

Comparative Analysis of Shanghai and Hong Kong's Financial Service Trade Competitiveness

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Abstract

With the rise of finance, information and communication technology as the representative of the knowledge-intensive service industry what represents the emerging service industry's development direction, financial service industry is becoming an important support in the future economic development, the development situation of financial service trade has become an important symbol to measure a country or region's international competitive. On September 29th 2013, Shanghai officially launched 'China (Shanghai) Pilot Free Trade Zone', greatly promoting the process of the Shanghai's construction of international financial centre, and bringing the new opportunities for the development of financial service trade. Compared with Shanghai, Hong Kong's financial service trade has been in the international advanced level, this paper combines these two cities' currently development situation of financial service trade, trying to identify gaps in Shanghai and Hong Kong to provide some suggestions for the better development of Shanghai's financial service trade in the future.

Keywords: Shanghai, Financial Service Trade, Hong Kong

1. Introduction

Financial service trade refers to financial service transaction activities and processes occurring between country and country or region and region. It is the business of financial service activities, which exclude all government action based on common interests, and regardless of the actors are state-owned or private entities, whose services include banking, insurance, securities, financial information and other fields. It is an important symbol to measure a country or region's international economic competitive.

On September 29th 2013, Shanghai officially launched 'China (Shanghai) Pilot Free Trade Zone', greatly promoting the process of the Shanghai's construction of international financial centre, and bringing the new opportunities for the development of financial service trade. Compared with Shanghai, Hong Kong's financial service trade has been in the international advanced level, thus by the comparisons between Shanghai and Hong Kong, we can find out the two cities' the gaps in the field of financial service trade, it plays an important role in the guidelines for Shanghai indicating its future developing direction in financial service trade

2. The General Observation of Shanghai Financial Service Trade

2.1 Shanghai's Values of Imports and Exports Trade in Financial Service

From 2001 to 2011, the overall scale of Shanghai's values of import and export trade in financial service as shown in Table 2.1.

Table 2.1 Shanghai Trade in Financial Service Statistics, 2001-2011

Year	Shanghai's value of exports in financial service (Million US dollars)	Shanghai's value of imports in financial service (Million US dollars)	Shanghai's value of net exports in financial service (Million US dollars)
2001	15.1798	22.0446	-6.8648
2002	9.1326	22.12	-12.9874
2003	11.0683	45.3359	-34.2676
2004	24.252	37.056	-12.804
2005	64.52	81.775	-17.255
2006	94.29	137.57	-43.28
2007	240	136	104
2008	219	284	-65
2009	80	60	20
2010	590	200	390
2011	638.38	216.4	421.98

Resource: Shanghai Municipal Commission of Commerce website, finishing calculated

From 2001 to 2006, Shanghai imports and exports trade in financial service are showing gradual upward trend, and has been in a state of financial services trade deficit. The main reason is because of China's accession to WTO makes the openness of financial market in Shanghai has been a qualitative leap, so that there is a substantial increase in trade volume. Until 2007, Shanghai relying on rapid economic growth and the rapid rise in property and stock markets, and the exports of financial service trade reached \$ 240 million, nearly three times higher than it in 2006, and the first time appearing surplus in financial service trade. During 2008 to 2009, due to the impact of the international financial crisis, imports and exports trade in financial service fell sharply, trade deficit again in 2008, appeared slowly recovering after 2009, overall, trade in financial service can be a little affected by the financial crisis, back in 2010, Shanghai vigorously promotes the reform and opening-up process, to achieve "bringing in and going out," a substantial increase of financial service trade and surplus rise significantly. Thus we can see the development of trade in financial service in Shanghai is instability.

