Original Paper

The Path Suggestions on the Construction of Shanghai International Financial Center

Sicong Song\textsuperscript{1}

\textsuperscript{1} Sicong Song, School of International Economics and Finance, Shanghai International Studies University, China

Received: August 31, 2020   Accepted: September 14, 2020   Online Published: September 23, 2020
doi:10.22158/ijafs.v3n2p10   URL: http://dx.doi.org/10.22158/ijafs.v3n2p10

Abstract

Given the comparison between Shanghai international financial center with other world-renowned ones from three dimensions in financial products, financial markets, and financial environments, the paper proposes customizing financial futures to serve the real economy and attract international investors, establishing a research center by national-level guidance for enterprises’ financial instruments demand and application; promoting joint construction of financial centers and technological innovation centers respectively.

Keywords

international financial center, customized financial futures, national-level guidance, joint development of finance and technology

1. Introduction

International metropolis especially those in emerging economies have been stepping up efforts to promote the construction of international financial centers today. Gang Yi, governor of the people’s bank of China, pointed that Shanghai should speed up a series of supporting construction of financial market transactions and services further to meet the needs of global investors.

Various scholars conducted analysis of the construction for Shanghai international financial center from different angles, the whole of which could be divided into two levels: one is from the financial center itself, including financial products, financial institutions, and the other is about the financial environment which refers to economic, political, and legal environment.

For the first level, the role as a global investment and financing center it played could be more sufficient. The variety of financial products Shanghai provided still needed to be enriched for the lack of financial futures and the limit of short mechanism in China weakened the attraction of foreign
investors to some degree (Ding, 2019). The number of financial practitioners in Shanghai only accounted for 2.6% of the total employees in various industries in 2016, so the soft resource for financial development that attracted financial talents needs to be further optimized (Gan, 2018). In terms of financial institutions, foreign companies listed on the London Stock Exchange were more than any other exchange in the world which also had the world’s largest gold trading market and non-ferrous metal trading market. The fact that the popularity of one financial asset is inseparable from the priced currency allows the currency internationalization to play an important role in a financial center. Pound and US dollar had always been the world currency before World War II, and after RMB assets added to the Mingsheng Index, Bloomberg Index, and Barclays Index, global asset managers had increased RMB assets as reserves or for asset allocation of stocks and bonds. The Shanghai Free Trade Zone’s vigorous development of offshore financial services was also of great significance to promote the development of Shanghai’s international financial center and the internationalization of the RMB (Li & Gao, 2020).

For the second level, studies on institutional conditions of the construction of Shanghai international financial center mainly from the perspectives of political, economic, and financial environment. They found the more effective the implementation of a country’s policies, the more helpful it was to enhance the country’s international reputation, which could increase the enthusiasm of foreign financial institutions in holding the country’s currency (Zheng, 2018; Lu, 2019). The improvement of one economic system environment will reduce the economic operation risks caused by large-scale flow of short-term speculative capital. Perfect financial regulations and laws would be conducive to improving the efficiency of financial asset transactions and reducing financial transaction costs and systemic financial risks brought about by capital account opening (Que & Huang, 2019). As for the financial development environment, the rule of law and financial supervision policies in current process of building Shanghai an international financial center were still relatively fragmented, especially for the legal protection for personal investors (Sha, 2019). Similarly, the Dubai International Financial Center (DIFC) has tried to regard its legal system as an important focus to enhance the competitiveness and they has been committed to build an independent legislative system and judicial system, as well as an efficient and convenient dispute resolution mechanism (Ding, 2019). As for the external environment, Europe, the United States, and Japan are China’s top three exporters and the main sources of surplus. If they rebuilt a trade organization that excluded China for free trade, then the “encirclement” would have a very far-reaching impact, causing surplus shrink significantly and greater pressure on RMB exchange rate, and even more profoundly affecting China’s participation in the global industrial chain, hindering industrial development and technological progress, which would not be friendly for Shanghai International center construction (Xin, 2019).

The structure of this paper is as follows: First, compare the financial market development, and the total amount and varieties of financial assets in major international financial centers. Second, propose suggestions on the path of Shanghai international financial center construction based the existing gaps
between Shanghai and other financial centers in financial markets, financial products, and financial environments. The results are customizing financial futures to serve the real economy and attract international investors, establishing a research center by national-level guidance for enterprises’ financial instruments demand and application; promoting joint construction of financial centers and technological innovation centers respectively.

