CONVERGING INTERESTS, EMERGING DIVERSITY: A "NESTED INSTRUMENTAL APPROACH" TO FINANCIAL POLICY IN HONG KONG, SINGAPORE, AND SHANGHAI

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Declaration

I hereby declare that this thesis is my original work and it has been written by me in its entirety. I have duly acknowledged all the sources of information which have been used in the thesis.

This thesis has also not been submitted for any degree in any university previously.

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Summary

Ranked among the world's most competitive financial centres, Hong Kong, Singapore, and Shanghai have established themselves as Asia's leading International Financial Centres (IFC's). However, the existing literature on financial policy and IFC development remains focused on economic structural variables, overemphasizing a convergence in IFC development that is based on a set of common success factors. These typically include structural factors such as strategic location and time-zone, clustering and agglomeration of economic and financial activity, and the presence of transparent and robust regulatory and legal infrastructures.

However, IFC's are in reality vastly differentiated from each other. Differences exist across the three cases of Hong Kong, Singapore, and Shanghai in terms of their political systems, models of financial governance, the types of financial markets that each IFC is comparatively advantaged in, and the financial policies used by their respective governments in IFC development. Expectations of IFC convergence in the existing literature provide an inadequate basis for understanding IFC development.

This thesis will show that there are more differences across IFC's than is currently recognized by seeking to answer two research questions. First, how have Hong Kong, Singapore, and Shanghai achieved their current levels of success as IFC's? Second, how have these three IFC's managed to attain

their comparable levels of success despite differences in political-economic conditions?

Given the prevalence of different policies leading to similar outcomes, there is a need for an analytical framework that explains both similarities and differences. Such a framework is provided in the form of the ‘nested instrumental approach’, which combines the policy instruments and policy subsystems approaches and allows for a more integrated understanding of both political context and policy considerations in the financial policymaking process. Importantly, causal linkages between context and policy are explored and their impacts on IFC success studied.

Based on data collected over the course of fieldwork, the ‘nested instrumental approach’ is applied to the three cases of Hong Kong, Singapore, and Shanghai. Data collected includes in-depth specialist interviews with senior financial policymakers, private sector industry actors and other non-state actors such as independent experts and academics as well as other qualitative data such as official government documents, publications and speeches. The use of qualitative data and a comparative case study approach provides a nuanced and contextually-rich understanding of IFC development and success, which stands in contrast to existing and predominantly quantitative studies of IFC development.

The findings of my research allow me to argue that differences in policy subsystem configurations across the three cases have resulted in the formulation of different policy mixes comprising stabilizing, developmental, and enabling policies in varying weightage. The presence of a unique policy subsystem configuration in each IFC leads to the formulation and implementation of policy mixes tailored to the imperatives of the IFC's subsystem configuration. In view of existing gaps in the literature, this thesis provides both empirical and theoretical contributions to the study of IFC's by providing a clearer and more in-depth understanding of IFC development and success in Asia through the nested instrumental approach.

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List of Acronyms

AFC	Asian Financial Crisis
CBRC	China Banking Regulatory Commission
CSRC	China Securities Regulatory Commission
CIRC	China Insurance Regulatory Commission
DBS	Development Bank of Singapore
FSO	Shanghai Municipality Financial Services Office
FWPC	Shanghai Financial Work Party Committee
GFC	Global Financial Crisis
HKMA	Hong Kong Monetary Authority
HSBC	Hong Kong Shanghai Banking Corporation
IFC	International Financial Centre
MAS	Monetary Authority of Singapore
PBC	People's Bank of China
SGX	Singapore Stock Exchange
SSE	Shanghai Stock Exchange

Chapter 1: Introduction

The rapid decline of Western developed economies such as the United States (US) and European Union (EU) in the wake of the 2008 Global Financial Crisis (GFC) has been accompanied by an equally precipitous rise of emerging Asian economies such as China and Singapore. While post-GFC US and EU have been experiencing low or no growth, China and Singapore continue to enjoy strong GDP growth, with both countries boasting double digit growth in 2010.[1]

This change in fortunes is particularly pronounced in the financial markets, which is both the cause of the current economic malaise in the US and EU and key driver of growth in China and Singapore. Although London and New York have both retained their positions as leading international financial centres (IFC's), Asian IFC's are fast catching up with them and displacing other hitherto dominant Western IFC's.

According to 2011's Global Financial Centres Index (GFCI) 9, eight Asian financial centres were ranked among the twenty most competitive financial centres in the world, with Hong Kong, Singapore, and Shanghai ranked third, fourth and fifth place respectively.[2] While Shanghai has since

[1] The World Bank, "GDP Growth (annual %)," *The World Bank Database*, 2013, http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG.
[2] Mark Yeandle, Jeremy Horne, and Nick Danev, *The Global Financial Centres Index 9* (London: Long Finance, March 2011), 2–4.

slipped to 16th place in September 2013's GFCI 14,[3] the Chinese government has unveiled a slew of policy initiatives to turn Shanghai into a full-fledged IFC by 2020. With Hong Kong and Singapore expected to retain their leading positions and Shanghai tipped to ascend IFC rankings on the back of continued support from the Chinese government, Asian IFC's are poised to play an increasingly important role in global financial markets.

While financial centre rankings such as the GFCI provide useful barometers for measuring the rise and dominance of Asian IFC's, these rankings remain simplistic and overly reliant on quantifiable measures of competitiveness and connectivity that overstate the homogeneity of factors contributing to IFC success and development. This over-simplification stems from the existing literature on IFC's and their development, which is discussed in the next chapter. This literature is derived from the works of economists and financial sector experts who had sought to document and understand the various factors that have led to the success of major IFC's.

These factors typically include strategic location and time-zone, clustering and agglomeration of economic and financial activity, and the presence of transparent and robust regulatory and legal infrastructures. Hierarchies of IFCs have been built based on the prevalence of these factors as well as the size of the financial sector in different IFC's, implying a convergence among financial centres based on the development of these

[3] Mark Yeandle and Nick Dranev, *The Global Financial Centres Index 14* (London: Long Finance, September 2013).

common success factors. These hierarchies continue to inform the IFC rankings that currently hold sway over policymakers and public opinion on IFC development and success.

In reality, IFC's are vastly differentiated from each other. Each IFC is involved in a unique set of financial activities and follows variegated paths of historical and policy developments. Expectations of regulatory and IFC convergence in the existing literature provide an inadequate basis for understanding IFC development and result in an insufficiently comprehensive understanding of the types of policies required for IFC success. A particular weakness of the existing literature on IFC's is its relatively underdeveloped understanding of the political economic context and set within this context, the policy preferences of policymakers underpinning each IFC's development.

As a result, the existing literature paints an overly-homogenous picture of IFC development, without adequately addressing the political economic and policy differences across different IFC's. This is an important point to note, given that differences exist across the three cases of Hong Kong, Singapore, and Shanghai in terms of their political systems and context, models of financial governance, the types of financial markets that each IFC is comparatively advantaged in, and the financial policies used by their respective governments in IFC development.

Singapore's rise as a leading IFC has been driven by its strategic geographic location, political and economic stability, efficient and reliable infrastructure, high regulatory standards, and robust legal system. While offering a broad range of financial services, Singapore's financial centre is characterized by its formative role in the Asian Dollar Market, its deep and liquid capital markets, and its emerging role as a leading hub for wealth management and insurance[4].

Although Singapore's development as an IFC was initially state-driven, with the financial sector recognized by the government as a priority sector contributing to overall economic development, subsequent involvement of the private sector in financial policy through extensive consultation and dialogues has resulted in state-industry 'co-creation' of financial policies. Singapore's development as an IFC thus relies on the co-dominant roles of both the state and industry as financial policymakers.

Similarly, Hong Kong's success as an IFC is based on its low taxes, sound legal system, and efficient infrastructure. Furthermore, it benefits from its economic and political proximity to rising China. This availability of a Chinese "economic hinterland" has allowed Hong Kong to become China's main offshore financial centre and constitutes the Special Administrative Region's (SAR) main advantage[5]. Hong Kong has since capitalized on this

[4] "Singapore Financial Centre," *Monetary Authority of Singapore Website*, June 23, 2012, http://www.mas.gov.sg/Singapore-Financial-Centre.aspx.
[5] Karl Wilson, "Hong Kong Retains Edge in Region," *China Daily*, June 29, 2012, http://usa.chinadaily.com.cn/weekly/2012-06/29/content_15533851.htm.

'China advantage' by leveraging on the ongoing liberalization of the RMB and positioning itself as the leading offshore RMB centre[6].

In contrast to the Singapore government's more proactive financial policy role, Hong Kong largely operates according to free market principles, with state intervention at a minimum. However, this means that state-industry linkages are less dense, since the government's non-interventionist stance does not require as much feedback from the industry. While industry consultation does take place, it does not contribute significantly to financial policymaking. Nonetheless, the Hong Kong government has recently played a more active role in developing a market for trade in RMB and RMB-denominated investment products, vigorously promoting itself as the leading offshore RMB centre.

Despite being a relative late-comer, Shanghai's rapid rise over the past decade has made it the "domestic financial hub of mainland China" and a centre for a diverse variety of Chinese financial activities[7]. It is also slated to become a full IFC by 2020[8] and aims to become a global centre for RMB

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[6] George Ng, "Hong Kong Banks on Yuan for the Future," *China Daily*, July 1, 2012, http://www.chinadaily.com.cn/china/HK15th/2012-07/01/content_15539890.htm.
[7] James Laurenceson and Kam Ki Tang, "Shanghai's Development as an International Financial Center," *Review of Pacific Basin Financial Markets and Policies (RPBFMP)* 08, no. 01 (2005): 148.
[8] Kristine Lim, "China's Regulators Urge for Reform of Financial Sector - Channel NewsAsia," *Channelnewsasia.com*, accessed March 17, 2013, http://www.channelnewsasia.com/stories/economicnews/view/1210725/1/.html.

trading by 2015[9]. All this is intricately linked to China's overall national development, with the state "determining the timing, pace and economic and spatial configuration of Shanghai's development"[10]. Shanghai's economic reforms are thus linked to national goals of economic development and financialization.

Financial sector development in Shanghai is heavily state-driven, with both central and municipal government agencies actively involved in financial policymaking. Like Hong Kong, financial policymaking lies within the control of the state. However, Shanghai exhibits a much larger extent of state intervention in financial markets than Hong Kong. Given that a majority of the financial institutions operating in Shanghai are state-owned or joint ventures with state-owned enterprises, financial market participation in Shanghai is also state-dominated. Unlike the case of Singapore, there is very little space for private sector industry actors to influence financial policymaking in Shanghai.

In short, Hong Kong, Singapore and Shanghai are each driven by their unique political economic circumstances, which further feeds into each IFC's unique financial policy practices and preferences. Observers have noted that "Asia's multiple and varied financial centres reflect not only the region's vast

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[9] "Shanghai Aims to Become Global Yuan Trading Center by 2015," *Bloomberg News*, January 31, 2012, http://www.businessweek.com/news/2012-01-31/shanghai-aims-to-become-global-yuan-trading-center-by-2015.html.
[10] Karen Lai, "Developing Shanghai as an International Financial Centre: Progress and Prospects," *China Policy Institute Discussion Paper* 4 (2006): 2.

geography but also its different economic realities"[11]. Despite such distinct differences in political economic circumstances, all three cities have rapidly risen up the ranks to become the fastest growing IFC's in Asia. This thesis argues that such success was achieved through the respective governments' roles in formulating and implementing financial policies that are tailored to each IFC's political economic circumstances.

This means that each IFC's success is underpinned by a unique set or mix of financial policies. Hong Kong, Singapore, and Shanghai have thus attained comparable levels of success as the fastest growing IFC's in Asia based on the implementation of different mixes of financial policies that reflect their unique individual political economic contexts. This goes against the conventional wisdom of IFC convergence as espoused by the existing literature, which does not adequately take into account such differences in political economic context and the types of financial policies implemented within each IFC but instead over-emphasizes commonality in economic structural variables.

This thesis seeks to provide a clearer understanding of how Hong Kong, Singapore, and Shanghai have each risen to their positions as leading Asian IFC's, focusing in particular on the interactions between the political exigencies of policy subsystems and policy considerations in the form of policy instruments and mixes. Given that the existing literature does not

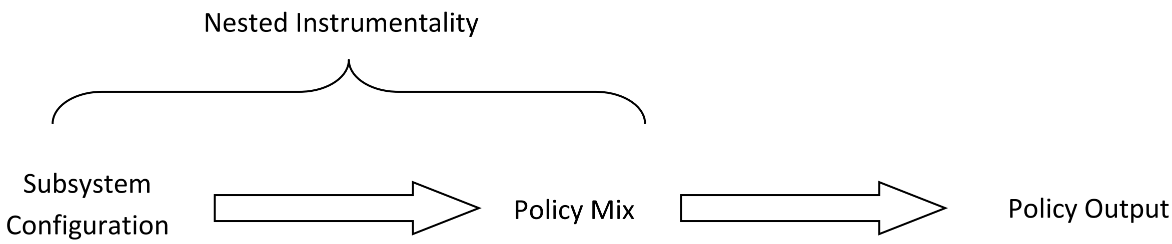
[11] "All Shapes and Sizes: Asia's Financial Centres Reflect Its Vast Geography and Divergent Economies," *The Economist*, September 13, 2007, http://www.economist.com/node/9753204.

provide the analytical tools that allow for such an undertaking, this thesis develops an analytical framework termed the “nested instrumental approach”, which combines the policy subsystem and policy instruments approaches for a more integrated and nuanced analysis of IFC development. This approach is briefly described in the next section and further discussed in Chapter 3.

The Nested Instrumental Approach

In combining the policy subsystem and policy instruments approaches, the nested instrumental approach provides an integrated framework for analysis that melds both political context and policy considerations in understanding IFC development and success. While Chapter 3 provides a deeper discussion of the approach by delineating its component parts and describing its inherent logic of ‘nested instrumentality’, this section briefly introduces the nested instrumental approach. Figure 1.1 below provides a general illustration of the nested instrumental approach.

Figure 1.1 Nested Instrumental Approach



As Figure 1.1 shows, the nested instrumental approach takes the policy subsystem as its basic unit of analysis. A policy subsystem is essentially a set of "actors with sufficient knowledge of a problem area, or a resource at stake, to allow them to participate in the process of developing possible alternative courses of action to address the issues raised at the agenda-setting stage".[12] While policy subsystem configuration has been related to the openness of a subsystem to new actors and ideas,[13] this thesis defines policy subsystem configuration around relations of dominance and dependence among subsystem actors. This means that subsystems are configured around a dominant actor or set of actors. This concept of subsystem actor dominance draws from Sabatier's work on advocacy coalitions, which posits the presence of dominant coalitions within a subsystem.[14]

Policy subsystem configurations subsequently define policy mix design, which in turn determines the attainment of desired policy outputs. In other words, a policy mix is 'nested' within its policy subsystem, with the design of the policy mix and its component instruments defined by the interests, preferences, and beliefs of dominant actors. This use of policy instruments as a means for achieving policy outputs within the political

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[12] Michael Howlett, M. Ramesh, and Anthony Perl, *Studying Public Policy: Policy Cycles and Policy Subsystems*, 3rd ed. (Oxford: Oxford University Press, 2009), 12.
[13] Michael Howlett and M. Ramesh, "Policy Subsystem Configurations and Policy Change: Operationalizing the Postpositivist Analysis of the Politics of the Policy Process," *Policy Studies Journal* 26, no. 3 (1998): 473–474.
[14] Paul A. Sabatier, "An Advocacy Coalition Framework of Policy Change and the Role of Policy-Oriented Learning Therein," *Policy Sciences* 21, no. 2–3 (1988): 129–68.

economic context of the policy subsystem connotes a logic of 'nested instrumentality'.

While the role of dominant actors in instrument choice has received some attention in work on "instrumental constituencies",[15] this thesis expands on this existing work by studying the various ways in which dominant actors exert their influence over policy mix design. Dominant actors influence policy mix design through two channels: an *instrumental channel* that involves instrumental constituencies and an *ideational channel* involving advocacy coalitions. This will be further discussed in Chapter 3.

This thesis argues that such a logic of nested instrumentality underpins IFC development in Hong Kong, Singapore, and Shanghai. In all three cases, individual subsystem configurations have led to the design of unique policy mixes that both reflect and cater to the interests, preferences, and beliefs of dominant subsystem actors and which are implemented for the attainment of desired policy outputs such as financial system stability or IFC development.

While the nested instrumental approach is discussed at greater length in Chapter 3, it is suffice to say that this approach provides the necessary depth and nuance to provide a clearer understanding of the determinants and pathways of IFC development and success. This is as yet inadequately

[15] Jan-Peter Voss and Arno Simons, *Instrument Constituencies and the Supply-Side of Policy Innovation*, Paper presented at International Workshop: Designing Optimal Policy Mixes: Principles and Methods. (Singapore: Lee Kuan Yew School of Public Policy, National University of Singapore, March 29, 2013).

achieved in the existing literature. The nested instrumental approach is subsequently applied to the cases of Hong Kong, Singapore, and Shanghai in Chapter 7. The next section discusses the rationale and motivations behind this thesis's choice of Hong Kong, Singapore, and Shanghai as case studies.

Justification for Choice of Cases

Consistently ranked among the top five most competitive IFC's globally, Hong Kong and Singapore are the most successful IFC's to have emerged from Asia. While Shanghai's position in global rankings has fluctuated, it remains ranked among the top IFC's in Asia. Furthermore, the Chinese central government has made clear its intentions to establish Shanghai as a leading IFC by 2020. Taken together, Hong Kong, Singapore and Shanghai are the fastest growing IFC's in Asia.

Aside from their strong showing on global IFC rankings such as the GFCI, the financial sector contributes significantly to the GDP of the three cities. This reflects the presence of highly developed financial markets and hence is testament to the success of financial policy in all three cases. In Hong Kong, financial and insurance services made up close to 16% of the SAR's GDP in 2012,[16] while financial and insurance services contributed 10.6% to

[16] Hong Kong SAR Census and Statistics Department, "National Income," February 26, 2014, https://www.censtatd.gov.hk/hkstat/sub/sp250.jsp?tableID=036&ID=0&productType=8.

Singapore's GDP in the same year.[17] While similar figures for Shanghai are not available, reports have shown that Shanghai's services industry contributed to 62.2% of the municipality's GDP in 2013, with financial services being among the top three largest services industries.[18] In short, the financial services sector make up an important component of the economy in the three cities.

Based on extant similarities, the three IFC's are highly comparable for various reasons. First, all three IFC's have emerged from similar historical roles as trading entrepot. While Hong Kong and Singapore first started off as trading ports for their British colonial masters, Shanghai has a long history of being a key port for Chinese trade with the rest of the world. In all three cases, the emergence and development of early financial institutions was predicated upon the presence of substantial trade activity. As a consequence of their positions as global trade and finance hubs, Hong Kong, Singapore, and Shanghai are all considered major or "Alpha+" Global Cities.[19]

Other similar historical precedents include historical backgrounds of colonial rule and time-frame of financial sector development. Both Hong Kong and Singapore started off as British colonies, while Shanghai

[17] Singapore Department of Statistics, "Gross Domestic Product by Industry," 2014.
[18] Hong Kong Trade Development Council, *Shanghai: Market Profile* (Hong Kong: HKTDC, March 17, 2014), http://china-trade-research.hktdc.com/business-news/article/Fast-Facts/Shanghai-Market-Profile/ff/en/1/1X000000/1X06BVOR.htm.
[19] Saskia Sassen, *Global Networks,Linked Cities* (New York, NY, 10001: Routledge, 2001); GaWC Research Network, *The World According to GaWC 2010* (Loughborough University, September 14, 2011), http://www.lboro.ac.uk/gawc/world2010t.html.

experienced occupation by Britain, France, the United States, and Japan between the Opium War and the Second World War. The presence of foreign powers in all three cases had stimulated increased cross-border trading activities and the emergence of financial services related to foreign trade.

Furthermore, all three cities had emerged as IFC's during the 1970s. Although there was some trade-related financial activity in post-War Hong Kong,[20] it was only with the rapid internationalization of its financial services during the 1970s that Hong Kong truly emerged as an IFC.[21] Similarly, the post-independence Singapore state actively planned and developed its financial sector in the late 1960s to early 1970s[22]. Although it was only in the 1980s that Shanghai received more explicit support from the central government for its development as an IFC, Shanghai's emergence as an IFC can be traced back to China's 1979 economic reforms.

Most importantly, all three IFC's are run by highly capable and autonomous governments.[23] Since its independence in 1965, Singapore's

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[20] Catherine R. Schenk, *Hong Kong as an International Financial Centre: Emergence and Development 1945-1960* (New York: Routledge, 2001).

[21] Reed, "The Ascent of Tokyo as an International Financial Center," 45; Y.C. Jao, "Hong Kong as a Regional Financial Centre: Evolution and Prospects," in *Dilemmas of Growth*, ed. Chi-Keung Leung, J.W. Cushman, and Gungwu Wang (Canberra: Australian National University Press, 1980), 163.

[22] Swee Liang Tan, "The Development of Singapore's Financial Sector: A Review and Some Thoughts on Its Future Prospects," in *The Economic Prospects of Singapore*, ed. Winston T. H Koh and Roberto S. Mariano (Singapore: Pearson Addison-Wesley, 2006), 248.

[23] Hong Kong and Singapore are both ranked highly on government effectiveness by the World Bank's Governance Indicators, http://info.worldbank.org/governance/wgi/index.aspx#reports; For the effectiveness and autonomy of the Shanghai government, see Fulong Wu, "The Global and Local Dimensions of Place-Making: Remaking Shanghai as a World City," *Urban Studies* 37, no. 8 (July 1, 2000): 1359–77.

People's Action Party (PAP) has retained one-party rule. Given continued popular support for the PAP, the Singapore government possesses an extraordinary amount of policy autonomy and capacity. Although Hong Kong was returned to Chinese rule in 1997, its status as a Special Autonomous Region (SAR) has allowed the Hong Kong government to retain a high level of autonomy in economic policymaking. While Shanghai is neither an independent state nor an autonomous region but a municipality under Chinese central government rule, the Shanghai municipal government enjoys significant autonomy from the centre,[24] bolstered by the presence of a pro-growth coalition led by the local government.[25]

However, the three cases are also different in two important ways. Firstly, political and policy arrangements differ across the three IFC's. The Hong Kong government operates within a highly liberal political environment and plays a minimal role in financial sector development due to its belief in the free markets. In contrast, the Singapore government is much more hands-on in its approach to financial sector development, although industry actors are also heavily involved and influential in the formulation of financial policies. While Shanghai is similarly state-driven in its financial sector development, it does not feature private sector actors in financial policymaking due to the

[24] Ibid.; Hongyi Lai, *Reform and the Non- State Economy in China: The Political Economy of Liberalization Strategies* (New York: Palgrave Macmillan, 2006).
[25] Tingwei Zhang, "Urban Development and a Socialist Pro-Growth Coalition in Shanghai," *Urban Affairs Review* 37, no. 4 (March 1, 2002): 475–99.

dominance of state-owned banks and financial institutions in its financial markets.

As such, financial policymaking in Shanghai is almost completely state-dominated, while that in Singapore is state-led with strong private sector participation and Hong Kong's laissez faire approach features minimal government intervention that allows private sector actors to drive financial sector development within the boundaries of the legal and regulatory infrastructure. These differences in political economic context flow into differences in the types of policies enacted to develop the respective financial sectors. Given that this linkage between political context and the policy process is relatively under-studied in the existing literature, this thesis will address this shortcoming through the 'nested instrumental approach' discussed in Chapters 3 and 7.

Secondly, the three IFC's feature distinctly different types of financial markets and activities. This has resulted in the formation of different comparative advantages across the three IFC's. Hong Kong's deep and liquid securities market and proximity to China have allowed it to establish itself as a loan syndication and offshore RMB centre. Based on its first mover advantage in establishing the Asian Development Market and the government's successful efforts at attracting private banking and fund management activities, Singapore is well-established as a Foreign Exchange (Forex) and Wealth Management Centre. Owing to the Chinese government's fiscal policies and the size of Shanghai's primary and secondary sectors, Shanghai has relatively large and active markets for debt and commodities futures.[26]

While the existing literature alludes to such differences in financial sector activities across the three financial centres, few attempts have been made to understand *why* these differences exist and more specifically how the different political contexts and policy preferences of the three IFC's influence or result in the formation of these different financial sector specializations.

In sum, distinct similarities across the three cases have allowed this thesis to take Hong Kong, Singapore and Shanghai as comparable case studies. In fact, the three cases make up a natural experiment on how IFC's can be developed upon emergence. Similarities in historical beginnings of trade and colonialism serve to equalize initial conditions. Furthermore, similarities in time-frame mean that all three centres faced similar global economic conditions, neutralizing potential exogenous factors arising from the external global economic environment.

Being ranked at similar levels in global city and IFC rankings also suggests that the three IFC's have reached similar levels of success and development, rendering them suitable for direct comparison. Lastly, the presence of strong and autonomous governments in all three IFC's allows this thesis to compare them as cities and policymaking units in their own rights. In

[26] Y. C. Jao, "Shanghai and Hong Kong as International Financial Centres: Historical Perspective and Contemporary Analysis," *Hong Kong Institute of Economics and Business Strategy Working Paper*, no. 1071 (September 2003): 19–20.

sum, all three IFC's are highly comparable. They are also historically, spatially, and temporally well-placed to be considered parts of a natural experiment.

These similarities are related to the typical structural economic factors which contribute to an IFC's success, as identified by the existing IFC literature. These factors typically include favourable geographic locations and time-zones, robust legal and regulatory infrastructures, and factors related to clustering and agglomeration of financial activities. However, in light of the differences identified above, a focus on these economic structural factors neglects the impact of politically-driven and policy-related differences on financial policymaking and IFC development. This suggests the need for a more nuanced approach to understanding IFC development and success, taking into account the impacts of political economic context and financial policy practices within each IFC.

Such differences in political context and financial policy practices are important for illustrating how different financial policy regimes can lead to comparable levels of IFC development and success. Drawing on the example of Hong Kong and Singapore, Tan and Lim note that similar levels of IFC success may be driven by "different philosophies" and different extents of government intervention.[27] Importantly, differences in the financial sector specializations of the three IFC's refute the existing literature's expectations of

[27] Chwee Huat Tan and Joseph Young Sain Lim, *Singapore and Hong Kong as Competing Financial Centres* (Singapore: Saw Centre Financial Studies, 2007), 73.

IFC convergence and suggest the need for a deeper study of how unique comparative advantages are developed as a consequence of different policy instruments and mixes used in IFC development.

It is also important to note that all three IFC's represent cases of success in financial sector development. It is not in the scope of this thesis to study instances of IFC failure. As it is, the success of Hong Kong, Shanghai, and Singapore as IFC's has not been adequately studied, neither do the few existing studies of their success possess sufficient analytical depth. Furthermore, the differences in political context and financial policy practices highlighted above suggest that introducing instances of IFC failure would limit the potential for comparison.

By delving into the subsystem configurations and policy mixes of each IFC and how these have driven their individual successes, this thesis plugs existing gaps in current understandings of IFC development and success. The findings and results of this thesis will in turn facilitate further studies of why IFC's in other contexts have not been able to attain the success enjoyed by these three cases.

In particular, this thesis's development and application of the 'nested instrumental approach' as a framework for analysis paves the way for a similar application of this approach to failed IFC's in future research. Studying the success of Hong Kong, Singapore, and Shanghai is thus a first step towards the eventual development of an integrative analytical framework that studies both the success *and* failure of IFC's, assessing both policy subsystem configurations and policy instrument mixes in different IFC's and their impacts on IFC success and failure.

Summary of Argument

This thesis is driven by two research questions. First, how have Hong Kong, Singapore, and Shanghai achieved their current levels of success as IFC's? Second, how have these three IFC's managed to attain their comparable levels of success despite differences in political-economic conditions? I argue that IFC success in all three cases is related to the way in which policy mix design is embedded within each IFC's unique policy subsystem configuration.

As discussed in later chapters, financial policy mixes typically comprise stabilizing, developmental, and enabling policies in varying weightage, reflecting the interests and preferences of dominant subsystem actors. Specifically, dominant subsystem actors are able to influence policy mix design, in terms of the weightage of these three types of financial policies within a financial policy mix, through two channels: an instrumental channel involving participation in instruments constituencies and an ideational channel involving the formation of advocacy coalitions. These two channels and the subsystem configurations involved are discussed in Chapter 3.

However, the interests and preferences of financial policy actors and the overall political economic context within which these are embedded are largely ignored in the existing IFC literature. Instead, this literature over-emphasizes structural economic factors and overstates the convergence of IFC development models, glossing over actual differences in political economic context and financial policies implemented. The IFC literature and its limitations are discussed in the next chapter.

As this thesis will show, Hong Kong, Singapore, and Shanghai have all attained success as IFC's by nesting policy mix design within the political economic context of prevailing policy subsystem configurations. The presence of a unique policy subsystem configuration in each IFC has led to the adaptive formulation and implementation of policy mixes tailored to the IFC's subsystem configuration. This is largely achieved through the influence of dominant subsystem actors working through instrumental and ideational channels to exercise and enforce their instrument preferences and policy beliefs in policy mix design.

However, this causal linkage between subsystem configuration and policy mix design remains under-explored and hence insufficiently explicated by the existing policy subsystems and policy instruments literatures, which have instead developed separately from each other. This has resulted in a lack of the analytical tools necessary for understanding policy design *within* policy subsystem configurations. As Chapters 3 and 7 will show, this limitation is overcome through a combination of the policy instruments and policy subsystems approaches in a more integrated analytical framework termed the “nested instrumental approach”. This allows for a deeper understanding and appreciation of the causal linkage between subsystem configurations and policy mix design, focusing in particular on the abovementioned instrumental and ideational channels through which dominant subsystem actors are able to influence policy mix design.

At the operational level, IFC development and success in all three cases involve the formulation and implementation of stabilizing, developmental, and enabling financial policies by the respective regulatory agencies. This means that aside from their traditionally prescribed roles in regulating and supervising financial markets, regulatory agencies are in effect policymaking units directly involved in the formulation, implementation and enforcement of policies that directly contribute to IFC development and promotion. As such, this thesis focuses on the role of regulatory agencies as key financial policymakers, with field research largely geared towards collecting information from regulatory sources.

By combining the policy subsystems and policy instruments approaches through the nested instrument approach, this thesis also contributes to public policy theory. Given that existing studies of policy instruments underemphasize context and that the policy subsystem approach does not sufficiently address the actual policy instruments being implemented, the combination of both approaches in the ‘nested instrumental approach’ overcomes the limitations of both theoretical approaches. Specifically, the nested instrumental approach delineates and studies the financial policy instruments used in IFC development *within* the political economic context of the policy subsystem rather than studying instruments and subsystems separately.

This merging of tools and context yields a more nuanced and integrative approach to studying public policy, which not only takes into account both political context and policy considerations, but the interactions between these two sets of variables as well. As will be discussed in Chapter 8, the nested instrumental approach has allowed this thesis to make both empirical and theoretical contributions to the field.

Summary of Thesis

Having provided an introduction to the rationale for this thesis as well as a brief overlay of my argument, Chapters 2 and 3 delve into the theoretical and methodological basis of this thesis, while Chapters 4, 5 and 6 deal with the specific case studies. With Chapters 4, 5 and 6 providing a descriptive backdrop, Chapter 7 provides comparative analyses and applies the nested instrumental approach to the three cases. Chapter 8 provides conclusions, rounding up the findings and arguments of this thesis. The following paragraphs provide a more detailed summary of the thesis chapters.

A review of the relevant literature is provided in Chapter 2. In this chapter, I first review the literature on financial policy and financial sector regulation in general, followed by the more specialized IFC literature. However, these literatures do not adequately explain the exact means through which governments of IFC's attain success nor do they address the impact of the political-economic context on IFC development. Hence, there is a need for a new theoretical framework based on an amalgamation of the existing work on policy subsystems and policy instruments.

This is provided in Chapter 3, which delves into the theoretical framework and research methodology underlying this thesis. Based on a combination of the policy instruments and policy subsystems approaches, I develop and describe the 'nested instrument approach'. A brief overview of the existing literatures on policy instruments and policy subsystems is provided, providing the theoretical background necessary for the proceeding section's detailed discussion of the nested instrumental approach.

This discussion of the nested instrumental approach is followed by an overview of the research methods employed in this thesis, mainly comparative case study and qualitative research methods. I end this chapter with a description of the field work which underpins the research for this thesis. In particular, I discuss the in-depth expert interviews which I had carried out as well as the process of collecting other primary data such as official documents and speeches.

Chapters 4, 5 and 6 delve into the actual case material, with Chapter 4 focusing on Hong Kong, Chapter 5 on Singapore, and Chapter 6 on Shanghai. Each chapter comprises an overview of the historical development of the IFC, descriptions of each IFC's comparative advantages, models of financial governance, regulatory regimes, policy mixes used by the respective governments, and policy subsystem configurations. All case material is based on primary data collected during field work as well as existing scholarly work. Taken together, Chapters 4, 5 and 6 provide in-depth descriptions of the cases, delineating and describing the historical development and political-economic context of each IFC as well as the policies enacted to build and develop these IFC's.

Description is naturally followed by analysis. Chapter 7 provides a comparative analysis of the three cases, explaining similarities and differences across the cases in terms of their comparative advantages, financial governance models, regulatory agencies, financial policy mixes, and financial policy subsystems. I then apply the 'nested instrumental approach' to the cases. This entails combining insights on the subsystem configurations and policy mixes of each case, drawn from the case material and comparative analysis.

Finally, Chapter 8 concludes with a discussion of the findings of this thesis and the issues which this thesis has addressed. I also suggest other potential avenues of further research in the study of IFC's and discuss the empirical and theoretical contributions of this thesis.

Chapter 2: Review of the Literature

At the heart of financial sector development is financial policy. Any study of IFC development necessarily requires a good understanding of the financial policies that underpin an IFC's success. To this end, a well-established literature on financial sector policy and development provides the analytical tools required for understanding how government policies facilitate or affect IFC development. Yet this literature does not adequately take into account contextual and spatial variables, focusing instead on financial policy only at a general level and within the domestic economy.

The recognition of these flaws prompted the development of a more specific literature on IFC's that sought to document and understand the rise and success of leading IFC's such as London and New York. Predominantly driven by the work of economists and geographers, these studies contributed to the formation of a specific literature on IFC's that accounts for spatiality and temporality in financial policy, as manifested in IFC's that act as nodes or conduits in global flows of capital. In doing so, the IFC literature took a more international perspective of financial sector development that is more reflective of the increasingly globalized financial markets, situating the IFC and financial policy process within the international context.

Taken together, the literatures on financial policy and IFC's provide the background information and conceptual knowledge necessary for studying the success of Hong Kong, Singapore, and Shanghai as IFC's. However, the existing literatures on financial policy and IFC's do not sufficiently address the development of IFC's in the context of emerging Asia. Furthermore, the financial policy literature does not provide an adequate understanding of financial policies as policy instruments and the different ways in which different financial policies are used in financial sector development.

Most importantly, the political economic context within which IFC's exist is insufficiently explored by proponents of both literatures, with the implication being a less than satisfactory understanding of how inter-actor relations and politics within an IFC determine the financial policymaking process. This means that the financial policy and IFC literatures are limited by *analytical* shortcomings that hamper their ability to provide a complete understanding of IFC development in Asia.

While the next chapter provides the theoretical and methodological foundations which allow this thesis to overcome these existing shortcomings and limitations, there is first a need to understand the existing work of scholars on financial policy and IFC's. In the following sections, I first review the literature on financial sector policy and development, followed by the more specific literature on IFC's.

Financial Sector Policy and Development

Given the financial sector's role in generating revenues and supporting real economic growth, research and scholarly work on financial policy have long been related to the impact of the financial sector on the real economy. Financial sector development has been shown to be an important driving force for economic growth through what is known as a "finance-growth nexus",[28] with financial depth identified as a significant contributing variable to real economic growth.[29] Financial sector development also stimulates growth less directly by boosting manufacturing activities and stimulating trade.[30] Conversely, real economic growth may also stimulate financial sector expansion via increased savings, suggesting a "reciprocal externality" between

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[28] Jose De Gregorio and Pablo E. Guidotti, "Financial Development and Economic Growth," *World Development* 23, no. 3 (March 1995): 433–48; Jith Jayaratne and Philip E. Strahan, "The Finance-Growth Nexus: Evidence from Bank Branch Deregulation," *The Quarterly Journal of Economics* 111, no. 3 (August 1, 1996): 639–70; Ross Levine, "Financial Development and Economic Growth: Views and Agenda," *Journal of Economic Literature* 35, no. 2 (1997): 688–726; Ross Levine, Norman Loayza, and Thorsten Beck, "Financial Intermediation and Growth: Causality and Causes," *Journal of Monetary Economics* 46, no. 1 (August 2000): 31–77; Thorsten Beck, Ross Levine, and Norman Loayza, "Finance and the Sources of Growth," *Journal of Financial Economics* 58, no. 1–2 (2000): 261–300; Raghuram G. Rajan and Luigi Zingales, "Financial Systems, Industrial Structure, and Growth," *Oxford Review of Economic Policy* 17, no. 4 (December 1, 2001): 467–82; César Calderón and Lin Liu, "The Direction of Causality between Financial Development and Economic Growth," *Journal of Development Economics* 72, no. 1 (October 2003): 321–34; Asli Demirguc-Kunt and Ross Levine, "Finance, Financial Sector Policies, And Long-Run Growth," *Research Working Papers* 1, no. 1 (2008): 1–82; Xiaoyan Zhang and Dafei Chen, "The Influence of Financial Industry Cluster on Economic Growth: Three Economic Zones in China," *Accounting and Finance Research* 2, no. 4 (October 13, 2013), doi:10.5430/afr.v2n4p69.

[29] Robert G. King and Ross Levine, "Finance and Growth: Schumpeter Might Be Right," *The Quarterly Journal of Economics* 108, no. 3 (August 1, 1993): 717–37.

[30] Thorsten Beck, "Financial Development and International Trade: Is There a Link?," *Journal of International Economics* 57, no. 1 (June 2002): 107–31.

the financial and real sectors within an overall process of endogenous growth.[31]

Given this important contribution of financial sector development to economic growth, scholarly work and theoretical advancements in the fields of economics and IPE have sought to understand and conceptualize how states promote economic growth and competitiveness through financial sector development. However, economists have tended to view financial sector development as a market-driven consequence of burgeoning supply and demand for financial services while IPE scholars have focused on the active, targeted and often strategic government interventions that drive financial sector development.[32]

In the aftermath of the GFC in 2008, economists have taken a greater interest in government intervention in financial markets and how such interventions can be used to prevent future crises. While the study of financial crises pre-date the GFC,[33] this recent surge in attention on financial crises has brought a renewed focus on financial policies as both the cause of and potential solution to financial crises.[34] However, these studies have framed

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[31] J. C. Berthelemy and A. Varoudakis, "Economic Growth, Convergence Clubs, and the Role of Financial Development," *Oxford Economic Papers* 48, no. 2 (April 1, 1996): 300–328.
[32] Philip G. Cerny, "The Deregulation and Re-Regulation of Financial Markets in a More Open World," in *Finance and World Politics: Markets, Regimes and States in the Post-Hegemonic Era*, ed. Philip G. Cerny (Aldershot: Edward Elgar Publishing Limited, 1993), 52.
[33] Charles Poor Kindleberger, *Manias, Panics, and Crashes: A History of Financial Crises* (New York: Wiley, 2000).
[34] Paul R Krugman, *The Return of Depression Economics and the Crisis of 2008* (New York: W. Norton & Co., 2009); Stijn Claessens et al., "Cross-Country Experiences and Policy Implications from the Global Financial Crisis," *Economic Policy* 25, no. 62 (2010): 267–93;

financial policy narrowly within the context of financial crises, resulting in an overarching focus on crisis management measures rather than measures geared towards building up and developing new financial markets or sectors. Given the relative youth of Asian IFC's and ongoing efforts at financial sector development by their respective governments, there is a need to refocus on the policies that are being used to build up emerging financial markets.

In contrast, the works of IPE scholars in the 1990s have focused on the significant role of the state in promulgating policies aimed at financial sector development. This state-centric approach has yield key theoretical innovations such as the developmental state and competition state models.[35] Other IPE scholars have sought to understand financial sector development in the context of the international system. Based on Waltz's three images of international

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Aslı Demirgüç-Kunt and Luis Servén, "Are All the Sacred Cows Dead? Implications of the Financial Crisis for Macro- and Financial Policies," *The World Bank Research Observer* 25, no. 1 (February 1, 2010): 91–124; Joseph E Stiglitz, *Freefall: America, Free Markets, and the Sinking of the World Economy* (New York: W. W. Norton & Company, 2010); Financial Crisis Inquiry Commission, *The Financial Crisis Inquiry Report: Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States* (New York: Public Affairs, 2011); B. Guy Peters, Jon Pierre, and Tiina Randma-Liiv, "Global Financial Crisis, Public Administration and Governance: Do New Problems Require New Solutions?," *Public Organization Review* 11, no. 1 (March 1, 2011): 13–27; Nouriel Roubini and Stephen Mihm, *Crisis Economics: A Crash Course in the Future of Finance* (New York: Penguin Books, 2011); Raghuram Rajan, *Fault Lines: How Hidden Fractures Still Threaten the World Economy* (New Jersey: Princeton University Press, 2011); Tobias F. Rötheli, "Causes of the Financial Crisis: Risk Misperception, Policy Mistakes, and Banks' Bounded Rationality," *The Journal of Socio-Economics* 39, no. 2 (April 2010): 119–26; Mark Gertler, Nobuhiro Kiyotaki, and Albert Queralto, "Financial Crises, Bank Risk Exposure and Government Financial Policy," *Journal of Monetary Economics* 59, Supplement (December 15, 2012): S17–S34.