2.2 The Business Structure of Shanghai Trade in Financial Service

Financial service trade is an important part of service trade in Shanghai, which has maintained a good growth trend. Financial service trade is covering banks, insurance, securities and other fields. From the business structure of Shanghai trade in financial service, we can find that the insurance service trade is always at an absolute largest position, whether imports or exports. Since 2000, Shanghai import and export accounted for insurance services is over 84%. From 2000 to 2006, Shanghai exports accounted for insurance services are higher than national average. On the contrary, imports accounted for insurance services are lower than national average. At the beginning of 2006, the trade structure of Shanghai financial services gradually diversified, the proportion of the insurance service trade rapidly declined, and the proportion of all banks and others began rise. By 2008, the proportion of the export trade in insurance service was only 78.44%, lower than the national level 95.75%, correspondingly, all banks and other financial services' exports rose to 22.45%, 5 times higher than the national level. Imports also appeared the same trend. In 2012, due to the impact of various factors at home and abroad, Shanghai exports value of insurance service is increasing more than 30%.

2.3 Geographical Distribution of Shanghai Financial Service Trade

The geography density of Shanghai financial service trade is high, Japan, the United States and Hong Kong are major trading countries and regions. From the region of Shanghai financial service export, the traditional market is basically stable. The United State, Hong Kong and Germany are among the top three, which the United States accounting to 40.93%. In 2012, the exports from Shanghai to the United States, Japan was increasing higher than the city's average level, but the exports to the EU fell by 10.3%, it indicated that the EU market is shrinking heavily. The emerging markets of Russia, the Middle East enhance growth, decline in exports to Africa. In the fields of Shanghai financial service importing, And insurance exports as the crucial part of financial service, Hong Kong, USA and UK are the chief partner countries.

3. The General Observation of Hong Kong Financial Service Trade

3.1 Hong Kong's Values of Imports and Exports Trade in Financial Service

From 2001 to 2011, the overall scale of Hong Kong's values of import and export trade in financial service as shown in Table 3.1.

Table 3.1 Hong Kong trade in financial service statistics, 2001-2011

Year	Hong Kong's value of exports in financial service (Million HK dollars)	Hong Kong's value of imports in financial service (Million HK dollars)	Hong Kong's value of net exports in financial service (Million HK dollars)
2001	349.7	69.7	280
2002	327.1	76.9	250.2
2003	293	68.4	224.6
2004	354.8	90.7	264.1
2005	487.5	109.3	378.2
2006	720	156.7	563.3
2007	970.49	218.95	751.54
2008	934.25	244.26	689.99
2009	874.84	243.60	631.24
2010	1020.90	275.26	745.64
2011	1134.15	302.14	832.01

Resource: Census and statistics department of Hong Kong special administrative region of the People's Republic of China

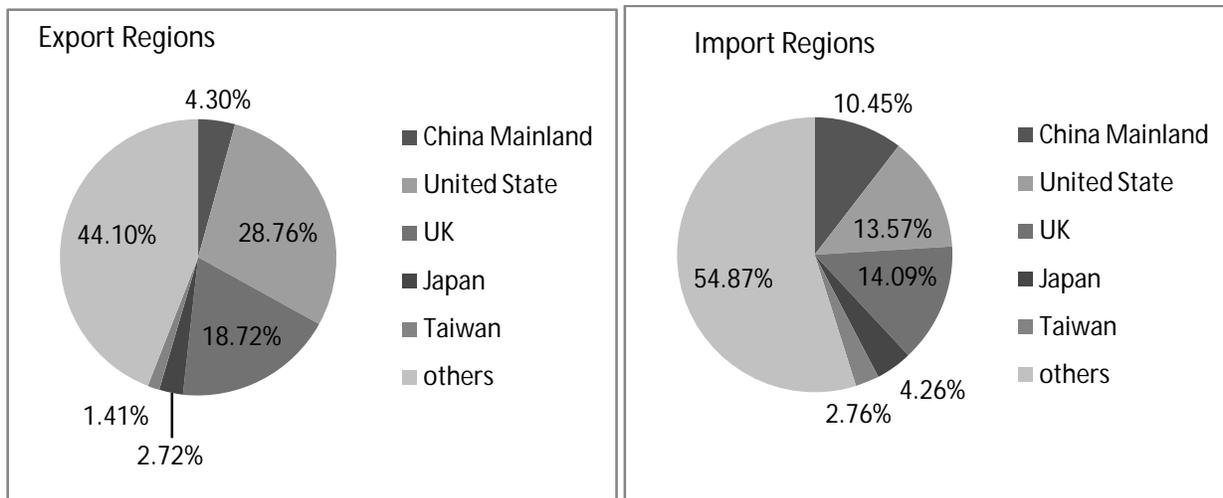
From the statistics of Hong Kong imports in financial service trade, we can see Hong Kong financial service imports has been in a steady growth over the past decade, there is not much fluctuations, overall very stable. From the view of Hong Kong exports in financial service trade, from 2001 to 2003, exports has been about \$ 30 billion, appearing obviously upward trend after 2004, and until 2007 it reached to HK \$ 97.049 billion, more than three times of 2003. But due to the impact of the financial crisis, it declined in 2008 and 2009. The economic recovery after 2010, financial service trade exports have rebounded significantly, in a growth trend. From the point of the value of net exports, Hong Kong trade in financial service has been in surplus, because the development of imports has been relatively stable, exports relatively more volatile, so the trend of net exports has the similar trend as exports, overall in growth.

