

# The Enlightenment of Hong Kong and Singapore Financial Open Path to Shanghai Freeport

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**Keywords:** Financial openness; Shanghai freeport; Hong kong freeport; Singapore freeport

**Abstract.** As Hong Kong and Singapore Freeport has many similar institutional arrangements in the financial and operating characteristics and other aspects in common, Shanghai to build a free port and financial center of Hong Kong and Singapore, there is a high degree of relevance and comparability in the financial aspects of the construction industry. Therefore, by comparing Hong Kong and Singapore Freeport mode liberalization measures in the financial sector, compare similarities and differences in their financial liberalization path, there is great significance to further clarify the path of financial openness in Shanghai Freeport.

## Introduction

As the special economic function zone with the highest level of openness in the world, Freeport has developed from the free port in the traditional sense to the modern formulation of today. China's construction of free port directly targets the highest open standards in the world. It should learn from the global high-level free port trade investment facilitation and liberalization development experience. The core of construction is institutional innovation and functional improvement. The key focus is on developing offshore trade and offshore financial. Financial liberalization of the Shanghai free port is in the national strategy and mission requirements, combined with local development status and level of development of the financial industry in Shanghai. It is the focus of the country's expansion and opening up and the local "experimental field" co-development effort.

## Comprehensive Assessment of Shanghai, Hong Kong and Singapore Free Trade Area (FTA)

Comparison of Shanghai, Hong Kong and Singapore Freeport Policies from the article "Comparative and Reference Study of China (Shanghai) Pilot Free Trade Zone and China's Hong Kong and Singapore Freeport Policy" published by the Research Group of the International Trade and Economic Cooperation Research Institute of the Ministry of Commerce of China in 2014 .The results of the comprehensive evaluation system can be found that Shanghai has scored 4.1 and 3.8 points in the field of trade liberalization and investment, and is closer to Hong Kong and Singapore, but only 3.1 points in the financial open field, and 4.9 in Hong Kong and Singapore. The difference between Shanghai and Hong Kong and Singapore is 1.8 points. There is a big gap between Hong Kong and Singapore in the financial open field. Hong Kong and Singapore financial openness represent the international advanced level. Since Shanghai's Freeport is directly at the highest international level, the analysis of Hong Kong and Singapore's financial openness will be of great significance for Shanghai's free port financial opening.

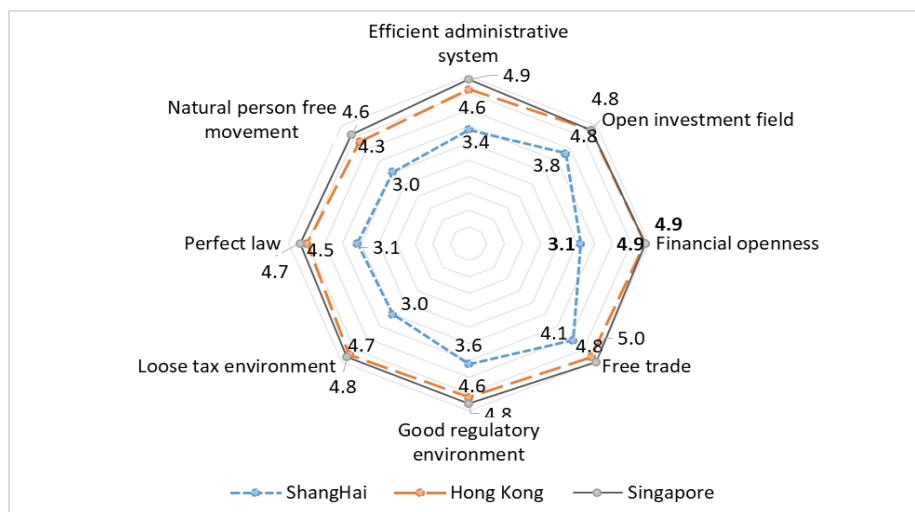


Figure. 1 Comprehensive Assessment System FTA scoring results

### Comparative Analysis of the Financial Open Path of Hong Kong Freeport and Singapore Freeport

Hong Kong and Singapore are both former British colonies. They have similar legal systems, legal foundations and open market atmosphere. They are free ports and have colonial economic heritage. In 1841, Hong Kong was occupied by the British as a colony, and the United Kingdom immediately declared Hong Kong a free port. The difference is that in 1819, the British Raffles landed in Singapore, opening up Singapore as a completely free port. After independence in 1959, it was converted into a limited free port to protect its own industry.

#### Government Regulation and Financial Functions.

**Government Regulation.** The Hong Kong SAR has formed an "Actively non-intervention" style of government governance, and the financial regulatory authorities have higher levels of regulatory freedom. The SAR's supervision of the financial industry mainly adopts special laws and regulations, regulatory agencies and industry associations to adopt self-discipline and adopt international regulatory standards. Prior to the 1997 Asian financial crisis, the Singapore government was strict with financial regulation, and after the crisis, it was "disclosure-based" to encourage innovation. A general license is issued in the capital market to meet the needs of financial mixed operations.