[35] Cerny, "The Deregulation and Re-Regulation of Financial Markets in a More Open World"; Philip G. Cerny, "The Political Economy of International Finance," in *Finance and World Politics: Markets, Regimes and States in the Post-Hegemonic Era*, ed. Philip G. Cerny (Aldershot: Edward Elgar Publishing Limited, 1993), 3–19; Adrian Leftwich, "Bringing Politics Back in: Towards a Model of the Developmental State," *Journal of Development Studies* 31, no. 3 (1995): 400–427; Ronen Palan, Jason Abbott, and Phil Deans, *State Strategies in the Global Political Economy* (London: Pinter, 1996), 90–91.

relations, Cohen provides four models for understanding the rise of global finance: the liberal, realist, pluralist and cognitive models.[36] Dombrowski takes a structural realist view by suggesting that financial globalization has resulted in intense competition among states, with states undercutting each other in order to attract financial capital and gain competitive advantage.[37]

While such studies have yielded important insights into the role of the state in driving financial sector development and how states compete with each other in global financial markets, they remain at an overly-broad level of conception and do not sufficiently explicate the actual policies or means used by the state to facilitate financial sector development, aside from neo-classical prescriptions of "laissez faire" non-intervention.[38] These existing concepts, such as the developmental state model, will thus not feature in this thesis's conceptual and analytical framing. Nonetheless, more recent scholarly work has attempted to conceptualize and categorize financial sector management policies.

At the heart of financial sector development is financial policy. According to Polak, financial policies relate both to the domestic financial structure of the economy as well as the external financial structure, with the

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[36] Benjamin J. Cohen, "Phoenix Risen: The Resurrection of Global Finance," *World Politics* 48, no. 02 (1996): 274–275.
[37] Peter Dombrowski, "Haute Finance and High Theory: Recent Scholarship on Global Financial Relations," *Mershon International Studies Review* 42, no. 1 (May 1998): 12.
[38] Thomas Hellman, Kelvin Murdock, and Joseph E. Stiglitz, "Financial Restraint: Towards a New Paradigm," in *The Role of Government in East Asian Economic Development Comparative Institutional Analysis*, ed. Masahiko Aoki, Hyung-Ki Kim, and Masahiro Okuno-Fujiwara (Oxford: Clarendon Press, 1997), 2.

latter including exchange rates, and the rules and institutions that guide capital flows.[39] Polak reaffirms the 'finance-growth nexus' by noting that economic development is the "yardstick by which financial flows and financial policies can be made commensurate".[40] This necessitates a strong regulatory role of the state, with government interventions focused on reducing market failure.[41]

More broadly speaking, financial policy involves seeking the "right balance among policy instruments", with financial regulation being part of a set of 'complementary financial policy instruments'.[42] Demirguc-Kunt and Levine have emphasized the importance of financial policies in shaping the "structure and functioning of financial systems" by ensuring political and macroeconomic stability, establishing the legal and information infrastructure necessary for financial transactions to take place as well as a regulatory and supervisory infrastructure that 'enables' and empowers markets by encouraging financial market competition, liberalization and access.[43]

Similarly, the World Bank's recent GFDR report emphasizes the role of the state in better aligning private incentives to private interests, establishing sound regulatory and supervisory frameworks, encouraging

[39] Jacques Jacobus Polak, *Financial Policies and Development* (Paris: OECD Publishing, 1989), 13.
[40] Ibid., 23.
[41] Joseph E. Stiglitz, Jaime Jaramillo-Vallejo, and Yung Chal Park, *The Role of the State in Financial Markets*, World Bank Research Observer, Annual Conference on Development Economics Supplement (Washington: World Bank, 1993).
[42] OECD, "The Financial Policy Landscape: A Conceptual Overview," *Financial Market Trends* 2006, no. 1 (2006): 64.
[43] Demirguc-Kunt and Levine, "Finance, Financial Sector Policies, And Long-Run Growth," 39–59.

financial market contestability and competition, promoting transparency of information and strengthening the governance of state-owned banks.[44] In short, the GFDR report posits that financial sector policies should be geared towards "providing supervision, ensuring healthy competition, and strengthening financial infrastructure"[45].

Hellman, Murdock and Stiglitz have also suggested that a set of "financial restraint" policies form the core of government efforts at financial deepening and financial sector development.[46] Financial restraint policies aim to create rents in the financial sector through selective government interventions such as deposit rate controls, regulations on entry, and restrictions on competition, in the process reducing opportunistic behaviour and inducing efficiency among private market actors.[47] Financial restraint policies also contribute towards the build-up of 'reputational capital among private agents and the development of strong governance mechanisms in financial institutions.[48]

However, these fledgling attempts to conceptualize the financial policy process remain overly focused on its regulatory aspects. In reality, financial

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[44] The World Bank, *Rethinking the Role of the State in Finance*, Global Financial Development Report (Washington D.C.: The World Bank, 2013).
[45] Ibid., 2.
[46] Hellman, Murdock, and Stiglitz, "Financial Restraint: Towards a New Paradigm," 2.
[47] Thomas Hellman and Kelvin Murdock, "Financial Sector Development Policy: The Importance of Reputational Capital and Governacne," in *Development Strategy and Management of the Market Economy*, ed. Istvan P. Szekely and Richard Sabot, vol. 2 (Oxford: Oxford University Press, 1997), 273; Hellman, Murdock, and Stiglitz, "Financial Restraint: Towards a New Paradigm," 2–3.
[48] Hellman and Murdock, "Financial Sector Development Policy: The Importance of Reputational Capital and Governacne."

policy involves a wide array of government interventions, with financial regulation representing merely one aspect or type of financial policy. This is particularly the case in East Asia, where the state's role in financial markets has involved creating, regulating, and even directing credit to financial institutions, with financial policies serving to both ensure market stability and encourage financial sector growth.[49] Similarly, Carmichael notes that the public sector participates in the financial sector through its various roles as regulator of financial institutions, owner of financial institutions, market participant, fiduciary agent, and through direct intervention in market operations.[50]

In more recent attempts to develop a comprehensive understanding and typology of financial policies, Barajas et al state that financial policy involves the formulation of an "adequate policy mix to achieve the optimum, or long-term sustainable level of financial sector development" that is represented by a "financial possibility frontier" (FPF).[51] In particular, three sets of financial sector policies have been identified. These are: (i) *market-developing policies* that push the FPF outwards through the long-term building of institutions and infrastructure; (ii) *market-enabling policies* that shift a financial system towards the FPF via regulatory reforms and encouraging greater competition;

[49] Stiglitz, Jaramillo-Vallejo, and Park, *The Role of the State in Financial Markets*.
[50] Jeffrey Carmichael, "Public Sector Governance and the Finance Sector," in *Financial Sector Governance: The Roles of the Public and Private Sectors*, ed. Robert E. Litan, Michael Pomerleano, and V. Sundararajan (Washington: Brookings Institution Press, 2002), 130–135.
[51] Adolfo Barajas et al., *Too Cold, Too Hot, Or Just Right? Assessing Financial Sector Development Across the Globe*, IMF Working Paper (International Monetary Fund, March 28, 2013), 9.

(iii) *market-stabilizing policies* that prevent a financial system from moving beyond the FPF through regulatory oversight and macro-prudential management.[52]

While this typology by Barajas et al represents an important step forward in understanding financial policies, the three types of financial policies identified have in reality received varying levels of attention in the existing literature, with much of the literature focusing on market-stabilizing policies and new emerging work beginning to explicitly recognize market-developing and market-enabling policies. As such, the remainder of this section uses this categorization of financial policies as a heuristic to understand the existing literature on financial policy.

According to mainstream conceptions of financial policy, the *raison d'être* of financial policy is essentially the maintenance of market stability. This *stabilizing* aspect and its inherent objectives of market stability and investor protection remains the most-commonly held view of financial policy. Under this view, the "core goals" of financial policy are basically the maintenance of financial system stability and integrity, protection of depositors and investors, as well as ensuring that financial intermediaries perform their fiduciary duties to their clients and shareholders.[53] Examples of stabilizing policies include deposit insurance, provisions for information disclosure and minimum capital requirements.

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[52] Ibid., 9–10.
[53] OECD, "The Financial Policy Landscape," 88–89.

As an important stabilizing financial policy instrument, financial regulation is commonly understood as “laws and rules that govern what financial institutions such as banks, brokers and investment companies can do”, with an aim to “protect investors, maintain orderly markets and promote financial stability”.[54] In his oft-cited 1988 article, Stigler defines regulation as "any policy that alters market outcomes by the exercise of some coercive government power".[55] The range of regulatory activities can include setting minimum standards for capital and conduct, making regular inspections, and investigating and prosecuting misconduct”.[56]

Financial regulation is thus based on an “essential faith in capitalism” that precludes government intervention in markets[57]. Vittas notes that the rationale for financial regulation lies in the “existence of market failure in financial systems arising from externalities, market power, and informational problems”.[58] Hence as a stabilizing financial policy instrument, financial regulation allows for the efficient allocation of capital resources by ensuring that financial markets are free from both market distortions and state

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[54] *Financial Times Lexicon*, “Financial Regulation” http://lexicon.ft.com/Term?term=financial-regulation [Accessed 28 July 2012]

[55] George J. Stigler, *The Theory of Economic Regulation*, Chicago Studies in Political Economy (Chicago: University of Chicago Press, 1988).

[56] Financial Times, *Financial Times Lexicon* [online], available: http://lexicon.ft.com/Term?term=financial-regulation [accessed 20 May 2013]

[57] Laureen Snider, “The Conundrum of Financial Regulation: Origins, Controversies, and Prospects,” *Annual Review of Law and Social Science* 7, no. 1 (2011): 123.

[58] Dimitri Vittas, *The Impact of Regulation on Financial Intermediation*, Policy Research Working Paper Series (The World Bank, August 31, 1991), 61–62, http://econpapers.repec.org/paper/wbkwbrwps/746.htm.

intervention. In a sense, this means that stabilizing instruments are an important part of the free market mechanism.

However, this commonly-accepted stabilizing view of financial policy does not take into account the more active and direct roles of financial policymakers in financial sector development. Due to distributional concerns inherent in the political process, financial regulation has often been used by governments to achieve objectives that may not be related to market stability and consumer protection, such as protecting domestic financial institutions or "supporting specific industrial or regional policies by channelling funds to particular sectors".[59]

Cerny has also identified two "competing models of capitalism" that feed into two different models of financial policy: (i) market-driven 'arms-length' financial systems, and (ii) "developmental" or "strategic" financial systems that promote the integration of industrial and financial policy-making by a conglomerate of state and corporate actors.[60] While market-driven financial systems require stabilizing financial policies, strategic financial systems involve financial policies that are more development-oriented. This suggests that financial policies may be designed for the purpose of developing specific financial markets or even the overall financial sector of an IFC. Such

[59] OECD, "The Financial Policy Landscape," 69.
[60] Cerny, "The Deregulation and Re-Regulation of Financial Markets in a More Open World," 53.

development-oriented financial policies can further be separated into enabling and developmental policies.

First, financial policies can be used to build markets through "*enablement* – the creation not merely of incentives but of those conditions that allow activities to take place".[61] This is part of a global shift from a Fordist to a "finance-led" growth regime, where the role of regulatory policy is to "guide the development of the financial markets in the best possible way".[62] Enabling financial polices thus allow for the "allocation of financial resources" to "targeted sectors", through a "broad array of regulations that affect entry and the scope of bank business".[63]

Importantly, enabling financial regulations allow for the establishment and subsequent maintenance of "national comparative advantages", by constructing "man-made conditions and resources favourable or necessary to efficient performance of financial services".[64] This concern with establishing the market conditions favourable to the operations of financial institutions and the overall expansion of an IFC's financial services sector makes financial

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[61] Robert Baldwin, Colin Scott, and Christopher Hood, eds., *A Reader on Regulation* (Oxford: Oxford University Press, 1998), 4.
[62] Boyer R., "Is a Finance-Led Growth Regime a Viable Alternative to Fordism? A Preliminary Analysis," *Economy and Society* 29, no. 1 (2000): 112–120.
[63] Stephen Haggard and Chung H. Lee, "The Political Dimension of Finance in Economic Development," in *The Politics of Finance in Developing Countries*, ed. Stephen Haggard, Chung H. Lee, and Sylvia Maxfield (New York: Cornell University Press, 1993), 3–6.
[64] H. W. Arndt, Australia-Japan Research Centre, and Australian National University., *Comparative Advantage in Trade in Financial Services*, vol. 160, Pacific Economic Paper (Canberra, Australia: Research School of Pacific Studies, Australian National University], 1988), 72–74; Michael E. Porter, *Competitive Advantage of Nations* (New York: Free Press, 1998), 625–626.

regulation "an instrument to reach economic and social policy objectives"[65] through stimulating growth and productivity as well as enhancing competitiveness through "sectoral liberalization".[66]

Furthermore, financial policy also plays a *developmental* role in ensuring that the financial system and infrastructure is geared towards the attainment of developmental goals. Murinde and Mlambo have argued that such "development-oriented financial regulation" can allow the "allocation of financial resources towards developmental goals". [67] Chang and Grabel similarly note that the goal of domestic financial regulation should be "finance in the service of development", where "sustainable, stable and equitable economic development" is achieved by providing "finance in adequate quantities and at appropriate prices for those investment projects that are central to this kind of development".[68]

Strategies and policy instruments for doing so include influencing bank lending to key sectors, long-term financing by development banks and managing financial firms' asset holdings through "variable asset-based reserve requirements". [69] Thus, regulation is used by states in "developmentalist

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[65] International Finance Corporation, *Regulating Governance in Developing Countries*, Investment Climate Advisory Services Report (Washington: World Bank, 2010), 1.
[66] Ibid., 9–11.
[67] Victor Murinde and Kupukile Mlambo, *Development-Oriented Financial Regulation*, Collaborative project between the African Economic Research Consortium (AERC), The Brookings Institution, and New Rules for Global Finance, 2011, 3–10.
[68] Ha-Joon Chang and Ilene Grabel, *Reclaiming Development: An Alternative Economic Policy Manual* (Zed Books Ltd, 2004), 158.
[69] Ibid., 159–161.

fashion"[70] to "favour certain market outcomes".[71] According to Stiglitz and Uy, financial regulation as a form of development-oriented government intervention contributed to the rapid growth of emerging Asian nations during the "East Asian Miracle".[72] Gordon and Li further note that the Chinese government tends to choose regulations that "maximize a standard type of social welfare function" and help in "collecting revenue from both foreign and domestic investors",[73] using regulation in place of taxes to extract rents.[74]

In short, financial policy comprises three types of policy instruments, namely stabilizing, enabling and developmental instruments. Stabilizing instruments largely include financial regulations and are geared towards ensuring financial sector stability and investor protection. Enabling instruments are typically used to establish or develop the market conditions necessary for financial institutions to operate and thrive. Lastly, developmental instruments refer to financial policies that allow policymakers to directly channel resources towards financial sectors or markets which in turn contribute to the overall economic development of the IFC.

As later sections will show, stabilizing, enabling and developmental instruments are used in varying extents by financial policymakers in Hong

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[70] Anil Hira, "Governance Crisis in Asia: Developing a Responsive Regulation," in *Deregulation and Its Discontents: Rewriting the Rules in Asia*, ed. M. Ramesh and Michael Howlett (Cheltenham: Edward Elgar Publishing Limited, 2006), 24.
[71] Ibid., 21.
[72] Joseph E. Stiglitz and Marilou Uy, "Financial Markets, Public Policy, and the East Asian Miracle," *The World Bank Research Observer* 11, no. 2 (August 1, 1996): 249–250.
[73] Roger H. Gordon and Wei Li, "Government as a Discriminating Monopolist in the Financial Market: The Case of China," *Journal of Public Economics* 87, no. 2 (2003): 284.
[74] Ibid., 286.

Kong, Singapore, and Shanghai, based on the socio-political contexts within which these policymakers are enmeshed. Chapter 7 provides a 'nested instrumental approach' to understanding policy instrument choice within the context of the policy subsystem in the three IFC's.

However, the existing scholarly work on financial sector policy is limited by its assumption of a unitary monolithic state. Almost all the studies reviewed in this section take the 'state' or 'government' as the basic unit of analysis and agency. In reality, the formulation and implementation of financial policies are carried out by a wide variety of state and non-state actors. These typically include the governing elite and the various administrative agencies tasked with the various aspects of financial sector policy formulation and implementation.

Furthermore, many of the recommendations of these studies deal with improvements to financial regulatory policy, infrastructure and process without mentioning the role of financial regulatory agencies in financial policy. This thesis focuses on the regulatory agency as the key formulator and implementer of financial policy instruments within a financial policy subsystem that also includes industry actors and other non-state actors. As Chapters 4, 5, and 6 will show, the financial regulatory agencies in the three cases are policymaking units in their own rights.

Litan et al take a broader approach by recasting financial policy as "financial sector governance", which involves the "range of institutions and practices by which authority is exercised".[75] Under this conception, financial sector governance has both public and private dimensions, with the public aspect involving the regulation of financial institutions and markets while the private aspect refers to the institutions and practices through which financial institutions, borrowers, and even regulators are governed or controlled.[76]

This thesis builds on the views of Litan et al by studying how dominant subsystem actors, both public and private, exercise their influence and authority over financial policymaking. However, this thesis goes beyond this existing view of financial sector governance. Rather, it seeks to understand the instrumental and ideational channels through which dominant subsystem actors influence policy mix design, establishing a deeper understanding of how policy mix design is 'nested' within the political economic context of the subsystem. This 'nesting' or tailoring of policy to political economic context had previously received attention in the work of Porter, who relates such tailoring of regulatory policy to the attainment of national competitive advantage.[77]

While the work of Porter and Litan et al has provided a broader understanding of financial policy that includes both state and non-state actors, it lacks the theoretical sophistication and empirical validation necessary for a

[75] Robert E. Litan, Michael Pomerleano, and V. Sundararajan, "Strengthening Financial Sector Governance in Emerging Markets," in *Financial Sector Governance: The Roles of the Public and Private Sectors*, ed. Robert E. Litan, Michael Pomerleano, and V. Sundararajan (Washington, D.C.: Brookings Institution Press, 2002), 2.
[76] Ibid., 3.
[77] Porter, *Competitive Advantage of Nations*, 683.

clearer understanding of how exactly state and non-state actors in the financial sector influence and/or are affected by financial policies. In other words, the linkage between subsystem configuration and policy mix design remains insufficiently explored and documented. This thesis addresses these shortcomings through the introduction and application of the 'nested instrumental approach' in Chapters 3 and 7 respectively.

The largest shortcoming of the literature on financial policy is its neglect of spatiality. Existing understandings of financial policymaking has largely been studied in the national context, with few attempts to situate this understanding at the level of the city or IFC. This is a weakness that permeates both the work of Economists and IPE scholars alike. While studies of financial policy by economists have tended to focus on the national government, IPE scholars have tended to focus on the international financial system, similarly taking the state as the basic unit of analysis.

In reality, financial policymaking takes place at the level of the IFC, with city or local governments playing a particularly important role. Furthermore, the IFC is itself an intersection between domestic policymaking and international systemic pressures. Nonetheless, a small but significant literature on IFC's, driven by scholars of economics and geography, has sought to understand financial policymaking in the context of the IFC. This literature is reviewed in the following section.

International Financial Centres

The origins of the IFC literature can be traced back to early studies by economists on financial centres, which were largely based on a desire to understand the emergence of financial centres as centralized locations of financial and economic activity. These studies allowed scholars to establish clear definitions of what an IFC is and understand the factors which have contributed to the emergence of major successful IFC's. It is important to note that while such early work preceded the coining and widespread use of the term "international financial centre", the financial centres studied by these scholars were effectively international, given the already globalized state of financial markets.

Kindleberger defines a financial centre as "a single worldwide center with the highly specialized functions of lending abroad and serving as a clearinghouse for payments among countries".[78] This means that financial centres typically perform "medium-of-exchange" and "interspatial store-of-value" functions.[79] A similarly broad definition is provided by Tschoegl, who describes a financial centre as a "central market place" for a wide variety of financial services.[80]

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[78] Charles P. Kindleberger, *The Formation of Financial Centers: A Study in Comparative Economic History (Princeton Studies in International Finance No. 36)*, 1st edition (New Jersey: Princeton University Press, 1974), 57.
[79] Ibid., 196.
[80] Adrian E. Tschoegl, "The Benefits and Costs of Hosting Financial Centers," in *International Banking and Financial Centers*, ed. Yoon Shik Park and Musa Essayyad (Dordrecht: Kluwer Academic Publishers, 1989), 175–87.

According to Reed, a "financial center is an urban area which contains a concentration of specialized institutions that possess, at least marginally, the international skills and capabilities necessary to facilitate the flow of goods, services, information, and capital between its own national economy and the other national economies of the world".[81] Park provides a more nuanced approach by differentiating between 'primary, booking, funding, and collecting' financial centres, with each type of centre based on the range and type of international financial transactions that take place within it.[82]

Aside from providing broad general definitions of financial centres, scholars at that time also sought to delve deeper into the exact characteristics which make a particular location a financial centre. An important characteristic is the size, liquidity and complexity of financial markets as measured by the number of financial institutions and mobility of capital or funds.[83] Reflecting the international nature of financial centres, a related

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[81] Howard Curtis Reed, *The Preeminence of International Financial Centers* (New York: Praeger, 1981), 58.
[82] Yoon Shik Park, "The Economics of Offshore Financial Centers," *Columbia Journal of World Business* 17 (1982): 31–35.
[83] Kindleberger, *The Formation of Financial Centers*; Ian H. Giddy, "The Theory and Industrial Organization of International Banking," in *The Internationalization of Financial Markets and National Economic Policy*, ed. Robert G. Hawkins, Richard M. Levich, and Clas G. Wihlborg (Greenwich: JAI Press, 1983), 195–243; Sang-Rim Choi, Adrian Tschoegl, and Chwo-Ming Yu, "Banks and the World's Major Financial Centers, 1970–1980," *Review of World Economics (Weltwirtschaftliches Archiv)* 122, no. 1 (1986): 48–64; Marco Pagano et al., "Trading Systems in European Stock Exchanges: Current Performance and Policy Options," *Economic Policy* 5, no. 10 (April 1990): 63.

characteristic is the presence of foreign financial institutions and non-resident market participants.[84]

Early scholars also noted the importance of favourable policies that characterize a location's role as an IFC, with such policies including the maintenance of currency convertibility,[85] favourable regulations and taxes[86] and active efforts by the government to attract foreign financial institutions.[87] Another less direct role of policy is human capital development, with IFC's typically characterized by the presence of skilled financial sector specialists.[88] These laid the foundation for subsequent efforts to empirically test the validity of such policy and socio-economic factors in contributing to IFC development through the use of quantitative models.[89]

Another important aspect of such early scholarly work on IFC's involved identifying and studying the various factors which contribute to the formation of IFC's. According to Kindleberger's "staple theory", the development of banking from its initial roles in serving "sovereigns and

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[84] Gunter Dufey and Ian H. Giddy, *The International Money Market* (New Jersey: Prentice Hall International, 1978); Choi, Tschoegl, and Yu, "Banks and the World's Major Financial Centers, 1970–1980"; Richard O'Brien, *Global Financial Integration: The End of Geography* (Washington: Council on Foreign Relations Press, 1992).

[85] Marcus Nadler, Sipa Heller, and Samuel S. Shipman, *The Money Market and Its Institutions* (New York: Ronald Press Company, 1955).

[86] Hamish McRae and Frances Cairncross, *Capital City: London as a Financial Centre* (London: Magnum Books, 1973); Choi, Tschoegl, and Yu, "Banks and the World's Major Financial Centers, 1970–1980."

[87] Richard Anthony Johns, *Tax Havens and Offshore Finance: A Study of Transnational Economic Development* (New York: St Martin's Press, 1983).

[88] Nadler, Heller, and Shipman, *The Money Market and Its Institutions*; McRae and Cairncross, *Capital City*; Kindleberger, *The Formation of Financial Centers*.

[89] J. P. A. Sagaram and J. Wickramanayake, "Financial Centers in the Asia-Pacific Region: An Empirical Study on Australia, Hong Kong, Japan and Singapore," *PSL Quarterly Review* 58, no. 232 (April 18, 2012): 21–50.

nobles" to subsequently serving commerce and government and finally acting as financial intermediaries resulted in the formation of national financial centres which eventually become IFC's.[90] The concentration of financial activities within IFC's is also explained by the need for face-to-face interaction among market participants, the ability of localization to overcome costs of information, and the dislocation of cross-boundary trades due to time-zone differences.[91]

Goldberg et al attribute the development of IFC's to international trade, international financial intermediation and industrial organisation factors.[92] These are factors which contribute to growth in the international financial services industry, which is crucial in the actual development of an IFC. Specific factors positively associated with the growth in size of the financial sector include imports, economic development, number and size of multinational companies present, the significance of the city within the country and time zone; while exports and financial regulation are negatively associated with financial sector development.[93] The importance of trade in IFC development is underscored by the role that IFC's play in balancing out the

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[90] Kindleberger, *The Formation of Financial Centers*, 199.
[91] Ibid., 200–201.
[92] Michael A. Goldberg, Robert W. Helsley, and Maurice D. Levi, "On the Development of International Financial Centers," *The Annals of Regional Science* 22, no. 1 (February 1, 1988): 81.

[93] Ibid., 91.

surplus and deficits of countries that trade with each other, resulting in the development of an assortment of financial instruments for this very purpose.[94]

Davis's successful application of the 'theory of location of firms' to financial firms also posits that achieving external economies of scale and economies of agglomeration allows financial centres to attain a form of self-perpetuating' growth, even if the initial motivations that had led to the development of the IFC no longer apply.[95] In other words, a greater number of firms locating to a IFC can result in financial sector growth due to the enlargement of markets, availability of contacts, skilled labour and auxiliary services (such as accountants, lawyers, actuaries, etc).[96] This further leads to the view that once IFC's are formed, they show "remarkable powers of survival" in a cumulative process that "concentrate financial markets in a small number of centres".[97]

While such early studies have provided definitions of IFC's, delineated the characteristics which qualify a location as an IFC and yielded important insights into the factors which have facilitated the emergence of an IFC, they were nonetheless limited by their over-reliance on economics. In particular, the focus on quantifiable IFC development variables such as financial market

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[94] Economists Advisory Group, *City 2000: The Future of London as an International Financial Centre* (London: Lafferty Publications, 1984), 12.
[95] E.P. Davis, *International Financial Centres – An Industrial Analysis*, Bank of England Discussion Paper, September 1990, 14–15.
[96] Ibid., 9–16.
[97] Economists Advisory Group, *City 2000: The Future of London as an International Financial Centre*, 14–15.

size or number of financial institutions does not reveal much about relations between regulators, financial institutions, and other financial sector actors. As this thesis will show, such relations are crucial in ensuring effective financial policy design and successful IFC development.

As such, issues of financial policy actor agency, the socio-political context and the precise ways in which governments develop or promote an IFC were largely under-explored. Rather, early IFC studies tended to take a passive view of the state in IFC's. IFC development is understood to be a consequence of increasingly globalized flows of financial capital that have resulted in an almost-automatic agglomeration of economic activity in the IFC. While subsequent IFC studies by economic geographers have sought to incorporate spatiality into the study of IFC's, these studies are still unable to provide a clear account of socio-political context in IFC development.

These began with efforts at developing more geographically-informed definitions of IFC's, such as Jones' typology of IFC's as *sub-regional* (involving bilateral trade between the IFC's host country and other economies), *regional* (providing financial services to a specified geographical location), or *global centres* (providing an extensive range of financial services to the whole world).[98] Gehrig's definition similarly addresses the geographical aspects of IFC location by stating that IFC's are "geographical locations with

[98] Geoffrey Jones, "International Financial Centres in Asia, the Middle East and Australia: A Historical Perspective," in *Finance and Financiers in European History*, ed. Youssef Cassis (Cambridge: Cambridge University Press, 1992), 405–406.

agglomerations of branches or subsidiaries of banks and other financial intermediaries in narrowly defined regions”.[99]

An important theoretical development is the global cities movement, which studies how a select group of cities tend to dominate the global economy due to their “higher order functions of control and coordination of economic flows”.[100] According to these scholars, global cities are “used by global capital as ‘basing points’ in the spatial organization and articulation of production and markets”.[101] While globalization and advances in communications technology have resulted in a “spatial dispersal of economic activities at the metropolitan, national and global level”, there is also a “territorial centralization” of management and control over these dispersed economic activities.[102]

This centralization means that ‘global cities’ serve as sites for the facilitation of global economic transactions, thereby becoming “command centers in a global economy”.[103] Territorial centralization is related to what Sassen has identified as the two most important factors contributing to IFC

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[99] Thomas Gehrig, “Cities and the Geography of Financial Centers,” in *Economies of Cities: Theoretical Perspectives*, ed. Jean-Marie Huriot and Jacques-Francois Thiesse (Cambridge: Cambridge University Press, 2000), 416.
[100] Jessie P.H. Poon, “Hierarchical Tendencies of Capital Markets Among International Financial Centers,” *Growth and Change* 34, no. 2 (2003): 137.
[101] John Friedman, “The World City Hypothesis,” in *The City: The City in Global Context,* ed. Michael Pacione (London: Routledge, 2002), 153.
[102] Saskia Sassen, “Whose City Is It? Globalization and the Formation of New Claims,” *Public Culture* 8, no. 2 (1996): 205–207.
[103] Ibid., 206–210.

formation: national consolidation and market liberalization.[104] Thus, cities that contain higher concentrations of "major institutional equity holdings" such as banks and investment houses are most likely to become successful IFC's.[105] The global cities literature has thus identified a paradoxical centralization of financial activities in IFC's amid a technologically-driven dispersal of economic activities globally.

According to Gehrig, this paradox of simultaneous dispersal and centralization of financial activities can be explained by assessing the informational content of financial activities. In particular, IFC's facilitate trade in securities that are 'informationally sensitive' and require geographical concentration for communication while securities that are more standardized flow more freely across borders in response to regulatory differences.[106] Information, or access to it, has also been seen as an important factor determining the functional distribution of roles and services among IFC's.[107] Such concentration of communication based on the need for information sharing results in the formation of an IFC's "social infrastructure" through the presence of major market actors.[108]

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[104] Saskia Sassen, "Global Financial Centers," *Foreign Affairs* 78 (1999): 76.
[105] Ibid., 76–77.
[106] Gehrig, "Cities and the Geography of Financial Centers," 417–418.
[107] David J Porteous, *The Geography of Finance: Spatial Dimensions of Intermediary Behaviour* (Aldershot: Avebury, 1995); Simon X. B. Zhao, "Information Exchange, Headquarters Economy and Financial Centers Development: Shanghai, Beijing and Hong Kong," *Journal of Contemporary China* 22, no. 84 (2013): 1006–27.
[108] Sassen, "Global Financial Centers," 80.

Such studies of global cities have also prompted the formation of a network of global cities scholars who often take a qualitative and comparative approach to studying IFC's, focusing in particular on reputational factors and perceptions of IFC's among various financial market participants.[109] However, these and other more geographically-motivated studies of IFC's still do not adequately study the role of government and agency in IFC development. Rather, IFC's are seen as passive repositories of global financial flows that are constantly seeking out existing structural and environmental advantages. Yet as this thesis will show, government interventions can often be integral in the formation and development of an IFC as well as the building up of advantages that attract financial institutions and capital to an IFC, particularly in the cases of Singapore and Shanghai.

A more agentic view of IFC's is presented in the work of IFC scholars who have sought to study inter-IFC competition. Such efforts have largely been focused on the study of a "hierarchy of international financial centres"[110] and how IFC's compete to reach the upper echelons of this hierarchy. Poon's longitudinal study further shows how the hierarchy of IFC's have become more differentiated and grown from three to seven tiers or 'vertical layers' over time,[111] with IFC's often making use of their comparative advantages to

[109] GaWC Research Network, "What GaWC Is About," 2014, http://www.lboro.ac.uk/gawc/group.html.
[110] Jones, "International Financial Centres in Asia, the Middle East and Australia: A Historical Perspective," 405–406.
[111] Poon, "Hierarchical Tendencies of Capital Markets Among International Financial Centers," 141–151.

"support the trend of increasing spatial hierarchical tendencies and differentiation", even going so far as to try and prevent the migration of financial activities to other IFC's.[112]

Gaining from their central position in international trade and commerce, newer regional IFC's (such as Hong Kong and Singapore) were thus able to exploit increased trade volumes to challenge other top-tiered IFC's.[113] Such hierarchical relations among IFC's also point towards "persistent competition as the most basic condition of their (IFC's) existence",[114] prompting efforts to exploit and enhance existing comparative advantages, especially through regulatory policy.[115] Scholars have subsequently sought to study the impacts of history, policy, institutions, and geography in determining inter-IFC competition, particularly among emerging Asian IFC's.[116]

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[112] Ibid., 152.

[113] Jessie P. H. Poon, Bradly Eldredge, and David Yeung, "Rank Size Distribution of International Financial Centers," *International Regional Science Review* 27, no. 4 (October 1, 2004): 427–428.

[114] Roger Lee and Ulrich Schmidt-Marwede, "Interurban Competition? Financial Centres and the Geography of Financial Production*," *International Journal of Urban and Regional Research* 17, no. 4 (1993): 499.

[115] Leslie Budd, "Globalisation, Territory and Strategic Alliances in Different Financial Centres," *Urban Studies* 32, no. 2 (March 1, 1995): 345–60; Susan M. Roberts, "Small Place, Big Money: The Cayman Islands and the International Financial System," *Economic Geography* 71, no. 3 (July 1995): 250.

[116] Jao, "Shanghai and Hong Kong as International Financial Centres: Historical Perspective and Contemporary Analysis"; Simon X.B. Zhao, Li Zhang, and Danny T. Wang, "Determining Factors of the Development of a National Financial Center: The Case of China," *Geoforum* 35, no. 5 (September 2004): 577–92, doi:10.1016/j.geoforum.2004.01.004; Tan and Lim, *Singapore and Hong Kong as Competing Financial Centres*; K.C. Ho, "Competitive Urban Economic Policies in Global Cities: Shanghai Through the Lens of Singapore," in *Rising Shanghai: State Power and Local Transformations in a Global Megacity*, ed. Xiaoming Chen (Minneapolis: University of Minnesota Press, 2009), 73–91;

Competitive pressures may also prompt IFC's to cooperate, based on a collective desire to avoid costly disadvantageous situations such as bank failures.[117] Mid-level international relations concepts such as the hegemonic stability theory, regime theory, epistemic communities, and capital mobility hypothesis have been found to be useful in explaining cooperation among states in global financial markets.[118] Such complex relations of competition and cooperation have contributed to increased interdependency and a tendency towards "functional specialization" or "differentiation", particularly among Chinese financial centres such as Hong Kong, Shanghai, and Beijing.[119]

Inter-IFC cooperation has also been studied in terms of regulatory or policy convergence. Based on case studies of Britain, Germany and the US, Lutz shows how countries tend to converge on "patterns of standardization and instruments of regulation" as a multilateral response to financial crises.[120] Thus, regulatory reform represents a politically-mediated and crisis-driven

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Youssef Cassis, *Capitals of Capital: The Rise and Fall of International Financial Centres 1780-2009* (Cambridge: Cambridge University Press, 2010); Darryl S L Jarvis, "Race for the Money: International Financial Centres in Asia," *Journal of International Relations and Development* 14, no. 1 (January 2011): 60–95; Karen Lai, "Differentiated Markets: Shanghai, Beijing and Hong Kong in China's Financial Centre Network," *Urban Studies* 49, no. 6 (May 1, 2012): 1275–96.

[117] Cohen, "Phoenix Risen," 290–291.

[118] Dombrowski, "Haute Finance and High Theory," 16–19.

[119] Lai, "Differentiated Markets"; Zhao, "Information Exchange, Headquarters Economy and Financial Centers Development."

[120] Susanne Lütz, "Convergence Within National Diversity: The Regulatory State in Finance," *Journal of Public Policy* 24, no. 02 (2004): 189–190.

form of cooperation among states that wish to reduce the competitive *dis*advantages arising from financial globalization.[121]

As such, financial policymakers may converge in terms of policy instruments used or modes of policy-making.[122] This means that IFC convergence can be related to an existing literature on policy convergence,[123] although this thesis argues focusing on convergence tends to overstate similarities among IFC's and as a consequence, gloss over differences in the policy and political processes of different IFC's. IFC's may also converge in terms of belief systems and as a consequence, policy beliefs. The policy diffusion literature deals with this by accounting for the spread of economic and political liberalism among states.[124]

Subsequent scholarly work has sought to develop a deeper understanding of such competitive or cooperative dynamics among IFC's, putting particular attention on socio-political relations or linkages. These include studying how IFC's act as "public-private coalitions" that strategize against other IFC's by relying on locational advantages in financial

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[121] Ibid., 191.

[122] William D. Coleman, "Policy Convergence in Banking: A Comparative Study," *Political Studies* 42, no. 2 (June 1, 1994): 274–92.

[123] Colin J. Bennett, "What Is Policy Convergence and What Causes It?," *British Journal of Political Science* 21, no. 02 (1991): 215–33; Daniel W. Drezner, "Globalization and Policy Convergence," *International Studies Review* 3, no. 1 (2001): 53–78; Christoph Knill, "Introduction: Cross-National Policy Convergence: Concepts, Approaches and Explanatory Factors," *Journal of European Public Policy* 12, no. 5 (2005): 764–74.

[124] Beth A. Simmons and Zachary Elkins, "The Globalization of Liberalization: Policy Diffusion in the International Political Economy," *American Political Science Review* 98, no. 1 (2004): 171–89; Beth A. Simmons, Frank Dobbin, and Geoffrey Garrett, "Introduction: The International Diffusion of Liberalism," *International Organization* 60, no. 04 (2006): 781–810.

production[125] as well as the "strategic alliances" formed among IFC's to improve individual comparative advantages.[126] Inter-IFC relations and competition are also influenced and constituted by "socio-geographical practices" arising from the interaction of financial actors.[127]

Aside from these studies of major financial centres, studies focused on tax havens have also sought to delve into the international and domestic socio-political aspects of financial sector development and policy. Specifically, studies on tax havens have attempted to understand the strategic nature of state financial policy in establishing tax-friendly jurisdictions that contribute to offshore financial sector growth.[128] Such studies have pointed out how 'offshoreness' and strategic financial policymaking impact concepts of state sovereignty, specifically imbuing it with commercial interests.[129]

At the international level, studies of tax havens are more focused on regulatory cooperation and the establishment of an international tax regime

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[125] Lee and Schmidt-Marwede, "Interurban Competition?," 501.

[126] Budd, "Globalisation, Territory and Strategic Alliances in Different Financial Centres," 346.

[127] Michael Pryke and Roger Lee, "Place Your Bets: Towards an Understanding of Globalisation, Socio-Financial Engineering and Competition within a Financial Centre," *Urban Studies* 32, no. 2 (March 1, 1995): 330–331.

[128] Palan, Abbott, and Deans, *State Strategies in the Global Political Economy*; Johns, *Tax Havens and Offshore Finance*.

[129] Ronen Palan, "Trying to Have Your Cake and Eating It: How and Why the State System Has Created Offshore," *International Studies Quarterly* 42, no. 4 (December 1, 1998): 625–43; Ronen Palan, "Tax Havens and the Commercialization of State Sovereignty," *International Organization* 56, no. 01 (2002): 151–76; Alan Hudson, "Offshoreness, Globalization and Sovereignty: A Postmodern Geo-Political Economy?," *Transactions of the Institute of British Geographers* 25, no. 3 (September 1, 2000): 269–83; Andrew P. Morriss, *Offshore Financial Centers and Regulatory Competition* (Washington, D.C: AEI Press, 2010).

that mitigates unhealthy tax competition,[130] although others have emphasized the positive contributions of tax havens to the global economy, particularly in terms of enhancing efficiency and reducing tax competition.[131] More importantly, such studies of tax havens provide a more qualitative and contextualized understanding of financial sector development, even as they remain largely focused on small island economies. As a result of this over-specification, tax haven studies do not connect easily with existing IFC studies that are focused on economic structural variables and hence largely quantitative in nature.

Despite emerging attempts to provide more qualitative accounts of IFC development such as the global cities approach and studies on tax havens, such attempts remain at a relatively nascent stage. Relations among financial sector actors, both state and non-state, *within* IFC's and the impact of such relations on financial policymaking remain under-studied. Rather, there is a tendency to take the 'state' as a singular unit of analysis. This reflects an overall lack of conceptualization in existing comparative IFC studies.[132]

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[130] Lorraine Eden and Robert T. Kudrle, "Tax Havens: Renegade States in the International Tax Regime?*," *Law & Policy* 27, no. 1 (January 1, 2005): 100–127; Steven A. Dean, "Philosopher Kings and International Tax: A New Approach to Tax Havens, Tax Flight, and International Tax Cooperation," *Hastings Law Journal* 58 (2007 2006): 911.

[131] Dhammika Dharmapala, "What Problems and Opportunities Are Created by Tax Havens?," *Oxford Review of Economic Policy* 24, no. 4 (December 21, 2008): 661–79; Morriss, *Offshore Financial Centers and Regulatory Competition*.

[132] Beoy Kui Ng, *Hong Kong and Singapore as International Financial Centres: A Comparative Functional Perspective*, SABRE Working Paper (Singapore: Nanyang Technological University, 1998), 1.

By neglecting inter-actor relations within IFC's and the impacts of such relations on financial policy, the existing IFC literature underemphasizes the political economic context within which IFC's exist, as defined by socio-political ties between state and non-state actors. Instead, there is an over-emphasis on an assumed convergence of IFC development models, as reflected in IFC rankings or hierarchies that measure and explain IFC success based largely on structural economic variables such as financial market size and competitiveness.

Nonetheless, scholars from the fields of finance, economics and IPE have made fledgling attempts to address this shortcoming by studying inter-actor relations in economic and financial policy, showing a deeper appreciation of political processes and relations in financial policy. Such emerging efforts are discussed in the next section.

The Politics of Finance

Political and social structures as well as relations between the government, industry, and society have been deemed important in financial regulation, with these relations influencing and being influenced by regulation.[133] In particular, financial globalization has made private actors more powerful in their ability to shape and set rules, with the result being an

[133] OECD, "The Financial Policy Landscape," 65.

alignment of financial governance with private sector preferences.[134] This has led scholars to take a more "politically sensitive approach" to understanding financial crisis,[135] with one such study focusing on the varying influence which property sector wielded on the Hong Kong and Singapore governments' response to the AFC.[136]

Rajan and Zingales also show in their "interest group theory of financial development" that private sector influence may hinder financial sector development, especially when powerful industry actors are focused on their narrow self-interests.[137] This focus on private sector authority in financial and economic policy had also previously received attention in the work of key IPE scholars, with a focus on state-industry relations and the policy role of industry actors.[138]

The political system is another important channel through which inter-actor relations impact financial policy. Carney has studied how financial

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[134] Geoffrey R. D. Underhill and Xiaoke Zhang, "Setting the Rules: Private Power, Political Underpinnings, and Legitimacy in Global Monetary and Financial Governance," *International Affairs* 84, no. 3 (2008): 536.