3.2 The Business Structure of Hong Kong Trade in Financial Service

From the view of Hong Kong's business content in financial service trade, whether it is import or export, financial intermediation service trade is at the absolutely position. And financial intermediation service has been dominated in the field of Hong Kong financial service trade. In terms of export, from 2001 to 2007, Hong Kong financial intermediation service accounted for financial service export rose from 98.2% up to 99.0%, and other financial service exports accounted for a very small proportion, which also has a downward trend, from 1.8% to 1%. In terms of imports, it has the same trend as the exports.

3.3 Geographical Distribution of Hong Kong Financial Service Trade

Since Hong Kong reunification, especially the signing of CEPA, the geographical distribution regions of Hong Kong financial service trade has obviously changed, Chinese mainland has become the main input and output regions. According to 2011 data, Chinese mainland, USA, UK, Japan, and Taiwan are Hong Kong's primary trading partner. From picture 2.1, we can see Hong Kong's major export country are USA and UK, respectively, total exports of financial service are HK \$ 32.618 billion and HK \$ 21.232 billion, accounting for 28.76% and 18.72%. From the part of imports, UK, USA, Chinese mainland are the main source regions, and their imports of service amounted to HK \$ 4.247 billion, HK \$ 4.1 billion and HK \$3.156 billion, their proportions were separately 14.09%, 13.57% and 11.1%.



Picture 3.1 Export and Import Regions of Hong Kong Financial Service Trade

4. Comparative Analysis of Shanghai and Hong Kong’s Financial Service Trade

From the developing situation of financial service trade, obviously there is a certain gap between Shanghai and Hong Kong. For more deeply analysing Shanghai’s international competitiveness of financial service trade, I’ll use 3 indicators to compare Shanghai with Hong Kong; they are International Market Share (MS), Revealed Comparative Advantage (RCA) and Trade Competition Index (TC).

4.1 International Market Share (MS) Analysing

International market share (MS) is a country’s (or a region’s) share to the word of a kind of merchandise exports, reflecting the overall competitiveness or competitive position of a country’s merchandise exports. The index is higher, the competitiveness is stronger.

The formula is $MS_{ij} = X_{ij} / X_{wj}$ (1)

MS_{ij} represents commodity i’s international market share of country j.

X_{ij} represents the totally export value of commodity j of country i.

X_{wj} represents the totally export value of commodity of the whole world.

According to formula (1), I calculated Shanghai and Hong Kong’s financial service trade share in international market. Show as Table 4.1.