2. Methods

We collected the data in financial markets, financial products, and legal guarantees of the international center of China, the United States, the United Kingdom, Singapore, and Japan from 2007 to 2018 from the database iFind, and after comparison, we draw conclusions about the actual gaps existing in Shanghai and give some possible suggestions for its future development directions.

2.1 The Financial Market of Shanghai Developed Steadily but still Existed a Gap Compared to Mature Countries

We use the index, the proportion of market value of listed stock in GDP (stock market value/GDP) to compare the degree of a financial market development and found that among China, the United States, the United Kingdom, Singapore, and Japan from 2007 to 2017, Singapore consistently ranked the first with the most developed financial market, followed by the United States, Japan, and China. Affected by the global financial crisis in 2008, all above proportion declined and gradually recovered. Generally, China’s financial market developed relatively slowly with the index value of 75, compared to the United States 175, and Singapore 240 in 2017 shown in Figure 1.

2.2 The Amounts of Financial Products Is Relatively High, but the Subdivisions Are Insufficient

Although total amount of financial assets in Chinese market had a relatively low starting point, it has a rapid growth momentum with the development of Chinese economy and surpassed the United Kingdom and Japan in 2012 and 2014, second only to the United States, according to the data from iFind. After subdividing financial instruments into funds, bonds, and financial derivatives, there was still a certain gap in the types of financial instruments and the number of transactions between Shanghai international financial center and those of developed economies displayed in Figure 2. In terms of ETFs, the US market always stood out. From 2008 to 2018, ETF turnover in NASDAQ accounted for nearly 90% among the sample and remained stable for many years, while, the trading volume on other exchanges was quite low, no matter in Singapore Stock Exchange, or Shanghai Stock Exchange of China which could be seen in Figure 3. As for bonds, Shanghai Stock Exchange with low outset but high growth on listed bond, had a late-comer advantage. From 2008 to 2018, London kept ranking the first in total number of listed bonds, followed by the United States, China, Singapore and Japan Internationally. Subdivided into Chinese market, Shanghai Stock Exchange had the greatest total volume of listed bonds and growth, surpassed Shenzhen and Hong Kong, China. Considering financial derivatives, the United States, the United Kingdom and Hong Kong, China were equally matched, but Shanghai Stock Exchange took no place, as was shown clearly in Figure 5. In terms of interest rate
futures, the Chicago Mercantile Exchange took the lead from 2003 to 2017, with the highest number of contracts of interest rate futures. Since the China Financial Futures Exchange did not launch interest rate futures until 2014, its market share was almost weak on an international scale.

2.3 There Is still Much Room for Improvement in the Legal System
We compared the legal rights index from iFind nationally from 2013 to 2018 and found that the United States ranked the first, with the index value of 11, followed by Singapore with 8, and China ranked the last among above countries, with index value of 4 shown in Figure 7. And there was a certain gap in legal system guarantee between China and mature financial markets, improvements needed to be strengthened in legal rights, one of the most important institutional guarantees for the construction of an international financial center.

3. Results
3.1 Launch and Customized Financial Futures Steadily to Serve the Real Economy and Attract International Investors
A wide range of financial products is the primary element for the construction of an international financial center. Take financial futures as an example, which have the functions of price discovery, risk hedge and market liquidity enhancement, we found them less used in China compared with the commodity futures market, while in high trading frequency in Singapore, the United States, and the United Kingdom. Under the background of unilateral and multilateral trade protectionism, enterprises especially foreign trade enterprises, had a great demand for reasonable hedging of financial products, such as foreign exchange futures and interest rate futures, with the purpose of reducing the cost of risk management and enriching the risk aversion strategy. Therefore, financial futures should be launched steadily during the construction of Shanghai international financial center, not only to help Chinese enterprises operation demand for efficient and relatively low-cost financial futures provided by the financial market, but also to attract international investors for the great popularity of financial futures worldwide.