[135] T.J. Pempel, *The Politics of the Asian Economic Crisis* (Ithaca and London: Cornell University Press, 1999).

[136] Linda Y.C. Lim, "Free Market Fancies: Hong Kong, Singapore, and the Asian Financial Crisis," in *The Politics of the Asian Economic Crisis*, ed. T.J. Pempel (Ithaca and London: Cornell University Press, 1999), 101–15.

[137] Raghuram G. Rajan and Luigi Zingales, *The Great Reversals: The Politics of Finanical Development in the 20th Century*, NBER Working Paper (Massachusetts: National Bureau of Economic Research, 2001).

[138] Susan Strange, *The Retreat of the State: The Diffusion of Power in the World Economy* (Cambridge: Cambridge University Press, 1996); A. Claire Cutler, Virginia Haufler, and Tony Porter, *Private Authority and International Affairs* (Albany: State University of New York Press, 1999); Virginia Haufler, *A Public Role for the Private Sector: Industry Self-Regulation in a Global Economy* (Washington: Carnegie Endowment for International Peace, 2001); A. Claire Cutler, *Private Power and Global Authority: Transnational Merchant Law in the Global Political Economy* (Cambridge: Cambridge Univ. Press, 2003).

institutions and arrangements are often defined by a priori political contestations between labour, owners of capital, and landed interests.[139] More accountable political systems are also positively related to better investor protection and lower costs of entry, thereby stimulating financial sector development.[140] Politics also affects corporate ownership in East Asia, with the state becoming a more significant owner of companies over the past few decades and changes in company ownership becoming increasingly dependent upon political change at the national level.[141]

Scholars have further sought to understand complex inter-actor relations in financial policy through the lens of the policy subsystems approach. While this approach is discussed at greater length in the next chapter, it is necessary to discuss the contributions of subsystem scholars in their studies of socio-political relations among financial sector actors. Within the context of US commercial bank regulation, Krause has found that strategic behaviour is prevalent among financial sector actors, who typically engage in a complex mix of cooperative and competitive behaviour in reaction to the behaviour of other actors.[142] As Worsham has noted, variations in political

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[139] Richard W Carney, *Contested Capitalism: The Political Origins of Financial Institutions* (London: Routledge, 2010).
[140] Enrico Perotti and Paolo Volpin, *Investor Protection and Entry*, Tinbergen Institute Discussion Papers (Amsterdam: Tinbergen Institute, 2007).
[141] Richard W. Carney and Travers Barclay Child, "Changes to the Ownership and Control of East Asian Corporations between 1996 and 2008: The Primacy of Politics," *Journal of Financial Economics* 107, no. 2 (February 2013): 494–513.
[142] George A. Krause, "Policy Preference Formation and Subsystem Behaviour: The Case of Commercial Bank Regulation," *British Journal of Political Science* 27, no. 04 (1997): 525–50.

arrangements have a significant impact on financial policy subsystems and the policy roles of these subsystems.[143]

Inter-actor relations within a financial policy subsystem have also been related to how these financial sector actors respond to change. Williams has found that subsystems facilitate endogenous change or policy adjustments in response to exogenous shock, dependent upon the goals and strategies of key actors within the subsystem.[144] However, the dominance of a coalition deeply imbued with a set of strong policy beliefs is also likely to expose a financial system to risk and contagion through 'groupthink' and a lack of effective policy coordination.[145]

Studies that seek to understand inter-actor relations in the financial sector have also taken on an international approach, focusing on relations between financial sector actors across national boundaries. For instance scholars have found that regulators and other state actors are increasingly connected to their foreign counterparts, often operating within transnational networks of regulators and central bankers.[146] A concrete example of cross-

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143 Jeff Worsham, *Other People's Money: Policy Change, Congress, And Bank Regulation* (Westview Press, 1997).

144 Russell Alan Williams, "Exogenous Shocks in Subsystem Adjustment and Policy Change: The Credit Crunch and Canadian Banking Regulation," *Journal of Public Policy* 29, no. 01 (2009): 48.

145 John Gieve and Colin Provost, "Ideas and Coordination in Policymaking: The Financial Crisis of 2007–2009," *Governance* 25, no. 1 (2012): 61–77.

146 Ethan Barnaby Kapstein, "Between Power and Purpose: Central Bankers and the Politics of Regulatory Convergence," *International Organization* 46, no. 01 (1992): 267–268; Cerny, "The Political Economy of International Finance," 15.

national policy coordination is the creation of the Basle accord on the back of British and American regulatory cooperation.[147]

This increasing recognition of inter-actor relations in global financial markets has resulted in the emergence of a network approach to studying global financial markets. Specifically, Oatley et al argue from an IPE standpoint that the international financial system has become a system of economic and political relationships between public and private actors.[148] Similar efforts can be found in Knoke's work on "economic networks", which takes a more sociological approach to understanding social relations and social capital in the global economic system.[149]

However, such fledgling attempts to incorporate the political economic context into the study of financial policymaking remain limited by several shortcomings. First, a vast majority of these studies are based on the context of developed Western economies. Given differences in political systems and state-industry relations between these developed Western economies and emerging Asian economies, there is a need for more extensive research into the political economic context within which Asian financial policymakers and regulators operate.

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147 Kapstein, "Between Power and Purpose," 281–282.
148 Thomas Oatley et al., "The Political Economy of Global Finance: A Network Model," *Perspectives on Politics* 11, no. 01 (2013): 133–53.
149 David Knoke, *Economic Networks* (Cambridge: Polity Press, 2012).

More importantly, attempts to understand the precise means or mechanisms through which different combinations of financial policy actors, state or non-state, are involved in financial policymaking remain at an analytically rudimentary stage. While IPE scholars have attempted to conceptualize the policy roles of state and non-state actors, these studies remain at an overly-general level and require a better delineation of the exact means and channels through which non-state actors exercise this policy role.

In sum, there is a need to provide a clearer and more detailed classification of the various actors involved in financial policymaking within a given IFC, the socio-political relations which define their positions and inter-relations within the IFC's policy subsystem, as well as the precise means and channels through which they influence financial policymaking. Existing IFC studies by scholars of economics, IPE and economic geographer do not adequately study the various financial policy actors or their inter-relations, despite more recent attempts to take a network approach. These studies also do not focus on IFC development at the policy instruments level, focusing instead on broad policy categories or types.

This thesis attempts to build upon these existing studies and address their limitations by situating the analysis of financial policy instruments within the political economic context of the policy subsystem in the form of the nested instrumental approach, which is discussed in Chapters 3 and 7. Importantly, the instruments and subsystems approaches provide a standardized ‘language’ through which the socio-political and policy aspects of IFC development can be understood. This will help consolidate existing understandings of IFC development, given that much of the existing literature represents the study of IFC’s through the use of different approaches and different analytical ‘languages’.

Conclusion

This chapter has provided a comprehensive review of the literatures on financial policy and IFC’s. Both literatures have made significant contributions to the study of financial sector development. In particular, the financial policy literature has provided a systematic description of the means and mechanisms through which governments are able to develop and regulate financial markets. The IFC literature has further built on this by studying financial policy through a more international systemic lens. This has allowed IFC scholars to identify the factors and processes which have contributed to IFC success. More importantly, these scholars have shifted the study of financial policy to the city or local level of government.

However, these two bodies of work remain insufficient in addressing several key questions that this thesis seeks to address. First, while the financial policy literature describes ways in which governments have managed to achieve financial sector development, it does not sufficiently address issues of context and spatiality. Rather, financial policymaking is assumed to take place at the national level, with the state taken as a unitary monolithic financial policymaking unit. In reality, the bulk of financial policymaking is carried out by local or city governments who actually run the IFC's.

While the IFC literature addresses some of these shortcomings by situating financial policy processes spatially and temporally within the globally-connected IFC, it does not sufficiently account for the political economic context within which IFC's exist or the socio-political relations which connect policymakers and other significant financial sector actors. Instead, much of the IFC literature focuses on structural and locational factors contributing to IFC success and overemphasizes a convergence of IFC development models based on these factors. While qualitative IFC studies on tax havens and global cities have sought to overcome the limitations of such quantitative approaches, these studies have yet to adequately delineate and provide a clearer understanding of the socio-political relations which underpin IFC development.

While scholars have begun to address these shortcomings by taking a network or subsystems approach to studying financial policy and focusing on the 'politics of finance', these studies remain at a rudimentary stage and are unable to provide a sufficiently clear or in-depth understanding of how such inter-actor relations affect financial policymaking and contribute to IFC success. Furthermore, the Western-centric nature of these studies raises questions over their applicability to the study of Asian IFC's, which operate within markedly different political systems.

These shortcomings in the financial policy and IFC literatures point towards a need to reconceptualise existing understandings of IFC development. In particular, two clear issues need to be addressed. First, there is a need to develop a comprehensive understanding of the exact means or policies through which governments drive or stimulate IFC development. Second, there is a need to situate these policies within the milieu of the political economic context. Governments of IFC's typically operate within a complex network of private sector financial institutions and firms as well as other non-state actors such as industry associations, independent research organizations and experts, and other members of the interested public.

This thesis addresses these two issues through the introduction and application of the nested instrumental approach in Chapters 3 and 7 respectively. Specifically, the nested instrumental approach situates the policy design process within the context of the subsystem configuration by drawing on and combining the policy instruments and policy subsystems approaches, in the process addressing the causal linkages between subsystem configuration and policy mix design. These are discussed in the next chapter.

Chapter 3: Research Design and Methodology

Given the empirical and theoretical limitations in the existing financial policy and IFC literatures identified in chapter 2, this thesis seeks to establish and apply a new analytical framework termed the 'nested instrumental approach' to the study of IFC's. Specifically, this approach addresses two significant shortcomings in the IFC literature, as identified in Chapter 2, by drawing upon the insights of two public policy theoretical literatures, namely the policy instruments and policy subsystems approaches.

First, there is a need to provide a clearer understanding of the types of financial policies implemented and the mechanisms through which they operate, in the attainment of IFC development. The policy instruments approach is particularly useful for addressing this shortcoming, by taking a tools approach to understanding policies as instruments designed and implemented for achieving specified policy outputs. Secondly, the IFC literature does sufficiently account for the political economic context of each IFC and the impact of such contextual variables on financial policymaking. This shortcoming can be addressed by drawing upon the policy subsystems approach, which deals with the roles of and linkages between policy actors involved within a particular issue area.

By drawing on and combining the policy instruments and policy subsystems approaches, the nested instrumental approach addresses both the policy and politics of IFC development, in the process embedding policy mix design within the political economic context of the policy subsystem configuration. This chapter discusses the theoretical and methodological foundations of this thesis. First, I discuss the policy instruments and policy subsystems approaches that underpin the nested instrumental approach. This is followed by an in-depth discussion of the approach itself. I then discuss the research techniques and methods employed in the course of field research.

Policy Instruments and the Design Process

The concept of policy instruments can be traced back to 1936, when Harold Lasswell first distinguished between policy means and policy goals[150] and categorized policy means as symbols, violence, goods, or practice.[151] Importantly, Lasswell's approach emphasized the importance of context and established a focus on the availability and use of policy instruments throughout the entire policy process.[152] While the study of such policy means has since evolved in comprehensiveness and sophistication, Lasswell's means-ends differentiation continues to permeate the policy instruments literature.

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[150] Harold Dwight Lasswell, *Politics; Who Gets What, When, How* (Michigan: Whittlesey house, 1936), 20–21; Michael Howlett, *Designing Public Policies: Principles and Instruments*, 1st ed. (London: Routledge, 2011), 16.
[151] Lasswell, *Politics; Who Gets What, When, How*, 21.
[152] Harold D. Lasswell, "The Policy Orientation," in *The Policy Sciences: Recent Developments in Scope and Method*, ed. Daniel Lerner and Harold D. Lasswell (California: Stanford University Press, 1951), 3–15; Douglas Torgerson, "Contextual Orientation in Policy Analysis: The Contribution of Harold D. Lasswell," *Policy Sciences* 18, no. 3 (November 1, 1985): 241–61.

This is exemplified in other early attempts to study and categorize policy instruments, such as Dahl and Lindblom's analysis of "politico-economic techniques" in economic and social policy.[153] These techniques were categorized according to whether they involve government ownership or private enterprise, compulsion or information as techniques of control, the exercise of direct or indirect control, use of voluntary or compulsory organizations, and their application through autonomous private-styled organization or prescriptive government organizations, with each set of dyads forming a continuum upon which techniques are classified.[154] Kirschen et al also provide a comprehensive list of policy instruments used in economic policy.[155] However, such early attempts at studying policy instruments by economists tended to over-simplify instrument use and selection, providing little more than comprehensive lists of instruments with insufficient analytical depth.[156]

A deluge of scholarly work subsequently attempted to address this shortcoming,[157] with Hood's NATO model being one of the most influential

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153 Robert A. Dahl and Charles E. Lindblom, *Politics, Economics and Welfare Planning and Politico-Economics Systems Resolved into Basic Social Processes* (New York: Harper & Brothers, 1953).
154 Ibid., 9–16.
155 E. S. Kirschen, ed., *Economic Policy in Our Time* (Chicago: Rand McNally, 1964).
156 Michael Howlett, "Beyond Good and Evil in Policy Implementation: Instrument Mixes, Implementation Styles, and Second Generation Theories of Policy Instrument Choice," *Policy and Society* 23, no. 2 (2004): 3.
157 Theodore J. Lowi, "Four Systems of Policy, Politics, and Choice," *Public Administration Review* 32, no. 4 (July 1972): 298; Allan Tupper and G. Bruce Doern, *Public Corporations and Public Policy in Canada* (Institute for Research on Public Policy, 1981); Lester M. Salamon, "Rethinking Public Management: Third Party Government and the Changing Forms of Government Action," *Public Policy* 29, no. 3 (1981): 255–75; Michael J. Trebilcock and

typologies of policy instruments.[158] In his typology of policy instruments, Lowi differentiates between "regulatory", "distributive", "redistributive", and "constituent" policies, based on whether the instrument is strongly or weakly sanctioned and whether it targets individuals or the collective.[159]

Hood's "NATO" model provides more nuance and depth, categorizing instruments according to the type of "governing resource" used by the government, namely "nodality" (information), "authority", "treasure", and "organization" policy instruments.[160] Elmore categorizes policy instruments into the four instrument types of mandates, inducements, capacity-building and system-changing.[161] In their attempt to consolidate the existing typologies of policy instruments, Linder and Peters have classified policy instruments into the seven classes of direct provision, subsidy, tax, contract, authority, regulation, and exhortation.[162]

Douglas G. Hartle, "The Choice of Governing Instrument," *International Review of Law and Economics* 2, no. 1 (1982): 29–46; Christopher Hood, *The Tools of Government* (London: Chatham House Publishers, 1986); Richard F. Elmore, "Instruments and Strategy in Public Policy," *Review of Policy Research* 7, no. 1 (1987): 174–86; Hans Bressers and Pieter-Jan Klok, "Fundamentals for a Theory of Policy Instruments," *International Journal of Social Economics* 15, no. 3/4 (December 31, 1988): 22–41; Stephen H. Linder and B. Guy Peters, "Instruments of Government: Perceptions and Contexts," *Journal of Public Policy* 9, no. 01 (1989): 35–58; Lester M. Salamon and Michael S. Lund, "The Tools Approach: Basic Analytics," in *Beyond Privatization: The Tools of Government Action*, ed. Lester M. Salamon (Washington: The Urban Institute Press, 1989), 23–49; Evert Vedung, "Policy Instruments: Typologies and Theories," in *Carrots, Sticks & Sermons: Policy Instruments & Their Evaluation*, ed. Marie-Louise Bemelmans-Videc, Ray C. Rist, and Evert Vedung (New Jersey: Transaction Publishers, 1998), 30–34.

[158] Hood, *Tools of Government* (Chatham House Publishers, 1986).

[159] Lowi, "Four Systems of Policy, Politics, and Choice."

[160] Hood, *The Tools of Government*.

[161] Elmore, "Instruments and Strategy in Public Policy," 175.

[162] Linder and Peters, "Instruments of Government," 44.

Types of policy instruments have also been classified by Salamon and Lund according to four main "tool dimensions" that include the nature of government activity, structure of delivery system, degree of centralization, and degree of automaticity.[163] This allows them to categorize tools into four broad categories that include money payment, provision of goods or services, legal protection or guarantees, and prohibition or restriction; delivered through direct or indirect systems, involving varying levels of centralization and automatic versus administered delivery processes.[164]

Vedung provides a more parsimonious typology, classifying policy instruments into economic means (carrots), regulations (sticks) and information (sermons).[165] This typology is based on the amount of "authoritative force" that the government is prepared to use, with regulations being the most constraining, economic means less constraining and information tools the least constraining.[166]

Other early studies of policy instruments can also be found in the literature on "statecraft", which refers to the "science of government"[167] or "art of conducting state affairs"[168]. However, statecraft has since been appropriated by international relations (IR) scholars, with the term losing traction in studies

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[163] Salamon and Lund, "The Tools Approach: Basic Analytics," 34–39.
[164] Ibid.
[165] Vedung, "Policy Instruments: Typologies and Theories," 30–34.
[166] Ibid., 34–35.
[167] Charles W. Anderson, *Statecraft: Introduction to Political Choice and Judgment* (California: John Wiley & Sons Inc, 1977), vii.
[168] David Allen Baldwin, *Economic Statecraft* (New Jersey: Princeton University Press, 1985), 8.

of domestic public policy.[169] Nonetheless, the IR formulation of statecraft retains an instruments orientation, with statecraft defined as the "selection of means for the pursuit of foreign policy goals".[170] Based on Lasswell's "fourfold division of policy instruments",[171] Baldwin has also devised a taxonomy of policy instruments used in statecraft; this includes propaganda, diplomacy, economic statecraft and military statecraft.[172]

The policy instruments literature has further benefited from the contributions of a group of Canadian public policy scholars,[173] with much of their work focusing on how policy instrument choice and governments' capacity for policy instrument implementation affect policy goal attainment and influence the policy-making process.[174] This literature yielded the key insight that policy instrument choice is influenced by the degree of government coercion, given the technical substitutability of most policy instruments.[175] This has allowed for the classification of policy instruments on a continuum, based on the level of governmental coercion involved in the use

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[169] Baldwin, *Economic Statecraft*, 8.
[170] Ibid.
[171] Harold Dwight Lasswell, *World Politics Faces Economics: With Special Reference to the Future Relations of the United States and Russia* (New York: McGraw-Hill, 1945), 9–10.
[172] Baldwin, *Economic Statecraft*, 13.
[173] Richard W. Phidd and G. Bruce Doern, *The Politics and Management of Canadian Economic Policy* (Ontario: Macmillan of Canada, 1978); Trebilcock and Hartle, "The Choice of Governing Instrument"; G. Bruce Doern and Richard W. Phidd, *Canadian Public Policy: Ideas, Structure, Process* (Michigan: University of Michigan Press, 1992).
[174] Kenneth Woodside, "Policy Instruments and the Study of Public Policy," *Canadian Journal of Political Science* 19, no. 04 (1986): 775.
[175] G. Bruce Doern, *The Peripheral Nature of Scientific and Technological Controversy in Federal Policy Formation*, Background Study (Science Council of Canada, 1981); Tupper and Doern, *Public Corporations and Public Policy in Canada*; Doern and Phidd, *Canadian Public Policy*.

of each instrument,[176] in contrast to other typologies that rely on rigid categories that imply mutual exclusion between categories.

However, such classifications of policy instruments by degree of coercion have been shown to be analytically limited, given that "each policy instrument can be used in a wide range of ways that involve differing degrees of coercion".[177] This difficulty in operationalizing 'coercion' is avoided in Howlett and Ramesh's taxonomy of policy instruments, which is based on the level of state involvement required in the use of each instrument.[178] This typology identifies ten major types of policy instruments categorized into three major groups: Voluntary Instruments (low state involvement) comprising family and community, voluntary organizations, and private markets; Compulsory Instruments (high state involvement) that include regulation, public enterprises and direct provision; and Mixed Instruments (varying levels of state involvement) that comprise information and exhortation, subsidies, auction of property rights, and tax and user charges.[179]

While providing significant insight into the policy instruments that governments have at their disposal and the sorts of resources or levels of intervention required in the use of these instruments, such 'first generation' studies of policy instruments were analytically limited in several ways.

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[176] Doern and Phidd, *Canadian Public Policy*.
[177] Woodside, "Policy Instruments and the Study of Public Policy," 788.
[178] Michael Howlett and M. Ramesh, *Studying Public Policy: Policy Cycles and Policy Subsystems*, 1st ed. (Oxford: Oxford University Press, 1995), 81–83.
[179] Ibid., 82.

Specifically, they did not differentiate between substantive and procedural policy instruments or the different levels at which policy instruments exist, were overly focused on single instruments without addressing policy mixes, and did not deal with the "micro-level" aspects of specific instrument selection within a general policy instrument category.[180] These limitations have since been addressed by advances in the policy instruments literature, sparking off "second generation" theories of policy instrument choice[181] that have since evolved into a "new policy design orientation".[182]

In recognition of the use of multiple instruments in real world policy-making, there was a shift in focus from single instrument studies to studies of policy mixes.[183] Early work by Elmore had classified combinations of policy instruments aimed at a broad set of policy goals as "strategies".[184] Doelen has also advocated the combination of stimulative and repressive instruments in 'policy packages' comprising instruments that work in opposite directions but

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[180] Howlett, *Designing Public Policies*, 50.

[181] Howlett, "Beyond Good and Evil in Policy Implementation," 4–5.

[182] Michael Howlett, Ishani Mukherjee, and Jun Jie Woo, "From Tools to Toolkits in Policy Design Studies: The New Design Orientation and Policy Formulation Research," *Policy and Politics* Forthcoming (2014).

[183] Elmore, "Instruments and Strategy in Public Policy"; P.N. Grabosky, "Regulation by Reward: On the Use of Incentives as Regulatory Instruments*," *Law & Policy* 17, no. 3 (1995): 257–282, doi:10.1111/j.1467-9930.1995.tb00150.x; Frans C.J. van der Doelen, "The 'Give-and-Take' Packaging of Policy Instruments: Optimizing Legitimacy and Effectiveness," in *Carrots, Sticks & Sermons: Policy Instruments & Their Evaluation* (New Jersey: Transaction Publishers, 1998), 129–146; Neil Gunningham, Peter Grabosky, and Darren Sinclair, *Smart Regulation: Designing Environmental Policy* (Oxford University Press, USA, 1998); Howlett, "Beyond Good and Evil in Policy Implementation."

[184] Elmore, "Instruments and Strategy in Public Policy," 183.

nonetheless complement each other.[185] In their seminal study on environmental regulatory policy, Gunningham et al note how policy-making involves the "use of multiple rather than single policy instruments" through the "design of efficient and effective 'optimal' policy mixes"[186] that allow the deficiencies of each individual instrument to be compensated for with the strengths of another.[187]

This recognition that policy instruments are utilized by governments as part of a larger policy mix or 'package' adds a significant dose of nuance and realism to the study of policy instruments. Scholars of policy design have subsequently sought to understand the internal workings of the policy mix, studying complementarities and interactions between policy instruments within a mix, and emphasizing how processes of policy patching or layering can result in greater consistency, coherence, and congruence in a policy mix.[188]

Addressing another major analytical deficit in the existing policy instruments literature, Howlett distinguishes between substantive and

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[185] Doelen, "The 'Give-and-Take' Packaging of Policy Instruments: Optimizing Legitimacy and Effectiveness."
[186] Gunningham, Grabosky, and Sinclair, *Smart Regulation*, 4–12.
[187] Ibid., 388.
[188] Jeroen van der Heijden, "Institutional Layering: A Review of the Use of the Concept," *Politics* 31, no. 1 (2011): 9–18; Michael Howlett and Jeremy Rayner, "Patching vs Packaging: Complementary Effects, Goodness of Fit, Degrees of Freedom and Intentionality in Policy Portfolio Design," *Lee Kuan Yew School of Public Policy Research Paper* 13–05 (May 30, 2013), http://papers.ssrn.com/abstract=2273342; Jeremy Rayner, "On Smart Layering as Policy Design: Tackling the Biofuels Policy Mess in Canada and the United Kingdom," *Policy Sciences* Forthcoming (2013); Michael Howlett and Jeremy Rayner, "Patching Vs Packaging in Policy Formulation: Complementary Effects, Goodness of Fit, Degrees of Freedom and Feasibility in Policy Portfolio Design," *Politics and Governance* 1, no. 2 (2014); Howlett, Mukherjee, and Woo, "From Tools to Toolkits in Policy Design Studies: The New Design Orientation and Policy Formulation Research."

procedural policy instruments.[189] While substantive policy instruments directly affect society's production, distribution and consumption of goods and services, procedural policy instruments alter "political or policy behaviour in the *process* of the articulation of implementation goals and means".[190] It is however important to note that the idea of procedural instruments had already received prior attention in the works of various scholars.

For instance, Baldwin has noted that free trade can be used as a policy instrument to reshape the international political and economic order.[191] Bressers and Klok have taken a process approach in understanding how policy instruments affect the policy process, circumstances, and subjective rationality of the actors in achieving a policy outcome.[192] This broadens the understanding of policy instruments to include means that allow "the implementation of policy-targeted changes in the behaviour of other people or bodies".[193]

Scholars have also attempted to account for the behavioural and contextual aspects of instruments, including how instruments affect and are themselves influenced by individual perceptions.[194] However, such early

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189 Michael Howlett, "Managing the 'hollow State': Procedural Policy Instruments and Modern Governance," *Canadian Public Administration* 43, no. 4 (2000): 412–31; Howlett, *Designing Public Policies*, 24–26.
190 Howlett, *Designing Public Policies*, 24.
191 Baldwin, *Economic Statecraft*, 46.
192 Bressers and Klok, "Fundamentals for a Theory of Policy Instruments," 24–26.
193 Ibid., 32.
194 Linder and Peters, "Instruments of Government"; Anne Schneider and Helen Ingram, "Policy Design: Elements, Premises and Strategies," in *Policy Theory and Policy Evaluation: Concepts, Knowledge, Causes and Norms*, ed. S.S. Nagel (New York: Greenwood, 1990), 77–

attempts at understanding how policy instruments can affect circumstance, process and behaviour did not yield a clear definition or taxonomy of procedural policy instruments.

It was only in the early 2000’s that a clearer understanding of procedural policy instruments emerged.[195] Based on Hood’s NATO model, Howlett has developed a taxonomy of procedural policy instruments based on the type of ‘governing resource’ they rely on as well as a spectrum of procedural policy instruments based on the level of state manipulation involved.[196] An extensive catalogue of substantive and procedural policy instruments could then be drawn based on the type of governing resources associated with the use of each instrument.[197]

Howlett further posits that procedural policy instrument choice is based on the levels of systemic and sectoral de-legitimation, suggesting that the existing level of procedural credibility or legitimacy (in the eyes of policy actors) has a significant influence on the government’s willingness or desire to alter a policy process through a particular procedural policy instrument.[198] Procedural policy instruments have come to permeate ‘second-generation’

102; Anne Schneider and Helen Ingram, “Behavioral Assumptions of Policy Tools,” *The Journal of Politics* 52, no. 02 (1990): 510–29; Anne Schneider and Helen Ingram, “Social Construction of Target Populations: Implications for Politics and Policy,” *The American Political Science Review* 87, no. 2 (June 1993): 334; Anne Schneider and Helen Ingram, “Social Constructions and Policy Design: Implications for Public Administration,” *Research in Public Administration* 3 (1994): 137–73; Anne L Schneider and Helen M Ingram, *Policy Design for Democracy* (Kansas: University Press of Kansas, 1997).

[195] Howlett, “Managing the ‘hollow State.’”

[196] Ibid., 419–421.

[197] Howlett, *Designing Public Policies*, 63–123.

[198] Howlett, “Managing the ‘hollow State,’” 421–423.

policy instrument theorizing, driving the study of policy mixes comprising procedural and substantive instruments.[199]

Furthermore, policy instruments do not exist in a vacuum. Policy instrument choice is often influenced by contextual elements such as political or organizational culture and social relations.[200] As Salamon has noted, "each instrument has its own distinctive procedures, its own network of organizational relationships, its own skill requirements – in short, its own "political economy"".[201] Policy instruments also exist at various levels of abstraction within the policy process. According to Hall, policy change occurs at three levels, with "first order" change referring to changes to policy instrument calibrations, "second order" change referring to changes in type of policy instrument chosen, and "third order" change denoting a paradigmatic change in the policy goal pursued.[202]

Based on Hall's taxonomy of policy change, Howlett and Cashore have identified three levels of policy means or tools: instrument logic, mechanisms and calibrations.[203] Therefore, policy instruments exist at various

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[199] Howlett, "Beyond Good and Evil in Policy Implementation," 7.
[200] Linder and Peters, "Instruments of Government"; Stephen H. Linder and B.Guy Peters, "Policy Formulation and the Challenge of Conscious Design," *Evaluation and Program Planning* 13, no. 3 (1990): 303–11; Howlett, "Beyond Good and Evil in Policy Implementation," 9.
[201] Lester M. Salamon, *Beyond Privatization: The Tools of Government Action* (Washington: The Urban Institute Press, 1989), 8.
[202] Peter A. Hall, "Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain," *Comparative Politics* 25, no. 3 (April 1993): 275–96.
[203] Michael Howlett and Benjamin Cashore, "The Dependent Variable Problem in the Study of Policy Change: Understanding Policy Change as a Methodological Problem," *Journal of Comparative Policy Analysis: Research and Practice* 11, no. 1 (2009): 39.

levels, "ranging from the most general level of a relatively abstract governance mode, to the level of a policy regime and finally to the level of specific programme settings".[204] This macro, meso and micro aspect of policy instruments suggest a "multi-level, nested, nature of policy tool choices".[205]

Subsequent studies of policy instruments have sought to incorporate these later advances in policy instruments theorizing. For instance, Howlett, Ramesh and Perl have consolidated a comprehensive typology of substantive and procedural instruments and placed both types of instruments on continuums based on the extent to which the use of these instruments involve the manipulation of the market and network actors.[206] Howlett et al have further developed a "model of basic instrument preferences", with policy-makers' preferences for directive, authoritative, subsidy or information instruments dependent upon government capacity (or the level of constraints on the state) and subsystem complexity (number and complexity of subsystem actors).[207]

John's typology of policy instruments also includes (1) law and regulation, (2) public spending and taxation, (3) bureaucracy and public management, (4) institutions, (5) information, persuasion and deliberation, and (6) networks and governance, with each type of instrument representing different types of "resources that governments have available ... to influence

[204] Howlett, *Designing Public Policies*, 16.
[205] Ibid., 20.
[206] Howlett, Ramesh, and Perl, *Studying Public Policy*, 168–173.
[207] Ibid., 174–175.

public-policy outcomes".[208] John has also noted that policy instruments are in "infinite regress: tools needing to implement tools, meta tools to introduce these guiding tools, meta-meta tools and so on".[209]

Developing in tandem with this systematic study of policy instruments is the notion of a policy design process or orientation,[210] which has provided a meta-level framework that is heavily reliant on instrumental reasoning and within which policy instrument formulation and choice are situated.[211] Although the recognition of a design orientation in the development of policy instruments was recognized only in retrospect by scholars who came to appreciate the design processes that underpinned the formulation and implementation of policy instruments, it has since become a significant aspect of the policy instruments literature.

However, scholarly work on policy design went into decline in the 1990s and 2000s with the dominance of the globalisation and governance literatures.[212] The globalisation literature's focus on the meta-level and its

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[208] Peter John, *Making Policy Work* (New York: Routledge, 2011), 10–12.
[209] Ibid., 12.
[210] John S. Dryzek, "Don't Toss Coins in Garbage Cans: A Prologue to Policy Design," *Journal of Public Policy* 3, no. 04 (1983): 358–359; Stephen H. Linder and B. Guy Peters, "From Social Theory to Policy Design," *Journal of Public Policy* 4, no. 03 (1984): 237–59; Stephen H. Linder and B. Guy Peters, "The Logic of Public Policy Design: Linking Policy Actors and Plausible Instruments," *Knowledge and Policy* 4, no. 1 (1991): 125–51; Peter J. May, "Policy Design and Implementation," in *Handbook of Public Administration*, ed. B. Guy Peters and Jon Pierre (London: SAGE Publications Ltd, 2003), 223–33.
[211] Stephen H. Linder and B. Guy Peters, "The Analysis of Design or the Design of Analysis?," *Review of Policy Research* 7, no. 4 (1988): 738–50.
[212] Michael Howlett and Raul P. Lejano, "Tales From the Crypt The Rise and Fall (and Rebirth?) of Policy Design," *Administration & Society* 45, no. 3 (April 1, 2013): 357–81.

downplaying of the government's role in policy design[213] nonetheless led to renewed efforts at re-establishing the central role of government and the importance of policy design, resulting in a revival of the policy design orientation in the process.[214] This 'new' policy design orientation dealt with complexity in the design of multi-instrument policy mixes over time and space.[215]

In sum, the policy instruments literature has provided a clear understanding of how policy instruments work, allowing for the development of comprehensive instrument typologies that match different instruments to specific goals and objectives. Furthermore, the reinvigorated policy design orientation has addressed the various shortcomings of the policy instruments approach by addressing issues of complexity, multiple instruments, time and spatiality in design processes. However, attempts by policy instruments and design scholars to incorporate context into the policy design process remain insufficient to capture the complexity and contextual layers of financial policymaking in modern IFC's.

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[213] Howlett, *Designing Public Policies*.

[214] Mark Considine, "Thinking Outside the Box? Applying Design Theory to Public Policy," *Politics & Policy* 40, no. 4 (2012): 704–24; Jonathan Craft and Michael Howlett, "Policy Formulation, Governance Shifts and Policy Influence: Location and Content in Policy Advisory Systems," *Journal of Public Policy* 32, no. 02 (2012): 79–98; Howlett and Lejano, "Tales From the Crypt The Rise and Fall (and Rebirth?".

[215] Michael Howlett and Jeremy Rayner, "Design Principles for Policy Mixes: Cohesion and Coherence in 'New Governance Arrangements,'" *Policy and Society* 26, no. 4 (2007): 1–18; Howlett, *Designing Public Policies*; van der Heijden, "Institutional Layering"; Considine, "Thinking Outside the Box?"; Michael P. Howlett and Jeremy Rayner, *Patching vs Packaging: Complementary Effects, Goodness of Fit, Degrees of Freedom and Intentionality in Policy Portfolio Design*, SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, May 30, 2013), http://papers.ssrn.com/abstract=2273342.

In particular, the design orientation places the policy designer, i.e. government policymakers, centre-stage in public policymaking. In reality, financial policymaking involves a plethora of state and powerful non-state actors operating within the political-economic milieu of each IFC. This is especially so in the context of Asia, where state authority tends to diffuse into the private sector through state ownership and/or informal influence and conversely, powerful non-state actors often also wield an inordinate amount of influence over the government. The design orientations's limited attention to policy actor interactions and dynamics in the design orientation, can be overcome by considering insights drawn from the policy subsystems approach. The following section provides an overview of the policy subsystems literature.

Policy Subsystems

Policy subsystems are an integral aspect of the policy process. Identifying policy subsystems with the policy formulation and implementation processes, Howlett, Ramesh and Perl have defined a policy subsystem as comprising of "actors with sufficient knowledge of a problem area, or a resource at stake, to allow them to participate in the process of developing possible alternative courses of action to address the issues raised at the agenda-setting stage".[216] Importantly, policy subsystems represent the arena within which actors, institutions, and ideas come together in the public policy-making process within an issue area.[217]

Various attempts have been made to identify and characterize the various types of policy subsystems in existence. The earliest such attempt was Cater's identification and conceptualization of "iron triangles" that are made up of government agencies, congressional committees, and interest groups.[218] This was followed by Heclo's criticism in 1978 that the concept of iron triangles is "not so much wrong as it is disastrously incomplete".[219] Instead, Heclo suggests that policy-making involves "issue networks" made up of a large number of constantly-changing participants.[220]

Heclo and Widlavsky subsequently introduced the idea of "policy communities" to describe policy subsystems formed around a set of shared understandings.[221] The concept of policy communities would come to gain traction with later scholars.[222] An important development in the study of subsystems is the introduction of "policy networks" through the work of

[216] Howlett, Ramesh, and Perl, *Studying Public Policy*, 12.
[217] Howlett, Ramesh, and Perl, *Studying Public Policy*.
[218] Douglass Cater, *Power in Washington: A Critical Look at Today's Struggle to Govern in the Nation's Capital* (New York: Random House, 1964).
[219] Hugh Heclo, ""Issue Networks and the Executive Establishment," in *The New American Political System*, ed. King Anthony (Washington, D.C.: American Enterprise Institute, 1978), 88.
[220] Ibid., 102–103.
[221] Hugh Heclo and Aaron B. Wildavsky, *The Private Government of Public Money: Community and Policy inside British Politics* (London: Macmillan, 1974).
[222] William A. Maloney, Grant Jordan, and Andrew M. McLaughlin, "Interest Groups and Public Policy: The Insider/Outsider Model Revisited," *Journal of Public Policy* 14, no. 01 (1994): 17–38.

scholars such as Rhodes, Wilks and Wright.[223] The policy network concept allowed for the identification of a large variety of subsystem types according to their level of "integration", insulation from external influence, membership stability and restrictiveness, and control over resources.[224] It also underpinned the emergence of the "governance" movement.[225] However, these early studies on policy networks did not adequately account for the interests and beliefs of subsystem actors.

Reflecting the emergence of constructivist approaches in political science in the 1980s and early 1990s, the advocacy coalition framework first developed by Sabatier in 1988 represents a major attempt to address this deficit.[226] Sabatier's approach identifies subsets of policy subsystems formed around the shared beliefs of its members as 'advocacy coalitions', with coalition members coming from all levels of government.[227] The central role of ideas in defining and driving policy subsystems would be further explored in

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[223] R. A. W. Rhodes, *Control and Power in Central-Local Government Relations* (London: Allen and Unwin, 1981); Stephen Wilks and Maurice Wright, *Comparative Government-Industry Relations: Western Europe, the United States, and Japan* (Oxford: Clarendon Press, 1987).

[224] R. A. W. Rhodes, "Power-Dependence, Policy Communities and Intergovernmental Networks," *Public Administration Bulletin* 49 (1984): 4–31; R. A. W. Rhodes, "Policy Networks A British Perspective," *Journal of Theoretical Politics* 2, no. 3 (July 1, 1990): 293–317; R. A. W. Rhodes, *Understanding Governance: Policy Networks, Governance, Reflexivity, and Accountability* (London: Open University Press, 1997); Howlett, Ramesh, and Perl, *Studying Public Policy*, 82.

[225] R. A. W. Rhodes, "The New Governance: Governing without Government," *Political Studies* 44, no. 4 (1996): 652–67.

[226] Sabatier, "An Advocacy Coalition Framework of Policy Change and the Role of Policy-Oriented Learning Therein."

[227] Ibid.

the literature on "epistemic communities".[228] Advocacy coalitions can further be categorized into dominant coalitions, transitory coalitions, and competing coalitions.[229] Baumgartner and Jones have also found that the entrenchment of particular ideas results in the formation of stable "policy monopolies", whereby powerful subsystem actors dominate interpretations of policy issues to form enduring "policy images".[230]

While advocacy coalitions, epistemic communities and policy monopolies are driven by the prevalence of a set of beliefs or ideas and earlier concepts such as iron triangles and issue networks are focused on interests and issues, more recent research has found that policy subsystems may also be defined around a set of preferred policies. Voss and Simons have shown that networks may be formed around a preferred policy instrument, with such networks known as 'instrument constituencies'.[231] An instrument constituency is basically formed around the preference and advocacy of particular policy

[228] Frank Fischer, "Policy Discourses and the Politics of Washington Think Tanks," in *The Argumentative Turn in Policy Analysis and Planning*, ed. Frank Fischer and John Forester (Durham: Duke University Press, 1993), 21–42; Marteen A. Hajer, "Discourse Coalitions and the Institutionalization of Practice: The Case of Acid Rain in Britain," in *The Argumentative Turn in Policy Analysis and Planning*, ed. Frank Fischer and John Forester (Durham: Duke University Press, 1993), 43–76.
[229] Worsham, *Other People's Money*, 3.
[230] Frank R. Baumgartner and Bryan D. Jones, "Agenda Dynamics and Policy Subsystems," *The Journal of Politics* 53, no. 04 (1991): 1044–74; Frank R Baumgartner and Bryan D. Jones, *Agendas and Instability in American Politics* (Chicago: University of Chicago Press, 1993); Bryan D. Jones, Frank R. Baumgartner, and James L. True, "Policy Punctuations: U.S. Budget Authority, 1947–1995," *The Journal of Politics* 60, no. 01 (1998): 1–33; Bryan D. Jones and Frank R. Baumgartner, *The Politics of Attention: How Government Prioritizes Problems* (Chicago: University of Chicago Press, 2005).
[231] Voss and Simons, *Instrument Constituencies and the Supply-Side of Policy Innovation*.

instruments by a group of subsystem actors who may form a subset of the subsystem or even dominate the entire subsystem.

Furthermore, this means that an instrument constituency may become a policy monopoly through its dominance of a subsystem, or an advocacy coalition through its belief in the efficacy of a particular instrument type and its inherent normative beliefs. However, this also means potential overlaps in these various subsystem concepts, with boundaries between instruments constituencies, advocacy coalitions, and policy monopolies often fuzzy and difficult to define in practice.

Nonetheless, as later chapters will show, cases such as Hong Kong exhibit a clear preference for a particular type of policy instruments by policymakers, suggesting the existence of an instrument constituency. In contrast, instrument constituencies are much harder to discern in cases such as Singapore, where a wide array of instruments are used by policymakers to attain their objectives. As later chapters will show, the presence of an instrument constituency may well be reflected in policymakers' preference for a particular set of policy instruments.