Table 4.1 Shanghai and Hong Kong’s MS Analysing in Financial Service Trade from 2001 to 2011

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Shanghai	0.018	0.010	0.033	0.018	0.042	0.044	0.083	0.078	0.032	0.175	0.182
Hong Kong	5.53	4.80	3.57	3.32	3.89	4.61	4.28	4.29	4.62	3.91	4.95

Resource: Shanghai Municipal Commission of Commerce website, and Census and statistics department of Hong Kong special administrative region of the People’s Republic of China, finishing calculated

From Table 4.1, we can see that the share of Shanghai’s financial service trade in the international market is very low, compared with Hong Kong’s share, we still have a big gap. From 2001 to 2011, the share of Shanghai’s financial service trade has been fluctuating, but it had an overall growing trend, especially in recent years, the gap between Shanghai and Hong Kong is gradually reduced, but the overall gap is large, so a qualitative leap is needed in the future.

4.2 Revealed Comparative Advantage (RCA) index Analysing

RCA is the ratio of the exports’ share of a good in one country’s total exports and the exports’ share of the same goods in the whole world’s total exports, designed to quantitatively describe the relative proportion of exports in various industries of a country, it is one of the most persuasive indicators to measure a country’s goods international competitive.

The formula is: $RCA = (X_{ij} / X_i) / (X_{wj} / X_w)$ (2)

X_{ij} represents the exports of country i 's commodity j ;
 X_i represents exports of country i 's all commodities;
 X_{wj} represents the exports of the whole world's commodity j ;
 X_w represents exports of the whole world's all commodities.

This index's value ranges in details are shown as Table4.2.

Table4.2 Revealed Comparative Advantage (RCA) Interval Classification

RCA Index	The competitive of country i 's commodity j
>2.5	Extremely Strong
(1.25,2.5)	Very strong
(0.8,1.25)	Strong
<0.8	Weak

According to formula (2), I calculated Shanghai and Hong Kong's Revealed Comparative Advantage (RCA) indexes in financial service trade. Show as Table 4.3.

Table 4.3 Shanghai and Hong Kong's RCA Analysingin Financial Service Trade from 2001 to 2011

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Shanghai	0.056	0.028	0.023	0.032	0.061	0.063	0.111	0.131	0.035	0.158	0.151
Hong Kong	2.617	2.272	1.923	1.799	2.032	2.381	2.231	2.323	2.366	1.774	1.797

Resource: Shanghai Municipal Commission of Commerce website, and Census and statistics department of Hong Kong special administrative region of the People's Republic of China, finishing calculated

From Table 4.3, the value of Shanghai's financial services trade RCA index is less than 0.8, indicating the international competitiveness of Shanghai's financial service trade is weak, Hong Kong's financial services trade RCA index is between 1.25 and 2.5, indicating that Hong Kong's financial services trade with a very strong international competitiveness. By calculating, from 2001 to 2011, Shanghai and Hong Kong's average RCA indexes are 0.077 and 2.138, respectively, Shanghai has 2.061 RCA disadvantage gap values compared with Hong Kong.

4.3 Service Trade Competitive Index (TC) Compared.

Revealed Comparative Advantage (RCA) index is only considering the issue of exports, imports did not take into consideration. Therefore, this paper selected the index of trade competitiveness (TC), as a supplement. TC is a country's net imports trade value accounted for its import and export trade total value; it is a powerful tool for industry international competitiveness analysis, and TC index took into account the two factors of import and export.

The formula is: $TC = (E_{ij} - I_{ij}) / (E_{ij} + I_{ij})$ (3)

E_{ij} represents the country i 's commodity j 's total exports values.

I_{ij} represents the country i 's commodity j 's total imports values.

TC is in the range of [-1,1], when it is greater than zero, indicating that country i 's commodity j 's has a competitive advantage, and the closer to 1, the greater the competitive advantage; Otherwise, then the smaller its competitive advantage.

According to formula (3), I calculated Shanghai and Hong Kong's Trade Competitiveness (TC) indexes in financial service trade. Show as Table 4.4.

