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1. Shanghai or Hong Kong as China's Financial Centre?

One of Shanghai's vice mayors, Tu Guangshao, stated last week that it would be preferable for Shanghai to be China's main financial centre, and should be promoted over Hong Kong to capture global attention on China's markets. While Shanghai Communist Party chief Yu Zhengsheng has conceded that Shanghai would not catch up with Hong Kong until 2020, the polarization of both cities as China's main financial centre is an issue that still has a long way to go before being resolved.

Tu was the co-author of an influential report citing that Shanghai and not Hong Kong should be China's premier international financial centre in the longer term, and recommended measures to make Shanghai a top international financial centre by 2020, a policy adopted by the State Council in 2009. The report was issued by the Brookings-Tsinghua Center for Public Policy, the Beijing branch of the U.S.-based Brookings Institution.

Several senior mainland officials co-authored the report, including People's Bank of China governor Zhou Xiaochuan and Yi Gang, director of the State Administration of Foreign Exchange and deputy governor of the central bank. John Thornton, chairman of the Brookings Institution also contributed to the report, which recommended making the yuan fully convertible within a decade, a prerequisite that will enable Shanghai to be an offshore yuan centre.

So which city should be the top dog for China?

Shanghai as a financial centre

It is important to recognize that Shanghai today is not an international financial centre, although the city certainly likes to promote the fact that it is. There are a number of restrictions that apply to Shanghai that do not apply currently to the markets and status of Hong Kong. These include:

(i) *The RMB Yuan as an internationally tradable currency:* Until China changes the current policy over the yuan and permits it to be a freely tradable currency, Shanghai cannot be an international financial center. The Hong Kong dollar is a tradable currency on the global currency markets. Consequently, currency trading is a key part of the Hong Kong economy, and licensed money changers can be found on the streets. Mainland China maintains currency controls and until this is eased Shanghai will remain a yuan-denominated market only suitable for domestic China trade.

(ii) *Mainland China stock markets are not open to foreign investors:* Although the indexes in Shanghai are quoted internationally as a benchmark, in reality they are not open. Foreign investors are not permitted to purchase Mainland China stocks on the Shanghai or Shenzhen bourses, and in any event, the proportion of stock held by the government remains high to evade concerns over market fixing or vested interests. There is, in short, no direct link between the Shanghai market and any impact on stocks held in international jurisdictions. Why the Shanghai index continues to be regarded as influential when compared to internationally tradable markets in Hong Kong, Singapore and Tokyo is an important issue worth considering.

While a reform program is to be put into place to permit foreign companies to list, this is different from allowing access to mainland stocks by foreign institutional investors. The China government has a great need to get out of stocks it holds in its listed state-owned enterprises, and it needs to release the majority of these into public holdings. The problem is that in doing so, the massive amount of shares that would come onto the domestic market would seriously deflate prices. China is caught between managing stocks in companies it owns in a market it remains the regulator of, and the alternative is being out of stocks and appointing an independent regulator. Neither of these two scenarios is under state consideration at the present.

Hong Kong's rule of law

Hong Kong still maintains a British-derived legal system, and has had a stock market since 1891. The market, Asia's second largest after Tokyo, has developed and retains a sound legal and regulatory system used to the dealings, disputes, claims and liabilities of international finance. Although Hong Kong does have a regulatory conflict between its commercial and regulatory position, generally speaking the market is well managed and possesses global credibility. Market manipulators, insider dealers and fraudsters are routinely jailed when caught, and the city retains an independent commission against corruption to monitor and look into such activities.

Mainland China is not in a position to provide that for Shanghai unless a massive evolution in the regulatory conflicts between state and commerce is undertaken. The past behaviour of some of China's own investment funds, including government-backed ones such as CITIC, and the constant play between China and Hong Kong over asset holdings and evasion of liabilities dictate many of mainland China's financial and political hierarchy are unable to fully appreciate the concepts of transparency and financial responsibility.

China needs to implement an independent financial and regulatory body separated from the government; to ensure that financial trades and dealings are transparent, and to ensure that insider dealing and fraud are routinely punished by prison – no matter who they are. Hong Kong's legal and regulatory system is in place, works, and is familiar to those who use it. For Shanghai to succeed, that complete infrastructure needs to be put into place from scratch. It is not in place at the present.

At the moment Shanghai serves, and will continue to develop to serve, the function of raising capital in yuan denominations for business expansion on the Chinese mainland. The soon to be announced reforms that will permit foreign businesses to list in Shanghai are therefore to be welcomed. This is a far more preferable route than having to bring in investment capital from the overseas parent as is currently the case.

Hong Kong meanwhile remains a sensible choice for regional and Mainland Chinese firms to raise foreign currency for business expansion plans in Asia.

The real concerns about Shanghai and its taking over from Hong Kong remain much the same: a Mainland China government far too involved with commerce, heavily invested in its own listed companies, and practicing the self regulation of its own market. Add to that concern over China audit capabilities, transactional transparency, rule of law and a basic understanding of what a free market really is, and Shanghai remains not 10 years behind, but perhaps decades.