Financial futures are standardized products, while different enterprises face various risk preferences and risk exposures. How to customize financial futures to serve the development of the real economy is the key, and we suggested that futures institution, as well as Securities companies, insurance companies, PE and other financial institutions can serve as financial intermediaries to connect enterprises with the market by providing a service that will customize the standardized financial futures for the purpose of meeting different requirements of enterprises. Meanwhile, the service would be a positive factor to help enterprises to cultivate professionals in using financial derivatives, which were lacked in many small-size enterprises as for the specialized division for risk management, and the bridge between the enterprises and intermediaries would build a mutual beneficial business contact among them.
3.2 Establish a Research Center under the Guidance of National-Level for Enterprises’ Demand and Application of Financial Instruments

National-level strategic guidance adopted in Sci-Tech innovation board could be learned for the construction of Shanghai international financial center, during which, government guidance and supervision mobilized all positive elements with top-down national power.

We suggested that establishing a research team to explore the use and demand for financial instruments for various enterprises through national initiative, given its efficiency in administrative strength and policy guidance, and strong financial support to ensure the quality of research, as well as the ample human source supply. Firstly, make a more flexible research cycle. Compared with the regular annual unit, quarterly or semi-annual survey frequency could also be launched based on the actual situation, flexible set research cycle could ensure the timeliness need and save unnecessary research costs. For example, in the sensitive period of international economic or political fluctuations, we can enhance tracking research on enterprises, especially foreign trade enterprises to timely feedback and reasonably control risks. Secondly, in terms of researchers, in addition to academic and professional university teams, more front-line practical personnel from corporate finance and risk management department added to participate in the whole research process will make a sense, through which, the first-line users of financial products could possess an access to figure out the current situation of using financial products in their respective industries, and learn from each other and fully understand how to put the survey results into practice. Finally, policies based on the survey results should be applied with both long-term and short-term adjustable space, that is, the monitoring cycle of the application of the survey results should be greater than the research cycle so as to prevent the occurrence of short-sighted behaviors, moral hazard and ensure the efficiency of research.

3.3 Promote the Digital Transformation of Financial Institutions and Joint Development between Financial Centers and Science and Technology Innovation Centers

Gathered in China foreign exchange trading center, Shanghai clearing house, Shanghai branch of the central settlement center and the credit information center of the people’s Bank of Shanghai, Shanghai has built a national centralized and unified basic database of enterprise and personal credit information, all of which are favorable conditions for the construction of Shanghai International Financial Center (Li, 2017). Traditional financial institutions in Shanghai have accumulated large core data, which can be utilized to promote digital transformation of financial institutions and improve operational efficiency. Industrial agglomeration has external scale economy and spillover effect (Li & Bo, 2018). And also, as a financial and cultural center, Shanghai gathers companies involved in various industries, financial innovation can be transformed into scientific and technological innovation and vice versa. Taking the Bank of Silicon Valley as an example, whose financial innovation of investment and loan linkage combines financial institutions with enterprises of different risk preferences and income requirements, through which the risk and return for financing demand of enterprises were matched greatly (Wang et al., 2016). In the construction of Shanghai international financial center, the existing financial
institutions could set up enterprise growth funds, focusing on the fields they are good at and provide them with high growth potential enterprises.

**Figure 1. 2007-2017 Financial Market Development in Major Economies**

**Figure 2. 2010-2017 Total Financial Assets of Major International Financial Centers (Unit: Billion Euro)**
Figure 3. 2008-2018 Total ETF Turnover of Major Exchanges (Unit: Million Dollar)

Figure 4. Total Number of Listed Bonds of Major Exchanges (Unit: Piece)
Figure 5. 2008-2018 the Number of Security Derivatives of Major Exchanges (Unit: Piece)

Figure 6. 2013-2018 Number of Interest Rate Futures Contracts of Major Global Exchanges (Unit: Piece)
4. Discussions

In short, the construction of Shanghai international financial center does need the innovation of customized financial products, the improvement of financial institutions and financial infrastructure, the strategic guidance by government, and mutual benefit between financial centers and technology centers, but above all, it is inseparable from China’s continuous deepening of structural reforms, building a strong manufacturing sector and financial power, as well as enhancing Chinese position in the global industrial chain.

Acknowledgement

Thanks for my mentor Lu Li, the associate professor of the School of International Economics and Finance, whose sincere and professional guidance on thesis writing and data processing allowed me to accomplish the paper better, as well as the professor Yugui, Zhang of the School of International Economics, who inspired me to think deeply about the current economy. Their insights and prospective teaching allowed me to acquire a lot in my study.

References


