
INFORMATION NOTE

The Development of Shanghai as an International Financial Centre

1. Background

1.1 This information note aims to analyse the development process of Shanghai as an international financial centre, its development advantages and pertinent policy measures.

2. The process of developing Shanghai into an international financial centre

2.1 Shanghai was China's national financial centre, and one of the international financial centres in the Far East, as early as in the 1920s. At that time, Shanghai was the place where lots of capital inflows and outflows took place, with vibrant and diversified financial market transactions, and extensive linkages with other financial markets. However, following the outbreak of the global economic crisis in the 1930s, Shanghai was adversely affected by various unfavourable factors, resulting in massive closures of qiangzhuangs (money shops) and banks from 1935 until the WWII, and its financial conditions were caught in a state of crisis.

2.2 The financial industry in Shanghai entered the second stage of development after the establishment of the People's Republic of China in 1949. At that time, the financial industry of the Mainland operated on a system of "absolute dominance", under which a single bank assumed complete control of all financial activities. Subsequent to reforms and the opening up of China in 1978, drastic changes took place in the financial system of the Mainland, resulting in the collapse of the "absolute dominance" system, and consequently a large number of financial institutions emerged and various kinds of financial markets formed. With China speeding up its pace of opening up, its financial activities with the outside world gradually resumed. In 1988, a socialist financial system was initially established in Shanghai, with the central bank leading, national banks forming the main constituents, and various financial institutions collaborating and cooperating.

2.3 The Mainland government intended to develop Shanghai into an international financial centre in the early 1990s. DENG Xiao-ping, the late veteran national leader made some significant comments when he was on an inspection tour of Shanghai in 1991. He pointed out that Shanghai was a financial centre in the past where currencies could be freely exchanged, and if China wished to acquire an international status in the financial arena in the years ahead, she had to rely on Shanghai in the first place. The policy objective of building Shanghai into a triple centre, namely an international economic centre, an international financial centre and an international trading centre, was adopted in the 14th National Congress of the Communist Party of China in 1992.

2.4 After the establishment of the Shanghai Stock Exchange in 1990, the National Foreign Exchange Trading Centre, the National Interbank Funding Centre, the Shanghai Bureaux of China Securities Regulatory Commission, the Shanghai Bureaux of China Banking Regulatory Commission, the Shanghai Gold Exchange and the Shanghai Futures Exchange were successively established in Shanghai. In addition, the Central Government enhanced its policy support for Shanghai in 2005. The Central Bank set up its headquarters in Shanghai in the same year, which established a significant interactive relationship with the development of Shanghai into an international financial centre.

2.5 "The 11th Five-year Plan for the Provision of Shanghai International Financial Centre" was formally announced on 27 November 2006. The guiding principles for the development of Shanghai into an international financial centre are using the national strategies as the leading force; strengthening cohesive and radiating capabilities to be the main thrust; introducing reforms and innovations as the driving force; tightening regulation to offer protection and optimizing the eco-environment of the financial sector as the foundation. The major tasks involved are:

- (a) Boosting the effort in the building up of a financial market system so as to strengthen the financial market functions;
- (b) boosting the effort in the building up of a financial institution system so as to enhance the integrated strength of major market bodies;
- (c) improving the fundamental operating conditions of the financial sector so as to create a favourable eco-environment for the sector; and

- (d) striving to improve the mechanism for pressing ahead the development of an international financial centre so as to form concerted efforts for the purpose.

2.6 In 2006, the Shanghai Finance University invited many experts to jointly write and compile *The Blue Book of Developing Shanghai into an International Financial Centre*. The publication would be released once a year to offer suggestions on the development of Shanghai into an international financial centre.

2.7 The State Council examined and endorsed in principle "The Opinions on Accelerating Shanghai's developing its Modern Service and Advanced Manufacturing Industries, and its development into an International Financial Centre and an International Shipping Centre" ("The Opinions") in an Executive Meeting held on 25 March 2009. The Opinions, was officially promulgated on 29 April 2009. It was the first time that China explicitly defined the positioning of the national strategy of developing Shanghai into an international financial centre in the form of a State Council document.