Table4.4 Shanghai and Hong Kong's TC Analysingin Financial Service Trade from 2001 to 2011

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Shanghai	-0.184	-0.416	-0.608	-0.209	-0.118	-0.187	0.277	-0.129	0.143	0.494	0.489
Hong Kong	0.668	0.619	0.621	0.593	0.634	0.643	0.632	0.585	0.564	0.575	0.579

Resource: Shanghai Municipal Commission of Commerce website, and Census and statistics department of Hong Kong special administrative region of the People's Republic of China, finishing calculated

From Table 4.4, we can see that In contrast, Hong Kong's financial service trade competitiveness index has been very stable, with an average 0.6, showing a strong comparative advantage. However, before 2007, Shanghai's financial service TC indexes are negative, indicating that Shanghai's financial service trade competitiveness is weak, but from 2009, the trade competitiveness index of Shanghai's financial service trade are positive and increasing, gradually approaching the level of trade competitiveness index of Hong Kong's financial service trade, showing Shanghai's financial service trade competitiveness is increasingly stronger.

5. Recommendations for the Development of Shanghai Financial Service Trade

Firstly, increasingly promote the structure of financial service trade transfers to the direction of knowledge and technology intensive. Because of new international industrial structure's adjustment and optimization, finance, insurance, information technology and other knowledge and technology intensive services will become an important part of the world trading system in the future. So how to keep up with the pace of modern technological changes will be a challenge for Shanghai in financial service trade. Therefore, the Shanghai's financial institutions should fully seize the opportunities of international industrial transfer in financial service trade, and continuous innovation to make the knowledge and technical content of Shanghai's financial services can lead the world.

Secondly, financial companies should constantly strive to innovate and improve service levels. To enhance the level of Shanghai's financial service trade, it is necessary to improve the level of related services' technology and the abilities of independent innovation. The experience of developing international financial service trade also shows that although technology spillover of multinational banks is important, the abilities of independent innovation and R & D companies themselves owned is more significant. Therefore, on the basis of the issuance of financial business processes and outsourcing, financial companies should speed up the extension from the aspects financial marketing to independent research, improving the ability of independent innovation, and increase technical value-added of financial service products.

Thirdly, learning the experience from Hong Kong, and enhancing resource integration. Hong Kong's financial service trade competitiveness is in the leading level of Asia or even the world; all of its competitiveness indexes have shown a strong competitive advantage. Resource endowment advantage, comprehensive service system, the ideal legal service system and business environment, and highly innovative efficiently are the crucial competitive advantages of Hong Kong. Thus, under the framework of CEPA, Shanghai should strengthen the cooperation and accelerate the integration with Hong Kong in financial industry to expanding the marketing space and the impacts for achieving trade liberalization and reaching a win-win situation.

Fourthly, take good use of China (Shanghai) Pilot Free Trade Zone for further expand the market of financial service outsourcing. Financial service outsourcing can help financial companies reduce costs, transferring risks and enhancing core competitiveness; the development of financial service outsourcing has an important strategic significance for improving the competitiveness of our country's financial service industry. The establishment of China (Shanghai) Pilot Free Trade Zone has brought new opportunities and challenges to develop the market of financial service outsourcing; financial firms should mining and subdivide market, and gradually expanding the scope of the outsourcing business to enlarge the space of Shanghai's financial service outsourcing; the government should also develop and implement appropriately policies and measures to encourage the developing of financial service outsourcing industry.

Fifthly, optimize the mechanism of financial service personnel training. Currently, the training of the financial professionals in Shanghai is much, but lacking high-level composite quality talents, the talents cultivated from the traditional system do not match the talents' requirements of modern financial enterprises; there is a structural contradiction in it. Therefore, we should be make a combination of training and introduction, as well as setting the backbone persons abroad to learn foreign financial firms' advanced knowledge and technology to improve staffs' quality. In the terms of introduction, through the establishment of superior system of talent attraction and incentives, and the introduction of highly qualified and experienced international professionals, to create a high level management team with a fusion of globalization and localization.

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