Having provided characterizations and typologies of policy subsystems, policy scholars next sought to understand the dynamics through which subsystems evolve or change, whether through endogenous processes or in response to exogenous stimuli. Howlett and Ramesh have proposed that policy subsystems adjust to the exogenous forces of globalisation through policy learning, venue change, systemic perturbations, and subsystem spill-over's.[232] While policy learning and venue change are *endogenously* driven by subsystem actors, systemic perturbations and subsystem spill-over's represent the response of subsystem actors to *exogenous* shocks and stimuli.[233]

Endogenous policy learning remains heavily informed by the key work of Hall on social learning[234] along with other scholarly works.[235] Heclo has also noted the role of exogenous factors in prompting learning.[236] Attempts to analytically distinguish between the differing impacts of exogenous shocks on a subsystem have yielded the insight that subsystem spill-over's tend to alter the policy subsystem through the entrance of new actors and ideas while systemic perturbations tend to reinforce the position of currently dominant subsystem actors without any changes to subsystem boundaries.[237]

Subsystem formation and dynamics have also received attention in the IPE and comparative politics literatures. Bryson has noted that strategy formulation and adoption often require establishing a "winning coalition",

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[232] Michael Howlett and M. Ramesh, "The Policy Effects of Internationalization: A Subsystem Adjustment Analysis of Policy Change," *Journal of Comparative Policy Analysis* 4, no. 1 (March 1, 2002): 31–50.
[233] Ibid.; Williams, "Exogenous Shocks in Subsystem Adjustment and Policy Change," 30–33.
[234] Hall, "Policy Paradigms, Social Learning, and the State."
[235] Sabatier, "An Advocacy Coalition Framework of Policy Change and the Role of Policy-Oriented Learning Therein"; Peter J. May, "Policy Learning and Failure," *Journal of Public Policy* 12, no. 04 (1992): 331–54; Colin J. Bennett and Michael Howlett, "The Lessons of Learning: Reconciling Theories of Policy Learning and Policy Change," *Policy Sciences* 25, no. 3 (August 1, 1992): 275–94; Richard Rose, *Lesson-Drawing in Public Policy: A Guide to Learning across Time and Space* (London: Chatham House Publishers, 1993).
[236] Hugh Heclo, *Modern Social Politics in Britain: From Relief to Income Maintenance* (New Haven: Yale University Press, 1974).
[237] Williams, "Exogenous Shocks in Subsystem Adjustment and Policy Change."

with strategy formulation involving intense dialogue and deliberation and strategy adoption rife with politics and bargaining.[238] According to Gilpin, the objectives of states are determined by the "interests of the dominant members of the ruling coalitions".[239] Palan et al further argue that competitive strategies are shaped by a "constellation of interests within the state, and by the struggle or accommodation between them".[240]

The East Asian development state model has also alluded towards a commingling of state and non-state actors in the attainment of public goals, whereby the state achieves its goals and increases its autonomy though the "blurring of public and private".[241] Aside from industry actors, other non-state actors such as academics and think tank researchers may also play an important role in informing and even influencing public policies through their participation in transnational "knowledge networks" or epistemic communities.[242]

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[238] John M. Bryson, *Strategic Planning for Public and Non-Profit Organizations: A Guide to Strengthening and Sustaining Organizational Achievement*, 4th ed. (California: Jossey-Bass, 2011), 219.
[239] Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981), 19.
[240] Palan, Abbott, and Deans, *State Strategies in the Global Political Economy*, 41.
[241] Ibid., 83–84.
[242] Diane Stone, "Think Tank Transnationalisation and Non-Profit Analysis, Advice and Advocacy," *Global Society* 14, no. 2 (2000): 153–72; Diane Stone, "Introduction: Global Knowledge and Advocacy Networks," *Global Networks* 2, no. 1 (2002): 1–12; Diane Stone, "Global Public Policy, Transnational Policy Communities, and Their Networks," *Policy Studies Journal* 36, no. 1 (2008): 19–38; Diane Stone and Simon Maxwell, *Global Knowledge Networks and International Development* (London: Routledge, 2013); Diane Stone, *Knowledge Actors and Transnational Governance: The Private-Public Policy Nexus in the Global Agora* (London: Palgrave Macmillan, 2013).

Yet, the policy subsystems approach is also beset with flaws, the most significant being the neglect of the exact policy means which are used by policymakers operating within a subsystem. By focusing on the socio-political context of policymaking, scholarly work on policy subsystems are at an overly-general level of abstraction. Neither do the more recent efforts at understanding policy change and learning in subsystems properly address the ways in which policies are formulated, chosen, and implemented. Rather, the focuses remains squarely on subsystem membership and configuration, without sufficient attention on the impacts of subsystem configuration on the policy process. As such, there remains a need to address the impact of subsystem configurations and dynamics on policymaking, especially in terms of policy instrument preferences and implementation processes.

Analytical Framework: The Nested Instrumental Approach

Given the limitations of the policy subsystems and policy instruments approaches discussed above, there is a need to develop an analytical framework that draws upon the insights of both the policy instruments and policy subsystems approaches. While the policy instruments approach provides a rigorous understanding of the design and implementation of policies as tools for the attainment of desired policy outputs, the policy subsystems approach brings with it an in-depth understanding of the political economic context within which policymaking takes place.

Importantly, merging the two approaches will allow for a better and more integrated understanding of both policy choices and political context in IFC development. This is accomplished in this thesis through the "nested instrumental approach", which combines the policy subsystem and policy instruments approaches and in the process provides a clear and contextually-embedded understanding of financial policy mix design in the context of the financial policy subsystem.

While existing institutional approaches such as the Varieties of Capitalism (VOC) approach or the Institutional Analysis and Design (IAD) framework have made attempts to situate the policy process within the socio-political context and postulated the ways in which such embedded policymaking could affect economic structures and processes, [243] these approaches are still at an overly-general level of abstraction and are thus not suitable for the in-depth delineation of inter-actor relations and understanding of specific policy mechanisms or channels which can be achieved through the policy subsystems and policy instruments approaches respectively.

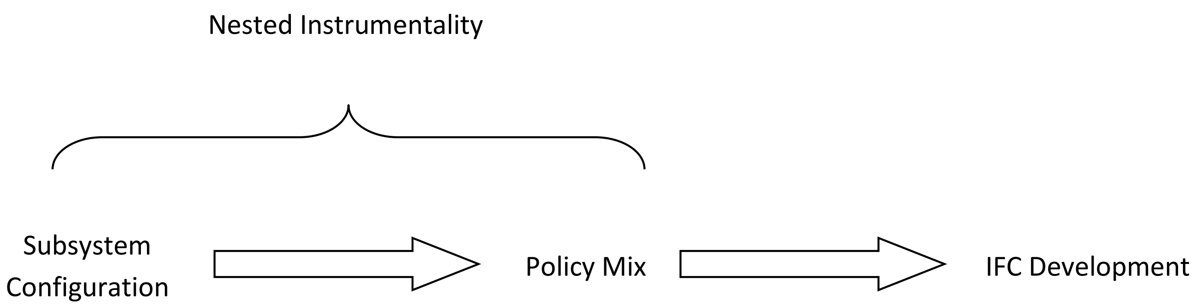
By combining both approaches, the Nested Instrumental Approach allows for greater specification of individual policy instruments, even as it situates the policy design process within the socio-political context of the subsystem. More importantly, the Approach takes a public policy approach

[243] Peter A. Hall and David Soskice, *Varieties of Capitalism : The Institutional Foundations of Comparative Advantage: The Institutional Foundations of Comparative Advantage* (OUP Oxford, 2001); Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action* (Cambridge: Cambridge University Press, 1990).

that accounts for the interests and policy preferences of policymakers, which is suitable for the purpose this thesis. In contrast, the VOC and IAD approaches are based on studies in Political Economy, which do not address the policy process directly and hence may be less suitable for providing specific policy analyses and recommendations.

This section provides an in-depth discussion of the nested instrumental approach, discussing the logic of 'nested instrumentality' that drives the approach and delineating its constituent components. This in-depth understanding of the nested instrumental approach and its inner workings will facilitate and considerably simplify the application of the approach to the study of Hong Kong, Singapore, and Shanghai in Chapter 7. A diagrammatic representation of the nested instrumental approach is illustrated in Figure 3.1 below.

Figure 3.1 Nested Instrumental Approach



A key aspect of policy-making is the formulation and implementation of policy instruments. It is through these instruments that policy-makers are able to effect change and influence the behaviour of citizens and other market participants. Furthermore, each government has at its disposal a combination or mix of policy instruments that can be used to develop the financial sector and hence influence the development of its city as an IFC. These instruments directly determine the attainment of a government's desired policy output, in this case IFC development. This represents the instrumental aspect of policy-making.

However, policy instruments do not exist in a vacuum. They are 'nested' within a political-economic milieu that is made up of the interactions between a variety of state and non-state policy actors. 'Nestedness' is no doubt a concept that carries considerable baggage in the public policy literature. In particular, Ostrom's work on common pool resources is based on "multiple levels of analysis" that involves the study of rules nested within other higher orders of rules,[244] with policy problems and the various attributes of a particular resource system embedded within the larger socioeconomic, political, and ecological context.[245]

Notions of the embeddedness of policy within the social context further pre-date Ostrom, particularly in the work of Granovetter.[246] More recently and in the public policy literature, Howlett has studied the multi-level

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[244] Ostrom, *Governing the Commons*, 50–54; Elinor Ostrom, *Rules Games and Common - Pool Resources* (Michigan: University of Michigan Press, 1994).
[245] Elinor Ostrom, "A Diagnostic Approach for Going beyond Panaceas," *Proceedings of the National Academy of Sciences* 104, no. 39 (September 25, 2007): 15181–87.
[246] Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology* 91, no. 3 (November 1985): 481–510.

'nesting' of policy instruments within the context of established governance modes and regime logics.[247] While these studies have contributed significantly to conceptualizing and theorizing nestedness, there remains a need to apply these concepts empirically and in the process establish a deeper understanding of nestedness. Conversely, studies in which scholars have tried to develop a deeper and more empirical conception of nestedness remain overly steeped within a particular research agenda or issue, such as common pool resources.

While Hollingsworth has attempted to study the different institutional mechanisms that coordinate inter-actor relationships and which result in different governance and institutional arrangements within which actors and economies are nested,[248] he does not discuss how these different arrangements influence or affect the form and substance of policies. As such, there is a need to provide a clearer understanding of the political relations that define context and how these relations affect the policy process. The policy subsystems literature provides a clear starting point in achieving such an understanding, by framing contextual variations as different policy subsystem configurations.

While the government is the official policy-maker in most instances, other policy actors are also often able to influence the policy process. The

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[247] Michael Howlett, "Governance Modes, Policy Regimes and Operational Plans: A Multi-Level Nested Model of Policy Instrument Choice and Policy Design," *Policy Sciences* 42, no. 1 (2009): 73–89; Howlett and Cashore, "The Dependent Variable Problem in the Study of Policy Change"; Howlett, *Designing Public Policies*.

[248] Rogers J. Hollingsworth, "Territoriality in Modern Societies: The Spatial and Institutional Nestedness of National Economies," in *Territoriality in the Globalizing Society*, ed. PD Dr Stefan Immerfall, European and Transatlantic Studies (Springer Berlin Heidelberg, 1998), 17–37, http://link.springer.com/chapter/10.1007/978-3-642-58869-3_2.

combination or configuration of state and non-state actors within a policy issue area is known as a policy subsystem. Configurations of state and non-state actors within any given policy subsystem differ across jurisdictions. While policy subsystem configurations have been related to the openness of a subsystem to new actors and ideas,[249] this thesis further explores how policy subsystem configurations are defined by relations of dominance and dependence among subsystem actors, taking into account both the interests and ideological underpinnings of dominant subsystem actors.

As scholars of the advocacy coalition framework have shown, the dominance of a political actor or set of political actors tends to result in the formation of specific policy-making arrangements or coalitions.[250] Yet there is also a need to understand the dominance of particular actors within a dominant coalition, an aspect which the advocacy coalition framework has not sufficiently addressed. This requires studying the dominance of individual actors within the overall context of the subsystem, and how such dominant individual actors or organizations determine policy subsystem configuration and influence policy mix design. This causal link between subsystem configuration and policy mix design is discussed at greater length below.

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[249] Howlett and Ramesh, "Policy Subsystem Configurations and Policy Change," 473–474.

[250] Sabatier, "An Advocacy Coalition Framework of Policy Change and the Role of Policy-Oriented Learning Therein"; Worsham, *Other People's Money*; Christopher M. Weible, "An Advocacy Coalition Framework Approach to Stakeholder Analysis: Understanding the Political Context of California Marine Protected Area Policy," *Journal of Public Administration Research and Theory* 17, no. 1 (2007): 95–117; Carney, *Contested Capitalism*.

Combining the policy subsystems and policy instruments approaches, the nested instrumental approach provides a useful tool for studying how relations of dominance and dependence manifest in subsystem configurations and affect policy design. As with the concept of 'nestedness', prior attempts have been made by public policy scholars to understand the causal linkages between policy context and instrument choice. In particular, scholars of policy learning have noted that policy instrument choice is made by subsystem actors, based on lessons learned by these actors and influenced by the membership and norms of a subsystem.[251] Policy instrument choice has also been related to national policy styles[252] and policy networks,[253] with the latter focusing on the relationship between policy network attributes and instrument choice. Studies have also focused on the how policy subsystem configurations are related to instrument choice[254] and policy change.[255]

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[251] Peter A. Hall, ed., *The Political Power of Economic Ideas: Keynesianisrn across Nations* (Princeton: Princeton University Press, 1989); Patrick Kenis and Volker Schneider, "Policy Networks and Policy Analysis: Scrutinizing a New Analytical Toolbox," in *Policy Networks: Empirical Evidence and Theorefical Considerations (*, ed. Bernd Marin and Renate Mayntz (Boulder: Westview Press, 1991), 25–62; Peter M. Haas, "Introduction: Epistemic Communities and International Policy Coordination," *International Organization* 46, no. 01 (1992): 1–35; Michael Howlett and M. Ramesh, "Patterns of Policy Instrument Choice: Policy Styles, Policy Learning and the Privatization Experience," *Review of Policy Research* 12, no. 1–2 (1993): 16–18.

[252] Michael Howlett, "Policy Instruments, Policy Styles, and Policy Implementation," *Policy Studies Journal* 19, no. 2 (1991): 1–21.

[253] Hans Th. A. Bressers and Laurence J. O'Toole Jr, "The Selection of Policy Instruments: A Network-Based Perspective," *Journal of Public Policy* 18, no. 03 (1998): 213–39.

[254] Howlett and Ramesh, *Studying Public Policy*.

[255] Howlett and Ramesh, "Policy Subsystem Configurations and Policy Change"; Michael Howlett, "Do Networks Matter? Linking Policy Network Structure to Policy Outcomes: Evidence from Four Canadian Policy Sectors 1990-2000," *Canadian Journal of Political Science/Revue Canadienne de Science Politique* 35, no. 02 (2002): 235–67; Howlett and Ramesh, "The Policy Effects of Internationalization."

While these studies have provided an important theoretical basis for the study of nested policy design processes by pointing out the presence of linkages between policy subsystem and instrument choice, this thesis further develops upon this understanding by studying the financial policy subsystems of Hong Kong, Singapore, and Shanghai and how situating the policy design process within the context of policy subsystem configuration has allowed all three IFC's to attain comparable levels of success.

Importantly, this requires a dual focus on the subsystem and individual subsystem actors. Focusing on dominant coalitions underemphasizes the inter-actor dynamics within the coalition itself while emphasizing national policy styles proves particularly problematic given the globalized nature of financial markets and the role of cities and IFC's as autonomous policy units. This means a need to take the broader policy subsystem as the unit of analysis while at the same time focusing on political relations and dynamics among individual subsystem actors.

Existing conceptions of subsystem configurations as a subsystem's openness to new actors and ideas[256] tend to understate the socio-political relations between existing subsystem actors, focusing instead on issues of boundary and acceptability. This is particularly problematic when applied to the East Asian context, where government actors and selected industry or non-

[256] Howlett and Ramesh, "Policy Subsystem Configurations and Policy Change"; ibid.

state elites enjoy both longevity and authority in the subsystem, and state-industry relations are entrenched through state corporate ownership.[257]

The existing subsystems literature also presupposes equality among actors and the presence of a democratic political process, stemming from the focus of these existing studies on Western developed contexts. However, policy subsystems in emerging Asia differ widely from their Western counterparts by virtue of differences in political systems and even belief systems. This problem can be overcome by conceptualizing policy subsystem configurations around power relations between the state and powerful financial industry actors, focusing on inter-actor power relations rather than presupposing an artificial equality among them. This allows for a more generalizable approach to studying subsystems across national contexts.

Given this need to refocus the attention on subsystems configuration and inter-subsystem actor dynamics, the nested instrumental approach takes the policy subsystem as its analytical starting point and studies the impact of policy subsystem configuration on policy mix design. This 'nesting' of the policy mix within the political economic context of the policy subsystem means that the policy process is driven by a logic of 'nested instrumentality'. While understanding policies as instruments used for the attainment of policy outputs provides an instrumental approach to understanding policy, studying

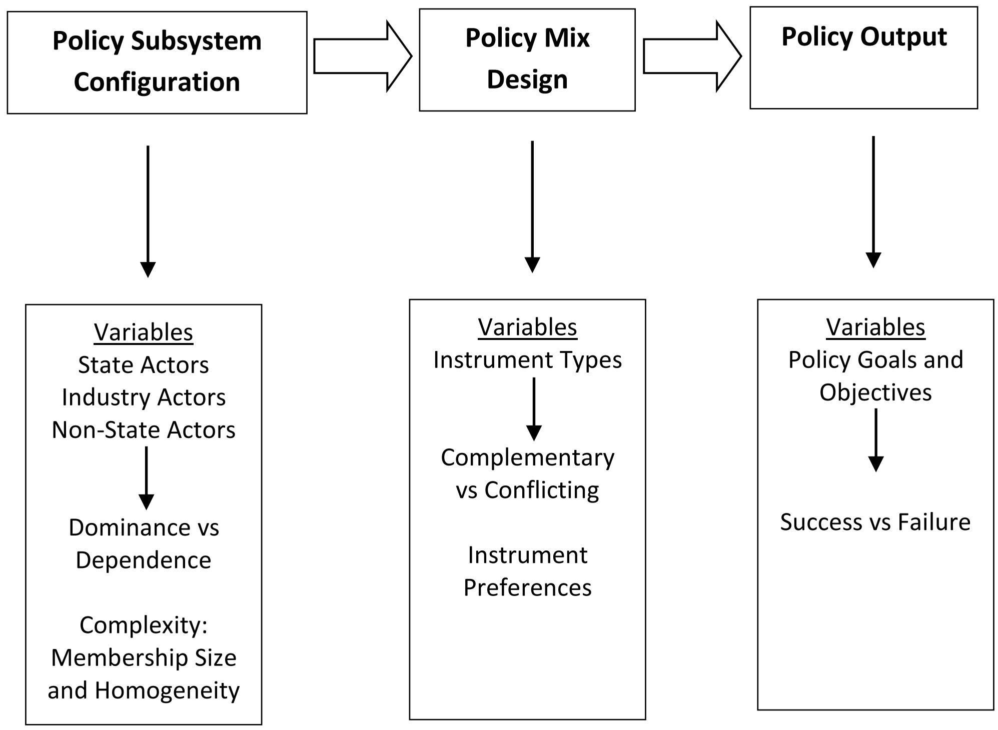
[257] Carney and Child, "Changes to the Ownership and Control of East Asian Corporations between 1996 and 2008."

policy instruments within the context of the subsystem 'nests' instrumentality within the context of the political economic drivers of policy.

As illustrated in Figure 3.1, a logic of 'nested instrumentality' is exhibited when subsystem configurations inform and influence the formulation and implementation of policy mixes and instruments used by policymakers in the pursuit of specified policy outputs. 'Nested instrumentality' also defines the causal linkage between subsystem configuration and policy mix. In particular, dominant subsystem actors are able to influence and define policy mix design through ideational and/or instrumental channels, by forming or participating in advocacy coalitions and instruments constituencies respectively. These two channels are further discussed below.

Having described the theoretical foundations of the nested instrumental approach, there is a further need to delineate the individual components that make up the approach. Figure 3.2 below provides a more detailed overview of the nested instrumental approach.

Figure 3.2 Nested Instrumental Approach (Detailed)



In general, the three main components of the nested instrumental approach are defined by parameters which define the dynamics operating within each component. First, policy subsystem configuration is defined by positions of *dominance versus dependence* held by subsystem actors. Dominance in this context is defined as the ability of an actor to affect or influence the policymaking process, with other subsystem actors dependent upon these policies for their survival or success. This draws on Sabatier's work on advocacy coalitions, whereby policies in a subsystem are made by a dominant coalition.[258]

Dominant subsystem actors invariably include state actors such as government agencies and departments, although non-state actors such as large firms and industry associations can also influence policy by operating as dominant or co-dominant actors. A second parameter that defines policy subsystem configuration is complexity. Subsystem complexity has been related to the "existing range of policy actors present in the policy subsystem",[259] with scholars of policy networks further defining subsystem complexity by the size, type and stability of subsystem membership as well as the varied roles of state and non-state actors within a subsystem.[260]

This thesis defines policy complexity by the number and homogeneity of subsystem membership. Specifically, a complex policy subsystem features a large number of actors and low homogeneity in the types of actors involved. In the context of this thesis, low homogeneity is associated with a high degree of diversity in subsystem actors, with subsystem membership fluid and frequently changing. Conversely, subsystems which are homogenous typically comprise a relatively uniform and unchanging set of actors. As discussed in

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[258] Sabatier, "An Advocacy Coalition Framework of Policy Change and the Role of Policy-Oriented Learning Therein."
[259] Howlett, Ramesh, and Perl, *Studying Public Policy*, 173.
[260] Rhodes, "Power-Dependence, Policy Communities and Intergovernmental Networks"; Martin John Smith, *Pressure, Power, and Policy: State Autonomy and Policy Networks in Britain and the United States* (Aldershot: Harvester Wheatsheaf, 1993); William D. Coleman and Anthony Perl, "Internationalized Policy Environments and Policy Network Analysis," *Political Studies* 47, no. 4 (1999): 691–709; Rhodes, "The New Governance"; Howlett, Ramesh, and Perl, *Studying Public Policy*, 81–86.

later chapters, Shanghai's financial policy subsystem exhibits homogeneity due to the dominance of a stable set of state actors.

Importantly, policy subsystem configurations subsequently influence and define policy mix design through the actions of dominant subsystem actors. This causal linkage between subsystems configuration and policy mix design has not been adequately explored or understood in the IFC literature. Furthermore, the policy subsystems and policy instruments approaches have largely developed separately from each other, with the result being an under-emphasis on this causal linkage between subsystems and policy mixes. The nested instrumental approach represents an attempt to bridge this gap between the two approaches and provide a more integrative approach to studying financial policy.

Specifically, dominant subsystem actors are able to influence policy mix design by exercising their authority over instrument choice and influencing other the instruments preferences of other subsystem actors. Direct influence over instruments choice represents an overt expression of the instrument preferences of dominant actors, while less direct attempts to influence the instruments preferences of other subsystem actors entails the advocacy or promotion of dominant actors' policy beliefs. These two channels through which dominant subsystem actors are able to influence policy mix design are further discussed below.

Within a given subsystem configuration, policy mixes typically comprise a set of policy instruments, with combinations of the various types of instruments within each mix varying across cases. A policy mix is defined by the *complementary versus conflicting* relations among policy instruments. Instruments within each policy mix may complement each other and result in a more integrated policy mix; they may also be in conflict with each other, with instruments working at cross-purposes or worse, negating each other's impacts on the policy output. Complementary relations between instruments contribute to a policy mix's consistency, coherence, and congruence.[261]

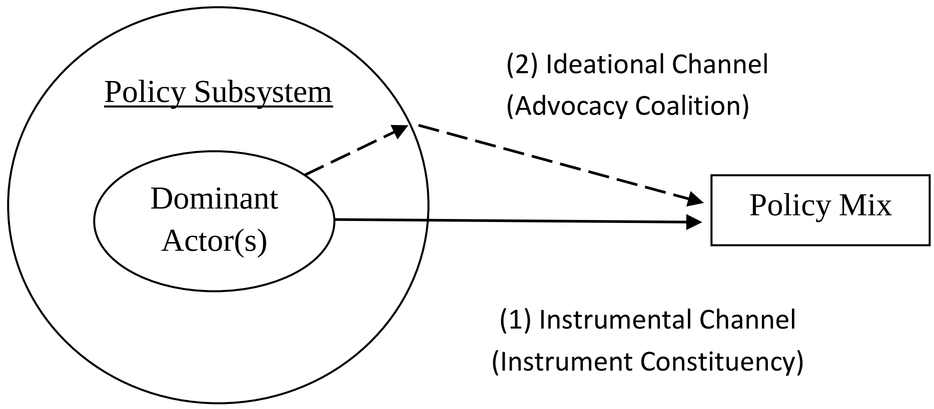
Furthermore, the choice of policy instruments which make up a mix is also affected by the instrument preferences of policy actors, in particular dominant subsystem actors. Such preferences are dependent upon whether instruments allow dominant actors to pursue their interests and in the process perpetuate their dominance as well as the ideological predispositions of actors towards particular instruments. These are further discussed below in the segment on channels of policy mix nesting. Policy mixes in turn affect the attainment of policy outputs, which are typically defined in terms of *policy success versus policy failure*.

In short, policy subsystem configurations affect and define policy mix design through the influence of dominant subsystem actors. Based on their positions within the policy subsystem, dominant subsystem actors are able to

[261] Howlett and Rayner, "Patching Vs Packaging in Policy Formulation: Complementary Effects, Goodness of Fit, Degrees of Freedom and Feasibility in Policy Portfolio Design."

shape policy mix design through their participation in "instrument constituencies" which favour and advocate particular instruments[262] or by shaping the beliefs and norms of other subsystem actors through advocacy coalitions. These two means or channels through which subsystem configuration affects policy mix design are nested are illustrated in Figure 3.3 below.

Figure 3.3 Two channels of policy mix nesting



First, dominant actors determine the types of instruments that make up a policy mix based on their dominance over instrument choice through an *instrumental channel*. Voss and Simons have defined the subset of a policy subsystem that determines policy instrument choice through the articulation of a preferred instrument as an "instruments constituency".[263] Given that instruments constituencies are formed around a shared preference among its members for a particular set or type of instruments, dominant actors who

[262] Voss and Simons, *Instrument Constituencies and the Supply-Side of Policy Innovation*.
[263] Ibid.

belong to an instrument constituency are likely to promote an instrument choice that is favourable to the interests and preferences of the constituency.

However, policy instrument choice may not necessarily be driven by instrument preferences. As shown in later chapters, policy instruments choice in Singapore and Shanghai tend to be driven by concerns over policy output achievement. This reflects a goal-oriented approach to policy instrument design and choice in the two IFC's, based on assumptions over the efficacy and reliability of favoured instruments in achieving desired policy outputs. This is related to a second *ideational channel* through which dominant actors influence policy mix design.

This channel involves advocating dominant norms and beliefs through the actions of dominant actors. At a fundamental level, this involves promoting the achievement of particular policy outputs and favouring the instruments which allow these outputs to be achieved, in the process influencing the belief structure and normative instruments preferences of other subsystem actors. According to Sabatier, dominant subsystem actors or coalitions are defined by their adherence to a set of shared beliefs.[264] This means that the choice of policy instruments by these dominant actors tend to reflect their beliefs and preferences.

[264] Sabatier, "An Advocacy Coalition Framework of Policy Change and the Role of Policy-Oriented Learning Therein."

As such, dominant actors are able to define policy subsystem configurations by shaping the subsystem around their interests, preferences, and beliefs. They do not simply represent or reflect these norms and beliefs; they actively propagate them as well. Given that norms and beliefs provide the normative basis for instrument choice and increase the acceptability of particular instruments, dominant actors exercise an indirect influence over policy mix design through this ideational channel.

To sum it up, dominant actors within a given policy subsystem configuration define and determine policy mix design and instrument choice through two channels: (i) an instrumental channel that articulates the instrument preferences of instrument constituencies, and (ii) an ideational channel that involves the shaping of a subsystem's belief structure by an advocacy coalition. However, it should also be noted that in reality, these two channels tend to overlap and are often hard to distinguish from each other. In other words, dominant actors may influence policy mix design through *both* instrumental and ideational channels, with the relative importance of either channel often unclear.

In other words, these two channels are not always clear-cut and mutually distinguishable. In reality, dominant actors are likely to belong to both instrument constituencies and advocacy coalitions, with policy mix design often goal-driven and instruments designed or chosen based on their efficacy in achieving desired policy outputs. This suggests that while instrument constituencies may exert an influence over instrument choice, the implementation of instruments by goal-oriented policymakers may instead be geared towards policy output achievement rather than instrument constituency preferences. Hence while Figure 3.3 separates between the instrumental and ideational channels, this is purely for heuristic purposes. The reality is that both channels tend to overlap in practice.

Nonetheless, both instruments constituencies and advocacy coalitions are accounted for in the nested instrumental approach. This addresses the myriad ways in which subsystem actors interact with each other, and the impacts of such inter-actor relations on policy mix design. Existing policy instruments studies that ignore the political-economic milieu of the subsystem may perpetuate analytical sterility and a lack of relevance to real world policymaking. Conversely, studies of policy subsystem configurations that do not address specific policy instruments and mixes are too general and abstract to be of practical use to policymakers and scholars alike.

In short, there is a need to combine the policy subsystems and policy instruments approaches within an integrated framework for analysis which addresses both political context and policy considerations. This will allow for a deeper understanding of how policy mixes are designed and used within the political-economic context of the policy subsystem. This is achieved in this thesis through the nested instrumental approach.

The nested instrumental approach will be applied to the three cases of Hong Kong, Singapore, and Shanghai in Chapter 7. While the development of the nested instrumental approach allows this thesis to contribute to public policy theory by combining two key theoretical approaches within one analytical framework, its application to the three cases paves the way for a more systematic and empirically-driven understanding of IFC development. Further development and application of the nested instrumental approach may also potentially yield a useful analytical tool that incorporates both policy considerations and political context. This potential application of the nested instrumental approach as a tool for policy analysis is discussed at greater length in Chapter 7.

Research Methodology

This section describes the research and data analysis methods used in this thesis. Specifically, this thesis relies on the case study method to establish a comparative analysis of the three IFC's. Given that existing quantitative studies of financial centres fail to provide a complete picture of IFC development and instead overstate IFC convergence through their focus on common economic structural variables and the development of IFC hierarchies and rankings based on these variables, this thesis takes a qualitative approach in order to provide a contextually nuanced and in-depth understanding of the impact of political economic contextual variables on the policy design process and how these less tangible variables contribute to IFC success.

Qualitative data collected in the course of fieldwork include interview data and archival records. In-depth interviews were conducted with senior policymakers, industry actors, and experts in the financial sector while official speeches, documents and reports published by governments, banks, financial institutions and research institutions were collected and analysed. The next section describes the case study method used in this thesis in greater detail.

Case Study Method

A comparative case study approach was taken to describe and analyse the development of Hong Kong, Singapore, and Shanghai as successful IFC's. Case studies provide detailed and in-depth data that also account for context.[265] According to Yin, a case study "investigates a contemporary phenomenon in depth and in its real world context".[266] This is especially important when the "boundaries between phenomenon and context are not clearly evident",[267]

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[265] William Lawrence Neuman, *Social Research Methods: Qualitative and Quantitative Approaches* (Boston: Allyn & Bacon, 2011), 42.
[266] Robert K Yin, *Case Study Research: Design and Methods* (California: Sage Publications, 2014), 237.
[267] Robert K Yin, *Case Study Research: Design and Methods* (Los Angeles, Calif.: Sage Publications, 2009), 18.

since case studies allow the micro level of the individual to be linked to the macro level of structure and process.[268]

By incorporating depth and context, the case study it allows for a clearer specification and delineation of subsystem actors and interests within each IFC, which in turn facilitates a deeper understanding of the ways in which financial policy decisions are embedded within the political-economic context of the policy subsystem. This enmeshment of policy within politics suggests that phenomena (policy instruments used) and context (policy subsystem configuration) are highly intertwined and difficult to separate, precluding the applicability of quantitative methodologies.

Given that the case study method allows a researcher to address both descriptive ("what") and explanatory ("how" and "why") questions,[269] case studies are particularly useful for answering explanatory questions that typically involve the tracing of "operational links over time".[270] Following Yin's typology of case study designs,[271] this thesis relies on an embedded multiple-case design to analyse data collected from different groups of financial sector actors and from different sources across the three cases.

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268 Diane Vaughan, "Theory Elaboration: The Heuristics of Case Analysis," in *What Is a Case? Exploring the Foundations of Social Inquiry*, ed. Charles C. Ragin and Howard S. Becker (Cambridge: Cambridge University Press, 1992), 173–202; Neuman, *Social Research Methods*, 42.

269 Robert K Yin, *Applications of Case Study Research* (California: SAGE Publications, 2012), 5.

270 Yin, *Case Study Research*, 2014, 10.

271 Yin, *Applications of Case Study Research*, 7–9.

This helps increase the level of confidence and replicability of my research findings. Importantly, case studies are also guided and defined by underlying theoretical propositions, serving to "build, extend, or challenge" an existing theoretical perspective.[272] In the case of this thesis, taking the three IFC's as case studies provides the empirical foundations upon which the Nested Instrumental Approach can be developed as an analytical framework.

Scholars have also noted the strengths of case study research. In particular, case study research provides conceptual validity by identifying and conceptualizing core variables, captures complex events succinctly, permits process tracing over time and space, allows for the calibration of abstract concepts to concrete real-life experiences, incorporates multiple perspectives in a holistic manner, and most importantly, permits the identification of causal mechanisms.[273]

Issues of causal mechanism and process tracing have received much attention in recent scholarly work on case study and qualitative research methods.[274] Importantly, case studies yield valid causal inferences, with thick descriptive data layered around a causal question or explanation.[275] This

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[272] Ibid., 1–10.
[273] Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences* (Massachusetts: MIT Press, 2005), 19–22; John Gerring, *Case Study Research: Principles and Practices* (New York: Cambridge University Press, 2007); Charles C Ragin, *Redesigning Social Inquiry: Fuzzy Sets and beyond* (Chicago: University of Chicago Press, 2008), 71–84; Neuman, *Social Research Methods*, 42.
[274] Andrew Bennett and Colin Elman, "Qualitative Research: Recent Developments in Case Study Methods," *Annual Review of Political Science* 9, no. 1 (2006): 455–76.
[275] Gary King, Robert O. Keohane, and Sidney Verba, *Designing Social Inquiry: Scientific Inference in Qualitative Research* (New Jersey: Princeton University Press, 1994), 44–45.

combination of description and explanation is important for gaining a deeper understanding of the political and policy processes which underpin IFC success. Such an understanding is largely missing in the existing IFC literature, given this literature's focus on measurable outputs at the expense of less quantifiable processes.

An important aspect of any case study research is case selection. As noted in Chapter 1, the cases of Hong Kong, Singapore, and Shanghai were chosen based on their positions as Asia's leading IFC's. As described in Chapter 1, similarities across the three IFC's coupled with the unique political economic characteristics of each IFC allows the three cities to be taken as comparable cases. The selection of these three cases was also based on a general dearth of studies on Asian IFC's and the existing IFC literature's neglect of political economic contextual variables and the impact of these variables on IFC success.

While the case study method has often been criticized for its small-*n* nature that could contribute to selection bias, qualitative methodologists have argued that these selection bias critiques do not apply to causal inferences drawn from within-case process tracing, given that process tracing is different from methods that rely on covariation.[276] Given the limits of existing quantitatively-driven IFC studies, taking a small-n case study approach allows

[276] George and Bennett, *Case Studies and Theory Development in the Social Sciences*, 207; Bennett and Elman, "Qualitative Research," 461.

for an in-depth understanding IFC development, particularly through the use of qualitative data. This use of qualitative data is discussed next.

Qualitative Data

This thesis relies mainly on qualitative data collected in the course of fieldwork. As Chapter 2 has shown, existing studies of IFC's based on quantitative methods over-emphasize the economic and structural aspects of financial sector development, with a consequent development of IFC hierarchies and rankings that assume and predict the eventual convergence of IFC development and financial policy models around such economic structural variables. Such studies give short shrift to differences in political economic context and policy preferences across IFC's.

In particular, Hong Kong, Singapore, and Shanghai exhibit clear differences in their political systems and contexts, the financial activities and markets which each IFC is comparatively advantaged in, and the financial policies implemented in IFC development. Given the limitations of existing quantitative studies, this thesis aims to provide a more nuanced, in-depth and contextual understanding of IFC development through the use of qualitative data.

Qualitative data is drawn from in-depth interviews with senior financial policy makers, private sector professionals, and experts in the financial industry as well as official speeches, documents and reports published by relevant government agencies and major financial institutions. Data collection and analysis in the course of the research that underpins this thesis is described in greater detail in a later section on field research.

Qualitative data analysis allows this thesis to fulfil two purposes: (1) provide detailed descriptions based on both observable and non-observable information, (2) draw and explicate causal relations between variables. These correspond to the concepts of descriptive inference and causal inference that, according to King, Keohane and Verba, underpin all social science research.[277] Through analyses of archival and interview data, important causal inferences were derived with regards to how a specific subsystem configuration resulted in the formulation of a policy mix tailored to that configuration in the three IFC's. Quantitative studies of IFC development do not allow for the drawing of such causal inferences.

Instead, existing quantitative IFC studies tend to be more descriptive in nature, relying on observable data to understand *what* makes a successful IFC. However, this has resulted in an inadequate understanding of *how* IFC's attain success, which requires less directly observable data that resides in the collective knowledge of policymakers and other subsystem actors. Teasing out such unobservable data entails conducting in-depth interviews with the

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[277] King, Keohane, and Verba, *Designing Social Inquiry*.

individuals who were involved in financial policymaking within each IFC and to a lesser extent, qualitative analyses of archival data

Triangulation of data is achieved by drawing on different sources of data and interviewing different groups of respondents. The first round of triangulation involves using both interview data and official publications to analyse and assess financial policies enacted in each IFC. This is complemented by a second round of triangulation that involves collecting interview data from a variety of financial policy actors such as financial regulatory policymakers, private sector professionals and independent experts such as academics and researchers.

Drawing on the views of financial regulators and private sector professionals who are often the target of regulations brings together two opposing viewpoints. The convergence of these two opposing viewpoints allows for a more balanced understanding of the nature and impacts of financial policies enacted within each case. Independent experts provide an autonomous third party viewpoint, given that they are not directly affected by financial policies.

Reliability, Relevance and Validity

Triangulation is also related to issues of reliability and validity. Reliability has been described as the consistency or dependability of a measure over time and repetition.[278] A key means through which reliability was achieved in this thesis was through the design, application and documentation of a set of standardized interview questions, which are attached in Appendix 1. This allowed the interviews to be structured along similar questions and issues, improving the replicability of these interviews.

While in-depth interviews tend to be less structured and involve further investigation of information and issues that may be brought up by interviewees, standardized questions help define the general direction of interviews. Furthermore, steps were taken to ensure that discussions were kept within the confines of the subject matter, with irrelevant diversions kept to a minimum. Through in-depth interviewees with policymakers and financial sector professionals who are or have been directly involved or affected by financial policies, this research also attains a high degree of relevance.

Relevance refers to whether research findings relate to real world events or occurrences.[279] In particular, interviews with policymakers and industry actors yield important insights, give that these individuals possess extensive on-the-ground experience with financial policies. The official speeches and documents analysed in this thesis are also actual policy communications that were published for the purpose of recording or

[278] Elizabethann O'Sullivan, Gary R Rassel, and Maureen Berner, *Research Methods for Public Administrators*, Fifth (New York: Pearson Longman, 2010), 109; Neuman, *Social Research Methods*, 208.
[279] Harry T. Reis and Charles M. Judd, *Handbook of Research Methods in Social and Personality Psychology* (Cambridge: Cambridge University Press, 2000), 12.

announcing policy changes. This means that findings drawn from these official documents are representative of the respective governments' official policy orientations and views.

Reliability and relevance are also related to validity, which refers to the extent to which the research design and findings approximate reality.[280] Several types of validity need to be discussed in order to show how this research fulfils the requirements of validity. First, internal validity is necessary to ensure that changes in the observed dependent variable are caused by a specific independent variable such as a policy or program.[281] Internal validity in this thesis is ensured through the collection of in-depth qualitative data through interviews and the analysis of official speeches and documents.

Such qualitative data allows for a deep and rich understanding of the mechanisms and rationales within the financial policymaking process. Of particular importance are the views of policymakers, since these provide an 'insider account' of the rationale and processes that underpin financial policy in each IFC. The triangulation of data sources further validates the findings of this research by deriving causal inference from multiple independent sources of data.

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[280] Marilynn B. Brewer, "Research Design and Issues of Validity," in *Handbook of Research Methods in Social and Personality Psychology*, ed. Harry T. Reis and Charles M. Judd (Cambridge: Cambridge University Press, 2000), 3; Neuman, *Social Research Methods*, 208.
[281] Brewer, "Research Design and Issues of Validity," 4; O'Sullivan, Rassel, and Berner, *Research Methods for Public Administrators*, 58.

Through the collection of qualitative data, 'thick' descriptions of each case could be developed and process tracing applied. This allowed the inferring of causal linkages between subsystem configuration and policy mix design as well as those between policy mix design and policy outputs. Furthermore, steps were taken to ensure that the cases differed only in terms of the independent variable (subsystem configuration and policy mix design). Exogenous variables such as history were also reduced by picking cases that have developed over the same time-frame and which were exposed to similar historical events and other exogenous factors.

External validity refers to the extent to which research findings can be extended or generalized to other cases or studies.[282] This contributes to the relevance of research findings to real life settings.[283] The selection of a heterogeneous set of interview subjects ensured that findings are relevant to the broader context. While policymakers represented the views of their national and expert domains, the inclusion of financial industry professionals and independent experts who study IFC's comparatively across national boundaries ensured a diverse and international set of data that can generate findings that are applicable to other IFC's.

Lastly, construct validity refers to the 'fit' between a construct which an instrument is supposed to measure and the actual observations made with

[282] O'Sullivan, Rassel, and Berner, *Research Methods for Public Administrators,* 64.
[283] Neuman, *Social Research Methods,* 300.

the instrument.[284] Construct validity is ensured by the careful design of interview questions aimed at minimizing ambiguity in terminology. This is achieved through consulting the extensive literature on financial policy and the theoretical literatures on policy subsystems and policy instruments. In instances where interview subjects were unclear about specific terminology used, standardized explanations of these terms prepared prior to the interview were used to facilitate interviewee's understanding of the questions asked.

Having described the research methods and techniques employed in this thesis, the next section describes the data collected over the course of field research.