2. APEC seeks ‘quality’ growth in the next 10 years

The Asia-Pacific Economic Cooperation (APEC) forum will seek to improve the 'quality' of its growth over the next 10 years so that the benefits of its economic integration efforts can be shared in the region, according to a draft of the APEC growth strategy report.

Under an action plan included in the draft long-term comprehensive growth strategy, which the 21-member forum is to finalize later this year, the Pacific Rim economies are expected to implement structural reforms that place priority on such areas as developing smaller businesses and enhancing opportunities for women.

To ensure the strategy's implementation, the draft stipulates that an interim report to the leaders be prepared in 2015 to evaluate progress, and a final report in 2020. Noting that economic integration has in some cases revealed disparities within and between economies, the draft said, "It is clear APEC members cannot continue with 'growth as usual,' and 'growth quality' needs to be improved, so it is more balanced, inclusive, sustainable, innovative and secure."

Japan, as this year's chair of APEC, is taking the lead in drafting the growth strategy which the leaders agreed to formulate in a meeting in Singapore last year, the first such initiative for the forum since its launch in 1989. The substance of the strategy will be discussed at the upcoming high-level meeting to be held in Oita on Aug. 7-8, and finalized in November when the leaders of the members gather in Yokohama for an annual summit.

The need to compile a growth strategy came against the background of the global financial crisis triggered in 2008, which showed that the market mechanism alone wouldn't result in desirable growth in the region, according to a Japanese government official.

However, Japan may face difficulty in further working out specifics of the strategy, given the diversity economically of the members constituting the forum, with one senior Foreign Ministry official saying that talks in Oita may "end up with abstract discussions." The other government official said that countries such as China are especially sensitive about discussing in detail issues related to reforming domestic systems as they don't want to be seen as having had structural change "imposed" from the outside.

As for balanced growth, the draft strategy says that APEC economies will maintain growth-oriented policies "until durable private demand is secured," while showing wariness over excess volatility and disorderly movements in exchange rates.
"All economies will pursue exchange rates that reflect economic fundamentals," the draft said.

The draft also calls for the need to work to facilitate access to finance for small and medium-sized enterprises and women entrepreneurs as part of efforts to realize "inclusive growth" that can ensure that all citizens have the opportunity to thrive in the global market economy.

To achieve more balanced and inclusive growth, the action plan to implement the strategy says that senior officials of the member economies should implement a new strategy for structural reform, which will "contribute to higher quality growth across the board," according to the draft.

Other issues covered by the action plan include the need to design a "Green Growth Plan" to enhance APEC-wide coordination to mitigate climate change by promoting low-carbon technologies, and efforts to create a regional business environment to foster innovation and protect intellectual property.

APEC, which accounts for more than half the world's economic output and 44% of its trade by value, involves such members as Australia, China, Peru, Russia, South Korea, Taiwan, the United States, and some of the countries that belong to the Association of Southeast Asian Nations.

3. WTO to meet in October to check the Doha Round’s progress

The World Trade Organization plans to hold a meeting as early as mid-October to enable WTO Director General Pascal Lamy to check the progress of the Doha Round of global market-opening talks, trade sources said yesterday.

The plan was revealed at a meeting of the WTO's General Council, a key decision-making body, on 30 July.

In the Doha Round talks, more than 150 member countries and regions aimed to cut tariffs and ease regulations in the services sector.

But advanced nations and emerging countries are at odds over how to cut tariffs and export subsidies in the core areas of agriculture and manufactured goods.

In order to break the stalled talks, WTO members are holding discussions in groups, each with a small number of participants.

At the meeting of the General Council, members that are not part of any grouping called for increasing transparency at the ongoing talks.

4. The US Administration may be rediscovering the WTO

The President of the United States surprised everyone at the recently concluded summit of the leaders of the Group of 20 countries in Toronto by saying he wants to conclude the long-delayed free trade agreement between the United States and Korea and accepting that bilateral deals will produce jobs and growth for Americans and for our trading partners.

However, by far our best opportunity for creating jobs and growth through more trade is a global deal — which is why the United States and others should be focusing much more on the long-stalled "Doha Development Round" of global trade negotiations among the 153 member countries of the WTO.

Global negotiations make possible global "trade-offs" leading to many more concessions in trade in many more goods and services by many more countries. Under WTO rules, any concession made to one country must be made to all. This can lower trade barriers of all kinds, and can maximize the potential gains from trade worldwide.

For these reasons, many more jobs and much more growth from a global trade deal with a whole world full of countries can be created than from any bilateral trade deal with only one or a mere handful of countries.

Yet G-20 leaders seemed to give short shrift in Toronto to the WTO and to the need to conclude a global deal in the Doha Round. Reportedly, the stalemate in the global trade talks (now in their ninth year) came up behind closed doors. What was supposedly said behind those closed doors explains much about why, for all the potential gains from a global deal, the world has turned increasingly from multilateralism to bilateralism in trade.

