achievements.”

Andrew Au, Chairman of Citibank (China) Co Ltd and CEO of Citi China, identified five trends in financial integration among the mainland, Hong Kong and Taiwan: growing trade flows, growing cross-border investment flows, increasingly strong linkages in the capital market, more exchanges between financial regulatory bodies, and a growing need for banks to establish “a pan-Greater China presence.”

He said greater financial integration would provide a more favourable investment environment, stable access to capital and greater market discipline, reduce funding costs and help spread risk.

Mr Au also had advice for Hong Kong: “Its freedom and openness and well-defined regulatory framework and legal system – those are the strengths and the competitive advantages of the Hong Kong market,” he said. “In the future, for the next decades, Hong Kong must deepen their strengths, their competitive edge – I mean the openness of the market. Don’t just depend on China.”

Cross-Straits Collaboration

Darby Liu, CEO of Core Pacific-Yamaichi International (HK) Ltd, called the recent memorandum of understanding on banking cooperation between Taiwan and the mainland “a milestone in cross-straits relations and a great leap forward.”

He said Taiwanese who were worried about being marginalised during the mainland’s rapid growth would benefit from greater financial integration with the rest of Greater China, and he looked forward to the eventual establishment of a common currency.

“I’m very positive to see the future trend between the three areas of Greater China of cooperation in establishing investments,” he said.

Hong Kong-based David TC Lie, Co-founder of Rhone Capital and Chairman of Newpower Group, does business in Taiwan and sees a role for Hong Kong as a connector to help Taiwan companies tap mainland financial markets. He also sees a great opportunity for Taiwan banks in the mainland market.

“Hong Kong in the Greater China area has a significant role to play, especially for the financial market,” he said. “I believe such a role will become more and more influential in the future integration between the mainland, Taiwan and Hong Kong.”

SC Huang, CEO of Deloitte Taiwan, predicted that more mainland capital would seek investment opportunities in the Taiwan market, increasing cross-straits cooperation.

“There will be some sensitive issues, so Hong Kong could be used as a vehicle for this kind of investment,” he said. “And that’s why we can say that Hong Kong will definitely play a very important role in the financial integration of the Greater China area.”