Field Research

Interviews were carried out between April and November 2013 with policymakers at the ministerial and directorial levels, senior financial sector professionals and independent experts. The various interview subjects are listed in table 3.1 below. However, several interviewees had explicitly requested that their interviews be carried out under conditions of anonymity. This means that interviewees did not wish to make known their names, organizations, jurisdictions within which they operate, or any other personally-

[284] Harvey Russell Bernard, *Social Research Methods: Qualitative and Quantitative Approaches* (London: Sage, 2000), 50.

attributable characteristics. These interviewees are listed here by their relevant job positions or functions in the context of financial policy.

Table 3.1 List of Interview Subjects

Mr Donald Tsang, Former Financial Secretary: 1995-1997; Former Chief Executive: 2005-2012
Mr Michael Cartland, Former Secretary for Financial Services: 1993-1995
Mr Ravi Menon, Current MAS Managing Director
Mr Koh Yong Guan, Former MAS Managing Director: Jan 1998 – March 2001; Oct 2001 – May 2005
Mr Simon Topping (Former HKMA Executive Director (Banking Policy) from 1995-2008
Mr Andrew Sheng, Member of Advisory Council on Shanghai as an International Financial Centre; Former HKMA Deputy Chief Executive: 1993-1998; Chairman of SFC: 1998-2003
Associate Professor Chong Tai Leung, Executive Director of Institute of Global Economics and Finance; Associate Professor, Department of Economics, Chinese University of Hong Kong
Professor Annie Koh, Singapore Management University
Mr Lim Siong Guan, Current GIC Group Preseident; Former Permanent Secretary of the Ministry of Finance: 1999-2006; Former MAS Board Member: 1996-2006; Former EDB Chairman: 2006-2009

Former Finance Minister
Former Deputy Managing Director at a Regulatory Agency
Executive Director at a Regulatory Agency
Former Executive Director at a Regulatory Agency
Senior Vice-President of an International Bank
Fund Manager at an American Asset Management Firm
Former Administrative Service Chief and Regulatory Official
Member of Hong Kong Economic Development Commission

The desire for anonymity among respondents implies a deep-seated aversion towards being identified as a 'whistle-blower' or having to face the consequences of disclosing sensitive or confidential information. Some respondents were also unwilling to be publicly associated with unsuccessful or unpopular policies. This raised significant challenges for data collection, as well as a high rejection rate from potential interviewees. Given this fear of 'getting into trouble' with the authorities, promising anonymity was an important means through which more accurate or candid responses could be elicited from interviewees.

In fact, several individuals refused to participate in the interview, unless they could be assured of anonymity. This unwillingness to face the consequences of revealing information also reveals somewhat the power relations which underpin IFC development in the three cases. In all three cases, power resides in the state and there remains a risk of being seen to be subverting state policy processes and power relations. However, field research in Hong Kong yielded more instances whereby respondents were willing to be personally-attributable and hence did not request anonymity. This corresponds with the less interventionist and more liberal stance of the Hong Kong government, which is discussed in later chapters.

In contrast, respondents from the Singapore and Shanghai cases mostly requested anonymity. Furthermore, it was also exceedingly difficult to get Chinese officials and even financial sector professionals to accede to interview requests. In those cases where these actors acceded to interviews, their responses were curt and did not deviate from the typical mainstream views that can be found in official government publications. In many instances, respondents refused to sign the Participant Consent Form provided under Institutional Review Board (IRB) rules, hence invalidating their responses as interview data for the purposes of this thesis.

This means that more interview data was collected in Hong Kong and Singapore than Shanghai. Furthermore, there is also a need to understand the responses of interviewees in light of the prevailing power relations. In other words, interview responses from government officials are likely to be more cautious, especially in cases were respondents did not request for anonymity. These respondents are not likely to say anything which may get them into trouble.

Nonetheless, respondents from Singapore's MAS proved surprisingly candid in their responses. In particular, current Managing Director Ravi Menon and former Managing Director Koh Yong Guan provided a wealth of information on the internal workings of the Authority as well as its relations with industry actors. This is in contrast to public officials in Hong Kong and Shanghai, who were less willing to speak on issues which were deemed 'sensitive' or even allow their comments to be personally attributable in the first place.

Furthermore, while some respondents allowed audio recording of the interviews, others were not willing to be recorded and taken ad verbatim. This affects the presentation of data in this thesis. In other words, some of the interview data could be quoted word for word, while others needed some amount of paraphrasing. Nonetheless, the substance and gist of interview responses were maintained, even in instances where it was not possible to quote ad verbatim, since these responses were not voice recorded.

Given the challenges and limitations of data-collection in the case of Shanghai and the consistent requests for anonymity in both Shanghai and Singapore, more effort had to be expended in triangulating the existing interview data through the collection and analysis of archival records and other secondary data or publications. Such archival data and their collection are discussed further below. Suffice to say, these challenges are themselves reflective and evidential of the power relations and dominance of the state over financial policy processes in all three cases.

In terms of interview design, questions were designed to address three different groups of interviewees, namely financial regulatory officials, financial sector professionals, and independent experts or the 'interested public'. Separate questions were designed for each group of interviewees, tailored to their specific fields. The interview questions can be found in Appendix 1. While the interview was largely structured by the interview questions, there were inadvertently instances where interviewees brought up issues or subjects that were of interest or potentially useful for this thesis.

During these instances, interviewees were encouraged to elaborate on these issues. Special care was taken that the interviewer's prompts for elaboration were in no way leading. Furthermore, interview subjects were briefed on the general nature of the research before the interview. They were also debriefed after the interview, with the debrief focusing in particular on how their responses are to be used in this thesis and issues pertaining to attribution of comments.

Interview contacts were obtained through various channels. The first channel involved extensive searches for email addresses on the various government directories and agency websites. Having obtained email addresses of potential interviewees through this search, an email was sent with a standardized cover letter and participant information sheet (PIS) to seek permission for an interview. A second channel for obtaining interview contacts was through the personal contacts of the Dean and Professors of the School. As per procedure, the standardized cover letter and PIS were sent to these contacts.

More interview contacts were subsequently obtained through snowball sampling, as interview subjects recommended current and former colleagues who may be able to provide more information on a particular subject area. Finally, personal contacts from the financial industry were used to obtain more potential interviewees. In short, obtaining potential interview subjects first involved 'cold' emails sent out to relevant individuals, followed by a process of snowball sampling through interview subjects and other contact sources.

Aside from these in-depth interviews, less formal discussion were also carried out with other regulatory officials, financial sector professionals and independent experts. These discussions were carried out under conditions of anonymity, and interviewees were typically lower ranked than the in-depth interview subjects listed above. Aside from their lower rank, these interviewees had also refused to participate formally in the interview, refusing to sign the IRB Participant Consent Form. They were only willing to discuss financial sector development in their respective IFC's at a more general (and cautious) level.

In other words, these lower ranking officials and industry professionals were typically unwilling to provide any detailed or confidential information.

Furthermore, they were not in any position to discuss policy decisions at the level studied in this thesis, given their lower ranks. While most of these discussion do not yield direct quotes or data sets, they have nonetheless been useful for providing background information which can be substantiated by official documents, allowing for a ‘feel’ of the ground in the three IFC’s. As discussed above, the bulk of the data on financial policy decisions was collected from interviews with senior level officials and professionals.

Archival data in the form of official reports, speeches, and documents were mostly obtained from the websites of regulatory agencies and online databases. In particular, the websites of the relevant financial regulatory agencies were perused for official documents, policy announcements and publications. The MAS, HKMA, and CSRC websites proved particularly comprehensive in maintaining databases of past policy reports and publications. However, many of these websites do not provide copies of archival data that was published before the 1990s.

For documents published before the 1990s, hard copies were obtained from the National University of Singapore library and the National Library Board. Relevant private sector reports and publications were also perused. These were largely available on the websites of banks and financial institutions, as well as in the University and national libraries. Lastly, reports and publications by university and research institutes were also perused.

There were also several instances whereby interview respondents voluntarily provided hard copies of official reports and publications. For instance, an MAS publication on the historical development of the Authority was provided by former MAS Managing Director Koh Yong Guan. Former HKMA Executive Director Simon Topping also provided several PricewaterhouseCoopers reports on Hong Kong's financial sector development and regulation, based on his current employment with the company.

Conclusion

This chapter has provided a detailed description of the theoretical and methodological foundations that underpin this thesis, both of which have allowed this thesis to make key theoretical and empirical contributions to the field. Through a discussion of the policy instruments and policy subsystems approaches, it is clear that neither of these two approaches is sufficient for the development of an integrative and nuanced approach to studying IFC development in Asia. Rather, they are both limited in their scope of analysis.

While the policy instruments literature provides a comprehensive understanding of the tools that policymakers have at their disposal and how these tools have been designed for achieving various policy goals, it has not sufficiently addressed the wider political economic context within which policy instruments are designed and implemented. Conversely, the policy subsystems literature has yielded important insights on the different combinations of state and non-state actors within a given policy area. However, it does not adequately address the specific policies used by policymakers within subsystems.

This thesis provides a way to overcome these limitations through the nested instrumental approach, which combines the insights of both approaches yet at the same time, negates their individual shortcomings. This allows for a more integrative approach to understanding financial policy and IFC development that takes into account both political context and policy processes. This chapter has provided an in-depth discussion of the development, components and theoretical foundations of the nested instrumental approach. The approach will subsequently be applied to the three cases in Chapter 7.

Furthermore, the use of qualitative data and case study methods allows this thesis to provide a contextually-driven and in-depth analysis of IFC development and success across the three cases. Such nuance and depth of analysis is largely missing in the existing literatures on IFC's and financial sector development, given the over-reliance of such studies on quantitative methods. In contrast, qualitative research allows for a deeper understanding of IFC development, incorporating the political economic context and studying the impact of this context on financial policy.

Chapter 4: Hong Kong

Introduction

Hong Kong's success as an IFC has traditionally been seen to be a function of its low taxes, sound legal system, efficient regulatory regime and proximity to China. However, these factors tell only part of Hong Kong's financial success story. Hong Kong's success as an IFC is based on its government's laissez faire model of financial governance that promotes economic freedom and market stability, as well as a strong dominance of the state as financial policymaker.

From a policy perspective, Hong Kong's development as an IFC has thus far been based on a financial policy mix that largely comprises stabilizing financial policy instruments, reflecting the government's laissez faire approach that minimizes government intervention in markets, which means limited use of enabling or developmental instruments. Such an approach is reflected in the government's "big markets, small government" doctrine that largely employs stabilizing policies to ensure market stability, eschewing more interventionist developmental and enabling policies.

While the HKMA is enmeshed within a web of financial sector relations that include industry and other non-state actors, these other actors do not factor heavily into the HKMA's financial policies. Rather, financial policymaking remains largely state-driven, although paradoxically, this dominance over policy is not always obvious, given the government's laissez faire approach. Given this simultaneous commitment to minimal government intervention and limited policy role of non-state actors, Hong Kong's financial governance model differs significantly from Shanghai's state-dominated approach and Singapore's state-industry co-creation of financial policy.

This chapter provides an in-depth understanding of Hong Kong's successful development as an IFC. The next section provides a brief overview of the historical development of Hong Kong's financial sector, followed by a section on Hong Kong's comparative advantages as an IFC. The proceeding sections then deal with the policies and politics behind Hong Kong's success as an IFC. In particular, I discuss Hong Kong's financial governance model, its regulatory regime, the HKMA's financial policy mix, and the financial policy subsystem within which the HKMA's financial policymaking takes place.

Historical development

Hong Kong's beginnings as an IFC can be traced as far back as 1842, when Hong Kong had first become a British colony and thriving entrepot for the region.[285] It would subsequently rise to become a leading IFC, consistently maintaining its position within the top three from 1900 to 1975 in Reed's

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[285] Schenk, *Hong Kong as an International Financial Centre: Emergence and Development 1945-1960*, 1.

ranking of Asian International Banking Centres.[286] Given its pre-existing role as a trade entrepot and the impact of trade on stimulating financial activity, Hong Kong's development as an IFC has been seen as a "natural process".[287]

Yet it was only in the post-war period of the 1950s and 1960s that Hong Kong truly emerged to become an IFC, by leveraging on the agglomeration of trade-related financial services that had accompanied its success as an entrepot.[288] While financial sector development at this stage "tracked the development of the economy", it would subsequently grow to become a "self-sustaining" industry.[289] A post-war decline in international trade provided the catalyst for banks to shift from commerce to purely financial activities, sparking off an influx of foreign investors and banks into the territory.[290] Importantly, the presence of markets for various types of financial services meant that 1960s Hong Kong already possessed "most of the attributes that are used to define an IFC".[291]

While Hong Kong's origins as an IFC can be traced back to the post-war period, it was only during the 1970s that Hong Kong truly took off as an IFC, with the rapid "internationalization of banking operations and financial

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[286] Reed, "The Ascent of Tokyo as an International Financial Center," 28.
[287] Tai Leung Chong, Interview, July 24, 2013.
[288] Schenk, *Hong Kong as an International Financial Centre: Emergence and Development 1945-1960*, 120–121; Michael Cartland, Interview, July 30, 2013.
[289] Cartland, Interview.
[290] Schenk, *Hong Kong as an International Financial Centre: Emergence and Development 1945-1960*, 120–121.
[291] Ibid., 122.

activities".[292] Jao notes that two structural changes occurred in Hong Kong's financial sector during the early 1970's: the intensification of competition with the emergence of alternative depository financial institutions such as merchant banks and greater concentration in the banking industry due to "acquisitions of local Chinese banks by foreign banks or financial concerns".[293]

Hong Kong also experienced an intense period of "financial deepening" in the 1970s, marked by a rapid "accumulation and diversification of financial assets" that was attributed to the government's liberal economic policy.[294] Along with its free exchange market, strategic location and proximity to China, such a liberal economic policy stance allowed Hong Kong to tap into the period's rising demand for multinational banking services and internationalize its financial markets.[295]

Specific government measures at financial market liberalization, such as the issuance of new full-service banking licenses to foreign banks and the removal of the interest withholding tax on foreign currency deposits in the late 1970s and early 1980s, would further lay the ground for Hong Kong's continued growth as an IFC in the following decades.[296] A tiered banking

[292] Reed, "The Ascent of Tokyo as an International Financial Center," 45; Y.C. Jao, "Hong Kong as a Regional Financial Centre: Evolution and Prospects," in *Dilemmas of Growth*, ed. Chi-Keung Leung, J.W. Cushman, and Gungwu Wang (Canberra: Australian National University Press, 1980), 163.
[293] Jao, "Hong Kong as a Regional Financial Centre: Evolution and Prospects," 166–169.
[294] Sheng-Yi Lee and Y. C. Jao, *Financial Structures and Monetary Policies in Southeast Asia* (London: Macmillan, 1982), 21–23.
[295] Jao, "Hong Kong as a Regional Financial Centre: Evolution and Prospects," 176–178.
[296] Y.C. Jao, *The Asian NIEs: Success and Challenge* (Hong Kong: Lo Fung Learned Society, 1993), 46–47.

system was also introduced in 1981[297] and reformed in 1990[298] in order to attract more foreign financial institutions.

The 1980s and 1990s were also marked by increasing securitization and the advent of new financial innovations, prompting a shift in market attention from commercial banking towards financial markets.[299] During this period, Hong Kong grew to become a "major centre of securitisation".[300] Governmental pressure also prompted the merging of the four stock exchanges and the launch of computer-assisted trading in 1986, catapulting Hong Kong's stock market to international status.[301] In response, the Securities and Futures Commission (SFC) was established in 1989 to strengthen regulatory oversight of the securities market.

Pauly identifies two key developments that would come to strengthen the commercial banking sector of Hong Kong in the 1990's: the establishment of the HKMA in 1993, and the setting up of Hong Kong Interbank Clearing Limited in 1995 followed shortly by the Real Time Gross Settlement (RTGS)

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[297] Y.C. Jao, "Financial Reform in Hong Kong," in *The International Handbook on Financial Reform*, ed. Maximillian J.B. Hall (Cheltenham: Edward Elgar Publishing Limited, 2003), 118.

[298] Denis Petkovic, "Asia's Mature Financial Centres: Hong Kong, Singapore, Japan and Australia," in *International Banking Regulation and Supervision: Change and Transformation in the 1990's*, ed. J.J. Norton, Chia-Jui Cheng, and I. Fletcher (London: Graham & Trotman / Martinus Nijhoff Publishers, 1994), 156.

[299] Y. C. Jao, *Hong Kong as an International Financial Centre: Evolution, Prospects and Policies* (Hong Kong: City University of Hong Kong Press, 1997), 27.

[300] Samuel Hon-wah Mak, *Hong Kong as a Financial Centre* (London: Whurr Publishers, 1993), 10.

[301] David K.P. Li, "Enter the Dragon: Hong Kong's Growing Role in World Finance," *The Columbia Journal of World Business* 30, no. 2 (Summer 1995): 36.

System.[302] Both developments were crucial in ensuring the reliability and efficiency of Hong Kong's financial markets for investors.

While the 1997 handover saw a transfer of Hong Kong's sovereignty to the People's Republic of China (PRC), the government of Hong Kong nonetheless retained independent authority to "formulate monetary and financial policies, safeguard the free operation of financial business and financial markets, and regulate and supervise them in accordance with law".[303] The pre-handover signing of the joint British-China declaration had also provided clarity over policy and future directions, providing a significant boost to Hong Kong's development as an IFC.[304]

Post-handover Hong Kong would come to face its first real test with the onset of the Asian Financial Crisis in 1997. Originating in Thailand on 2 July 1997, the crisis swiftly spread to Hong Kong in October 1997 in the form of a weakening of and further speculative attacks on the Hong Kong dollar, prompting the HKMA to defend the Hong Kong dollar by selling US dollars in its reserves.[305] Speculative attacks on the Hong Kong dollar in 1998 also prompted direct intervention by the HKMA in the purchase of Hang Seng index stocks, in an attempt to deter speculators by sending out a "credible

[302] Louis W. Pauly, *Hong Kong's International Financial Centre: Retrospect and Prospect* (Hong Kong: Savantas Policy Institute, February 5, 2011), 46.
[303] The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, Chapter V, Section 1, Article 110
[304] Chong, Interview.
[305] Y. C. Jao, *The Asian Financial Crisis and the Ordeal of Hong Kong* (Greenwood Publishing Group, 2001), 5.

signal that the monetary authority would use available funds to buy index stocks in the event of a speculative attack”.[306]

Recovering from the financial turmoil of the late 1990s, the 2000s would herald a period of intense growth and innovation in Hong Kong’s financial markets, boosting the SAR’s status as an IFC. With the increasingly competitive banking sector, banks in Hong Kong began offering other financial products and services such as personal finance and wealth management products in 2000.[307] Despite brief slowdowns resulting from the SARS epidemic in 2003 and the GFC in 2008, the Hong Kong economy swiftly recovered.

Hong Kong also further consolidated its advantageous proximity to China, by signing the Closer Economic Partnership Arrangement (CEPA) with China in 2003 and as a result, transforming itself into a full-fledged offshore RMB business centre by 2012.[308] Furthermore, the establishment of the Renminbi Qualified Foreign Institutional Investors (RQFII) scheme in December 2011 allowed foreign investors to invest in China’s equity and bond markets through “qualified fund management and securities companies in

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306 Karan Bhanot, “Anatomy of a Government Intervention in Index Stocks: Price Pressure or Information Effects?,” *The Journal of Business* 79, no. 2 (2006): 984–985.

307 Hong Kong Monetary Authority, *Annual Report 2000* (Hong Kong: Hong Kong Monetary Authority, 2000), 30.

308 Margaret Fong, “"CEPA: Your Shortcut into China,” *Harvard Asia Pacific Review* 9, no. 1 (2007): 58–60; Hong Kong Monetary Authority, “Hong Kong: The Premier Offshore Renminbi Business Centre,” March 2012, 19.

Hong Kong"[309], reinforcing the SAR's position as a "gateway to mainland China".[310]

Determinants of Competitive Advantage

Jao categorizes Hong Kong's competitive advantages by differentiating between internal and external success factors.[311] Internal factors include political and social stability, economic freedom, adherence to GATT National Treatment principles, a robust legal system, accountable and responsive governing style, favourable tax regime, skilled work force, modern and efficient infrastructure, low costs from regulation, free flows of information, and the use of English as an official language.[312] Conversely, external factors include Hong Kong's strategic location and time zone, proximity to a rapidly liberalising Chinese economy (the "China Factor"), strong growth among Asian-Pacific economies, and the globalization or internationalization of banking and finance.[313]

Given that these external factors had previously bolstered Hong Kong's competitive advantage as a trade entrepot and with the development of its financial sector, such "natural advantages remained highly relevant as

[309] Hong Kong Monetary Authority, "Hong Kong: The Premier Offshore Renminbi Business Centre," 19.
[310] Paola Subacchi et al., *Shifting Capital: The Rise of Financial Centres in Greater China*, Chatham House Report (London: Chatham House, May 2012), 23.
[311] Jao, *Hong Kong as an International Financial Centre*.
[312] Ibid., 58–67.
[313] Ibid., 67–70.

industrial capitalism on a national scale developed into financial capitalism on a global scale".[314] Hong Kong has thus been able to transfer its advantages as a trading entrepot into its new role as a "financial entrepot".[315] While these external factors have proven important in Hong Kong's initial development as an IFC, internal policy-related factors have proven equally, if not more, important.

Hong Kong's competitive advantage has been driven by what Schenk terms the "classic attributes of an IFC: political stability, infrastructure and regulatory freedom".[316] Underlying Hong Kong's competitive advantages are the "favourable institutional structures that set and enforce clear rules of the game on a level playing field; motivated and hardworking individuals who continually strive for success; and a prevailing ethos that has fostered and stimulated economic development".[317]

In particular, Hong Kong's common law system, with its transparent laws and reliable judiciary, underpins the SAR's success as an IFC.[318] Mak also identifies factors such as having a free economic system, government policies aimed at financial liberalization, equal "National Treatment" of foreign and domestic banks, relatively low transaction costs, an advanced

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314 Pauly, *Hong Kong's International Financial Centre: Retrospect and Prospect*, 28.
315 Y. C. Jao, *Banking and Currency in Hong Kong: A Study of Postwar Financial Development* (London: Macmillan, 1974), 43.
316 Schenk, *Hong Kong as an International Financial Centre: Emergence and Development 1945-1960*, 137.
317 Enright, Scott, and Dodwell, *The Hong Kong Advantage*, 85.
318 Donald Tsang, Interview, July 30, 2013.

telecommunication system, availability of electronic banking services, an advantageous location and the presence of a skilled workforce with good industrial relations.[319]

Lee and Vertinsky attribute Hong Kong's success as an IFC to: "(1) its British legal traditions and legal and financial expertise, (2) its less constraining levels of regulation and disclosure, (3) its role in the investment in and trade flows to and from the People's Republic of China ... (4) its role as a prime financial centre for overseas Chinese ... and (5) opportunities for abnormal profits resulting from the structure of the domestic banking market".[320]

McCauley and Chan have also noted that Hong Kong's advantage as an IFC lies in its legal system, regulatory framework, and clearing and settlement systems.[321] Another significant advantage that Hong Kong enjoys is its wholly convertible currency, the Hong Kong dollar, and its peg to the US dollar.[322] In itself, Hong Kong's transparent and trusted financial infrastructure

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[319] Mak, *Hong Kong as a Financial Centre*, 12–20.
[320] Kam-Hon Lee and Ilan Vertinsky, "Strategic Adjustment of International Financial Centres (IFCs) in Small Economies: A Comparative Study of Hong Kong and Singapore," *Journal of Business Administration* 17, no. 1–2 (1988 1987): 168.
[321] Robert N. McCauley and Eric Chan, "Hong Kong and Shanghai: Yesterday, Today and Tomorrow," in *Financial Sector Development in the Pacfic Rim*, ed. Takatoshi Ito and Andrew K. Rose, vol. 18, East Asia Seminar on Economics (Chicago: University of Chicago Press, 2009), 21.
[322] Tsang, Interview; Chong, Interview; Andrew Sheng, Interview, July 25, 2013.

with its “multi-currency, multi-dimensional platform” has also been identified as a key defining competitive advantage that sets it apart from other IFC’s.[323]

Another unique competitive advantage enjoyed by Hong Kong is the “China factor”,[324] a unique advantage which, according to Deputy Chief Executive of the HKMA Eddie Yue is “difficult for other financial centres to replicate”.[325] As one of China’s leading IFC’s, Hong Kong has been able to benefit from China’s phenomenal rise over the past few decades by tapping into China’s financial liberalisation process and acting as a RMB business centre amidst increasing external use of China’s currency.[326] Hong Kong has also found a niche in managing initial public offerings by Mainland firms seeking to raise capital in Hong Kong.[327]

Hong Kong’s linkages to the Mainland and its “deep knowledge of business cultures and practices on the Mainland”[328] thus augment its other existing advantages, allowing the SAR to become “embedded in China’s grander national marketization and globalization project ... becoming a *Chinese* global city”.[329] Based on such linkages, Hong Kong’s business and

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[323] Hong Kong Monetary Authority, *Financial Infrastructure in Hong Kong*, HKMA Background Brief (Hong Kong: Hong Kong Monetary Authority, December 2006), 46.
[324] Subacchi et al., *Shifting Capital*, ix.
[325] Eddie Yue, “Hong Kong as an International Financial Center – the China Factor” (presented at the “Hong Kong: China’s Global Financial Centre” conference, New York, March 1, 2011), http://www.bis.org/review/r110302d.pdf.
[326] Ibid.
[327] Pauly, *Hong Kong’s International Financial Centre: Retrospect and Prospect*, 48.
[328] Ibid., 83–84.
[329] Tai-lok Lui and Stephen W.K. Chiu, “Becoming a Chinese Global City: Hong Kong (and Shanghai) beyond the Global-Local Duality,” in *Shanghai Rising: State Power and Local*

financial services sector have also become “honed to the needs of ... business on the Chinese Mainland”.[330] This makes Hong Kong a “privileged zone where arbitrage can thrive between open global markets and a massive and internally focused Chinese economy”,[331] allowing the SAR to act as a key gateway into China.

Furthermore, Hong Kong’s diverse set of local and foreign firms are able to “pack and integrate” international financial activity and use Hong Kong as a platform from which to invest in China.[332] However, observers have also noted that Hong Kong’s political proximity to the Mainland may also raise doubts over its judicial and political independence, with investors flocking to independent Singapore instead.[333]

In sum, three key factors have been unanimously accepted as Hong Kong’s unique determinants of competitive advantage. These are (i) economic freedom based on a laissez faire limited government approach to economic governance, (ii) a robust legal and regulatory infrastructure, and (iii) proximity to an increasingly affluent and powerful China. However, these factors do not sufficiently explain the exact means through which Hong Kong was able to attain its pre-eminence as an IFC.

Transformations in a Global Megacity, ed. Xiangming Chen (Minneapolis: University Of Minnesota Press, 2009), 94.

[330] Enright, Scott, and Dodwell, *The Hong Kong Advantage*, 100.

[331] Pauly, *Hong Kong’s International Financial Centre: Retrospect and Prospect*, 81.

[332] Enright, Scott, and Dodwell, *The Hong Kong Advantage*, 55–59.

[333] “From Offshore to Mid-Shore,” *China Economic Review*, Summer 2012, sec. China Offshore, http://www.chinaoffshore.net/en/content/offshore-mid-shore.

Rather than explaining the role of policy and government in IFC development, these factors focus instead on external demand conditions and responses to structural conditions. How the government establishes these structural conditions and the ways in which these conditions and other factors are used by the government for IFC development remain under-investigated. The next section describes the Hong Kong government's financial governance style, which provides a broad view of the general practices and enduring beliefs which underpin the government's approach to financial policymaking.

Financial Governance

Hong Kong's model of financial governance stems from its commitment to economic freedom and its adherence to the rule of law. Economic freedom is a consequence of the government's active attempts to maintain free markets through its early doctrine of "positive non-intervention" and more recently, its "big market, small government" approach. Furthermore, adherence to due process and the rule of law stems from Hong Kong's British-influenced common law system. This section discusses Hong Kong's financial governance model in the context of economic freedom and the rule of law.

In general, Hong Kong's financial governance approach flows from a "'laissez faire' government economic policy"[334] that has boosted the SAR's competitiveness by endowing it with "freedom from onerous regulation".[335] This means that there is "no intervention from the government unless market failure occurs".[336] As former HKMA chief Joseph Yam has noted, Hong Kong's success as an IFC is based on its adherence to "sound principles of the free market with minimal governmental intervention"[337]. Hong Kong's adherence to a "neoclassical principle of limited government" thus provides a measure of economic resilience and flexibility that is conducive to financial sector development[338].

Li situates Hong Kong's economic freedom within a growth-oriented "paradigm of economism" that involves an indirect yet active role of government in maintaining the conditions necessary for laissez faire.[339] Jao similarly notes that the Hong Kong government generally adopts a "permissive or accommodating posture: it merely aims to provide a stable framework for the development of the city as a financial centre, but does not, however, offer specific concessions or incentives to encourage such a

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[334] Catherine R. Schenk, "Banks and the Emergence of Hong Kong as an International Financial Center," *Journal of International Financial Markets, Institutions and Money* 12, no. 4–5 (October 2002): 322.
[335] Ibid., 338.
[336] Chong, Interview.
[337] Joseph Yam, *Hong Kong as an International Financial Centre*, Quarterly Bulletin (Hong Kong: Hong Kong Monetary Authority, August 1995), 36.
[338] Sung, "The Hong Kong Development Model and Its Future Evolution: Neoclassical Economics in a Chinese Society," 155–165.
[339] Kui Wai Li, *Economic Freedom: Lessons of Hong Kong*, 1st ed. (Singapore: World Scientific Publishing Company, 2012), 75.

trend".[340] This non-interventionist approach has been attributed to the "political apathy" of a shallowly-rooted populace that had accommodated the continuance of the British laissez faire style of economic governance even after the Chinese hand-over.[341]

Hong Kong thus represents the extreme exemplification of self-regulation and has been described as the "paradigm case of a laissez-faire economy",[342] especially when compared with more state-driven IFC's such as Shanghai and Singapore. Paradoxically, this lack of direct government action is in itself a means to promote the territory as an IFC, since Hong Kong's attractiveness as an IFC lies in its business-friendly, laissez faire economic environment. Hong Kong's economic openness has thus been used as an "instrument for attracting inward capital in the form of foreign investment and external demand in the form of manufactured goods and services exports",[343] providing a key stimulus for economic growth in the territory.

As such, it is important to note that Hong Kong's 'laissez faire' image belies an *active* role played by the government in Hong Kong's success. This means that Hong Kong's laissez faire economic policy is a "deliberate policy

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[340] Jao, "Hong Kong as a Regional Financial Centre: Evolution and Prospects," 31.
[341] Newman M. K. Lam, "Government Intervention in the Economy: A Comparative Analysis of Singapore and Hong Kong," *Public Administration and Development* 20, no. 5 (2000): 417.
[342] Neil Gunningham, "Moving the Goalposts: Financial Market Regulation in Hong Kong and the Crash of October 1987," *Law & Social Inquiry* 15, no. 1 (1990): 12–13.
[343] Li, *Economic Freedom*, 40.

choice rather than merely an absence of policy".[344] This is a policy choice that is "guided by a liberal economic ideology"[345] and hence requires considerable governmental restraint from market intervention. Former financial secretary John J. Cowperthwaite has described Hong Kong's unique brand of economic policy-making as "positive non-interventionism",[346] with the 'positive' aspect suggesting an active coordinative role of government and 'non-intervention' denoting the favouring of laissez faire capitalism.[347]

Hong Kong's financial governance model has since evolved from "positive non-intervention" to what former Chief Executive Donald Tsang has termed "big market, small government".[348] The central belief of "big market, small government" is that "government will only do the things which the market does not do".[349] This means "highly selective intervention"[350] by the government on the basis of necessity, especially during crises or in the face of market failure. In other words, Hong Kong's financial governance model is predicated upon the need to maintain the efficient functioning of its free markets without any unnecessary intervention from the state.

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[344] Schenk, "Banks and the Emergence of Hong Kong as an International Financial Center," 332.

[345] James T. H. Tang, "Business as Usual: The Dynamics of Government-business Relations in the Hong Kong Special Administrative Region," *Journal of Contemporary China* 8, no. 21 (1999): 285.

[346] Schenk, "Banks and the Emergence of Hong Kong as an International Financial Center," 332.

[347] Li, *Economic Freedom*, 548.

[348] Donald Tsang, *Big Market, Small Government*, Press Release (Hong Kong: The Government of Hong Kong Special Administrative Region, September 18, 2006), http://www.ceo.gov.hk/archive/2012/eng/press/oped.htm; Tsang, Interview.

[349] Tsang, Interview.

[350] Bruce Glassburner and James Riedel, "Government in the Economy of Hong Kong*," *Economic Record* 48, no. 1 (1972): 61.

Pauly characterises Hong Kong's government as a "facilitator" that intervenes in the economy only in reaction to crises, enabling the formation of a "strong society" capable of functioning with minimal government direction.[351] This means that industry actors are able to drive financial sector growth with little government interference, although they still operate within the regulatory oversight of the government. Hence, there is a "clear separation in Hong Kong between the role of government as referee, and the role of private companies as active players in the economy".[352]

This means that Hong Kong's success formula comprises of "combining industrial entrepreneurship with access to financial and land resources directly or indirectly sustained and steered by government policies".[353] This separation of government and industry policy roles in Hong Kong's financial governance and policymaking is elaborated in a later section on Hong Kong's financial policy subsystem. Nonetheless, more recent efforts by the government to promote Hong Kong as an IFC and financial gateway to China suggest more interventionist efforts at marketing and promotion.[354]

Another key aspect of Hong Kong's financial governance model is the SAR's adherence to the rule of law. Hong Kong's robust legal system is essentially based on the English common law that it had been endowed with as

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[351] Pauly, *Hong Kong's International Financial Centre: Retrospect and Prospect*, 32.
[352] Enright, Scott, and Dodwell, *The Hong Kong Advantage*, 30.
[353] Pauly, *Hong Kong's International Financial Centre: Retrospect and Prospect*, 10.
[354] "A Tale of Two Cities," *China Economic Review*, Winter 2010, sec. China Offshore, http://www.chinaoffshore.net/content/tale-two-cities.

a British colony, prior to the 1997 handover. The British administration had in fact ensured that the "tradition of judicial independence and the rule of law has been transplanted and firmly entrenched in Hong Kong".[355] This legal system ensures the protection of property rights and civil liberties, effectively preventing the government of the day from violating these rights and liberties.[356] Former Chief Executive Donald Tsang has noted that Hong Kong's common law system provides a significant measure of flexibility or adaptability to rapid changes in global financial markets[357].

Furthermore, Lee considers Hong Kong's fair and robust legal system to be the "bedrock of its economic success".[358] Transparency, predictability of rules and availability of investor protection define the business fundamentals upon which the SAR's reputation as a world-class IFC depends.[359] Although initially inherited from the British administration, Hong Kong's legal system has since been "developed to meet its needs for financial development".[360]

This reflects the government's attempts to keep its legal framework relevant to constantly evolving financial markets, while at the same time maintaining its transparency and efficiency. Banking regulation is guided by

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[355] Jao, *Hong Kong as an International Financial Centre*, 60.
[356] Ibid.
[357] Tsang, Interview.
[358] Martin Q.C. Lee, "Business and the Rule of Law in Hong Kong," *The Columbia Journal of World Business* 30, no. 2 (Summer 1995): 28–32.
[359] Ibid., 30.
[360] Joseph J. Norton and Douglas W. Arner, "Hong Kong SAR: Financial Regulation and Future as an International Financial Centre," in *Financial Regulation in the Greater China Area: Mainland China, Taiwan and Hong Kong SAR*, ed. Joseph J. Norton, C.J. Li, and Huang Yangxin (London: Kluwer Law International Ltd, 2000), 311.

the Basic Law as well as the Exchange Fund Ordinance (Cap 66), Banking Ordinance (Cap 155), Hong Kong Association of Banks Ordinance (Cap 364), and any other supplementary legislation supported by various codes of practice, rules and guidelines.[361]

Hong Kong's legal system can thus be seen as complementary to the government's commitment to positive non-intervention, providing a legal safeguard against excessive government intervention and facilitating the smooth functioning of Hong Kong's free markets. With regards to the latter, Hong Kong's Western-styled legal system underpins its free markets by "providing a level playing field, due process, protection of property rights and legal contracts".[362]

As Li has noted, Hong Kong's "principles of free enterprise, and the supporting legal framework, are enshrined in the Basic Law".[363] Hong Kong's legal system thus provides the legal basis and foundation for the SAR's key competitive advantage of economic freedom, even as it remains a competitive advantage in its own right. An important consequence of Hong Kong's commonwealth legal system is its acceptability by other developed nations and its adaptability to international standards.

In sum, Hong Kong's economy remains free and open, driven by the government's doctrine of "big market, small government". This is

[361] Ibid., 267.
[362] Lee, "Business and the Rule of Law in Hong Kong," 28.
[363] Li, "Enter the Dragon," 38.

complimented by a robust legal system that limits government intervention in financial markets through an adherence to due process and the rule of law, providing investor protection through transparent predictable rules. As such, economic freedom in the form of the "big market, small government" doctrine and the rule of law make up the two foundational pillars upon which financial governance in Hong Kong is built.

It is also evident that the Hong Kong government plays an important role in maintaining the economic freedom and robust legal system that constitute the Hong Kong's core competitive advantages as an IFC. This is a role that involves the formulation and implementation of sound regulations through a transparent and reliable regulatory infrastructure, which is discussed in the next section.

Regulatory Regime

In Hong Kong, the Financial Secretary is tasked with "overseeing policy formulation and implementation in financial, monetary, economic, trade and employment matters".[364] Specifically, the Financial Secretary is responsible for:[365]

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[364] Hong Kong Financial Secretary, "Role," *Financial Secretary: The Government of the Hong Kong Special Administrative Region*, July 20, 2009, http://www.fso.gov.hk/eng/role.htm.
[365] Hong Kong Monetary Authority, *Mandate & Governance of the Hong Kong Monetary Authority*, HKMA Background Brief (Hong Kong: Hong Kong Monetary Authority, December 2006), 67.

(1) The money system (including formulating monetary policy objectives and determining Hong Kong's monetary system),

(2) The Exchange Fund

(3) Public finance

(4) The financial system

(5) Hong Kong's status as an IFC.

With regards to (3), (4), and (5), the Financial Secretary is only responsible for formulating macro policy objectives while the Secretary for Financial Services and the Treasury formulates more specific policy objectives and ensures effective implementation through the various regulatory agencies.[366] While financial policy-making is generally carried out by the Financial Secretary, the Financial Services Bureau (FSB) is in charge of "translating policy into regulation" and other specialist regulatory agencies tasked with the actual regulation and supervision of financial services.[367] These specialist regulatory agencies include the Hong Kong Monetary Authority (HKMA), Securities and Futures Commission (SFC), and the Office of the Commissioner of Insurance (OCI).[368]

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366 Ibid.

367 International Monetary Fund, *People's Republic of China--Hong Kong Special Administrative Region*, Experimental IMF Report on Observance of Standards and Codes (Washington: International Monetary Fund, August 1999), http://www.imf.org/external/np/rosc/hkg/index.htm; Norton and Arner, "Hong Kong SAR: Financial Regulation and Future as an International Financial Centre," 257.

368 Norton and Arner, "Hong Kong SAR: Financial Regulation and Future as an International Financial Centre," 257.

Established on 1 April 1993 through a merger between the Office of the Exchange Fund and the Office of the Commissioner of banking, the HKMA is the Hong Kong government's chief financial regulatory agency.[369] The responsibilities, authorities and functions of the HKMA are largely spelt out in the Exchange Fund Ordnance, Banking Ordnance, Clearing and Settlement Systems Ordnance, with Legislative Council amendments to the Exchange Fund Ordinance in 1992 granting the Financial Secretary full authority in appointing the Chief Executive of the HKMA.[370]

Although the HKMA is tasked with implementing the broad financial and monetary policy objectives set by the Financial Secretary, it nonetheless possesses significant autonomy in terms of "determining the strategy, instruments and operational means" for achieving these policy objectives.[371] In general, the HKMA performs the four main functions of ensuring monetary or currency stability, maintaining financial system stability, managing the Exchange Fund, and maintaining Hong Kong's position as an IFC.[372]

The mandates of the HKMA include maintaining open and efficient markets with an appropriate regulatory and legal system, playing a larger role in international financial intermediation, ensuring an efficient financial

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[369] Hong Kong Monetary Authority, "About the HKMA," *Hong Kong Monetary Authority Website*, April 30, 2012, http://www.hkma.gov.hk/eng/about-the-hkma/hkma/about-hkma.shtml.
[370] Hong Kong Monetary Authority, *Annual Report 2011* (Hong Kong: Hong Kong Monetary Authority, 2011), 8.
[371] Ibid., 9.
[372] Hong Kong Monetary Authority, *An Introduction to the Hong Kong Monetary Authority* (Hong Kong: Hong Kong Monetary Authority, 2012), 1.

infrastructure for safer cross-border transactions, raising standards of corporate governance to increase investor confidence, and attracting foreign capital.[373]

More specifically, the HKMA's responsibilities are comprised of: "promoting the general stability and effective working of the banking system; promoting the development of the debt market, in co-operation with other relevant bodies; matters relating to the issuance and circulation of legal tender notes and coins; promoting the safety and efficiency of the financial infrastructure through the development of payment, clearing and settlement systems and, where appropriate, the operation of these systems; seeking to promote, in co-operation with other relevant bodies, confidence in Hong Kong's monetary and financial systems, and market development initiatives to help strengthen the international competitiveness of Hong Kong's financial services".[374]

These responsibilities reflect the Financial Secretary's dual focus on "maintaining the stability and integrity of Hong Kong's financial system and the status of Hong Kong as an international financial centre".[375] Other agencies are also involved in regulating Hong Kong's financial markets, although the HKMA remains the chief regulator coordinating the activities of all other regulatory agencies. While the SFC is tasked with regulating Hong Kong's

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[373] Hong Kong Monetary Authority, *Mandate & Governance of the Hong Kong Monetary Authority*, 71.
[374] Hong Kong Monetary Authority, *Annual Report 2011*, 9.
[375] Ibid.

securities and futures markets through the Securities and Futures Ordinance (SFO),[376] the publicly-listed HKEx regulates frontline issuers who list in the stock and futures exchanges it operates.[377] The OCI is a government department that is independent in regulating the insurance industry, under the Insurance Companies Ordnance.[378]

Recognizing the increasingly dense cross-sector linkages in financial markets and its implications for financial regulation, the Hong Kong government has sought to improve cross-sector policy coordination through the establishment of the Council of Financial Regulators (CFR) and the Financial Stability Committee (FSC)[379]. While the CFR deals with cross-sector regulatory issues, the FSC monitors and ensures financial system stability.[380] The CFR is chaired by the Financial Secretary and includes representatives from the HKMA, SFC, OCI, Mandatory Provident Fund Authority, and Financial Services and the Treasury Bureau.[381]

With the aim of ensuring the "efficiency and effectiveness of regulation and supervision of financial institutions", the CFR fosters coordination and cooperation among its members, promotes information-

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376 Securities and Futures Commission, *Annual Report 2011-2012* (Hong Kong: Securities and Futures Commission, 2012), 12.
377 HKEx, "Rules and Regulations," *HKEx Website*, 2010, http://www.hkex.com.hk/eng/rulesreg/regulatory.htm.
378 International Monetary Fund, *People's Republic of China--Hong Kong Special Administrative Region*.
379 Hong Kong Monetary Authority, *Mandate & Governance of the Hong Kong Monetary Authority*, 80.
380 Ibid.
381 Ibid., 82.

sharing, minimizes regulatory costs by reducing regulatory gaps and duplications, monitors trends and developments in international financial markets and financial regulation to encourage lesson-drawing, and allows for cross-sector discussions of individual regulatory issues.[382]

Conversely, the FSC is chaired by the Secretary for Financial Services and the Treasury and includes representatives from the HKMA, SFC and OCI.[383] In ensuring financial system stability, the FSC regularly monitors the various financial markets (including banking, equity, debt, and insurance), discusses current developments that carry cross market and systemic implications, formulates and coordinates possible responses to such developments, and reports its findings to the Financial Secretary regularly.[384]

In addition, the HKMA has signed several Memorandums of Understanding (MOU's) with other financial regulatory authorities.[385] These include the MOU's signed with the SFC in December 2002 and the OCI in September 2003 as well an MOU among the HKMA, OCI, SFC and the Mandatory Provident Fund Schemes Authority that was signed in October 1999 and revised in December 2003.[386] These MOU's serve to foster greater

[382] Ibid.
[383] Ibid., 83.
[384] Ibid.
[385] Ibid., 80–81.
[386] Ibid.

cooperation among financial regulatory authorities, improve regulatory policy consistence, as well as reduce regulatory duplication and gaps.[387]

Having addressed Hong Kong's model of financial governance as well as its regulatory regime, the next section discusses the financial policy mix used by the Hong Kong government, in particular the HKMA, in regulating and developing Hong Kong as an IFC.