One world leader reportedly described a Doha deal as "the cheapest form of stimulus." Obama replied candidly that there is not enough on the negotiating table in the current deal for the United States.

Is Obama correct?

At a time when governments worldwide are retreating from public spending because of growing debt, and when businesses worldwide are refraining from private spending because of continuing uncertainty, the "cheapest" way to help sustain and strengthen the fragile recovery from the global economic crisis would be to lower tariffs and other barriers to international trade. Tariffs, for example, are taxes. A global trade deal would be a tax cut for the whole world that would generate jobs and growth.
But nine years of mind-numbing negotiations thus far in the Doha Round have simply not produced proposed concessions sufficient to secure the needed approval of a global trade deal from the Congress of the United States.

Additional concessions are needed by all major trading countries to achieve an ambitious result from the global trade negotiations, and to further a faltering global recovery at a time when more of the right kind of stimulus is still much needed worldwide — but is unlikely to come in many countries from more spending.

For the United States and the European Union, this could mean making more concessions on trade-distorting subsidies that protect inefficient agriculture. For China and other emerging economies, it could mean opening their markets much wider to the manufactured goods and services of developed countries.
Doubtless doing this will be politically difficult everywhere — not least in the Congress of the United States. But the potential payoff in new jobs and new growth is considerable.

By one estimate, an ambitious result from the Doha Round could yield potential annual gains in gross domestic product worldwide of more than $280 billion. Of this, about $36 billion annually would be by the United States, adding four-tenths of one percent to American GDP — every year.

Back from Toronto, President Obama has renewed his pledge earlier this year to double US exports during the next five years. Among other initiatives, he says he will be "pushing hard" to conclude the Doha round in a way that will "translate directly into more opportunities for American exporters."

Is this merely the usual obligatory mention in passing of the global negotiations? Or has the President, having discovered trade, discovered also the potential benefits for American businesses and workers of additional trade agreements through the WTO?

4. NZ FTA With Malaysia Enters into force

New Zealand (NZ) Minister of Trade Tim Groser has welcomed the entry-into-force of the New Zealand - Malaysia Free Trade Agreement (FTA), commenting that it is now up to businesses to make the most of the opportunities that it presents.
The FTA, which was signed in Kuala Lumpur by Minister Groser in October last year in the presence of the Prime Minister, the Hon John Key, officially came into force on 1 August. The FTA recognises the growing importance of the linkages between the New Zealand and Malaysian economies and is further evidence of New Zealand's strengthening economic integration with South East Asia.

"This deal provides our companies some of the best commercial access to the Malaysia market, and improves on the already substantial advantages that New Zealand businesses experience through the agreement we have with the countries of South East Asia under the ASEAN-Australia-New Zealand Free Trade Agreement," said Mr Groser.

Malaysia is one of New Zealand's most important markets in the South East Asian region, worth almost three-quarters of a billion dollars in exports in the year-to-May 2010.

Now in force, the FTA will eliminate tariffs on 99.5% of New Zealand's current exports to Malaysia within seven years - five years earlier than provided for under the existing ASEAN FTA. The FTA also provides new and enhanced market access for New Zealand's services exporters to Malaysia, including in education, environmental, management consulting and veterinary services.

5. TPP Expected to Have Better Idea of Direction at APEC 2011

The Trans-Pacific Partnership (TPP) agreement, which concluded its second round of negotiations last month, is expected to have a "better sense" of direction a year from now, especially with the United States hosting the Asia-Pacific Economic Cooperation (APEC) 2011 meeting.

Deputy US Trade Representative Ambassador Demetrios Marantis said that negotiations remained at an early stage as the eight TPP countries were still working out on regional issues to be included in the agreement.

"We will have much better sense in a year from now about how negotiations are going and what is the timetable. It is still early with only two rounds and we have not moved into text yet," he told reporters as he concluded his two-day trip to Malaysia on 28 July.

Marantis was responding to a question on whether there would be a framework coming out soon from the TPP negotiations.

The negotiations, which started in March this year, will enter its third round in October in Brunei and the fourth round at the end of this year.

"It is always nice to set an ambitious goal but the reality is we need to have substance to drive the timing of these negotiations and we have an ambitious timetable with our TPP countries," Marantis said.

"There's a lot of momentum right now, coming from the two rounds which is great [but] the reality is that issues are very complicated and you are dealing with countries, of which many have trade agreements among each other, so there's going to be difficult issues that we have to sort through as the negotiations progress," he said.

Marantis also envisioned that for a country to enter TPP, it would need quite a commitment as it could be a "binding agreement" compared to non-binding APEC aspirations.

According to Marantis, the "TPP is an important part of [the US'] Asia Pacific agenda and the relationship between TPP and APEC is actually very interesting. APEC as you know, there's a lot of work but it is a non-binding and very much aspirational. The TPP allows us to take work that we have been doing in APEC over the years and move some of that into binding discipline among TPP countries."

The eight TPP members are Australia, Brunei, Chile, New Zealand, Peru, Singapore, Vietnam and the United States.