



# Building Shanghai International Financial Center: Strategies Target, Challenges and Opportunities

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- “Shanghai was the financial center in the past and was the place where currency was convertible. In the future Shanghai should still be the same.” ~Deng Xiaoping
  - Evolution
  - Obstacles
  - Measures

# I. Evolution of the Shanghai International Financial Center (IFC)



- Three stages : IFC trajectory
  - 1<sup>st</sup> stage (1992~2001): National Financial Center – stage completed
  - 2<sup>nd</sup> stage (2002~present): Asian Regional Financial Center – currently here
  - 3<sup>rd</sup> stage (future): Global Financial Center

# I. Evolution of the Shanghai International Financial Center (IFC)



<Table 1> strategic evolution of Shanghai International Financial Center

**1991**

In early 1991, Deng Xiaoping put forward the idea to build Shanghai into international center as he said: "Shanghai was the financial center in the past and was the place where currency was convertible. In the future Shanghai should still be the same."

**1992**

CPC 14<sup>th</sup> congress adopted the strategy of building Shanghai into a Dragon Head and Three Centers (International Economic Center, International Financial Center and International Trade Center )

**1994**

In April 1994, Central Government set up unified Foreign Exchange Trading Center in Shanghai and in 1996, Shanghai inter-bank loan center was also set up in Shanghai

**2001**

State Council approved the municipal development plan of Shanghai and International Economic Center, International Financial Center, International Trade Center and Sea Transportation Center were reiterated.

**2001**

Shanghai municipal government made a blueprints of Tenth Five Year Plan which contains a section of building Shanghai into an International Center.

# I. Evolution of the Shanghai International Financial Center (IFC)



**2002**

Shanghai municipal government put forward a target of Four Basic Implementations to realized Four Centers and preferable policy was adopted by Shanghai towards financial institutions setting up branches and subsidiaries in Shanghai

**2004**

Shanghai municipal government announced the Action Plan to Promote Shanghai International Financial Center. A strategy target of Five years for foundation building, Ten years for framework construction and twenty years to achieve the basic aim was formulated.

**2005**

Pudong New Area district government announced the Action Plan for 2005-2007 Modern Service Industry Development in which it put forward concrete target to have 450 financial institutions in Pudong by the end of 2007. In the same year, the state council approved Pudong as one of three trial areas for comprehensive reforms and financial center function was reiterated

**2005**

PBOC, China's central bank set up second headquarter in Shanghai

**2005**

MNCs in Pudong were allowed to carry out reform of autonomous handling of their foreign exchange funds.

**2006**

Shanghai municipal government announced the blueprints of Eleventh Five year Plan of Building Shanghai International Financial center..

# I. Evolution of the Shanghai International Financial Center (IFC)



<Table 2> Financial Market element concentration in Shanghai since 1990

Marketplace	Content	Founding year	Status or scale
Shanghai Securities exchange	Main capital market (equity, bonds)	1990	80% of total trading turnover of China
Foreign Exchange Trading center	Foreign exchange market	1994	Head office of national trading
Inter-bank loan center	Money market	1996	National center for inter-bank trading
RMB bonds trading center	Money market	1997	National center for bond trading
Shanghai Futures Exchange	Rubber, copper aluminum and fuel oil	1999	60% of futures trading volume of all China
Shanghai Gold Exchange	Gold market	2002	The only gold market
Note market service center	Provide note transaction information and service	2003	Principal note pricing system in China
Shanghai petroleum market	Futures transaction	2006	The only petroleum futures market in China
China financial futures Exchange	Financial derivatives transaction	2006	The only derivative market in China

# II. Obstacles



## ● Comparative Advantages

- Long history of trade and finance
- Culturally Open
- Geographically close to highly developed Yangtze River
- Port handles one fourth international trade of China
- China's financial strength becoming one of the largest in the world

# II. Obstacles



- Obstacle 1: Administrative Control and Lack of Market Mechanism
  - Strong government control – bank headquarters in Beijing
  - Government orientation decisive in allocating credit
  - Limited cross regional flow of funds
  - Capital market IPO and re-issuance controlled by CSRC



