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Ressort: Wirtschaft und Finanzen

# Emergence of Financial Hubs in Asia-China

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2017 was the year of the strengthening of Xi Jinping's position on the international and domestic political environment. The 19th Congress of the Chinese Communist Party held in October endorsed the ascent of Xi Jinping in a process that was fulfilled with the constitutional reform in March 2018. Xi Jinping Davos's speech on globalization and the official launch of the Belt and Road Initiatives have defined

the PRC leader's new foreign projection of China. The evolution of the domestic political context has a strong impact, as it is the continuity of the lines of economic policy defined by the Chinese government. The reference background continues to be that of the so called "New Normal", namely the recognition that China is in a new phase of its economy. In this scenario, Shanghai has been picked by the Central Government in 2009 to accomplish by 2020 the role of the country's primary financial centre. For its large hinterland, and political assignment in the China's modernization and economic growth, Shanghai's policymakers are better observing New York than London as a model.

If the last 15 years have testified China's integration into the global trading system, for the next ten 10 years the big narrative will be its integration into the global financial market. The increasing domestic liquidity of Chinese companies will be predictably met through Shanghai's ever-growing capacity to raise capital. Therefore, over the longer-term Hong Kong's capacity to raise funds would not be sustainable compared to Shanghai's financial markets growing sophistication. For these reasons, in the rise of the East Asian financial market the affirmation of Shanghai as a new global financial centre is remarkable.

A deep difference symbolizes this new phase of world finance: for the first time, financial flows tend to converge in new areas, particularly in Asia, and for the most part they no longer flow into historic financial centres like London. That corroborates the significant importance of the hinterland for the long-term affirmation of financial centres.

Therefore New York, which has the United States' real economy behind it, appears to be more stable than London, which has instead unexpectedly renounced its hinterland, constituted by the European Union. With the Chinese economy regaining the weight in the world economy that it had before the industrial revolution, Shanghai has become the first financial centre

of East Asia, displacing Hong Kong. The latter seems destined to be surpassed even by Singapore, which can point to Asia's financial services leadership, which includes countries like Malaysia and Indonesia and

### Redaktioneller Programmdienst: European News Agency

Annette-Kolb-Str. 16  
D-85055 Ingolstadt  
Telefon: +49 (0) 841-951. 99.660  
Telefax: +49 (0) 841-951. 99.661  
Email: [contact@european-news-agency.com](mailto:contact@european-news-agency.com)  
Internet: [european-news-agency.com](http://european-news-agency.com)

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that is even moving towards a banking union. Singapore also depends on its own real economy in the most advanced technology sectors, which Hong Kong lacks. For this reason, while centres such as New York, Shanghai and Singapore can count on markets of at least continental size, and on the issuing of financial instruments in local currency, London and Hong Kong give the impression to be destined to withdraw on an offshore role, sustained in the short term by de-regulation, but

without the tangible, solid foundations on which stand centres destined to have a future.

In the current phase of globalization, interdependence is maximized at the continental level, the centres of gravity – real financial hubs – proliferate, and the function of off-shore hubs is precarious.

Ten years after the global financial crisis, the recovery of the global economy remains bumpy and uncertain.

Global trade, a major driver of globalization, no longer appears to be growing faster than the world economy, opening questions over if it has passed its apogee, or just is going through a cycle, perhaps associated with weak investment and weak commodity prices.

In parallel, cross-border capital flows, one major indicator of financial globalization, have substantially dropped from the pre-crisis peak at 65 percent lower in absolute terms than they were in 2007. Supposing that trade and financial globalization have passed these twin peaks, this could mean that a de-globalization trend is fully in place. The gyrations of capital flows during and after the recent financial crisis have declined somewhat, as shown by the weakening of uphill flows of capital to US Treasury bonds. Financial flows to emerging economies have stabilized, and reserve managers in central banks are taking a few credit risks compared to the usual flight to quality, as the

economy emerges from a structural reduction in US Treasury bonds. The new geography of capital markets is beginning to see new large continent-sized jurisdictions taking centre stage.

Chinese borrowers can become a new source of competition for investors' money should its bond market keep opening. That change, as China's role as a creditor nation shifts, may mean higher borrowing costs for the rest of the world.

A peculiar feature of the Asia-Pacific banking sector is delineated by cross-border banking activity. In the years leading up to the 2008-2009 financial crisis, much of the cross-border activity in the region had been driven by dollar credit intermediated basically by European banks.

In the wake of the crisis, European banks withdrew their global intermediation throughout, letting regional banks move in, and soon take cross-border activity. Enhancing this drive towards an intra-regional trend, ASEAN member governments adopted a regional banking integration framework. Aware of the lessons of European banking integration, the banking authorities in the Region have been making efforts to balance the efficiency gains of regional integration against the risks of financial instability. The tangible situation

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Annette-Kolb-Str. 16  
D-85055 Ingolstadt  
Telefon: +49 (0) 841-951. 99.660  
Telefax: +49 (0) 841-951. 99.661  
Email: [contact@european-news-agency.com](mailto:contact@european-news-agency.com)  
Internet: [european-news-agency.com](http://european-news-agency.com)

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today is that cross-border banking in Asia and the Pacific has steadily increased.

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**Redaktioneller Programmdienst:  
European News Agency**

Annette-Kolb-Str. 16  
D-85055 Ingolstadt  
Telefon: +49 (0) 841-951. 99.660  
Telefax: +49 (0) 841-951. 99.661  
Email: [contact@european-news-agency.com](mailto:contact@european-news-agency.com)  
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