**Financial Function.** At the international level, Hong Kong and Singapore are the top six international financial centers. At domestic, the financial services industry has developed into a leading industry in the tertiary industry, and its position in the national economy has become increasingly important. In addition, financial institutions are mainly foreign-funded. The difference is that Hong Kong has no district separation offshore and onshore business. It is an "integration center" and Hong Kong's investment banking and securities markets are better than Singapore. Singapore has undergone the transition process between offshore business and onshore business from isolation to integration. Singapore is better at wealth management and private banking than Hong Kong.

**Financial Open Evolution Path.** The financial openness of the Hong Kong Freeport and the Freeport of Singapore and the status of the international financial center are the historical products of the development and changes of the world economy.

**Hong Kong Freeport.** Hong Kong used its location advantage to start with re-export trade. In the 1960s and 1970s, Hong Kong seized the opportunity of developed countries to transfer labor-intensive industries to Asia, and developed into an "industry-trade combination", which brought a lot of capital flow to Hong Kong and promoted the development of the financial industry and financial opening. Hong Kong lifted foreign exchange controls in 1973 and opened gold imports and exports in 1974. In 1978, the conditions for foreign banks to set up branches in Hong Kong were liberalized and bank licenses were liberalized. Hong Kong developed into the world's

most densely populated banking institution with developed banking finance. From 1978 to 1982, the freedom of capital in and out was completely realized, and the complete opening of capital projects was realized. Hong Kong became a veritable "free port". After the return of Hong Kong in 1997, the interconnection with the mainland was strengthened. The Hong Kong SAR is backed by the Chinese mainland and has many high-quality listed company resources. At the same time, the offshore renminbi business has developed rapidly and the total cross-border renminbi settlement has surged. In November 2014, Shanghai-Hong Kong Stock Connect was opened. In December 2016, Shenzhen-Hong Kong Stock Connect was opened. In July 2017, the bond was officially opened.

**Singapore Freeport.** In 1965, Singapore independence, through the cancellation of foreign currency interest tax, promptly seized the opportunity of the United States to build an offshore financial center in Asia to ease the balance of payments deficit, and strongly encouraged foreign institutions to finance their financial markets. At the same time, it utilizes its natural location advantage of "Asia Cross Road" to develop the trade logistics industry. From the logistics center to the capital flow center, Freeport develops into an Asian financial center. In 1968, the exchange control of the Asian dollar market was abolished, and an international currency and capital market with a high efficiency in operating the US dollar was gradually formed. In June 1976, the Singapore government relaxed its foreign exchange controls and freely exchanged with ASEAN countries. In June 1978, foreign exchange control was completely abolished. After successfully passing the Asian financial crisis in 1997, Singapore implemented financial reforms. In February 1998, Singapore officially launched a blueprint for building a world-class financial center. The financial reforms following the financial crisis have enabled Singapore to transform itself from "re-export trade" to "re-export finance". It is the strategic path proposed by the Singapore government in the financial reform to attract funds of the rich and invest in neighboring countries with Singapore as the fulcrum. After the Asian financial crisis, Singapore's offshore financial market has changed from internal and external separation to internal and external integration, while still adopting differential treatment policies for domestic and foreign market governments.

**Financial Opening Measures.** Table 1 compares the financial liberalization measures of Hong Kong and Singapore Freeport.