2.8 The 13th Shanghai Municipal People's Congress Standing Committee voted in favour of the "Regulation on Promoting the Development of an International Financial Centre in the Shanghai Municipality" ("The Regulation") at its 12th session on 25 June 2009. The Regulation was implemented with effect from 1 August 2009. It was the first local regulation enacted by Shanghai for promoting the development of the city into an international centre, and optimizing the environment for financial development. Its implementation signified that the idea of developing Shanghai into an international financial centre had progressed from the policy level to the legislative level. The Regulation re-affirms that the future core businesses of Shanghai as an international financial centre are the building up of a financial market; bringing up the requirement of capital protection in an international financial centre; emphasizing the principle of bringing in, grooming and development of financial talents. The Regulation explicitly supports the Central Authorities in building a united information platform, and suggests innovatively of building up a credit information sharing mechanism for local communities, so as to develop a favourable credit environment in Shanghai. The Regulation also sets out requirements in various aspects in order to build up a proper legal environment such as implementing administrative measures in accordance with the law, perfecting financial legal proceedings and arbitration environment, and providing the best legal services.

3. The advantages of Shanghai in the process of developing into an international financial centre

3.1 Shanghai has been designated as the city for developing into an international financial centre because it possesses the following favourable conditions in various aspects:

Long history of financial culture

3.2 Shanghai launched its financial market as early as in the 1920s, recording a long history of financial culture. Shanghai was once the largest international financial centre in China, and even in the Far East. The capitalization of listed companies in its stock exchange once ranked the third in the world and number one in the Far East.

Excellent geographical location

3.3 Shanghai is located in the same time zone as Hong Kong and Singapore, and is one hour behind Tokyo, and complements other international financial centres such as London and New York in forming a 24-hour relay trading cycle. Shanghai is situated at an excellent geographical location. Internally, it is located at the Yangtze River Delta, which is a prosperous industrial zone with excellent land, sea and air transport links and good telecommunications setup; externally, it is located at the centre of the Far East, adjacent to East Asia with lots of vibrant economic activities, making it an ideal place for building up an international financial centre.

Enormous economic strength

3.4 Shanghai is the economic centre of the country with enormous economic strength. Shanghai accounts for 0.06% of the land mass of the entire country and 1% of its population, but 12.5% of the financial revenue of the whole country. In 2009, the gross domestic product (GDP) of Shanghai was RMB1,490.09 billion (HK\$1,740.14 billion), an increase of 8.2% over the corresponding figure in 2008, and ranking eighth in the country. Of that amount, the primary industries accounted for RMB10.43 billion (HK\$12.18 billion); whereas the secondary and tertiary industries were RMB594.55 billion (HK\$694.32 billion) and RMB885.11 billion (HK\$1033.63 billion) respectively. The financial industry alone accounted for 12.2% of the city's GDP. In the meantime, the *per capita GDP* of Shanghai was RMB76,238.5 (HK\$89,032.5).

3.5 The value added of the financial industry of Shanghai in 2009 was RMB181.79 billion (HK\$212.38 billion), an increase of 25.6% over that of 2008. At the end of 2009, the aggregate deposit balance of all financial institutions (both Mainland and overseas) in Shanghai was RMB4,462.03 billion (HK\$5,212.68 billion), and the aggregate loan balance was RMB2,968.41 billion (HK\$3,467.79 billion).

Gradually maturing financial system

3.6 There are various kinds of financial institutions in Shanghai, including commercial banks, securities companies, funds management companies, trust companies, futures companies, lease financing companies, currency brokerage companies and bills clearing centres. In 2009, there were altogether 787 financial institutions¹ in Shanghai, including 133 banks², 307 insurance companies³, 93 securities firms⁴ and 170 foreign financial institutions. In 2009, the aggregate trading volume of financial markets in Shanghai (excluding those in the foreign exchange market) amounted to RMB251,000 billion (HK\$293,100 billion), an increase of 41.7% over that of 2008.

3.7 Regarding the various types of financial markets in Shanghai, apart from those involving capital, currencies, foreign exchanges, commodity futures, financial futures, gold, properties and re-insurance, a multi-level market system, consisting of an inter-bank call loan market, an inter-bank debt market, an inter-bank foreign exchange market, the Shanghai Stock Exchange, the Shanghai Futures Exchange and the Shanghai Gold Exchange, has already been formed. In 2009, major functional institutions such as the Xinhua Economic Information Service, the Inter-bank Clearing House and the Silicon Valley Bank from the United States established operations in Shanghai. The Shanghai Re-guarantee Company was also listed in the same year.

¹ Financial institutions include banks, insurance companies, securities firms as well as foreign financial institutions and various financial regulatory departments.

² The figure of the banking industry includes city branches.

³ Insurance companies include insurance groups, branch offices of insurance companies in the city and insurance agencies.

⁴ Securities firms include securities companies, funds companies, futures companies, securities investment consultancies, securities market institutions, and registration and clearing institutions.

