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Shanghai Opens Doors to Financial World

Shanghai's World Expo is expected to be a tourist bonanza, drawing 70 million people between May and October. But with China's leaders aiming to turn the city into a globally competitive financial capital by 2020, it is also a golden opportunity to start recruiting bankers and barristers to settle down on the banks of the Huangpu River, Julie Makinen reports in The New York Times.

Considering that Shanghai had no stock exchange just 20 years ago, the city has come a long way. Measured by market capitalization, its stock exchange is already bigger than that of Hong Kong, and with initial public offerings of Western companies at a crawl after the economic downturn, Shanghai and Wall Street are increasingly vying to grab share listings of Chinese companies.

Still, Shanghai will need to attract an army of money managers, lawyers, accountants, actuaries, brokers and other professionals, Chinese and foreign, if it wants to rival New York and London in the next decade. From allowing public share offerings by foreign companies to developing a wealth management industry, it has a lot of catching up to do.

"Shanghai is benchmarking itself aggressively toward New York in terms of being a financial capital," said Professor Buck K.W. Pei, associate dean of Asia programs at Arizona State University's W.P. Carey School of Business. That school offers a graduate degree in business administration in conjunction with the 10-year-old Shanghai National Accounting Institute.

"New York has 10 percent of its workers in financial services," Mr. Pei said. "Shanghai has 2 percent in financial services. They know they need to attract and educate more — and not just in banking, but to diversify into investment banking, hedge funds, commodities, bonds, private equity, venture capital, insurance products."

Many of the largest Chinese banks have headquarters in Beijing, not Shanghai. "And if you think of investment banking, there are only a handful of companies in Shanghai," Mr. Pei said. "They are very small compared to say, **Goldman Sachs** or **Morgan Stanley**. The largest investment company headquartered in Shanghai has only 2,000 to 3,000 people."

Over the past decade, the city has worked feverishly and spent lavishly, adding sprawling high-technology parks, bridges, roads, hundreds of miles of subway and other facilities to prepare for a shift away from manufacturing and industry toward higher-value, service-sector employment.

David Patrick Eich, a partner at the law firm Kirkland & Ellis, said, "All of that hard infrastructure you need to attract foreign professionals — good schools, green parks, transportation — Shanghai has recognized that and even used the Expo to create some of it."

The firm opened a Hong Kong office in 2007 and a Shanghai branch late last year to handle its growing number of private equity clients. Now, he said, "The 64,000 renminbi question is: What happens with the soft infrastructure?"

China's accession to the **World Trade Organization** in 2001 brought a series of changes that made the country more hospitable to overseas investors, Mr. Eich said. The task now is to "create certainty, consistency," he said, adding, "Local municipalities like Shanghai have begun to experiment to push this certainty forward."

With the China State Council, or cabinet, having formally tapped Shanghai last March to become the mainland's international financial capital by 2020, many experts believe officials are ready to start at least local easing of currency restrictions, taxation and investment rules.

Mr. Pei said, "One of the things Beijing has in mind is to let Shanghai have special privileges in terms of offering new financial services products and regulations and eliminating red tape. For example, in terms of real estate investment trusts, or REITs, China is allowing only a few cities to experiment with these. Shanghai is one. Or granting 'green cards' or local visas — Shanghai has far more flexibility."

One step in that direction came last summer when Shanghai said it would let foreign private equity firms raise money from domestic Chinese investors for the first time. **Blackstone Group** then announced the first joint venture of a buyout firm and the Shanghai local government, planning to set up an investment fund of 5 billion renminbi, or $732 million.

The venture will focus on alternative energy, environment and medical companies in Shanghai and the Yangtze River Delta area. While the deal raises Blackstone's profile in China and opens up more deal-making opportunities, it is also seen as a way for China to gain the knowledge needed to build its own private equity industry.

Creating dynamic, challenging jobs is critical if the mainland is going keep its business graduates at home, let alone attract foreigners, said Billy S. C. Mak, an associate professor in the department of finance and decision sciences at Hong Kong Baptist University. "Most of my mainland students still find jobs in Hong Kong. Very few go back to China, because they find there is more opportunity here.

"In China, your options right now are basically to work for a bank, or a security house. The diversity is not yet there."

Taxes are another major issue, Mr. Mak said. Workers in Shanghai face income tax as high as 45 percent; the rate in Hong Kong is about 15 percent.

But perhaps the biggest question, many in business say, is whether China will allow the renminbi to become a convertible international currency.

Usha C.V. Haley, author of "The Chinese Tao of Business" and a research associate at the Economic Policy Institute in Washington, said: "Becoming a domestic financial center is one thing. A global financial center is another ball of wax. There's never been a world financial center without a freely flowing currency. That's a huge obstacle."

Michael Klein, professor of international economics at Tufts University and author of a book on exchange rates, noted that allowing full currency convertibility would mean giving up a powerful macroeconomic lever that is critically important to China's export sector — a major jobs engine.

For now, piecemeal efforts, like a pilot program allowing companies in Shanghai to use renminbi as a trade settlement currency rather than dollars or euros, are a way to test the waters. "My sense is that the government is trying to be pragmatic and also experimental but not to move strongly one way or another," Mr. Klein said. "It's a smart way to go."

While Shanghai may not rival New York or London within 10 years, there is little doubt that the city's financial sector will grow and internationalize.

In a 2009 survey of expatriate relocation trends by Brookfield Global Relocation Services, China was named the top destination for the first time since the survey began in 1995.

That means lots of business for people like Nate Barney, who moved to China four years ago to teach English and now works for a relocation company in Shanghai. "Even through the global downturn, Shanghai stayed pretty insulated," he said. "Before the crisis, there were 10 people coming in for every one leaving. It leveled off a bit, but it's already picking up."

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