Table1 1 Financial Opening Measures in Hong Kong and Singapore Freeport

Implement a financial liberalization policy and locate it in a favorable time zone		
<b>Financial opening measures</b>	<p>Hong Kong's industry access is relatively open, and the financial industry is conditional. In addition to business registration, foreign investment must apply to the relevant government departments for additional industry licenses:</p> <p>①Banking: There is no standard for providing credit financing to banks. It relies more on industry internal standards and conducts self-discipline; the banking industry is open to foreign investment, but the establishment of banks needs to apply for a banking license from the Hong Kong Monetary Authority;</p> <p>② Capital market: There is no restriction on foreign companies participating in local securities transactions. Investors can trade at any time by opening and selling securities accounts. With the world's most open bond market, international investors can freely invest in debt instruments issued in Hong Kong; the currency market is global. One of the most open markets;</p> <p>③Gold market: Gold control was abolished in 1974 and the gold market was completely open;</p> <p>④ Foreign exchange market: In 1973, the foreign exchange control was abolished, the foreign exchange market was completely open, and Hong Kong was located in a favorable time zone, and foreign exchange transactions continued to operate 24 hours a day.</p>	<p>The Singapore government adopts a differential treatment policy for foreign investors entering the financial industry, that is, foreign investment in special fields such as banks, securities, and insurance needs to be filed with the competent authorities. Restrict the types of foreign financial institutions entering the country and the scope of business operations, and only encourage them to participate in offshore financial transactions:</p> <p>① Banking industry: It is forbidden to add foreign-funded banks into the local retail business market, restrict foreign-funded banks from holding shares in local banks, and form three major types of commercial banks: fully licensed banks, restricted license banks and offshore license banks;</p> <p>②Capital market: The capital market system is perfect and mature, but the advantages in securities trading still cannot match China Hong Kong;</p> <p>③ Gold market: The gold exchange was officially established in November 1978;</p> <p>④ Foreign exchange market: The foreign exchange control was completely abolished in 1978, allowing international currency brokers to participate in activities;</p> <p>⑤ Offshore financial market: Singapore has built the world's largest Asian stock index futures offshore market for Asia's three major economies - China, India and Japan.</p>
	<p>Hong Kong has a well-developed financial system and an international financial center. It can provide a comprehensive financing channel for enterprises, and has no limit on borrowing, and has a high degree of financial freedom. In addition, Hong Kong focuses on SME customers and provides them with comprehensive and distinctive services.</p>	<p>Singapore's financial market is highly international and open, providing companies with rich and convenient financing services. Foreign-funded enterprises may apply for financing business from Singapore local banks, foreign banks or Chinese banks, and various financial institutions, and they shall be examined and approved by banks or financial institutions.</p>

## Reference to the Open Experience of the Freeport of the Hong Kong Special Administrative Region and the Freeport of Singapore

**Development of Offshore Trade Convergence Fund Flow.** From the experience of Hong Kong and Singapore, the development of trade logistics industry is the origin of Freeport. Shanghai Freeport is the first to realize trade freedom. Freedom of trade will bring about capital flow and will further promote financial freedom. Through the processing of transit port trade and offshore trade, we have become a third-party role in the processing, manufacturing, storage, transportation and other functions between the producing and consuming countries, and have developed into a trade logistics center. The trade logistics center will be gathered into a capital flow center, and the capital

flow center will form a financial center. The financial center will also send out a service center and a commercial center, which will eventually form a highly effective and benign interaction.

**Relaxation of Market Access.** The financial industry is a concentrated expression of the development advantages of the Freeport. It should play a supporting role for finance in the trade logistics industry. Hong Kong and Singapore strongly encourage the development of the financial industry and deregulate the scope of business and the qualifications of operating entities. Therefore, Shanghai Construction Freeport should accelerate the “slimming” of the negative list of foreign business access and greatly relax market access. Seize the opportunity of national financial opening up and speed up, and relax or cancel restrictive access measures such as shareholding ratio restrictions and business scope restrictions on the basis of strengthening the qualification requirements for foreign investors.

**Isolation of the Offshore Market and Onshore Market of the Financial Industry.** Due to differences in economic volume and industrial structure, China, as a big country, must protect many domestic related industries while opening up. It needs to be concerned about the impact of financial opening on domestic industries. Therefore, it must be “first line release”, “second line management”. In order to do this, we need to separate the offshore market and the onshore market. We cannot follow the “integration” model of Hong Kong at the beginning of construction, but we must learn more from Singapore's experience. The Singapore government has adopted a differential treatment policy. For example, restricting the types of foreign financial institutions entering the country and the scope of business operations, only encourages them to participate in offshore financial transactions, and newly entered foreign banks cannot set up branch outlets in other places in the country. This “internal and external segregation” financial system protects the competitiveness of domestic financial institutions and the stability of domestic financial markets while encouraging foreign financial institutions to enter.

## Conclusion

The speed of financial opening should be coordinated with the domestic financial system, market system, institutional system and regulatory system. For the financial opening in the construction of Shanghai Freeport, the overall direction is to build a separate internal and external financial market in the process of opening up. However, considering the existing conditions of the Shanghai Freeport and the current development of the financial industry, the future financial opening of Shanghai Freeport requires a series of necessary preparation. Under the constraints that it is difficult for the RMB capital project to be fully open in the short term, Shanghai can position the Freeport as a “separation center” and implement a “second-line” regulation and a “first-line” free financial system and supervision model. The front line actively encourages foreign investment, while opening up financial markets, the second line protects the stability of domestic financial markets and the competitiveness of domestic financial institutions.

Financial openness is a must for the construction of Shanghai Freeport. To open up, we must first decentralize and relax the hands and feet of the Freeport reformers. The report of the 19th National Congress clearly stated that “the free trade pilot zone will be given greater reform autonomy and explore the construction of a free trade port.” But we should make it clear that financial openness is no small matter, and financial supervision must be coordinated with it. On the basis of the regulatory system, the improvement of the regulatory procedures, and the innovative supervision methods, the reformers of the Freeport have greater confidence and courage to promote financial openness.

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