# II. Obstacles

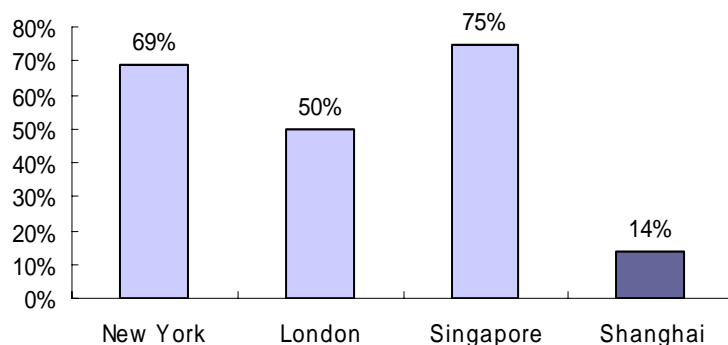


## ● Obstacle 2: Low Internationalization of Shanghai Financial Market

### Capital Account Control and Limited Foreign Exchange

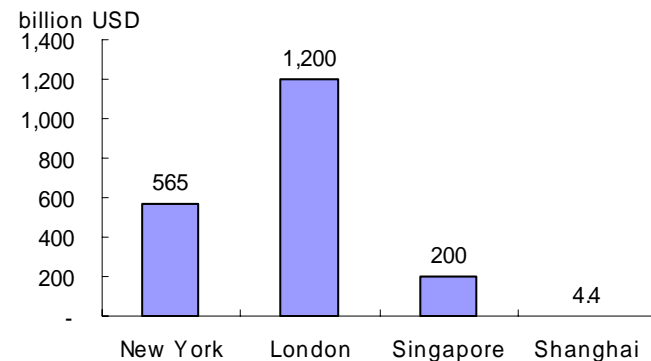
- No freedom to channel and accumulate funds worldwide
- Low number of foreign assets although 100 banks operate in Shanghai

Assets Owned by Foreign Banks



- Limited market capitalization
- No foreign listed Companies on the Shanghai Securities Exchange
- Limited international influence

Foreign Exchange Daily Turnover



# II. Obstacles



## ● Obstacle 3: Soft Infrastructure

- Very good hard infrastructure: modern office buildings, transportation and telecommunications
- Very poor suitable legal framework and implementation
- Require culture of creditworthiness and an international legal standard

## ● Other miscellaneous improvements:

- Improved human resources: higher education, English speaking employees
- Business costs increasing: rent and prices rising, bureaucratic measures, decreasing availability of low cost labor

# III. Future Government Measures



- Open Shanghai Securities Market
- Allow foreign entities to issue bonds and other debts
- Grant licenses for investment abroad
- Allow domestic citizens to directly invest abroad
- Revamp A and B share markets
- Full RMB convertibility
- Open Shanghai Foreign Exchange Trading Center to foreign financial institutions
- Improve legal system, culture of creditworthiness, cut red tape

# III. Future Government Measures



- Government recognizes the lack of a Market Mechanism is the greatest Obstacle

<Table 3> Main Targets of the Five Year Plan for Shanghai Financial Center

Indicators linked with market volume	Indicators concerning financial institutions business scale
Direct financial transaction takes up to 25% of all China	The Assets of financial institutions take 10% of all China financial institutions
The total financial transaction reach to 80 trillion RMB	Deposits stock value reach to 4.5trillion RMB
Money market trade volume reach to 40 trillion RMB	Loan stock value made by Shanghai Banks reach to 3.2 trillion RMB
Shanghai Securities Exchange listed companies worth 7 trillion RMB	Commercial entities acceptance ratio on credit cards reach to 70% and above
Shanghai Futures Exchange enter the top ten ranks of world futures exchanges	Card usage in consumption reach to 40% and above
Shanghai gold market become one of the important international gold market	Insurance deepening ration reach to 5% (insurance premium / GDP )
Non-listed equity market in Shanghai become nationwide market	Insurance density ratio (insured value per capita) reach to 4000 RMB

# IV. Conclusion



- Shanghai has a great potential to become a critical financial center in the Region.

**Thank you very much!**