Financial Policy Mix

Given its position as a leading IFC and the contribution of its financial sector to GDP,[388] policy-makers in Hong Kong place significant priority on financial sector development. However, Hong Kong's approach to financial sector development differs from that in Singapore and Shanghai, particularly in terms of financial policy instrument preferences. The government's laissez faire approach has resulted in a preference for stabilizing financial policy instruments that aim to maintain stable and functioning markets, in contrast to the presence of development-oriented and interventionist instruments in Singapore's and Shanghai's financial policy mixes. This section discusses the

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[387] Ibid., 84–89.

[388] Financial services represent one of Hong Kong's four 'pillar economic sectors' and account for approximately 16% of GDP value added. HKTDC Research, *Economic and Trade Information on Hong Kong*, 13 May 2013 http://hong-kong-economy-research.hktdc.com/business-news/article/Market-Environment/Economic-and-Trade-Information-on-Hong-Kong/etihk/en/1/1X000000/1X09OVUL.htm

financial policy mix used by the Hong Kong government in governing and guiding the SAR's development as an IFC.

As enshrined in its basic laws, the Hong Kong government is committed to providing "an appropriate economic and legal environment for the maintenance of the status of Hong Kong as an international financial centre".[389] Upholding Hong Kong's status as an IFC is a major macro policy objective for the Financial Secretary, along with maintaining stability and efficiency in the financial system and public finance.[390]

The Financial Secretary's policy objectives concerning the maintenance of a sound and efficient financial system are also geared towards enhancing Hong Kong's status as an IFC, especially given the SAR's externally-oriented economy and open financial markets.[391] Evidently, ensuring a sound and stable financial system contributes towards further expansion in Hong Kong's financial markets, by allowing existing financial actors to operate safely within the SAR's free markets and attracting more foreign financial institutions.

Given Hong Kong's reputational advantages as a stable IFC and its government's commitment to free markets, stabilizing financial policies have traditionally been an important part of the HKMA's policy toolkit. According

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389 Hong Kong *Basic Law,* Article 109

390 Hong Kong Monetary Authority, *Mandate & Governance of the Hong Kong Monetary Authority*, 70–72.

391 Ibid., 70.

to former HKMA executive director Simon Topping, the HKMA's supervisory policies are mostly aimed at maintaining financial market stability and protecting depositors or investors.[392]

Given the attractiveness of Hong Kong's free markets, a key aspect of the HKMA's role in promoting Hong Kong as an IFC involves the implementation of "free and liberal policies" that reduce regulatory or business costs and uphold investor confidence.[393] At a fundamental level, the HKMA is officially tasked with enhancing the SAR's competitiveness in international financial markets, fostering confidence in its financial system as well as developing and maintaining its financial infrastructure.[394]

Financial regulation represents a stabilizing financial policy instrument that serves to ensure market stability and through such market stability, further enhance Hong Kong's status as an IFC. According to the Financial Secretary's policy objective 3(c), the "regulatory regime should aim to provide a regulatory framework that promotes the stability of the financial system, provides an appropriate measure of protection to users of financial services and facilitates competition, and is consistent with the standards and practices of major international financial centres".[395]

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[392] Simon Topping, Interview, July 23, 2013.
[393] Yam, *Hong Kong as an International Financial Centre*, 38.
[394] Hong Kong Monetary Authority, "International Financial Centre," *Hong Kong Monetary Authority Website*, 2012, http://www.hkma.gov.hk/eng/key-functions/international-financial-centre.shtml.
[395] Hong Kong Monetary Authority, *Mandate & Governance of the Hong Kong Monetary Authority*, 70.

As the Hong Kong's chief financial regulator, the role of the HKMA in promoting Hong Kong as an IFC cannot be understated. The HKMA's specific roles have been spelt out in a letter from the Financial Secretary to the Monetary Authority.[396] These include ensuring safe and efficient cross-border transactions through a sound financial infrastructure, participation in international forums to increase confidence in Hong Kong's financial system, and "appropriate market development initiatives that help strengthen the international competitiveness of Hong Kong's financial services".[397]

An important part of the HKMA's efforts at promoting financial market stability is the maintenance of a sound and stable financial infrastructure. As noted by Yam, Hong Kong's financial infrastructure is a key competitive advantage driving its success as an IFC.[398] The Hong Kong financial infrastructure's "multi-currency, multi-dimensional platform ... helps maintain the stability and integrity of the monetary and financial systems, and consolidate Hong Kong's position as an international financial centre".[399]

Having such a "multi-currency, multi-dimensional platform" facilitates multi-currency transfers, payments and settlements in the financial markets through diverse channels of financial intermediation, maintaining currency stability, enhancing Hong Kong's position as a regional hub for fund transfers

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[396] Anthony Leung, "Functions and Responsibilities in Monetary and Financial Affairs," June 25, 2003.
[397] Ibid.
[398] Yam, *Hong Kong as an International Financial Centre*, 38.
Background Brief (Hong Kong: Hong Kong Monetary Authority, December 2006), 46.
[399] Hong Kong Monetary Authority, *Financial Infrastructure in Hong Kong*, 32.

and debt settlements, and reducing overall systemic risk.[400] This ensures the stability of Hong Kong's financial markets by providing a significant measure of transparency and predictability to capital flows.

However, the HKMA's policies extend beyond achieving market stability. Given the importance of financial markets as a key source of revenue for the government, developmental financial policy instruments have on occasion been used to develop potential streams of revenue from new and burgeoning financial sectors. For instance, recent reforms to the financial infrastructure were targeted at encouraging the formation of new financial market niches and increasing transactions in these niches. Specifically, the launch of the Renminbi Settlement System on March 2006 has allowed Hong Kong to "cater for the settlement needs arising from expanded renminbi business"[401] and leverage on China's rapidly expanding economic clout.

Recent plans by the HKMA to establish a local repository for trade in over-the-counter [OTC] derivatives[402] also aimed to "make Hong Kong a relatively more attractive centre than its regional competitors"[403] for OTC derivatives trading. Such reforms are part of the HKMA's "market

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[400] Ibid., 32–33.
[401] Ibid., 38.
[402] Hong Kong Monetary Authority, *Annual Report 2010* (Hong Kong: Hong Kong Monetary Authority, 2010), 81.
[403] Pauly, *Hong Kong's International Financial Centre: Retrospect and Prospect*, 51.

development initiatives”,[404] aimed at enhancing Hong Kong’s competitiveness and contributing directly to its revenue stream.

The HKMA has also enacted policies that are enabling in nature, targeting specific market sectors or niches and establishing the necessary conditions for their development. In particular, the upgrade of licensed DTC’s to restricted license banks in 1990 was part of the government’s moves to promote Hong Kong as an international financial centre.[405] This reform was particularly advantageous to foreign and merchant banks that wished to establish a presence in Hong Kong, providing them with the regulatory space to develop their businesses in the SAR.

The HKMA also launched the CMU in the same year, as part of its efforts to “strengthen and deepen Hong Kong’s financial markets”[406] and develop the market for Hong Kong-dollar debt. More recently, the HKMA has been aggressively driving the development of the SAR as an offshore RMB centre and participating in various international financial fora and committees.[407] The development of RMB business in Hong Kong has involved significant reductions in restrictions to RMB trade and the promotion of greater cooperation among banks and other financial institutions across the Hong Kong-Mainland border.

[404] Leung, “Functions and Responsibilities in Monetary and Financial Affairs.”
[405] Jao, “Financial Reform in Hong Kong,” 121.
[406] Li, “Enter the Dragon,” 37.
[407] Hong Kong Monetary Authority, *Annual Report 2011*, 81.

Another aspect of Hong Kong's financial policy mix is its inclusion of direct and indirect policy instruments in accordance with the international and domestic contexts, the result of which is an "optimal policy mix" that sustains confidence in Hong Kong as an IFC through internal improvements to the financial infrastructure and external collaboration with other governments.[408] According to Pauly, less direct regulatory instruments aimed at a stable financial infrastructure are used in the domestic sphere, while more aggressive lobbying efforts are employed in the international sphere to create an international environment that allows the Hong Kong to thrive as an international banking and finance hub.[409] This generally means the enforcement of stabilizing policies domestically and the promulgation of development-oriented financial policies internationally.

However, interviews with senior policymakers and analysts show that Hong Kong's financial policy mix remains heavily skewed towards stabilizing policy instruments. In general, there is a belief that the Hong Kong government regulates and governs the financial sector in a laissez faire style and that Hong Kong's development as a financial centre has more or less been a natural process thus far.[410] According to former Chief Executive Donald Tsang, Hong Kong practices a "totally free market economy", with government interventions maintained only in areas which are absolutely

[408] Pauly, *Hong Kong's International Financial Centre: Retrospect and Prospect*, 67–68.
[409] Ibid.
[410] Chong, Interview; Sheng, Interview.

necessary.[411] Instances of "absolute necessity" typically include bank failures or even market failures.[412]

As such, the HKMA's banking supervisory policy is primarily aimed at banking sector stability and depositor protection, with monetary stability, effective working of the financial system, and promotion of Hong Kong as an IFC taken to be secondary objectives.[413] Furthermore, the government's heavy reliance on stabilizing instruments provides a measure of political stability. It has been noted that the Hong Kong government's stable and transparent financial management policies plays a big part in gaining the trust of investors and attracting them to the city.[414] Even the HKMA's efforts at developing the banking sector in the late 1990s were based on stabilizing instruments such as promoting competition or measures to enhance the regulatory infrastructure.[415]

However, stabilizing policy instruments can also be used for developmental purposes. Stabilizing policy instruments act as means through which the HKMA may develop Hong Kong as an IFC, by "making Hong Kong an attractive place to do business".[416] In particular, the Hong Kong government's role in developing the financial sector is essentially based on the development of the necessary 'software' such as human capital, an English-

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[411] Tsang, Interview.
[412] Cartland, Interview.
[413] Topping, Interview.
[414] Tsang, Interview.
[415] Tan and Lim, *Singapore and Hong Kong as Competing Financial Centres*, 20–21.
[416] Topping, Interview.

speaking environment, a robust judicial system and the rule of law, as well as accounting systems.[417]

Other important stabilizing factors identified as key contributors to Hong Kong's continued development as an IFC include a regulatory regime that follows the highest international standards, a fully convertible currency, and a common law environment that is particularly attractive to international financiers.[418] In short, stabilizing financial policy instruments that aim to establish the necessary conditions for the proper functioning of financial markets may inadvertently contribute towards developmental goals, given that international financial institutions tend to be attracted to Hong Kong's stable markets and hence establish themselves in the SAR, contributing to Hong Kong's financial sector development and growth.

Furthermore, interview respondents also acknowledge that recent events have prompted the HKMA to take a more development-oriented approach. In particular, the emergence of Hong Kong as an offshore RMB centre has necessitated the fulfilment of two new objectives by the HKMA: developing market depth and "trying to provide revenue for the institutions", particularly through the payments system.[419] Both objectives are aimed at attracting more RMB business, by creating favourable market conditions and

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[417] Chong, Interview.
[418] Tsang, Interview.
[419] Topping, Interview.

ensuring a potential stream of revenues respectively. However, it has been noted that Hong Kong's approach differs from that of Singapore.

According to former HKMA Executive Director Simon Topping, the HKMA promotes Hong Kong largely through "appropriate supervision and infrastructure... there's no financial incentives, tax incentives, or promissory government bond issues". [420] As such, development-oriented regulations promulgated for the purpose of developing Hong Kong's RMB market are typically of the enabling type. These regulations create conditions that are conducive for RMB business to take root and flourish. As former Secretary of Financial Services Michael Cartland has noted, the Hong Kong government's job was to "provide an environment in which market players can succeed".[421]

As this section has shown, Hong Kong's financial policy mix largely comprises stabilizing financial policy instruments, although the authorities have on occasion relied on enabling and developmental policy instruments to facilitate the development of specific financial markets or niches. Nonetheless, Hong Kong's financial policy mix remains largely skewed towards stabilizing financial policy instruments, with such instruments inadvertently contributing to financial sector development by establishing the stable market conditions that are attractive to international financial institutions. The next section describes Hong Kong's financial policy subsystem.

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[420] Ibid.
[421] Cartland, Interview.

Financial Policy Subsystem

Hong Kong's financial governance model of "big market, small government" suggests a financial policy system that involves strong industry actors and limited government intervention. The existing literature and official government publications suggest as much. However, interviews with senior policymakers paint a different picture of Hong Kong's financial policy subsystem. Rather, the government retains significant control over financial policymaking, with limited financial policy participation or influence by industry and other non-state actors. This differs from the case of Singapore, where almost all financial policies and regulations are informed by industry input or Shanghai, where financial institutions and other market participants are closely linked to state interests.

Furthermore and as previous sections have shown, the Hong Kong government is committed to a laissez faire financial governance approach and relies on a stabilizing financial policy mix in financial sector development. While commitment to free market principles suggest that Hong Kong's dominant state actors are part of an advocacy coalition formed around laissez faire policy beliefs, the preference for stabilizing financial policy instruments also suggest that these state actors are further part of a stabilizing instruments constituency. This suggests overlapping dominant actor membership in a stabilizing instruments constituency and a free market-oriented advocacy coalition. The rest of this section discusses Hong Kong's financial policy subsystem.

Existing studies of Hong Kong's financial policy processes tend to highlight the involvement of both a strong state and strong society. Tang notes that Hong Kong's "limited government" approach is underwritten by a "strong state in terms of its institutional capacity and political dominance",[422] with the state's "political dominance" shared among the government, business community and prominent individuals.

While Hong Kong's early adherence to "positive non-intervention" had ensured a "separation of interests of public servants and business people",[423] the relationship between government and business remains close and "characterized by consultation rather than confrontation".[424] Scholars have noted that such consultation has permitted the formation of "opaque linkages between public and private sectors that, relatively speaking, permitted deep interaction between domestic and international markets".[425] This close collaborative relationship between the government and private sector became institutionalized in financial law, with the modernization of financial law after

422 Tang, "Business as Usual," 279.
423 Enright, Scott, and Dodwell, *The Hong Kong Advantage*, 33.
424 Ibid.
425 Pauly, *Hong Kong's International Financial Centre: Retrospect and Prospect*, 32.

1987 resulting in the "relationship between government, business and the financial system becoming increasingly rule-based and transparent".[426]

Importantly, private actors in Hong Kong play a "leadership role in business and economic development"[427] through their representation in the Executive and Legislative Councils. Industry interests from the finance and insurance sectors are typically represented in the Legislative Council's "functional constituencies".[428] Furthermore, commercial banks such as the Hong Kong and Shanghai Bank (HSBC) play a significant developmental role by financing local companies and industrial projects, "operating almost as a development bank".[429] As such, Hong Kong's laissez faire approach to economic governance has culminated in the evolution of "production organization based on social networks"[430] revolving around manufacturers, traders and financiers.

Nonetheless, the government continues to play an important role in the territory's financial sector development. Just as private actors can influence the policy-making process, the Hong Kong government also influences private actors "through a complex of committees and commissions".[431] As Tang has

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[426] Norton and Arner, "Hong Kong SAR: Financial Regulation and Future as an International Financial Centre," 256.
[427] Enright, Scott, and Dodwell, *The Hong Kong Advantage*, 32.
[428] Christine Loh, *Functional Constituencies: A Unique Feature of the Hong Kong Legislative Council* (Hong Kong University Press, 2006).
[429] Enright, Scott, and Dodwell, *The Hong Kong Advantage*, 93.
[430] David R. Meyer, *Hong Kong as a Global Metropolis* (Cambridge: Cambridge University Press, 2000), 158.
[431] Glassburner and Riedel, "Government in the Economy of Hong Kong*," 62.

noted, Hong Kong's "administration ruled in coalition with the major business corporations with the support of prominent local Chinese".[432]

The Financial Secretary and HKMA also receive advice and guidance from several advisory committees, with the Exchange Fund Advisory Committee (EFAC) and its sub-committees being the most significant in carrying out the various functions of a management board.[433] Under Section 3(1) of the Exchange Fund Ordnance, the Financial Secretary chairs the EFAC and is required to consult the committee with regards to his control of the exchange fund.[434]

Members of the EFAC are appointed by the Financial Secretary and currently include representatives from the HKMA, banks, investments and holdings companies, legal and auditing firms, as well as academia.[435] As Tang has noted, committee members represent major banks operating in Hong Kong such as HSBC, the Standard Chartered Bank, and the Bank of China.[436] The EFAC also consists of governance, audit, currency board, investment, and financial infrastructure subcommittees which "monitor specific areas of the

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[432] Tang, "Business as Usual," 279.
[433] Hong Kong Monetary Authority, *Mandate & Governance of the Hong Kong Monetary Authority*, 90.
[434] Ibid.
[435] Hong Kong Monetary Authority, "The Exchange Fund Advisory Committee," *Hong Kong Monetary Authority Website*, October 3, 2012, http://www.hkma.gov.hk/eng/about-the-hkma/hkma/advisory-committees/exchange-fund-advisory-committee.shtml.
[436] Tang, "Business as Usual," 292.

HKMA's work and report and make recommendations to the Financial Secretary through the EFAC".[437]

Other advisory committees include the Banking Advisory Committee (BAC) chaired by the Financial Secretary and which includes the Secretary for Financial Services and the Treasury, as well as representatives from the HKMA, SFC and banks, providing advice to the Chief Executive on issues related to the Banking Ordnance[438] and the Deposit-Taking Companies Advisory Committee (DTCAC), which advises the Chief Executive on issues related to deposit-taking companies as well as restricted license banks.[439]

The DTCAC is also chaired by the Financial Secretary and includes the Secretary for Financial Services and the Treasury and representatives from the HKMA, consumer council, association of Restricted License Banks and Deposit-taking Companies , banks, auditors and legislative council.[440] In addition, the Insurance Advisory Committee provides advice on the insurance

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[437] Hong Kong Monetary Authority, *Mandate & Governance of the Hong Kong Monetary Authority*, 90.
[438] Hong Kong Monetary Authority, "The Banking Advisory Committee," *Hong Kong Monetary Authority Website*, October 25, 2012, http://www.hkma.gov.hk/eng/about-the-hkma/hkma/advisory-committees/banking-advisory-committee.shtml.
[439] Hong Kong Monetary Authority, *Mandate & Governance of the Hong Kong Monetary Authority*, 92.
[440] Hong Kong Monetary Authority, "The Deposit-Taking Companies Advisory Committee," *Hong Kong Monetary Authority Website*, July 3, 2012, http://www.hkma.gov.hk/eng/about-the-hkma/hkma/advisory-committees/deposit-taking-companies-advisory-committee.shtml.

industry, under the chairmanship of the Secretary for Financial Services and the Treasure.[441]

Appendix 2 provides a list of the current members of the EFAC, BAC, and DTCAC. While all three committees are chaired by the financial secretary and include regulatory agencies such as the HKMA and SFC, major banks such as HSBC, Bank of China, Citibank, and Standard Chartered feature heavily in these committees. Furthermore, these banks have enjoyed membership in the BAC over a long period of time. Appendix 3 provides a list of BAC members from 1993 to 2012.

As shown in Appendix 3, BAC participation by HSBC, Standard Chartered, and Bank of China have been consistent over the 2 decades covered in this data. Other banks such as Citibank, the Bank of East Asia, DBS, BNP Paribas, and the Bank of Tokyo-Mitsubishi have also become mainstays of the BAC, attaining membership at different points in time. While individuals representing these banks have changed over time, the banks themselves have remained heavily involved in their advisory roles. The BAC also includes consultants such as Arthur Andersen and Deloitte Touche Tohmatsu, industry associations, and experts drawn from academia.

However, this broad overview of advisory committee membership does not allow for the identification of dominant actors or coalitions. This

[441] Office of the Commissioner of Insurance, "Insurance Advisory Committee," *Office of the Commissioner of Insurance Website*, October 4, 2012, http://www.oci.gov.hk/framework/index07.html.

means an insufficient understanding of the exact impact of different subsystem actors on financial policymaking or policy mix design, reflecting the limitations of the policy subsystems approach identified in Chapter 2. This shortcoming is overcome in Chapter 7, through the application of the Nested Instrumental Approach to the three cases that allows for the analysis of both subsystem and instruments variables in the financial policy process.

Financial and regulatory policy-making in Hong Kong also involves non-state actors in less formal capacities. Consultant firm KPMG Barents was commissioned by the HKMA in March 1998 to review the banking sector of Hong Kong as well as provide recommendations, with the government accepting most of the recommendations pertaining to deregulation and clarifying the HKMA's role as lender of last resort.[442] Independent non-governmental experts have also been included in consultative organizations such as the Hong Kong government's Central Policy Unit, which draws its members from academia, industry, and elites[443] as well as the Hong Kong Economic Development Commission, which includes local and foreign experts.[444]

However, interviews with senior policymakers suggest that the role of the private sector and other non-state actors in financial policymaking is often over-stated. As noted by former HKMA executive director Simon Topping,

[442] Jao, "Financial Reform in Hong Kong," 121.
[443] Chong, Interview.
[444] Independent Expert, Interview, August 7, 2013, 6.

HKMA consultation is effectively "taking the views of the people, and then making up your mind on what you want to do. It doesn't mean taking accountable the views of people or coming to a compromise".[445] As noted by Mr Topping, the HKMA has often pushed through policies that are unfavourable to banks, such as the implementation of a minimum risk weight of 15% on residential mortgages, despite industry resistance during consultation.[446]

Having participated in government consultations as an independent expert through the Hong Kong government's Central Policy Unit, Professor Chong Tai Leung notes that "consultation (in Hong Kong) is only a procedure, it is a way for the government to inform the industry about what kind of policy it plans to do, rather than take in policy advice from the industry".[447] In the words of Glassburner and Reidel, there is "far more centralization of economic activity in Hong Kong than meets the eye".[448] Government agencies remain the dominant financial policy subsystem actors in Hong Kong.

Such a view is not completely new. Scholars have noted this state-driven aspect of Hong Kong's economic and financial development, characterized by a state-centred policy process and the insulation of

[445] Topping, Interview.
[446] Ibid.
[447] Chong, Interview.
[448] Glassburner and Riedel, "Government in the Economy of Hong Kong*," 63.

policymakers from political and societal forces[449]. This dominance of state policymaking bodies amidst the government's continued commitment to laissez faire principles has allowed the government to effectively implement policies and manage crises, even as Hong Kong continues to enjoy the benefits of free market-driven economic growth[450].

Although Lim has attempted to show how the Hong Kong government's response to the AFC was motivated by the interests of a 'property cartel' that comprised powerful property market interests,[451] her account is based on secondary information gleaned from newspapers and other journalistic sources. Rather, as former HKMA deputy chief executive Andrew Sheng notes, the Hong Kong government's moves to intervene in the stock markets during the AFC was "instinctive action against speculation" taken to prevent a liquidity squeeze and in its focus on maintaining financial market stability, "did not go against Hong Kong's laissez faire approach".[452]

Post-handover Hong Kong's financial subsystem has also come to involve Mainland actors such as the Chinese central government, state banks and regulatory authorities. Hong Kong's linkages with the Mainland has existed since the 1870's, forming a "social network of capital" that is

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449 Peter Bernard Harris, *Hong Kong: A Study in Bureaucratic Politics* (Hong Kong: Macmillan, 1988); Martin Painter, "Transforming the Administrative State: Reform in Hong Kong and the Future of the Developmental State," *Public Administration Review* 65, no. 3 (May 1, 2005): 335–46.

450 Ian Scott, "Administration in a Small Capitalist State: The Hong Kong Experience," *Public Administration and Development* 9, no. 2 (1989): 185 – 199.

451 Lim, "Free Market Fancies: Hong Kong, Singapore, and the Asian Financial Crisis."

452 Sheng, Interview.

attractive to foreign banks and financial institutions seeking to ply their trade in the East Asian region.[453] Indeed, Hong Kong's status as an IFC is dependent on the "relationship between the local government, mainland interests, and local financial institutions".[454]

With Mainland firms becoming more active in Hong Kong, financial governance in the territory will see greater involvement of major Chinese banks and financial institutions. One instance of this is their greater representation on corporate boards as well as public institutions such as advisory boards.[455] However, this does not mean a dominance of Chinese interests. Rather, Hong Kong's financial subsystem will continue to be characterized by a "diverse economic structure and fragmentation of business and pro-China interests as well as resistance within the administration".[456]

Hong Kong's financial subsystem also involves regional and international actors, by virtue of the SAR's involvement in international forums and organizations. For instance, HKMA is a member of the ASEAN Plus Three Macroeconomic Research Office (AMRO). This is a regional macroeconomic surveillance unit set up under the aegis of the ASEAN Plus Three (APT) grouping's Chiang Mai Initiative Multilateralisation (CIMM)

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[453] Meyer, *Hong Kong as a Global Metropolis*, 199.
[454] Schenk, *Hong Kong as an International Financial Centre: Emergence and Development 1945-1960*, 160.
[455] Tang, "Business as Usual," 292.
[456] Ibid., 293.

programme, aimed at monitoring risk among member economies as well as facilitating remedial actions upon detection of risk.[457]

The CIMM is a multilateral currency swap agreement established among APT members in 2010 for the purpose of addressing "balance of payment and short-term liquidity difficulties in the region".[458] As a regional surveillance unit, the AMRO ensures regional economic stability by providing early warning of potential risks and hazards. Hong Kong's participation in the AMRO and the CIMM initiative is important for ensuring the territory's status and stability as an IFC, given the vulnerability of its open markets to crises and contagion effects.

While Hong Kong's financial policy subsystem includes government actors of all levels as well as both domestic and international industry and other non-state organizations, interviews with senior policymakers and independent experts involved in Hong Kong's financial policy process are unanimously in favour of the view that the Hong Kong government retains significant authority over financial policy. In other words, government actors such as the HKMA remain dominant in financial policymaking.

Yet the government's dominance over financial policy is balanced by its adherence to a laissez faire approach that involves limited government

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457 ASEAN + 3 Macroeconomic Research Office, "What We Do," *ASEAN + 3 Macroeconomic Research Office Website*, 2012, http://www.amro-asia.org/about-amro/overview/what-we-do/.
458 Ibid.

intervention. As such, state agencies such as the HKMA are members of an advocacy coalition formed around a long-standing belief in free market principles and a laissez faire approach to financial governance. Furthermore, while the HKMA occupies a dominant policy role in Hong Kong's policy subsystem, it limits its direct influence over financial sector development and focuses instead on maintaining financial market stability and investor protection. The consequent reliance on and preference for a stabilizing financial policy mix, as discussed in the previous section, further suggests that dominant state actors form a stabilizing instruments constituency.

Hong Kong's success as an IFC is thus underpinned by a 'balance' struck by the state and industry. While financial institutions are allowed to operate and flourish in a free and open market, the state's dominance over financial policies and its commitment to free market principles ensure both market and political stability. In contrast to the more proactive and interventionist role of the state in Singapore's financial markets, the development of financial markets in Hong Kong is largely "market-driven" and has "relied on efforts of firms rather than government sponsorship"[459].

Importantly, the participation of Hong Kong's dominant state actors in a free market-oriented advocacy coalition and a stabilizing instrument constituency allows policymakers to exercise their influence on financial

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[459] Matthew Harrison, *Fund Management in Hong Kong and Singapore,* SFC Quarterly Report (Hong Kong: Securities and Futures Commission, 2003); Tan and Lim, *Singapore and Hong Kong as Competing Financial Centres*, 43.

policy mix design through both ideational and instrumental channels. This is discussed in Chapter 7.

Conclusion

As this chapter has shown, the Hong Kong government is committed to ensuring economic freedom through a governing doctrine of “big market, small government” that involves minimal government intervention. While Hong Kong’ financial policy subsystem includes state actors, private sector industry actors and independent non-state experts, financial policymaking remains well within the purview of the government. Consultation is seen by policymakers as a means to inform industry actors about intended policies rather than a mechanism for including private sector actors in the policy process.

Hong Kong’s laissez faire approach to financial policy also flows into its financial policy mix. Stabilizing and enabling instruments are used respectively to maintain financial market stability and establish necessary conditions for new financial activities such as RMB businesses to take root. Unlike Singapore and Shanghai, the Hong Kong government does not use developmental instruments to stimulate financial sector development. Stabilizing and enabling instruments are thus reflective of the Hong Kong government’s preference for policies that enhance Hong Kong’s attractiveness to investors as well as the proper functioning of its markets, driven by a firm belief in free market principles.

In sum, the Hong Kong government's laissez faire governing style of "big market, small government" entails limited government intervention in financial markets and limited influence by non-state actors over financial policies. This means that the government is focused on maintaining the stability and attractiveness of Hong Kong's financial sector rather than the interests of industry actors. As a result, Hong Kong's financial policy mix is skewed towards stabilizing instruments, although the government has on occasion used enabling instruments in developing new financial market niches such as RMB trade.

Therefore, Hong Kong's financial governance model defines its financial policy subsystem configuration, in terms of membership and inter-actor relations. This state-dominated financial policy subsystem in turn defines Hong Kong's financial policy mix, which largely comprises stabilizing policy instruments and is geared towards the attainment of financial market stability. These linkages between subsystem configuration, policy mix design, and policy output attainment are further explored in Chapter 7.

Chapter 5: Singapore

Introduction

Although enjoying natural advantages such as a strategic location and favourable time zone, the development of Singapore's financial sector stems from a post-independence "systematic effort" by the government to develop the then-newly formed republic into an IFC,[460] based on a "conceived vision deliberately nurtured with far-sighted liberal monetary policies ... and managed with administrative efficacy".[461] Such early efforts included the establishment of a favourable tax system, rule of law, a sound and reliable regulatory regime, as well as a pool of trained financial professionals.

However, government efforts at IFC development only tell half the story. Singapore's success as an IFC is also based on the active participation of industry and other non-state actors in financial policymaking. While the Bank of America was instrumental in Singapore's establishment of its Asian Dollar Market, it was Professor Albert Winsemius who first proposed the establishment of a financial centre to the Singapore government. Financial institutions and academics continue to play significant roles in the Singapore government's financial policymaking.

[460] Cassis, *Capitals of Capital*, 277.
[461] Chwee Huat Tan, "Singapore as an International Financial Centre," in *East Asia Dimensions of International Business*, by Phillip D. Grub et al. (Sydney: Prentice Hall, 1982), 29.

This has resulted in a financial policy subsystem that involves financial policy 'co-creation' by a closely-knit set of state and non-state actors who form Singapore's "governing elite".[462] This important role of the private sector and other non-state actors in financial policymaking constitutes a key defining feature of Singapore's development as an IFC. While industry and non-state actors are also present in Hong Kong's financial policy subsystem, they possess very limited influence over the HKMA's financial policies. This stands in stark contrast to the state-industry policy 'co-creation' that takes place in Singapore.

As a reflection of the mix of state and non-state actors in Singapore's financial governing elite, the government's financial policy mix comprises a full spectrum of financial policy instruments, including stabilizing, enabling, and developmental instruments. This suggests the lack of a coherent instruments constituency and hence lower reliance by dominant subsystem actors on the instruments channel to influence policy mix design. While stabilizing instruments reflect governmental desire to maintain market stability, enabling and developmental instruments are designed and implemented in order to fulfil the both state and industry interests.

Given the government's and industry's development-focus, developmental policy beliefs flow into policy mix design through an ideational channel exercised by a developmental advocacy coalition comprising key state

[462] Natasha Hamilton-Hart, *Asian States, Asian Bankers: Central Banking in Southeast Asia* (New York: Cornell University Press, 2002).

and industry actors. As such, developmental policy beliefs encourage the inclusion of enabling and developmental policies in Singapore's financial policy mix. These policies in turn provide industry actors with the business environment and access to capital that are necessary for their growth and success, in turn stimulating financial sector development and fulfilling the Singapore government's developmental objectives.

This chapter provides a broad overview of Singapore's development as an IFC, focusing on the policies and politics behind its success. I begin with a brief overview of Singapore's historical development as an IFC and a description of Singapore's comparative advantages as an IFC. This is followed by sections on Singapore's financial governance model, its regulatory regime, the financial policy mix used by the government in IFC development, and the financial policy subsystem within which its financial policymaking takes place.

Historical Development

Singapore's development as an IFC formally began with its founding as an independent republic in 1965. As part of a "two-pronged strategy", the government identified financial services as a key sector that could both support the development of existing industries and become a growth industry in its own right.[463] Having been developed as an important source of revenue in its own right, the expansion of Singapore's financial sector has since become less dependent on developments in the real sector, as compared to many other IFC's[464] such as Hong Kong, where the financial sector was initially developed to service already successful real sectors such as trade and manufacturing.

More importantly, Singapore's emergence as an IFC was "a result of orderly stimulation by the Government through legislative measures and administrative monitoring by the MAS".[465] This involved the government playing an "active role in promoting Singapore as an international financial centre".[466] Compared to Hong Kong, the Singapore government plays a "more 'activist' role in guiding the development of its financial sector".[467]. As Austin has noted, the "success of Singapore as Southeast Asia's premier financial and industrial centre was the product of the State"[468].

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463 Manuel F. Montes, "Tokyo, Hong Kong and Singapore as Competing Financial Centres," *Journal of Asian Business* 18, no. 1 (1999): 153–68.

464 Ralph C. Bryant, "The Evolution of Singapore as a Financial Centre," in *Management of Success: The Moulding of Modern Singapore*, ed. Kernial Singh Sandhu and Paul Wheatley (Singapore: Institute of Southeast Asian Studies, 1989), 350–354.

465 Tan, "Singapore as an International Financial Centre," 35.

466 Sik Park Yoon, "A Comparison of Hong Kong and Singapore as Asian Financial Centres," in *East Asia Dimensions of International Business*, ed. Phillip D. Grub et al. (Sydney: Prentice Hall, 1982), 27.

467 Jao, *Banking and Currency in Hong Kong*, 132.

468 Ian Patrick Austin, *Goh Keng Swee And Southeast Asian Governance* (Marshall Cavendish Academic, 2004), 1.

From the beginning, the Singapore government has been "actively involved in the planning and development of the financial sector",[469] through its "policy of identifying and targeting the development of specific financial activities, which were then provided with tax and other fiscal incentives".[470] This policy is evident in the establishment of the Asian Dollar Market (ADM) in 1968, which was built on Singapore's time zone advantage, allowing it to bridge the "gap between the close of markets in the United States and the reopening of business the next day in Europe".[471]

Underpinning the ADM's subsequent success was a key move by the government to abolish a withholding tax on interest income from non-resident foreign currency deposits in 1968.[472] The government also established regulations, in the form of the 1970 Banking Act and Foreign Exchange Act, aimed at encouraging entry into Singapore's burgeoning offshore banking sector.[473] This was followed by a slew of tax and fiscal incentives introduced with the aim of expanding the ADM and attracting foreign financial institutions.[474]

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469 Tan, "The Development of Singapore's Financial Sector: A Review and Some Thoughts on Its Future Prospects," 248.
470 Ibid.
471 Ong Chong Tee, *Singapore's Policy of Non-Internationalisation of the Singapore Dollar and the Asian Dollar Market*, BIS Papers chapters (Bank for International Settlements, 2003), 96, http://econpapers.repec.org/bookchap/bisbisbpc/15-11.htm.
472 Zoran Hodjera, "The Asian Currency Market: Singapore as a Regional Financial Center (Le Marche Monetaire d'Asie: Singapour, Place Financiere Regionale) (El Mercado Monetario de Asia: Singapur Como Centro Financiero Regional)," *Staff Papers - International Monetary Fund* 25, no. 2 (June 1978): 223.
473 Ibid.
474 Cassis, *Capitals of Capital*, 277.

With Singapore's financial industry becoming increasingly complex, the Monetary Authority of Singapore (MAS) was formed on 1 January 1971 under the aegis of the Monetary Authority of Singapore Act.[475] The MAS serves as central bank and chief regulator of Singapore's financial markets, and has been tasked with promoting Singapore as an IFC. The MAS also represents an institutionalisation of then-finance minister Goh Keng Swee's twin philosophies of pragmatism and interventionism.[476]

This makes the MAS an active policy arm of the government and an important component of Singapore's overall economic governance machinery, rather than a "standalone statutory entity".[477] Suffice to say, the formation of the MAS immediately set the stage for major financial sector reforms in the 1970s that would drive the internationalization of Singapore's financial markets[478]. Importantly, the abolishment of exchange controls resulted in the formation of Singapore's foreign exchange market.[479]

The 10-year development plan of 1975 explicitly articulated the government's desire to make Singapore an IFC and guided subsequent measures taken by the government to stimulate Singapore's development as an

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[475] Monetary Authority of Singapore, "Overview of MAS," *Monetary Authority of Singapore Website*, September 4, 2012, http://www.mas.gov.sg/en/About-MAS/Overview-of-MAS.aspx.
[476] Austin, *Goh Keng Swee And Southeast Asian Governance*, 21.
[477] Jarvis, "Race for the Money," 79.
[478] Chwee Huat Tan, *Financial Services and Wealth Management in Singapore*, Updated (Singapore University Press, 2011), 17.
[479] Kee Jin Ngiam, "Singapore as a Financial Center: New Developments, Challenges, and Prospect," in *Financial Deregulation and Integration in East Asia*, ed. Takatoshi Ito and Ann O. Krueger, vol. 5, NBER-EASE (Chicago: University of Chicago Press, 1996), 366.