3.8 In 2009, the aggregate transaction volume of various types of securities in the Shanghai Securities Exchange amounted to RMB44,200 billion (HK\$51,600 billion), an increase of 62.6% over that of the 2008. Specifically, the total transaction volume of stocks was RMB34,700 billion (HK\$40,500 billion), accounting for 78.4% of the aggregate transaction volume of securities. The total transaction volume of bonds was RMB3,980.63 billion (HK\$4,645.44 billion), which was 9% of the aggregate transaction volume of securities. The total transaction volume of funds was RMB654.91 billion (HK\$764.29 billion), accounting for 1.5% of the aggregate transaction volume of securities. The total transaction volume of warrants was RMB4,900.74 billion (HK\$5,719.22 billion), which was 11.1% of the aggregate transaction volume of securities.

3.9 As at the end of 2009, 870 companies were listed on the Shanghai Stock Exchange, and nine of them were granted a listing in 2009. There were 914 stocks being traded in the Exchange with a total market capitalization of RMB18,500 billion (HK\$21,600 billion), an increase of 89.9%. The total amount of capital raised in 2009 through the issues of shares was RMB334.32 billion (HK\$390.16 billion), making the Shanghai Stock Exchange ranked fifth among major stock exchanges in the world, and third in Asia.

3.10 In 2009, the aggregate transaction volume of the futures market and the gold exchange was RMB73,800 billion (HK\$86,200 billion) and RMB1,100 billion (HK\$1,300 billion) respectively, up 160% and 22.6% respectively over the corresponding figures in 2008. The insurance industry of Shanghai also developed steadily, with the annual premium income hitting the mark of RMB66.5 billion (HK\$77.69 billion), an increase of 10.8% over that of 2008. In the area of innovative financial businesses, Shanghai took the lead in pioneering the business of cross-border trading settlement by renminbi, allowing foreign businessmen to invest in shareholdings and management of enterprises. In the meantime, the first Mainland financial industry investment fund has formally been established, and started the provision of merger and acquisition loans by commercial banks.

3.11 In terms of talents, about 221,000 persons worked in the financial industry in 2009, accounting for 2.1% of the city's workforce, a decrease of 4.7% from the 232,000 persons reported in 2008.

4. Objectives of developing Shanghai into an international financial centre

4.1 The Opinions of the State Council has stipulated the following five overall objectives in developing Shanghai into an international financial centre by 2020:

- (a) To have basically completed the establishment of an international financial centre commensurate with the economic strength of China and the international status of renminbi;
- (b) to have basically formed a highly internationalised, multi-tier financial market system equipped with all functions of trading, pricing and information and participated by both domestic and foreign investors;
- (c) to have basically formed a financial institution system with internationally competitive and sectoral influential financial institutions as main constituents, and mutual development of various types of financial institutions;
- (d) to have basically formed a financial human resources system which is comprehensive, reasonably structured and free flowing; and
- (e) to have basically formed a legal and regulatory system in line with the development needs and international practices regarding taxation, credit and regulation, and a financial development environment with international competitiveness.

5. Policy measures for developing Shanghai into an international financial centre

5.1 Major tasks and measures specified by The Opinions of the State Council in developing Shanghai into an international financial centre comprise the following four items:

- (a) In building Shanghai into an international financial centre, the core task is to keep expanding both depth and width of the financial market, so as to form a relatively well-developed multi-functional, multi-tier financial market system, and simultaneously keep enriching the variety of products and instruments in the financial market. The authorities should gradually expand the proportion and scale of participation of foreign investors in the financial market of Shanghai, actively explore the possibility of co-operation between securities products in Shanghai and Hong Kong, and promote financial co-operation and joint development between the Mainland and Hong Kong;
- (b) with reference to the need for building up the financial market system, the authorities should vigorously promote the development of financial institutions, actively extend various kinds of financial businesses and steadily encourage the outward opening of financial services;
- (c) the authorities should perfect the approaches and practices adopted in the provision of financial services; improve the efficiency and service capacity of the financial market. They should enhance the planning and construction of major financial hubs, such as Lijiazhui so as to comprehensively upgrade the service functions. They should regulate and develop agency services, step up control and enhance self-discipline in respective professions. The authorities should also formulate and perfect policies for promoting innovation in the financial sector, and form an innovative financial mechanism in which market demand as guiding direction and financial markets and financial industries as major constituents of the mechanism; and

- (d) the authorities should boost the building up of a financial legal system, and speed up the formulation of the financial taxation and legal systems which serve practical needs and are compatible with international practices. They should perfect the financial law-enforcement system, and strengthen the development of a credit system in the society. Adapting to the needs for financial reforms and innovations in Shanghai, they should keep on perfecting the financial regulatory system, improving means of regulatory control, and safeguarding the stability and security of the financial sector.

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