IFC.[480] Underlying these regulatory reforms was Singapore's structural transformation "through deliberate government policies from a largely trading economy to a manufacturing-finance-service and trading economy".[481]

The Stock Exchange of Singapore (SES) was established in 1973, allowing companies to raise capital through the equity capital market.[482] New financial instruments were subsequently introduced, including the Singapore dollar negotiable certificate of deposit in 1975, US dollar negotiable certificate of deposit in 1977, and SDR deposits in ACU in 1979.[483] A Gold Exchange was also established in 1978, with the government subsequently seeking to encourage the development of the gold market through a reduction of taxes on income from gold transactions from 40% to 10% in 1980.[484]

Yet it was only in the 1980s that Singapore's financial markets really took on an international character.[485] Ground zero of the financial sector's internationalization can be traced to the recommendations of the Economic Review Committee in 1985, which identified "7 areas of growth for the

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480 Lee and Vertinsky, "Strategic Adjustment of International Financial Centres (IFCs) in Small Economies: A Comparative Study of Hong Kong and Singapore," 161.
481 Noboru Mochizuki, "Growth and Development of the Singapore General Insurance Market and Its Future Outlook," in *The Singapore Insurance Industry: Historical Perspective, Growth and Future Outlook*, ed. Soe Myint (Singapore: Singapore Insurance Training Centre, 1985), 63.
482 Tan, "The Development of Singapore's Financial Sector: A Review and Some Thoughts on Its Future Prospects," 254.
483 Sheng Yi Lee, "Developing Asian Financial Centres," in *Pacific Growth and Financial Interdependence*, ed. Augustine H.H. Tan and Basant Kapur (Sydney: Allen and Unwin, 1986), 215.
484 Chwee Huat Tan, *Financial Markets and Institutions in Singapore*, Tenth (Singapore: Singapore University Press, 1999), 13.
485 Cassis, *Capitals of Capital*, 277.

financial sector, namely: Risk Management; Fund Management; Capital Markets; Unlisted Securities Market (USM); Financial and Commodity Futures; Financing of Third Country Trading and Reinsurance".[486] These new areas of growth were identified in response to the 1984-1985 recessions and more importantly, the emerging trends of liberalization and deregulation in international financial markets that were beginning to threaten Singapore's traditional market niches.[487]

This coincided with further development of Singapore's market for securities, with the formation of the Singapore International Monetary Exchange (SIMEX) in 1983 and the setting up of the SESDAQ board in 1987.[488] The ongoing internationalization of Singapore's financial markets, in particular banking, in the 1980s resulted in greater foreign exchange trading and as a consequence, rapid expansion of the financial sector.[489]

Between the 1970s and 1990s, Singapore's banking industry also experienced a government-driven process of "rationalization" and consolidation.[490] This was largely based on the government's belief in a need to increase the size of local banks to ensure their competitiveness[491] and align

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[486] Donald R. Lessard, "Singapore as an International Financial Centre," in *Offshore Financial Centres,* ed. Richard Roberts, vol. 4, International Financial Centres (Aldershot: Edward Elgar Publishing Limited, 1994), 203.
[487] Lee and Vertinsky, "Strategic Adjustment of International Financial Centres (IFCs) in Small Economies: A Comparative Study of Hong Kong and Singapore," 162.
[488] Tan, *Financial Services and Wealth Management in Singapore*, 17.
[489] Bryant, "The Evolution of Singapore as a Financial Centre," 344.
[490] Hamilton-Hart, *Asian States, Asian Bankers*, 97.
[491] Ibid.

their long term interests with the local economy.[492] For the latter, the MAS required local banks to appoint a Nominating Committee which ensures that local banks "act in a manner consistent with the national interest".[493] The stock exchange crisis of 1985 also prompted further consolidation, with the MAS encouraging a takeover of the fragmented brokerage system by local banks.[494]

Another important development of the 1980s was the development of Singapore's asset management industry. It was during this period that the government's national development plans had first identified fund management as an important sector for development, with various incentives such as grants and tax incentives offered to attract fund managers.[495] Government policy throughout the 1990's would continue to be targeted at developing and expanding the fund management industry.[496] Singapore has since emerged to become the "premier asset management location in Asia", with total assets under management reaching SGD $1.4 trillion.[497]

The increasingly integrated nature of financial markets in the 1990s further prompted financial sector reforms by the MAS that were predicated on the "main thrusts" of creating a "more conducive regulatory environment" and

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492 Monetary Authority of Singapore, *Liberalising Commercial Banking and Upgrading Local Banks*, Statement by the Monetary Authority of Singapore (Singapore: Monetary Authority of Singapore, May 17, 1999).
493 Ibid.
494 Hamilton-Hart, *Asian States, Asian Bankers*, 97.
495 Harrison, *Fund Management in Hong Kong and Singapore*, 3.
496 Tan, *Financial Markets and Institutions in Singapore*, 16.
497 Monetary Authority of Singapore, "Wealth Management and Insurance," *Monetary Authority of Singapore Website*, June 20, 2012, http://www.mas.gov.sg/Singapore-Financial-Centre/Overview/Wealth-Management-and-Insurance.aspx.

playing a "more proactive role in promoting the financial sector".[498] This dual focus on stability and development were also reflected in an organizational restructuring in the MAS in 1997 that yielded the formation of a Financial Sector Promotion Department aimed at promoting financial activities and developing Singapore's role as an IFC.[499]

In order to further internationalize Singapore's financial sector, the MAS made "numerous reforms to attract more international institutions".[500] For instance, the 1992 Budget saw a reduction of the corporate tax rate to 30% and the introduction of double tax deductions for expenses incurred by financial institutions seeking to develop skill and knowledge-intensive financial activities.[501] Incentives unveiled in the 1993 Budget further sought to "develop an external economy" and "attract offshore activities to Singapore".[502] The 1990s also saw the emergence of Singapore's commodities market, with the establishment of the Rubber Association of Singapore (RAS) Commodity Exchange in 1992 and its re-organization into the Singapore Commodity Exchange (SICOM) in 1994.[503]

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[498] Monetary Authority of Singapore, *Annual Report 1997/1998* (Singapore: Monetary Authority of Singapore, 1998), 52.
[499] Monetary Authority of Singapore, "MAS' New Organisational Structure," April 3, 1998, http://www.mas.gov.sg/en/News-and-Publications/Press-Releases/1998/MAS-Adopts-New-Organisational-Structure--03-Apr-1998.aspx.
[500] Tan, *Financial Services and Wealth Management in Singapore*, 17.
[501] Tan, *Financial Markets and Institutions in Singapore*, 14.
[502] Ibid., 15.
[503] Tan, *Financial Markets and Institutions in Singapore*, 10.

While the onset of the Asian Financial Crisis (AFC) of 1997 caused a slowdown in Singapore's economy and had particularly negative impacts on its financial sector due to the vulnerability of Singapore's open financial markets to contagion,[504] Singapore's financial sector recovered in 1999. As part of the MAS's five-year plan to liberalise the commercial banking sector and upgrade local banks,[505] a new category of "Qualifying Full Bank" (QFB) was introduced in 1999 to increase the range of services which foreign banks could offer,[506] along with complementary moves to increase the number of restricted banks, grant offshore banks with greater flexibility in SGD wholesale business, and the lifting of a 40% foreign shareholding limit on local banks.[507]

Importantly, the Singapore Exchange (SGX) was formed in 1999 with the demutualisation and merger of the Stock Exchange of Singapore and Singapore International Monetary Exchange.[508] The SGX subsequently started electronic trading, along with a deregulation of commission rates, widening of

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[504] Monetary Authority of Singapore, *Annual Report 1997/1998*, 23–24.
[505] Ibid., 52.
[506] Chwee Huat Tan, *Singapore Financial & Business Sourcebook*, 2nd ed. (Singapore: Singapore University Press, 2002), 95; Monetary Authority of Singapore, "Commercial Banks," *Monetary Authority of Singapore Website*, June 29, 2012, http://www.mas.gov.sg/Singapore-Financial-Centre/Types-of-Institutions/Commercial-Banks.aspx.
[507] Monetary Authority of Singapore, *Liberalising Commercial Banking and Upgrading Local Banks*.
[508] Monetary Authority of Singapore, *Annual Report 1999/2000* (Singapore: Monetary Authority of Singapore, 2000), 40.

product range and the formation of "strategic alliances with overseas exchanges to enlarge the issue base and investor pool"[509].

The 2000s saw a carrying over of the government's plans in the late 1990s to liberalize financial markets. Government measures in the early 2000s thus aimed to promote "consolidation and liberalisation of the financial industry", with the MAS strengthening its regulatory and supervisory framework at the same time.[510] Singapore's financial markets also became increasingly diverse in this period, with consolidation in the banking sector and expansion in the insurance industry and capital markets.[511]

However, Singapore's open economy would prove vulnerable to the GFC of 2007, dipping into technical recession between end 2008 and early 2009. As a consequence of the GFC, financial sector supervision was tightened and intensified by the MAS.[512] Singapore nonetheless recovered from the GFC in mid-2009 on the back of increased industrial output and improvements in financial market conditions.[513] Singapore's economy would

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[509] Tan, *Financial Services and Wealth Management in Singapore*, 18.
[510] Monetary Authority of Singapore, *Annual Report 2001/2002* (Singapore: Monetary Authority of Singapore, 2002), 5.
[511] Monetary Authority of Singapore, *Annual Report 2002/2003* (Singapore: Monetary Authority of Singapore, 2003), 42.
[512] Monetary Authority of Singapore, *Annual Report 2007/2008* (Singapore: Monetary Authority of Singapore, 2008), 24.
[513] Monetary Authority of Singapore, *Annual Report 2009/2010* (Singapore: Monetary Authority of Singapore, 2010), 16.

experience a record growth of 14.5% in 2010,[514] with the financial sector expanding by 12% in the same year.[515]

In light of a post-GFC need to maintain the resilience of Singapore's financial sector during crises, the MAS sought to "build depth and diversity in the offering of financial products and services" as well as enhance risk management and transparency.[516] The MAS is also working to ensure that financial institutions in Singapore comply with Basel III capital standards, which were issued in response to the GFC.[517] In terms of infrastructural developments, the Marina Bay Financial Centre (MBFC) was developed in 2012 to "seamlessly extend the existing business district and double the size of the financial district to support the long term growth of Singapore's financial industry".[518]

Importantly, the Asia-driven post-GFC recovery of the global economy had significant impacts for Singapore's financial sector, with "the surge in trade and capital flows, strong growth of Asian corporate activity and increasing wealth accumulation in Asia"[519] driving demands for financial services in the region. As MAS Managing Director Ravi Menon noted in a speech delivered on 13 March 2013, Singapore's "pan-Asian focus" drives the

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[514] Monetary Authority of Singapore, *Annual Report 2010/2011* (Singapore: Monetary Authority of Singapore, 2011), 20.
[515] Ibid., 9.
[516] Monetary Authority of Singapore, *Annual Report 2009/2010*, 30.
[517] Monetary Authority of Singapore, *Annual Report 2010/2011*, 28.
[518] Ibid., 35.
[519] Ibid., 33.

republic's continued development and value proposition as an IFC.[520] Given the growth of RMB-denominated investment in the ASEAN region, Deputy Prime Minister and Minister for Finance Tharman Shanmugaratnam has emphasized Singapore's growing role and potential as an offshore RMB centre in a speech delivered on 15 March 2013.[521]

Singapore's emergence and development as an offshore RMB centre was further bolstered by the appointment of Industrial and Commercial Bank of China (ICBC) as the official RMB clearing bank in Singapore by the People's Bank of China (PBC) in February 2013 and the announcement of an expanded Currency Swap Facility between the PBC and MAS in March 2013.[522] Similar to the case of Hong Kong, the economic rise of China has significant implications for Singapore's development and success as an IFC.

However, the historical account of Singapore's success as an IFC is flawed by its over-emphasis on the role of the state. While government agencies such as the MAS have no doubt played an important role in implementing the policies which have driven Singapore's emergence and success as an IFC, interviews with policymakers and financial sector

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[520] Ravi Menon, "Singapore's Financial Centre in the New Landscape" (presented at the Investment Management Association of Singapore (IMAS) 14th Annual Conference, Singapore, March 13, 2013), http://www.mas.gov.sg/News-and-Publications/Monetary-Policy-Statements-and-Speeches/2013/Singapore-Financial-Centre-in-the-New-Landscape.aspx.
[521] Tharman Shanmugaratnam, "Key Issues in Asian Financial Markets" (presented at the ACI 52nd World Congress, Singapore, March 15, 2013), http://www.mas.gov.sg/News-and-Publications/Monetary-Policy-Statements-and-Speeches/2013/Key-Issues-in-Asian-Financial-Markets.aspx.
[522] Ibid.

professionals have shown that industry actors are also heavily involved in the formulation and implementation of financial policies through a process of “policy co-creation”. This is discussed in a later section on Singapore’s financial policy subsystem.

Sources of Competitive Advantage

In her conceptualization of a “government-made” Singapore, Low differentiates between the republic’s naturally-occurring comparative advantages of strategic location and “initial conditions of cheap and plentiful disciplined labour”[523] from its state-driven competitive advantages. State-driven competitive advantages arise from the “the government’s active involvement to restructure the economic and inject new activities”,[524] representing a form of “artificial or acquired comparative advantage”.[525]

This categorization is echoed in the MAS’s view that Singapore’s success as an IFC is driven by “tangible” advantages such as a favourable time zone as well as good communications and payments networks and “intangible” advantages including rule of law, currency stability, and “an honest and competent government”.[526] Even as both Hong Kong and Shanghai

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[523] Linda Low, *The Political Economy of a City-State: Government-Made Singapore* (Oxford: Oxford University Press, 2001), 232.
[524] Ibid.
[525] Ibid., 170.
[526] Monetary Authority of Singapore, *Sustaining Stability, Serving Singapore* (Singapore: Monetary Authority of Singapore, 2011), 144.

share many of these natural and tangible advantages to varying degrees, less tangible government-made advantages are unique to Singapore. Yet as the next chapter will show, Shanghai has been trying to build up such government-made competencies.

While Singapore's strategic location and talent pool remain important factors contributing to the republic's growth as an IFC,[527] it is only through deliberate policy that the government has been able to leverage on and convert these existing advantages into IFC success. This makes Singapore's "strong, stable and pro-active government" its core competitive advantage,[528] with the republic's "natural locational advantages of time zone and central position in international trade routes ... exploited to the fullest by deliberate government policy".[529]

According to MAS Managing Director Mr Ravi Menon, Singapore's "number one value proposition is that we (Singapore) are well regulated and supervised".[530] As such, Singapore's government-sanctioned regulatory and tax benefits as well as the virtuous cycle of agglomeration sparked off by these benefits are more important in explaining Singapore's success as an IFC than its naturally-occurring competitive advantages of location and time-zone.[531]

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[527] Menon, "Singapore's Financial Centre in the New Landscape."
[528] Lee and Vertinsky, "Strategic Adjustment of International Financial Centres (IFCs) in Small Economies: A Comparative Study of Hong Kong and Singapore," 161.
[529] Ibid.
[530] Ravi Menon, Interview, September 26, 2013.
[531] Bryant, "The Evolution of Singapore as a Financial Centre," 355.

This means that proactive government policy underpins many of Singapore's key advantages as an IFC. These key advantages include its sound and stable regulatory framework, robust legal system, and low tax rates. Singapore's success as an IFC is thus driven by its strong fundamentals of "a well-respected regulatory and supervisory regime, a stable domestic economy, a pro-business operating environment and a highly competent financial sector workforce".[532] This makes Singapore "an international financial centre trusted for its high standards of regulation, integrity and efficiency".[533]

Singapore's efficient infrastructure and educated workforce are also competitive advantages developed by the government for the purpose of supporting its growth as an IFC, with government investments in areas such as education and telecommunications serving to "augment the comparative advantages that Singapore already possesses".[534] Taken together, Singapore's efficient infrastructure represents the "hardware" of its financial sector while regulations and incentives make up its "software".[535]

Such proactive government policy also typically involves the identification and development of key sectors or niches that eventually grow to become new competitive advantages for Singapore. As Lee and Vertinsky

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[532] Monetary Authority of Singapore, *Annual Report 2009/2010*, 30.
[533] Monetary Authority of Singapore, *Annual Report 2010/2011*, 9.
[534] Tan, "The Development of Singapore's Financial Sector: A Review and Some Thoughts on Its Future Prospects," 249.
[535] Hsien Loong Lee, "Improving the Hardware and Software of the Financial Sector" (Speech by DPM Lee Hsien Loong presented at the Offical Launch of the MAS Electronic Payment System (MEPS), Singapore, August 13, 1998).

have noted, Singapore's success as an IFC is driven by the government's "attempts at niche creation".[536] This identification of new niches requires governmental efforts in adapting to ever-changing market conditions, with the government possessing an inordinate amount of "flexibility in restructuring its economy as particular industrial comparative advantages are eroded by new competitors".[537]

Niche creation represents an important second dimension of Singapore's competitive advantages as an IFC. New niches identified and successfully developed through proactive government policy tend to become unique selling points for Singapore's role as an international financial services provider. As noted by Tan and Lim, the Singapore government "creates and maintains Singapore's niche in the international financial market by adaptive maintenance of internationally competitive tax structures and constant provision of a sound and stable financial system".[538]

In reflection of the government's belief in niche creation, former finance minister and MAS chairman Richard Hu has noted that Singapore needed to "become 'number one' in a particular niche of financial services" in order to fulfil its goals of becoming a successful IFC.[539] The MAS also steered clear of the loan syndication market so as not to engage in direct competition

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[536] Lee and Vertinsky, "Strategic Adjustment of International Financial Centres (IFCs) in Small Economies: A Comparative Study of Hong Kong and Singapore," 168.
[537] Ho, "Competitive Urban Economic Policies in Global Cities: Shanghai Through the Lens of Singapore," 87.
[538] Tan and Lim, *Singapore and Hong Kong as Competing Financial Centres*, 73.
[539] Monetary Authority of Singapore, *Sustaining Stability, Serving Singapore*, 151.

with Hong Kong, given the SAR's strength as a loan syndication centre.[540] A more recent instance of niche creation is the government's identification of the burgeoning offshore RMB market and the increasingly integrated ASEAN financial markets as key pillars of Singapore's growth as an IFC, which was subsequently followed by the promulgation of polices aimed at enhancing the republic's position in these areas.[541]

Niche creation and proactive government policy are in fact complementary factors that drive Singapore's success as an IFC. In particular, proactive government policies give rise to new niches that subsequently become new competitive advantages driving Singapore's pre-eminence as an IFC. This requires flexible and responsive policymaking that involves close consultation and cooperation with industry actors as well as a willingness to adjust policies to industry needs and changing circumstances. Industry participation in Singapore's financial policy processes and the impacts of the private sector's policy role on policy instrument choice are discussed in a later section on Singapore's financial policy subsystem.

Another perceived competitive advantage enjoyed by Singapore is its status as an independent sovereign state. This is in contrast to Hong Kong and Shanghai, which both remain under the purview of the Chinese central government. Observers have noted how Singapore's strength arises from the

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[540] Ibid.

[541] Menon, "Singapore's Financial Centre in the New Landscape"; Shanmugaratnam, "Key Issues in Asian Financial Markets."

fact that it is "similar to Hong Kong but is importantly not Hong Kong", with its independence from China and its strong legal system providing confidence to investors.[542] Furthermore, Singapore's independence makes the city-state a "gateway to Asia, not China" and is likely to become the IFC of Asia at Hong Kong's expense.[543]

Related to Singapore's sovereign status is its reputation for political stability and good governance, which have "attracted the world's leading commercial banks".[544] Along with effective government policy and advanced infrastructure, political and social stability has been identified as one of the most important factors contributing to Singapore's development as a financial centre.[545] Furthermore, political stability in Singapore has facilitated the establishment of a stable regulatory regime that establishes and enforces clear and consistent rules, culminating in a "stable and predictable regulatory environment".[546]

However as later sections will show, Singapore's advantage as a sovereign state are largely exaggerated. First, both Hong Kong and Shanghai possess significant autonomy from the central government in the realms of financial and economic policy. Second, financial policies in Singapore are the

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[542] "From Offshore to Mid-Shore."
[543] Ibid.
[544] Tong Dow Ngiam, *Dynamics of the Singapore Success Story: Insights by Ngiam Tong Dow*, 1st ed. (Singapore: Cengage Learning Asia, 2010), 31.
[545] Lessard, "Singapore as an International Financial Centre," 219–220.
[546] Monetary Authority of Singapore, *Tenets of Effective Regulation*, MAS Monograph (Singapore: Monetary Authority of Singapore, June 2010), 31.

result of a state-industry policy co-creation process. While the existing conventional wisdom emphasizes Singapore's sovereignty and autonomy, this thesis will show instead that the private sector plays a strong role in financial policymaking.

In sum, Singapore's competitive advantages as an IFC stem from its proactive and responsive government. Such proactive government policies aimed at developing Singapore as an IFC have further resulted in the creation of two specific layers of competitive advantages. The first layer includes structural advantages such as a sound legal and regulatory infrastructure, competent and educated workforce, and pro-business environment. The second layer comprises the financial market niches which the government has identified and developed into Singapore's strengths, such as forex and wealth management.

However, this current understanding of Singapore's competitive advantages still does not explain *how* proactive government policies are formulated and implemented. In other words, the linkage between these competitive advantages and Singapore's success as an IFC remains under-explored. There is thus a need to understand the roles of both state and non-state actors in the formulation of financial policies within the political economic context of Singapore's financial policy subsystem, as well as the financial policy instruments or instrument mixes through which financial policies are made. These are discussed in Chapter 7.

Financial Governance

Singapore's government-driven approach to economic policy has been characterized as a form of "state-run capitalism".[547] Through its practice of state-run capitalism, the government and its lead economic development agency, the EDB, have frequently "thought like businessmen"[548] and played the role of entrepreneurs. Such a model has been contrasted with Hong Kong, "where "true" private entrepreneurship was highly encouraged and rampant".[549] Underlying the key role of the EDB in economic governance is the government's ability to create "specialist institutions and agencies tasked with the performance of specific key roles".[550]

Financial governance in Singapore also approximates what Schein has termed "strategic pragmatism",[551] a governance style that originated from Singapore's first finance minister Goh Keng Swee and was subsequently "institutionalised ... in the paradigm of the Singapore governance".[552] This is a governance style that is "strategic in thinking and pragmatic in execution",[553] requiring a master vision or strategy and the "practical intelligence" to implement this strategy or vision without compromising it in the process.[554]

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547 Edgar H. Schein, *Strategic Pragmatism: The Culture of Singapore's Economic Development Board* (The MIT Press, 1996), 163.
548 Ibid., 164.
549 Ibid., 163.
550 Ho, "Competitive Urban Economic Policies in Global Cities: Shanghai Through the Lens of Singapore," 87.
551 Schein, *Strategic Pragmatism*, 175–178.
552 Austin, *Goh Keng Swee And Southeast Asian Governance*, 14.
553 Ngiam, *Dynamics of the Singapore Success Story*, 28.
554 Schein, *Strategic Pragmatism*, 175.

This requires close government-business links. As discussed in a later section, strong state-industry linkages are an important feature of Singapore's financial policy subsystem.

An important point to note is that the success of Singapore's interventionist and facilitative style of financial governance depends on the "governing capacity" of its government, defined as the "ability to implement policy in a consistent and rule-abiding way".[555] More importantly, governing capacity is dependent upon both Singapore's moderately Weberian legal-rational public organizations as wee as the "informal institutions that link public and private spheres".[556]

This means that financial policymaking involves both state and private actors. As Schein has noted, nation-building and economic development in Singapore involves collaboration between the government, business, and labour.[557] This originated in the 1980s with excessive regulation, high taxes and rising wage costs prompting the government to switch to a less interventionist style of "managing the economy through partnership with business and labour".[558] This is further explored in a later section on Singapore's financial policy subsystem.

[555] Hamilton-Hart, *Asian States, Asian Bankers*, 9.
[556] Ibid., 66.
[557] Schein, *Strategic Pragmatism*, 165–166.
[558] Lam, "Government Intervention in the Economy," 404.

In sum, Singapore's financial governance involves a capable government abiding by a doctrine of "strategic pragmatism" that melds long-term strategic planning with flexibility and pragmatism at the implementation level. Linkages between the private and public sector also makes economic governance in Singapore a collaborative affair, manifested in a 'governing elite' that comprises a variety of actors socialized and integrated into Singapore's prevailing governing style.

This melding of state and non-state actors within the governing elite is unique to Singapore. In contrast, the Hong Kong and Shanghai governments have retained full control over financial policymaking, with non-state inputs into financial policy generally limited and superficial. Furthermore, as later sections will show, industry influence over financial policymaking is further entrenched in the MAS's practice of extensive industry consultation for all its financial policies.

Naturally, Singapore's unique style of economic and financial governance flows into its financial and regulatory policy, with former MAS Chairman Lee Hsien Loong noting that a "competent MAS is part of the Singapore government, just as a vibrant financial hub is part of the Singapore economy".[559] The MAS is discussed at greater length in the following section on Singapore's regulatory regime.

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[559] Monetary Authority of Singapore, *Annual Report 1999/2000*, 7.

Regulatory Regime

Singapore's regulatory regime has been crucial to its success as an IFC. As former Prime Minister Lee Kuan Yew has noted, the history of Singapore's financial centre is the "story of how we [the Singapore state] built up credibility as a place of integrity, and developed the officers with the knowledge and skills to regulate and supervise the banks, security houses and other financial institutions so that the risk of systemic failure is minimised".[560]

The main regulators governing Singapore's financial services sector are the Monetary Authority of Singapore (MAS), Singapore Exchange (SGX), Accounting and Corporate Regulatory Authority (ACRA), and Central Provident Fund Board.[561]

The MAS is the overall "integrated regulator and supervisor of financial institutions in Singapore",[562] tasked with regulating financial services associated with the banking, finance, insurance, and securities markets.[563] Its main functions include acting as Singapore's central bank (through the conduct of monetary policy, issuance of currency, oversight of payments systems and acting as a banker to the government), conducting "integrated supervision of financial services and financial stability surveillance",

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[560] Kuan Yew Lee, *From Third World to First: The Singapore Story: 1965-2000* (Singapore: Times Editions, 2000), 91.
[561] Tan, *Financial Services and Wealth Management in Singapore*, 49.
[562] Monetary Authority of Singapore, "Regulations and Financial Stability," *Monetary Authority of Singapore Website*, October 8, 2012, http://www.mas.gov.sg/Regulations-and-Financial-Stability.aspx.
[563] Tan, *Financial Services and Wealth Management in Singapore*, 50.

managing the country's official foreign reserves, and developing Singapore as an IFC.[564] The MAS is driven by its two principles of consistency and flexibility, with consistency providing predictability as well as credibility and flexibility fostering financial innovation and adjustment to global changes.[565]

In general, the MAS is tasked with ensuring a "sound and progressive financial services sector" through the use of a "full toolkit of regulatory instruments" that includes instruments such as regulations detailing the responsibilities of financial institutions, risk-based measures, rules of compliance, depositor safety nets, power to intervene when supervisory objectives are not met, and incentives to encourage compliance.[566] Given its closes relationship with the financial sector, the MAS also employs moral suasion as a "qualitative method of supervision".[567] Underlying the MAS's work are its four principles of financial supervision: risk-focused, business-friendly, disclosure-based, and stakeholder-reliant.[568]

The MAS's regulatory style has also taken on a more flexible and systemic perspective over the years. A strategic review conducted by the MAS in 1997 resulted in a shift from "one-size-fits-all prescriptive regulation

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[564] Monetary Authority of Singapore, "Overview of MAS."
[565] Monetary Authority of Singapore, *Sustaining Stability, Serving Singapore*, 101.
[566] Monetary Authority of Singapore, *Tenets of Effective Regulation*, 6. See same document for a full list of regulatory instruments.
[567] Monetary Authority of Singapore, *Sustaining Stability, Serving Singapore*, 108.
[568] Monetary Authority of Singapore, *Tenets of Effective Regulation*, 10.

towards a more flexible risk-focused supervisory approach".[569] This risk-focused approach involves evaluating the risk profiles of financial institutions, granting "greater business latitude to well-managed institutions while retaining higher requirements or tighter restrictions for weaker ones".[570]

Importantly, the tailoring of restrictions to an institution's risk profile allows the MAS to "promote greater competition, efficiency and growth in the financial sector without compromising the safety and soundness of institutions or the resilience and stability of the system".[571] In other words, the MAS' risk-based regulatory approach entails the setting or formulation of high regulatory standards combined with flexible implementation of these standards.[572] This practice of "Smart Regulation" has been seen by the MAS as a key pillar underlying Singapore's value proposition as a financial centre.[573]

The SGX was formed in 1999 with the merger of the Stock Exchange of Singapore (SES) and Singapore International Monetary Exchange (SIMEX) and is a "self-regulatory organisation" that performs frontline regulation of the

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[569] Der Jiun Chia, "Objectives and Principles of Financial Supervision in Singapore," in *Regulation and the Limits of Competition*, Economics Symposium Series 1 (Singapore: SNP International Publishing Pte Ltd, 2007), 46; Hsien Loong Lee, "New Approach to Regulating and Developing Singapore's Financial Sector" (Speech by DPM Lee Hsien Loong presented at the SESDAQ 10th Anniversary Dinner, Singapore, November 4, 1997); Monetary Authority of Singapore, *Sustaining Stability, Serving Singapore*, 120–121.
[570] Chia, "Objectives and Principles of Financial Supervision in Singapore," 51.
[571] Ibid., 46.
[572] Menon, "Singapore's Financial Centre in the New Landscape."
[573] Ibid.

markets and clearing houses that it operates.[574] Regulatory functions performed by the SGX include issuer regulation, catalyst regulation, member supervision, market surveillance, enforcement and risk management.[575] Furthermore, the SGX's Risk Management and Regulatory Division is tasked with regulating and monitoring SGX members, including their employees, trading representatives, and directors.[576] Given its dual role as market regulator and profit-maximizing listed company, the SGX is itself supervised by the MAS for Self-Regulatory Organization (SRO) risks.[577]

Formed in April 2004 with the merger of the Registry of Companies and Businesses and the Public Accountants' Board, ACRA regulates business entities and public accountants by monitoring corporate compliance with requirements pertaining to disclosure and regulating public accountants who perform statutory audits.[578] Lastly, the CPF is a mandatory retirement savings scheme that was set up in 1955 and comprises a wide variety of schemes allowing its members to invest their funds in various financial instruments.[579] It regulates fund managers handling members' savings through its Investment

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574 Tan, *Financial Services and Wealth Management in Singapore*, 53; Singapore Stock Exchange, "Regulation," *SGX Website*, 2011, http://www.sgx.com/wps/portal/sgxweb/home/regulation/overview#panelhead1.
575 Tan, *Financial Services and Wealth Management in Singapore*, 147.
576 Ibid., 53–54.
577 Ibid., 148.
578 Ibid., 49–50; Accounting and Corporate Regulatory Authority, "About Us," *ACRA Website*, 2009, http://www.acra.gov.sg/About_ACRA/?indexar=1.
579 Tan, *Financial Services and Wealth Management in Singapore*, 56.

Guidelines and monitors the performance of the unit trusts which its members have invested in[580].

Financial Policy Mix

Broadly speaking, Bryant has identified three "paramount characteristics" which have underpinned Singapore's financial policies since the dawn of the Republic's emergence as an IFC.[581] Specifically, Singapore's financial policy has involved encouraging the location of financial intermediaries in Singapore through preferential regulation and tax incentives, the maintenance of a "separating fence"[582] between domestic and international financial activities, and the preservation of Singapore's sound and resilient financial system through prudential oversight by the MAS and other regulatory authorities.[583]

These three financial policy characteristics reflect the stabilizing, enabling and developmental financial policies which make up Singapore's financial policy mix. First, prudential oversight and regulatory policy make up the stabilizing policies which allow the MAS to maintain financial market stability. As Lee and Vertinsky have noted, Singapore's establishment of an

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[580] Ibid., 56–57.
[581] Bryant, "The Evolution of Singapore as a Financial Centre," 347.
[582] This "separating fence" has become more permeable over time, especially with the complete removal of exchange controls in 1978.
[583] Bryant, "The Evolution of Singapore as a Financial Centre," 347–348.

"unambiguous, stable legal and regulatory framework"[584] brought forth greater financial system stability.

Efforts at attracting international financial intermediaries and maintaining a "separating fence" between domestic and international financial activities represent respectively enabling policies that establish attractive locational conditions and developmental policies that channel benefits towards a select group of actors, in this case domestic financial institutions, whose survival or success is deemed crucial to IFC development. As such, Singapore's 'separating fence' has brought the government success in "broadening the economic base through the development of the financial sector and its international content without excessively exposing the domestic economy to external influences".[585]

As noted by then-DPM Lee Hsien Loong, the separation of domestic and offshore finance provided protection to Singaporean investors and depositors and ensured market stability amidst the influx of foreign financial firms and rapid regulatory liberalization.[586] This dual existence of domestic and international financial firms is most clearly exhibited in Singapore's banking sector, with a small number of systematically important domestic

[584] Lee and Vertinsky, "Strategic Adjustment of International Financial Centres (IFCs) in Small Economies: A Comparative Study of Hong Kong and Singapore," 162.
[585] Lessard, "Singapore as an International Financial Centre," 200.
[586] Lee, "New Approach to Regulating and Developing Singapore's Financial Sector."

banks representing 30% of total banking assets, while foreign banks represent 65% of total banking assets.[587]

The use of stabilizing, enabling, and developmental financial policy instruments also extend beyond these few examples discussed. The rest of this section describes these three types of financial policy instruments, which make up the financial policy mix designed and used by the government in developing Singapore into a successful IFC.

Like any other financial regulatory agency, the MAS places a significant premium on regulations that ensure market stability. According to MAS Managing Director Ravi Menon, an important mandate that underpins the MAS's work is "financial stability – ensure the safety and soundness of our financial institutions and to prevent systemic problems from emerging. That's foremost".[588] More importantly, the MAS sees this maintenance of market stability as a key means of maintaining stability in the real economy as well as facilitating Singapore's overall economic growth.

Hence an important aspect of the MAS's regulatory and supervisory policy involves "ensuring the success and resilience of the Singapore economy".[589] This is predicated upon the MAS's belief that a "sound and progressive financial services sector" contributes directly to the GDP,

[587] International Monetary Fund, *Singapore: Financial System Stability Assessment*, IMF Country Report (Washington, D.C.: International Monetary Fund, November 2013), 9.
[588] Menon, Interview.
[589] Chia, "Objectives and Principles of Financial Supervision in Singapore," 46.

intermediates between borrowers and savers, ensures efficient allocation of financial resources, and "thereby enhances economic growth and job creation".[590]

Through its risk-focused supervisory approach, the MAS has shown that sound financial regulation is not an end in itself but a means of "ensuring a stable and efficient financial system to support the growth of the economy with minimum disruption".[591] Underlying this focus on financial system stability is the MAS's belief that "the purpose of the financial sector is to facilitate the real economy".[592]

As then-Deputy Prime Minister Lee Hsien Loong has noted, Singapore's "emphasis on high prudential standards has allowed us [the Singapore state] to sustain strong financial sector growth over a long period".[593] While the MAS's stabilizing financial regulations are in the short-term aimed at maintaining market stability, they contribute to developmental goals in the long run through their impacts on the real economy.

However, this stabilizing aspect of financial regulation tells only half the story. According to Mr Menon, the MAS's other mandate is "developing

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[590] Ibid.

[591] Kim Song Tan, "Commentary on Promoting Competition: The Financial Sector and Competition Policy in Singapore," in *Regulation and the Limits of Competition*, Economics Symposium Series 1 (Singapore: SNP International Publishing Pte Ltd, 2007), 73–73.

[592] Senior Regulatory Official, Interview, April 11, 2013.

[593] Hsien Loong Lee, "Making Singapore Asia's Premier Banking Centre" (Speech by DPM Lee Hsien Loong presented at the 25th Anniversary Dinner of the Association of Banks in Singapore, Singapore, June 8, 1998), http://www.mas.gov.sg/en/News-and-Publications/Monetary-Policy-Statements-and-Speeches/1998/Making-Singapore-Asia-s-Premier-Banking-Centre--08-Jun-1998.aspx.

the financial centre, which is quite separate, and we have a different team and a different group of people, so there's no conflict of interest".[594] This began in 1998, when the MAS made an official shift from a purely regulatory role to a "more promotional role regarding the financial-services industry".[595] A former senior regulatory official has noted that this shift in organizational disposition was due to changes in MAS leadership in 1998 as well as the prevailing influence of free market ideologies, particularly in the form of Thatcherism or Reagonism, which advocated less direct regulation of markets.[596]

This new leadership included Mr Koh Yong Guan, who assumed office as MAS Managing Director in January 1998. According to Mr Koh, the government was then concerned with "positioning Singapore for the next phase of growth as a financial centre; we saw a need to set up a promotional function within the MAS".[597] This promotional function included stimulating financial sector growth and attracting financial institutions into Singapore, both of which were crucial for the continued growth and positioning of Singapore as an IFC.[598]

Despite potential tensions between the MAS's promotional and regulatory roles, the MAS was chosen as the promotional agency for the

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[594] Menon, Interview.
[595] Hamilton-Hart, *Asian States, Asian Bankers*, 98.
[596] Former Senior Regulatory Official, Interview, May 22, 2013.
[597] Yong Guan Koh, Interview, August 7, 2013.
[598] Ibid.

financial sector due to its strong domain knowledge.[599] Given the potential for conflicts of interest, separate departments were established within the MAS to perform the roles of financial supervision and financial centre development.[600] This means that the MAS's prudential and promotional activities are carried out by different personnel with different reporting structures. The MAS's dual mandates also produce a "creative tension" that is deemed beneficial to the organization.[601] Nonetheless, the MAS gives equal priority to both regulatory and promotional or developmental goals, and "in 90% of the cases, the goals are aligned".[602].

The MAS has since promulgated a vast variety of proactive strategies and regulations that directly promote the development of Singapore's financial markets, enhancing the financial sector's contribution to Singapore's economic growth and development. As noted by a former senior policy-maker who was involved in this drive for development, the Singapore government's efforts at developing its financial sector was predicated upon a need to develop "exportable services" to complement its manufacturing base.[603] Given that Singapore's financial sector development has become an integral part of the

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[599] Ibid.
[600] Monetary Authority of Singapore, *Objectives and Principles of Financial Supervision in Singapore*, MAS Monograph, 2004, 3.
[601] Menon, Interview.
[602] Ibid.
[603] Former Senior Policymaker, Interview, July 3, 2013.

city-state's overall industrialization journey, financial sector policy is therefore no longer "just about regulation, but promotion as well".[604]

As a former senior regulatory official has further noted, MAS regulations are now "mostly promotional".[605] This has resulted in the MAS's inclusion of non-regulatory instruments such as tax incentives, subsidies, and provision of funding in Singapore's financial policy mix. In particular, the MAS has sought to "develop the financial markets, introduce new financial instruments to add depth to the market, and to promote stability through timely interventions in the foreign exchange markets".[606] In describing the main goals of his department, a senior MAS official has stated that "it's not purely just financial stability, but we also have to facilitate the financial sector, to support its growth and development".[607]

Lee and Vertinsky have noted that the Singapore government has often sought to directly stimulate the development of Singapore's financial markets by liberalizing regulations for foreign financial institutions, removing exchange controls, providing tax incentives for offshore financial services, introducing new financial instruments and creating new financial markets

[604] Annie Koh, Interview, June 18, 2013.
[605] Former Senior Regulatory Official, Interview.
[606] Tan, "The Development of Singapore's Financial Sector: A Review and Some Thoughts on Its Future Prospects," 249.
[607] Senior Regulatory Official, Interview.

through "legislation, tax incentives and direct participation using government spending power and its influence on private spending".[608]

Furthermore, public investments in physical, technological, social and institutional infrastructures have played enabling roles in the development of Singapore as an IFC.[609] These represent enabling and developmental financial policy instruments that have allowed the government to create the conditions necessary for financial sector growth and to promulgate policies that facilitate financial sector development. Through its dual functions as regulator and implementer of financial policy, the MAS is also involved in "encouraging the development of selected financial markets".[610]

This identification of selected markets requires the MAS to "scan the horizon very carefully, look at long-term trends. Where is the world heading, where are the demand drivers, what are the developments taking place elsewhere? And then we [MAS] ask ourselves, what are our strengths, which can help to match some of these demands".[611] Enabling regulations are then promulgated to create the conditions required for particular markets or niches to develop and flourish.

An early instance of this was the development of capital markets in the 1980s, with regulations enacted during this period playing "important enabling

[608] Ibid., 161.
[609] Ibid., 162.
[610] Hamilton-Hart, *Asian States, Asian Bankers*, 88.
[611] Menon, Interview.

and promotional roles".[612] Various initiatives were subsequently introduced to promote the development of Singapore's offshore banking, Asian bond, foreign exchange, money, and futures markets.[613] With regards to the foreign exchange market, the government liberalized currency trading by issuing licenses to banks that allowed them to trade currencies.[614]

Tax incentives also represent a key instrument used by the MAS to promote and develop new emerging markets, such as larger varieties of banking services in the 1980s.[615] More recently, tax incentives were offered to fund managers in order to encourage and develop a wealth management industry in Singapore.[616] These tax incentives are seen as an "important part of the (MAS's) toolkit" and act as a "sweetener" for fund managers to establish or locate themselves in Singapore.[617]

However, efforts at developing a wealth management industry in Singapore pre-date these tax incentives. The MAS had already been working extensively at establishing the necessary market and infrastructural conditions in order that a wealth management industry could take root and flourish. This has involved enabling policies such as deliberately growing the Singapore

[612] Koh, Interview, June 18, 2013.
[613] Hamilton-Hart, *Asian States, Asian Bankers*, 88–89.
[614] Former Senior Policymaker, Interview.
[615] Ibid.
[616] Former Senior Regulatory Official, Interview.
[617] Menon, Interview.

Dollar Bond market, relaxing the Singapore Dollar non-internationalization policy, and engaging private fund managers for the management of reserves.[618]

According to former MAS Managing Director Koh Yong Guan, these policies were deliberately aimed at eventually growing a wealth management industry, by establishing a market benchmark for the fixed income and securities market and attracting fund managers to Singapore.[619] In addition, the MAS also had to enhance Singapore's connectivity to the rest of Asia, maintain the strong presence of many financial institutions, and develop a deep talent pool.[620]

With regards to building up a pool of professional talent, Mr Menon has noted that "we [MAS] have a variety of competence building programmes that have been subsidized over the years. That helped to build up a strong professional pool of talent. And we continue to invest heavily in manpower development. If the people are here, then the firms will come here and expand in wealth management".[621] This makes human capital development a key enabling instrument used by the MAS to establish the conditions necessary for the successful development of a wealth management industry.

In short, financial policies in Singapore perform all three roles of market stabilization, enablement, and development. This means that the MAS

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[618] Koh, Interview, August 7, 2013.
[619] Ibid.
[620] Menon, Interview.
[621] Ibid.

is tasked with formulating and implementing "both financial supervision and developmental initiatives",[622] with market stability and sector promotion seen as means to the ultimate objective of real economic growth and development.[623] The MAS therefore has to ensure that promoting financial markets does not come at the risk of instability, while regulations should not be so onerous that innovation is stifled.[624] The MAS's regulatory policy is thus a "delicate balance" that allows neither promotion at the risk of instability nor over-regulation at the cost of innovation.[625]

This need to "balance regulation and promotion" is necessary if Singapore is to continue gearing its financial regulations towards the country's overall economic development.[626] The MAS's financial regulatory approach is also marked by a high degree of flexibility and responsiveness that has allowed Singapore to retain its competitive advantage as an IFC through the "dynamic adaptive maintenance of internationally competitive tax and regulatory cost regimes".[627] As such, the MAS recognizes a "need for the regulatory framework to be continually and expeditiously updated to keep pace with changes and developments in the industry".[628]

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[622] Monetary Authority of Singapore, *Objectives and Principles of Financial Supervision in Singapore*, 2.
[623] Ibid., 3.
[624] Former Senior Regulatory Official, Interview.
[625] Ibid.
[626] Koh, Interview, June 18, 2013.
[627] Lee and Vertinsky, "Strategic Adjustment of International Financial Centres (IFCs) in Small Economies: A Comparative Study of Hong Kong and Singapore," 168.
[628] Monetary Authority of Singapore, *Tenets of Effective Regulation*, 25.

Flexibility also exists at the level of the policy instrument, arising from the fact that Singapore's success as an IFC depends on *both* market stability and the attractiveness of the republic as a destination for the location of financial firms. While the former requires high regulatory standards and stringent supervision, the latter suggests that lower regulatory barriers and taxes will attract more financial intermediation. This presents an ongoing dilemma and constant source of creative tension between the different aspects or components of financial policymaking,[629] often yielding instances of creative policy-making such as the creation of a tiered banking licensing regime and separating between banks' ACU and DBU accounts to balance both regulatory and developmental goals.[630]

The tiered bank licensing regime and separation between ACU and DBU accounts have allowed the MAS to encourage the entry of foreign banks while at the same time protect the interests of domestic banks. In this way, the MAS has been able to maintain a strong local core to Singapore's banking system while at the same time introducing an element of competition and innovation.[631] Moreover, this dual-approach also suggests that it may not always be easy to clearly differentiate between different policy instruments, especially when a particular instrument is used to achieve both stabilizing and development-oriented purposes.

[629] Bryant, "The Evolution of Singapore as a Financial Centre," 358–359; Menon, Interview.
[630] Lessard, "Singapore as an International Financial Centre," 201–202.
[631] Menon, Interview.

The MAS has also relied on less conventional policy instruments in carrying out its mandates. For instance, the reorganization of 1998 established the Financial Sector Promotion Department for the explicit purpose of promoting Singapore as an IFC as well as the Planning and Policy Co-operation Unit that serves to "strengthen policy integration and strategic planning within MAS".[632] This corresponds to traditional scholarly concepts of constituent policy[633] or "organization" style policy instruments.[634] Incentives are also used to encourage good governance and regulatory compliance among financial institutions; this includes recognizing and encouraging self-regulation.[635]

In sum, financial policymaking in Singapore ensures the stability of financial markets, provides the enabling conditions for the emergence and development of specific financial market sectors, and drives the direct development of financial markets through incentives and provision of resources. The MAS has also on occasion reorganized itself in order to improve its capacity for developing Singapore's status as an IFC. Singapore's management of the financial sector thus involves a "wide array of interventionist mechanisms for both prudential and developmental purposes, including limited entry into the banking market, a substantial role for

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[632] Monetary Authority of Singapore, "MAS' New Organisational Structure"; Monetary Authority of Singapore, *Annual Report 1997/1998*, 61.
[633] Lowi, "Four Systems of Policy, Politics, and Choice."
[634] Hood, *The Tools of Government*.
[635] Monetary Authority of Singapore, *Tenets of Effective Regulation*, 18.

government-controlled financial institutions, compulsory savings, and targeted loan support for strategic industries”.[636]

This means that financial policymaking in Singapore is much broader and more diverse than that in Hong Kong and Shanghai, in terms of instrument type and choice. This reflects the interests of both state and industry actors, with policy mix design driven by strong state-industry relations. However, existing studies which discuss Singapore’s financial policy instruments, whether directly or indirectly, do not account for the role of industry actors in policy mix design. State-industry relations in Singapore are discussed at greater length in the next section on Singapore’s financial policy subsystem, while the influence of these relations over policy mix design and policy instrument choice is discussed in Chapter 7.

Financial Policy Subsystem

Hamilton-Hart has noted that “Singapore’s governing elite occupies a mixed sphere that encompasses bureaucratic, political, and business actors”.[637] There is thus a high degree of personnel intermixing, with individuals frequently moving between private and public organizations and taking up positions in both sectors. This mix of state and private actors in Singapore’s governing elite and a consequent state-industry “co-creation” of financial

[636] Hamilton-Hart, *Asian States, Asian Bankers*, 5.
[637] Ibid., 83.

policies[638] constitutes a unique feature of Singapore's financial policy subsystem, which stands in contrast to state-dominance over the financial policymaking process in both Hong Kong's and Shanghai's financial policy subsystems.

Where such inter-mixing of state and private actors in financial policymaking have resulted in regulatory capture in other contexts, this is avoided in Singapore through a set of informal governing institutions that "externalize many of the routines and norms of the formal government sector, such as the commitment to meritocracy, flexibility, performance-based indicators of achievement, and an entrenched acceptance of the government's right to govern".[639] Such beliefs are also likely to impact financial mix design, along with concerns over development, through an ideational channel that is discussed further below.

Individuals are selectively incorporated and socialized into the governing elite through their appointment to senior governing positions in statutory authorities such as the MAS, GLC's like DBS and even the ruling political party.[640] The appointment of key Singaporeans to the "nominating committees" of local banks, subject to MAS approval, also ensures that these banks "act in a manner consistent with the national interest".[641] This gives rise

[638] Former Senior Regulatory Official, Interview.
[639] Hamilton-Hart, *Asian States, Asian Bankers*, 83.
[640] Ibid., 83–84.
[641] Monetary Authority of Singapore, *Liberalising Commercial Banking and Upgrading Local Banks*.

to "norms of interaction" that institutionalize government-business interactions and ensure the private sector's cooperation with regulatory authorities.[642]

As such, Singapore's financial policy governing elite comprises public and private actors who share common norms and beliefs, forming an advocacy coalition that is based on achieving mutually beneficial policy goals. This advocacy coalition thus influences policy mix design through an ideational channel that converts these common norms and beliefs into policy instrument choice. Nonetheless, the MAS remains Singapore's key financial policymaker.

It also enjoys close linkages to the Singapore government, with Deputy Prime Minister and Minister for Finance Tharman Shanmugaratnam serving as its Chairman, Minister for Trade & Industry Lim Hng Kiang as Deputy Chairman and two other Cabinet Ministers among its Board Members.[643] This places the MAS at the apex of Singapore's financial policy subsystem and makes it a leading member of Singapore's financial governing elite.

This also means that private sector involvement in financial policymaking is guided or led by the MAS, particularly through the Authority's "practice of organized, industry-wide consultation through many

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642 Hamilton-Hart, *Asian States, Asian Bankers*, 84.

643 Monetary Authority of Singapore, "Board of Directors," *Monetary Authority of Singapore Website*, 2013, http://www.mas.gov.sg/About-MAS/Overview-of-MAS/Board-Members.aspx.

committees and formal bodies".[644] As noted by MAS Managing Director Ravi Menon, "[e]very piece of new rule or regulation, almost but not all, almost all new rules or regulations go out for a proscribed period of public consultation. So we put out a document that sets out the policy, we invite feedback, and sometimes we have a second round or we have closed door group meetings. Then we come up with the final set that also goes for consultation, and before legislation".[645]

The rationales for public consultation, according to Mr Menon, are that the MAS does not "want unintended consequences. We don't want policies that are impractical to implement or impose too high a compliance or business cost".[646] The MAS's consultative approach to financial regulation is recognized as one of its "Principles of Good Supervision".[647] Furthermore, industry and stakeholder consultation is a key aspect of the MAS's practice of "smart regulation".[648] The engagement and inclusion of the private sector and other non-state stakeholders in financial policy is further enshrined in the MAS's 'tenets of effective regulation' as "Tenet 2: Shared Responsibility".[649]

Beginning in 1985, the private sector has been formally included in the government's policy formulation processes through their membership in

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[644] Hamilton-Hart, *Asian States, Asian Bankers*, 99.
[645] Menon, Interview.
[646] Ibid.
[647] Monetary Authority of Singapore, *Objectives and Principles of Financial Supervision in Singapore*, 14.
[648] Menon, "Singapore's Financial Centre in the New Landscape."
[649] Monetary Authority of Singapore, *Tenets of Effective Regulation*, 11.

various committees.[650] Further formalisation of private sector consultation took place in 1998, with the incorporation of 5 private sector committees into the Financial Sector Review Group (FSRG) chaired by then-Deputy Prime Minister Lee Hsien Loong.[651] These committees included the Finance and Banking Competitiveness Sub-Committee, Committee on Banking Disclosure, Corporate Finance Committee, Stock Exchange of Singapore Review Committee, and Committee of Governance of Exchanges.[652]

The MAS further established two private sector advisory committees in 1998 to "institutionalise consultation with the financial industry".[653] The Financial Sector Advisory Council (FSAC) was set up to provide feedback on regulatory issues and "help MAS identify emerging trends and new market development opportunities for Singapore", while the International Advisory Panel (IAP) advises the MAS on new trends in global financial markets, policy initiatives in other IFC's, and international best practices in financial regulation and central banking.[654]

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[650] Hamilton-Hart, *Asian States, Asian Bankers*, 99.
[651] Hsien Loong Lee, "Financial Sector Review : A Round-Up & Next Steps Financial Sector Review Group (FSRG) Appreciation Dinner" (Speech by DPM Lee Hsien Loong presented at the Financial Sector Review Group (FSRG) Appreciation Dinner, Singapore, November 27, 1998), http://www.mas.gov.sg/en/News-and-Publications/Monetary-Policy-Statements-and-Speeches/1998/Financial-Sector-Review-A-Round-Up-Next-Steps-Financial-Sector-Review-Group--FSRG--Appreciation-Dinner--27-Nov-1998.aspx.
[652] Monetary Authority of Singapore, *DPM Pays Tribute to Private Sector Contribution to Financial Sector Reform.*, Press Release, November 27, 1998, http://www.mas.gov.sg/en/News-and-Publications/Press-Releases/1998/DPM-pays-tribute-to-private-sector-contribution-to-financial-sector-reform--27-Nov-1998.aspx.
[653] Ibid.
[654] Ibid.

A Debt Capital Market Working Group comprising representatives from local and foreign financial institutions was also formed during this period to provide recommendations on developing Singapore's debt markets, with most of the recommendations of the Group accepted by the MAS.[655] Indeed, many of the policy changes enacted by the MAS in the late 1990's were made under the advice of these industry committees, along with appointed management consultants.[656] Specifically, Mckinsey and Arthur D. Little were engaged to provide inputs on the MAS's financial sector development strategy,[657] while the Boston Consulting Group (BCG) was involved in the SGX's inception and subsequent development.[658]

More recently, a Financial Advisory Industry Review Panel was established by the MAS on 2 April 2012 to review the financial advisory industry and make relevant recommendations; the panel included representatives from industry associations, consumer and investor bodies, academia, media, as well as other stakeholders.[659] As part of its review, the panel has solicited consumer and industry feedback, with informal interactions

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[655] Tan and Lim, *Singapore and Hong Kong as Competing Financial Centres*, 54.
[656] Lee, *From Third World to First*, 101.
[657] Lee, "Financial Sector Review : A Round-Up & Next Steps Financial Sector Review Group (FSRG) Appreciation Dinner."
[658] Hsien Loong Lee, "Challenges for Exchanges" (Speech by DPM Lee Hsien Loong presented at the SIMEX 15th Anniversary Celebration Dinner, Singapore, September 18, 1999).
[659] Finanical Advisory Industry Review Panel, *Report on the Recommendations of the Financial Advisory Industry Review Panel* (Singapore: Monetary Authority of Singapore, January 16, 2013), 3, http://www.mas.gov.sg/News-and-Publications/Press-Releases/2013/~/media/resource/news_room/press_releases/2013/Annex%201%20%20Report%20on%20recommendations%20of%20the%20Financial%20Advisory%20Industry%20Review%20Panel.pdf.

between the MAS and private financial sector actors taking place regularly.[660] The insurance industry has also provided feedback and influenced financial policy through its participation in the Committee for the Efficient Distribution of Life Insurance, Committee for Enhanced Standards for General Insurance and Participating Fund Review Workgroup in the early 2000s.[661]

As a former senior regulatory official has noted, such consultative committees and industry working groups allow the private sector to "co-create" regulations with the authorities.[662] An example cited was how an industry working group worked with the MAS to formulate the templates for reporting, under Pillar 3 (disclosure) of the Bassel 2 standards.[663] However, most of these industry working groups are typically dismantled after the standards have been enforced.[664] The MAS also consults industry actors through yearly dialogues organized by 'sell-side' actors such as banks and fund managers, although a respondent has noted that most of the feedback given at these dialogues tend to reflect the interests of industry actors rather than concerns over national development.[665]

Another important channel through which the MAS consults the private sector is through the publication of consultation papers on its website, which are accessible to the public. The MAS also disseminates such

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[660] Monetary Authority of Singapore, *Sustaining Stability, Serving Singapore*, 104–108.
[661] Tan and Lim, *Singapore and Hong Kong as Competing Financial Centres*, 66–69.
[662] Former Senior Regulatory Official, Interview.
[663] Ibid.
[664] Ibid.
[665] Fund Manager with a US Asset Management Firm, Interview, June 2, 2013.

consultation papers to relevant financial institutions in order to collect and assess their feedback prior to the promulgation of a new policy. In general, there are two rounds of consultation. The first round involves gathering feedback on the overall policy framework, followed by a second round of consultation on the text of legislation, which had been drafted based on the first round of consultations.[666]

Aside from these formal channels of consultation, the MAS also engages and consults the private sector through less formal channels. Such informal consultation typically involves a wide variety of domestic and foreign banks and financial institutions. In particular, the MAS engages industry actors in an "ongoing dialogue" at various levels of management and throughout the year.[667] This means that informal consultation takes place on a continuous basis, with the private sector providing feedback to the MAS whenever they feel the need to do so.

Through a "two-way consultation process", both the MAS and private sector can initiate consultation.[668] As a senior banker has noted, feedback on regulations is provided to the MAS "as and when needed".[669] However, informal consultative processes typically involve issues pertaining to the MAS's IFC development activities while consultation on prudential rules and

[666] Former Senior Regulatory Official, Interview.
[667] Menon, Interview.
[668] Senior Regulatory Official, Interview.
[669] Senior Banker, Interview, May 8, 2013.

regulations are usually carried through formal processes.[670] This is largely due to the fact that industry actors find it easier to participate in consultations on rules and regulations in response to a formal consultation document.[671]

The MAS has more recently conducted dialogues with the General Insurance Association of Singapore, Life Insurance Association of Singapore, Singapore Reinsurers' Association, Institute of Certified Public Accountants Singapore and Singapore Actuarial Society in order to "better understand the risks and challenges facing the (insurance) industry" as well as to promote better supervisory outcomes and financial stability.[672] Hence, industry associations can also provide policy recommendations outside of the MAS's consultation process, an example being the formation of a Taskforce by the Singapore Investment Banking Association (SIBA) to the potential derivatives market in 2005.[673]

In sum, private sector consultation has generally been seen as "constructive", allowing the MAS the keep its regulations relevant by allowing the industry to "take ownership of regulations".[674] Lee and Vertinsky have found that banking executives working in Singapore value their access to government financial policy decision-makers and their ability to communicate

[670] Menon, Interview.
[671] Ibid.
[672] Monetary Authority of Singapore, *Annual Report 2012/2013* (Singapore: Monetary Authority of Singapore, 2013), 53.
[673] Tan and Lim, *Singapore and Hong Kong as Competing Financial Centres*, 30.
[674] Former Senior Regulatory Official, Interview.

with regulatory policy makers in the MAS.[675] The pervasiveness and effectiveness of private sector consultation is best encapsulated by the fact that most, if not all of the MAS's regulations have been informed and improved by consultation.[676] This means that the private sector is highly involved in Singapore's financial policymaking processes, through its role as a significant member of Singapore's financial policy subsystem.

In particular, local banks and foreign banks which have attained Qualifying Full Bank (QFB) status are more deeply embedded within Singapore's financial policy subsystem, by virtue of their contribution to Singapore's long-term financial sector stability and development.[677] Major QFB's operating in Singapore include Citibank, HSBC, Standard Chartered, and Bank of China, among others. Standard Chartered has further embedded itself within Singapore's financial policy subsystem by incorporating a wholly owned subsidiary that oversees the bank's consumer banking retail and SME business in Singapore.[678]

From a regulatory perspective, private-sector consultation and collection of feedback from various non-state stakeholders ensures the

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[675] Lee and Vertinsky, "Strategic Adjustment of International Financial Centres (IFCs) in Small Economies: A Comparative Study of Hong Kong and Singapore," 166.
[676] Menon, Interview.
[677] Monetary Authority of Singapore, *Annual Report 2012/2013*, 27.
[678] Standard Chartered Bank, "Incorporation of Consumer Banking Business in Singapore," *Standard Chartered Bank Website*, 2012, https://www.sc.com/sg/subsidiary/.

relevance and effectiveness of MAS regulations.[679] Industry actors have also noted that MAS consultations allow regulators to understand their businesses better, formulating regulations that allow banks to "serve our customers better".[680] This serves to enforce the MAS's development-focus, with regulations contributing to financial market growth.

From a broader perspective, the MAS's industry engagements have facilitated the formation of knowledge production networks among fund managers, analysts and brokers in Singapore's fund management industry,[681] which provides expertise and knowledge to the financial policy governing elite. More importantly, the direct participation of private sector industry actors in the formulation of financial policies points towards the presence of a development-oriented advocacy coalition which comprises both state and industry actors and influences financial policy mix design by converting such developmental policy beliefs into instruments through an ideational channel.

Other non-state actors involved in the financial subsystem include researchers and academics, through various financial research centres in Singapore's universities, an MAS-sponsored professorship and Eminent Visitor Programme, as well as ad hoc MAS consultations with academics. One participant of such consultations with academics is that of Professor Annie

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679 Monetary Authority of Singapore, *Tenets of Effective Regulation*, 26; Former Senior Regulatory Official, Interview.
680 Senior Banker, Interview.
681 Karen P.Y. Lai, "'Imagineering' Asian Emerging Markets: Financial Knowledge Networks in the Fund Management Industry," *Geoforum* 37, no. 4 (July 2006): 627–42.

Koh from the Singapore Management University, who chairs the MAS's Asian Bond Fund 2 Supervisory Committee and is tasked with developing the retail ETF market. Professor Koh has found her participation in financial sector policy largely positive, noting that academics provide useful knowledge that can inform and guide policy-making processes.[682]

Furthermore, the state itself is not a monolithic unitary actor. While the MAS continues to play a key role as lead organization in spearheading Singapore's IFC strategy, Singapore's success as an IFC has "involved a whole swathe of policymakers working together, both from within and outside MAS".[683] State institutions such as statutory boards and government-linked companies (GLC's) are often involved in financial policymaking, with the most important of these being the EDB and DBS respectively.[684]

In particular, DBS has played an important role in financing the various financial institutions that operate in Singapore, having "granted loans, invested in shares of merchant banks, finance companies, discount houses, leasing, factoring and insurance companies".[685] DBS has also financed small local industries, most notably through the EDB-supported Local Enterprise Finance Scheme.[686] The CPF is another statutory board that is actively involved in financial policy by providing the government with a pool of funds

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682 Koh, Interview, June 18, 2013.
683 Monetary Authority of Singapore, *Sustaining Stability, Serving Singapore*, 171.
684 Hamilton-Hart, *Asian States, Asian Bankers*, 90.
685 Tan, *Financial Markets and Institutions in Singapore*, 17–18.
686 Ibid., 18.

from its members' savings as well as investing its surplus funds in long-term government securities.[687] Both the GIC and CPF have been involved in the MAS's strategy to develop the fund management and bond industries in the 1990s.[688]

As such, the government is "actively involved in the financial markets via its wholly- or partially-owned companies and the statutory boards"[689] in developing Singapore as a successful IFC. This complex of statutory boards and GLC's has also proven effective in developing specific financial markets. For instance, surplus funds held by statutory boards and GLC's have been used to attract foreign fund managers, with the management of some of these funds being contracted out to these organizations.[690] This makes statutory boards such as the MAS and EDB and GLC's such as DBS important policy arms of the government, although the MAS remains the lead agency in matters pertaining to financial sector development and regulation.

Singapore's financial subsystem also includes international actors such as international banks and financial institutions, foreign regulators from other jurisdictions, international organisations and foreign investors. In particular, the GFC of 2007 had prompted greater cross-border cooperation among

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[687] Ibid., 19.
[688] Hsien Loong Lee, "Fund Management in Singapore: New Directions" (Speech by DPM Lee Hsien Loong presented at the Investment Management Association of Singapore (IMAS) Seminar, Singapore, February 26, 1998); Lee, "Improving the Hardware and Software of the Financial Sector."
[689] Tan, "Singapore as an International Financial Centre," 38.
[690] Hamilton-Hart, *Asian States, Asian Bankers*, 93.

financial regulators in the form of supervisory colleges.[691] The MAS also plays an active role in marketing Singapore as an IFC to international investors through its representative offices overseas, allowing it to communicate directly with the international financial community.[692]

Furthermore, the MAS has been involved in the Standing Committees of the Financial Stability Board (FSB) and has contributed to international standard-setting bodies such as the Basel Committee on Banking Supervision (BCBS), International Organisation of Securities Commissions (IOSC), and International Association of Insurance Supervisors (IAIS).[693] The MAS subsequently joined the FSB Steering Committee in 2012, chairing a workgroup on risk governance.[694] In 2011, Deputy Prime Minster and MAS Chairman Tharman Shanmugaratnam was appointed chairman of the IMF's International Monetary and Financial Committee (IMFC), a key advisory body that sets the IMF's policy direction.[695]

The MAS also cooperates with its ASEAN regulatory counterparts through various forums, such as the ASEAN Capital Markets Forum, chaired by MAS.[696] In addition, the MAS also maintains high-level bilateral meetings with its foreign counterparts.[697] Furthermore, international decision-makers

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691 Monetary Authority of Singapore, *Annual Report 2009/2010*, 23.
692 Monetary Authority of Singapore, *Annual Report 1997/1998*, 14.
693 Monetary Authority of Singapore, *Annual Report 2009/2010*, 40.
694 Monetary Authority of Singapore, *Annual Report 2011/2012*, 2012, 38, 2012.
695 Monetary Authority of Singapore, *Annual Report 2010/2011*, 41.
696 Monetary Authority of Singapore, *Annual Report 2011/2012*, 40.
697 Monetary Authority of Singapore, *Annual Report 2009/2010*, 42.

tend to interact with the MAS whenever they arrive in Singapore[698] while international organizations such as the IMF and Bassel committee frequently deploy financial sector experts to examine Singapore's financial stability and its compliance with international regulatory standards.[699]

In sum, financial policy-making in Singapore relies on the collective efforts of a coalition of government agencies, private industry actors, and other interested non-state actors. While the government remains a powerful driving force in financial sector development, it shares financial policymaking duties with industry actors and other government-related organizations. This is achieved through a 'governing elite' made up of both state and private interests. Private sector actors also participate in the financial policy process through the MAS's extensive industry consultations.

Singapore's highly open markets and internationalized financial sector further invite the participation of a wide array of international actors in the financial policy subsystem. While some of these actors, such as international standards-setting bodies and multilateral organizations, exercise some influence over domestic financial policy-making, other actors such as international banks and foreign regulators bear the impact of the Singapore government's financial policies.

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[698] Senior Regulatory Official, Interview.
[699] Former Senior Regulatory Official, Interview.

However, it should be noted that Singapore's financial policy subsystem remains state-led, particularly by the MAS, with private sector industry actors allowed to substantially influence financial policies under the MAS's formal and informal consultative processes. While other non-state and international actors are also involved in the policy process, they are not as influential as the state or industry. This is due to the significance of industry interests to Singapore's overall economic and financial development. While such non-state and international actors act as a source of knowledge and advice, they possess less influence over policy when compared to industry actors.

Although the financial policy subsystems of Hong Kong and Shanghai similarly include industry, non-state and international actors, the participation of these actors in the financial policy processes of these two IFC's is limited and superficial when compared to the state-industry co-creation of financial policies and active participation of non-state actors in financial policy processes which takes place in Singapore.

Conclusion

As this chapter has shown, Singapore's development as an IFC has been carried out under strong state leadership, complemented by heavy industry involvement as well as inputs from other non-state actors. This state-led model of financial governance has been in place since Singapore's post-independence drive to develop a financial centre in the late 1960s. This is in contrast to the cases of Hong Kong and Shanghai, where financial policymaking remains very much within the control of the state and non-state participation is limited.

As a consequence, Singapore's financial policy subsystem features a strong mix of state, industry, and other non-state actors, with all three sets of actors actively involved in financial policymaking, allowing for a state-industry 'co-creation' of financial policies. In particular, industry and non-state actors are involved in Singapore's financial policy process through the MAS's extensive consultative processes and the participation of select industry and non-state actors in Singapore's governing elite.

Given a strong focus on financial market development, Singapore's financial policy subsystem features the presence of a development-oriented advocacy coalition comprising state and industry actors. This coalition influences financial policy mix design through an ideational channel that converts developmental policy beliefs into policy instrument choice. Hence, enabling and developmental financial policy instruments are chosen to satisfy both the MAS's goal of IFC development and the interests of industry actors seeking to establish a business-friendly environment.

However, financial system stability remains crucial to Singapore's continued success as an IFC. Both the MAS and industry actors thus remain focused on stabilizing goals that ensure a stable business environment, aside from the aforementioned focus on development. This means that the MAS's financial policy mix comprises a judicious mix of stabilizing, enabling, and developmental instruments. Importantly, this suggests the lack of a strong instruments constituency and a weak instrumental channel through which policymakers may influence policy mix design.

Unlike Hong Kong, there is no clear preference for a particular type of instrument. Rather, instrument choice is predicated upon the attainment of developmental and stabilizing policy outputs. As such, policy instrument choice is related to the policy beliefs of Singapore's developmental advocacy coalition, with dominant subsystem actors within this coalition influencing policy mix design through a development-oriented ideational channel.

Chapter 6: Shanghai

Introduction

Shanghai's rapid rise over the past decade has made it the "domestic financial hub of mainland China" and a centre for a diverse variety of Chinese financial activities.[700] It is also slated to become a full IFC by 2020[701] and aims to become a global centre for Yuan trading by 2015.[702] Given its historical role as the key site for financial policy experimentation in China, Shanghai has played a "pioneering role in the market development process in the country as a whole".[703]

Importantly, Shanghai's development as an IFC is a state-driven process that is inextricably linked to overall national economic development, with its emergence and development as an IFC part of a "state strategy" aimed at promoting China's role in global financial markets[704] and the state "determining the timing, pace and economic and spatial configuration of Shanghai's development".[705] This makes financial policymaking in Shanghai

[700] Laurenceson and Tang, "Shanghai's Development as an International Financial Center," 148.
[701] Lim, "China's Regulators Urge for Reform of Financial Sector - Channel NewsAsia."
[702] "Shanghai Aims to Become Global Yuan Trading Center by 2015."
[703] Xiaoping Xu, *China's Financial System under Transition* (London: Macmillan Press Ltd, 1998), 108.
[704] Lin Xiao, *金融战略与财经论衡：迈向国际金融中心的上海之路 Financial Strategy and Economic Forum: Shanghai Road to International Financial Centre* (Shanghai: Shanghai People's Publishing House, 2012), 158.
[705] Lai, "Developing Shanghai as an International Financial Centre," 4.

highly state-centred, carried out under the aegis and guidance of both the central and municipal governments.[706]

State monopoly over financial policymaking is complemented by the dominance of state-owned banks and financial institutions in Shanghai's financial markets. This means that Shanghai's financial policy subsystem is effectively state-dominated, with government agencies from both central and local levels and state-owned financial institutions forming an advocacy coalition around state ideologies and developmental policy beliefs. Non-state actors such as foreign financial institutions and independent experts play limited roles in financial policymaking.

Importantly, this state-dominated and development-oriented advocacy coalition influences policy mix design through a development-oriented ideational channel that converts state developmental policy beliefs into Shanghai's financial policy instrument mix. As a consequence, Shanghai's financial policy mix largely comprises enabling and developmental financial policy instruments that are geared towards developmental policy outputs. This reflects the dominance of state actors in Shanghai's financial policy subsystem and the state's overarching focus on financial sector development. This chapter discusses Shanghai's development as an IFC, focusing on its comparative advantages, model of financial governance, regulatory regime, financial policy mix, and financial policy subsystem.

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[706] Xiangming Chen, ed., *Shanghai Rising: State Power and Local Transformations in a Global Megacity* (Minneapolis: University Of Minnesota Press, 2009), XVIII.

Historical Development

Given its historical position as a centre for trading and financial activities, Shanghai's role as an IFC is not new. In fact, it has been described as the "birthplace of China's modern financial industry".[707] The origins of Shanghai's financial sector has been traced to the mid-Ming Dynasty era (1368-1664 C.E.), when money houses had first been set up to support Shanghai's role as a trading centre in the booming Yangtze River Delta area.[708]

While Shanghai's financial industry experienced strong growth through the 19th century, it was only between the late 1920s and early 1930s that Shanghai truly began to emerge as a financial centre.[709] Owing to its emergence and subsequent development, Jao notes that mid-1930s Shanghai already had the makings of an IFC, such as markets for securities, gold, foreign exchange, silver bullion, internal remittances and inter-bank financing.[710]

Shanghai would also reach its peak as a prominent Asian IFC during this period. By the mid-1930's, Shanghai had become a banking centre for both Chinese banks and foreign banks.[711] However, the subsequent onset of the Japanese occupation from 1937 to 1945 proved disruptive to the

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[707] Xiaohui Ji, *Shanghai Finance* (Thomson Learning, 2008), 2.
[708] Ibid., 3.
[709] Ibid.
[710] Jao, "Shanghai and Hong Kong as International Financial Centres: Historical Perspective and Contemporary Analysis," 8.
[711] Ji, *Shanghai Finance*, 4.

development of Shanghai's financial markets.[712] Neither the end of the Japanese occupation nor the commencement of Shanghai's rule by the Communist Party of China (CPC) would stem the outflow of financial institutions into Hong Kong.[713]

This decline of Shanghai's financial sector was exacerbated by a spate of "financial repression" by the Chinese government; this involved driving out foreign financial institutions and banks, nationalizing private Chinese banks and the closure of all financial markets.[714] As McCauley and Chan have noted, "policy drove practically all international banks out of Shanghai in the years after the founding of the People's Republic".[715] It was only with the economic reforms of the late 1970s that Shanghai re-emerged as an IFC.

In particular, China's 1979 economic reforms sparked off a shift towards a market economy model, featuring "an open-door policy toward trade, financial flows and foreign investments".[716] Yet it was only in 1984 that Shanghai was designated an "open-port city" to attract foreign investment and technology transfers.[717] A proliferation of local financial institutions also came

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[712] Ibid., 4–5.
[713] Ibid., 5.
[714] Jao, "Shanghai and Hong Kong as International Financial Centres: Historical Perspective and Contemporary Analysis," 9–10.
[715] McCauley and Chan, "Hong Kong and Shanghai: Yesterday, Today and Tomorrow," 17.
[716] Wei-Bin Zhang, "Shanghai: A Gateway to China's Economic Modernization," in *Gateways to the Global Economy*, ed. Ake E. Andersson and David E. Andersson (Cheltenham: Edward Elgar Publishing Limited, 2000), 261.
[717] Ibid., 262.

to characterize China's financial system in the 1980s.[718] Importantly, these local financial institutions served developmental purposes, being "important instruments for local governments in promoting local economic development".[719]

Shanghai further gained political clout with the transfer of prominent officials from Beijing to Shanghai, including Jiang Zemin in 1985 and Zhu Rongji in 1987.[720] Shanghai's new leaders lobbied aggressively and successfully for Shanghai to obtain a financial contract system similar to those enjoyed by Guangdong and Fujian, effectively allowing the Shanghai government to keep all revenues above an agreed amount.[721] This would prove to be significant both for Shanghai's development as an IFC and for the economic policy autonomy that the Shanghai municipal government currently enjoys.

While the initial emergence of Shanghai as an IFC was a natural offshoot of the city's role as a major trading hub, its post-reform re-emergence as an IFC in the late 20th century was in contrast driven by deliberate strategic planning by the state. According to Ji, Shanghai's redevelopment as an IFC was a "major strategic decision made by the CPC Central Committee and the

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[718] Hongying Wang, "The Asian Financial Crisis and Financial Reforms in China," *The Pacific Review* 12, no. 4 (1999): 541.
[719] Ibid., 542.
[720] Pamela Yatsko, *New Shanghai: The Rocky Rebirth of China's Legendary City*, 1st ed. (New York: John Wiley & Sons Inc, 2001), 20.
[721] Ibid., 21.

State Council".[722] This state strategy was carried out in three stages: (i) China's conversion to an open market economy from 1984 to 1992 ("exploring the state strategy"), (ii) the development of Shanghai into China's domestic financial centre from 1992 to 2002 ("laying a foundation for the state strategy"), and after 2002, (iii) its emergence as a successful IFC ("implementing the state strategy").[723]

Shanghai's future as an IFC was first mooted in the early 1990s, with China's reformist leader Deng Xiaoping stating in 1991 that the government needed to develop Shanghai into an IFC in order to boost China's status in international financial markets.[724] This was followed by a "slew of preferential policies" including approval for the establishment of a Pudong New Area, permission to set up new service industries, attract foreign banks and establish a free trade zone in Shanghai.[725]

As part of the central government's "Shanghai-leaning" policies, major exchanges were established in Shanghai.[726]These included the establishment of the Shanghai Stock Exchange (SSE) in 1990, the China Foreign Exchange Trade System (CFETS) in 1994, National Interbank Funding Centre (NIFC)

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[722] Ji, *Shanghai Finance*, 6.
[723] Ibid., 8–9.
[724] Hong Kong Legislative Council Secretariat, *The Development of Shanghai as an International Financial Centre*, Information Note (Hong Kong, 2011), 2.
[725] Yatsko, *New Shanghai*, 21.
[726] **上海市《迈向 21 世紀的上海》課**题领导小组编 Shanghai City <Shanghai in the 21st Century> Discussion Group Editorial Group, *迈向 21* ***世紀的上海*** *: 1996--2010* ***年上海****经济、社会发展战略研究 Shanghai in the 21st Century: Shanghai's economic and social development strategies in 1996-2010* (Shanghai: Shanghai People's Publishing House, 1995), 196.

and National Bond Trading Centre in 1997, Shanghai Futures Exchange in 1999, Shanghai Gold Exchange in 2002, Note Market Service Centre in 2003, Shanghai Petroleum Futures Market and China Financial Futures Exchange in 2006, Shanghai Financial Arbitration Court in 2007, and Shanghai Clearing House in 2009.[727]

The central government's intentions for Shanghai were subsequently laid out as a formal policy objective in the 14th Party Congress of the CPC in 1992, when then-President Jiang Zemin expressed the government's desire to "make Shanghai one of the international economic, financial and trade centres as soon as possible and to bring about a new leap in economic development in the Yangtze River Delta and the whole Yangtze River basin".[728] This was to be achieved by opening up China's markets to foreign investments, providing foreign investors with adequate legal protection, and maintaining an environment that is conducive for investments.[729]

These plans were subsequently followed by the implementation of 18 "super-special" policies aimed at enhancing Pudong's development, including permission for foreign banks in Pudong to conduct local currency business, granting all Pudong-area projects the status of "priority national projects", and

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[727] Subacchi et al., *Shifting Capital*, 17; Mu Yang, Michael Siam-Heng Heng, and Tin Seng Lim, *Shanghai As An International Financial Centre: Problems and Prospects*, EAI Background Brief (Singapore: East Asian Institute, May 20, 2010), 8.
[728] "Full Text of Jiang Zemin's Report at 14th Party Congress," *Beijing Review*, October 26, 1992, http://www.bjreview.com.cn/document/txt/2011-03/29/content_363504.htm.
[729] Ibid.

allocating 700 million Yuan of loans annually to the Pudong government.[730] The central government under the leadership of Jiang Zemin also channelled a large amount of grants and loans into Shanghai, further stimulating the influx of FDI's into the city.[731]

These initiatives were complemented by the official establishment of the Pudong New Area in 1993[732] and the introduction of accompanying incentives geared towards attracting foreign banks and financial institutions, promoting offshore banking businesses and increasing trade in currencies and B shares within the New Area.[733] Pudong's Lujiazui district was subsequently developed into Shanghai's key financial district, with foreign banks and insurance companies allowed to set up representative offices, branches and sub-branches in the district.[734]

Importantly, the central government granted the Shanghai municipal government greater autonomy in enacting policies and regulations promoting trade, finance and industry within the Pudong New Area.[735] The development of the Pudong New Area and the Lujiazui financial district attracted a "mad

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[730] Yatsko, *New Shanghai*, 23.
[731] Cheng Li, "Reclaiming the 'Head of the Dragon': Shanghai as China's Center for International Finance and Shipping," *China Leadership Monitor* 28 (2009): 11.
[732] "History," *E-Pudong*, November 30, 2012, http://english.pudong.gov.cn/html/pden/pden_ap_oop_history/List/list_0.htm.
[733] Haishan Liu, *中国经济特区：从深圳到上海的特区政策变迁与现代化新路径 China's Special Economic Zones: From Shenzhen to Shanghai: A New Path to Industrialization, Urbanization, Globalization and Modernization* (Shanghai: Shanghai People's Publishing House, 2008), 69.
[734] Yatsko, *New Shanghai*, 58.
[735] Liu, *中国经济特区：从深圳到上海的特区政策变迁与现代化新路径 China's Special Economic Zones: From Shenzhen to Shanghai: A New Path to Industrialization, Urbanization, Globalization and Modernization*, 69.

rush of foreign investment into the city", with many major international financial institutions such as Citibank, Goldman Sachs, Merrill Lynch and Morgan Stanley setting up or expanding operations in Shanghai.[736]

After the AFC, the Chinese government sought to centralize its regulation and control of the financial system and "ensure vertical leadership of the financial system" by setting up the Central Financial Work Commission (CFWC) in 1998.[737] This was accompanied by the establishment of national regulatory authorities for the banking, securities and insurance sectors. However, the CFWC was only able to supervise and control national financial institutions, with provincial, municipal and local banks as well as other financial institutions falling outside of its influence.[738] Given the inefficiency of such centralized regulation, the task of financial regulation and supervision fell to local governments, with cooperation and coordination between central regulators and local government bodies taking place at the local level.[739]

Local governments reinstated their control and influence over their financial sectors with the formation of municipal financial work bodies and "Financial Safety Zones" that served the functions of "supervising local financial institutions, linking up [*goutong*] with central government regulatory,

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[736] Yatsko, *New Shanghai*, 58.
[737] Wang, "The Asian Financial Crisis and Financial Reforms in China," 542; For more on the CFWC and its role in centralizing state regulatory authority in the late 1990's, see Sebastian Heilmann, "Regulatory Innovation by Leninist Means: Communist Party Supervision in China's Financial Industry," *The China Quarterly* 181 (2005): 1–21.
[738] Sebastian Heilmann, "Policy-Making and Political Supervision in Shanghai's Financial Industry," *Journal of Contemporary China* 14, no. 45 (2005): 645–646.
[739] Ibid., 646–647.

contributing to the reduction of non-performing loans, guarding against financial risks, fighting financial crime, preventing asset stripping and capital flight".[740] From the mid-1990s, the Shanghai municipal government stepped up its efforts at attracting domestic and foreign financial companies and encouraging them to set up their head offices in Shanghai.[741]

The concentration of local governmental influence over Shanghai's financial sector was further entrenched with the formation of the Shanghai Municipal Financial Work Party Committee (FWPC) in 2000. The FWPC acts directly under the direct purview of the Shanghai Municipal CCP Committee, meaning that the CFWC had "no organizational hierarchical control over the Shanghai FWPC but merely exercised general policy guidance [*zhidao*] through issuing documents and holding occasional joint work conferences".[742]

Given its inefficacy in managing local financial institutions, the CFWC was dissolved in 2002, with most of its functions and responsibilities transferred to national regulatory bodies. The Shanghai Municipal Financial Service Office (FSO) was subsequently set up in the same year as an administrative body overseeing the regulation and development of Shanghai's financial sector, to compliment the FWPC's role as a political body. However, the distribution of functions and responsibilities between the two remains unclear.

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[740] Ibid., 647.
[741] Ibid., 649.
[742] Ibid., 653.

Even as Shanghai's local government consolidated control and management of its financial sector, the central government has managed to retain a significant measure of influence. This was achieved through the establishment of the CSRC Shanghai Bureau in 1993, the CIRC Shanghai Bureau in 2000, the CBRC Shanghai Bureau in 2003, and the PBOC Shanghai Head Office in 2005.[743] The establishment of these state organization branches in Shanghai have allowed the central government to perform central banking, regulatory and supervisory functions in the municipality.

However, this proliferation of state and local government organizations for financial sector management and development has not resulted in conflicting state-local relations. Rather, the FSO has worked closely with central regulatory institutions in the implementation of laws, rules, and policies; it has also established regular "3+2" meetings between the FSO, PBOC Shanghai Head Office, and the three state financial regulatory authorities.[744]

With China becoming a member of the World Trade Organization (WTO) in 2001, Shanghai became an "exemplar of financial reform and opening-up", fostering international cooperation in its financial markets and attracting the establishment of 326 foreign-funded and Sino-foreign joint-venture financial institutions by 2005.[745] As such, Shanghai's rise to

[743] Ji, *Shanghai Finance*, 201–215.
[744] Ibid., 216–217.
[745] Ibid., 14.

prominence as an IFC and its rapid internationalization in the 2000s was driven by a sharp increase in number of foreign financial institutions that coincided with the opening up of China's financial markets.

A government pilot program that sought to reform the foreign exchange and offshore banking sectors further attracted foreign financial institutions.[746] The entry of foreign financial institutions did not simply involve the setting up of joint ventures or representative offices; foreign financial institutions also acquired stakes in Chinese financial institutions.[747] The introduction of the Qualified Foreign Institution Investor (QFII) scheme in 2003 and the Qualified Domestic Institutional Investor (QDII) scheme in 2006 further encouraged the inflow of foreign funds and the expansion of Yuan-denominated trading activities, liberalizing trade on the SSE.[748]

Even as Shanghai's financial sector became increasingly competitive and internationalized, the central government continued to play an active role in developing Shanghai as an IFC. The government's 11th Five Year Plan in 2006 aimed to build Shanghai into a successful IFC by 2010 through the establishment of a financial market system, strengthening of financial

[746] Ibid., 15.
[747] Ibid.
[748] Yang, Heng, and Lim, *Shanghai As An International Financial Centre: Problems and Prospects*, 7.

institutions, tightening of regulations, introduction of reforms and innovations, and maintenance of a favourable financial environment.[749]

On the back of its strong financial sector growth, Shanghai's total economic output surpassed that of Singapore in 2008 and Hong Kong in 2009.[750] However, the onset of the 2008 GFC would result in a decline China's GDP growth, causing massive losses on the Shanghai stock exchange, and resulting in a drastic loss of value among Chinese banks and financial institutions.[751] Nonetheless, Shanghai's financial sector has since recovered from the GFC and resumed its upward trajectory with favourable policy support from the government.

Further endorsement from the central government arose in March 2009, when the Chinese State Council announced plans to turn Shanghai into a major IFC on par with London, Hong Kong, and Singapore by 2020.[752] In particular, the 2020 plan aimed to develop in Shanghai: a multi-functional and internationalized financial market system, internationally competitive financial

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749 Letian Pan, "Shanghai Issues 11th Five Year Plan for Financial Sector," Chinese Government Official Web Portal, *Gov.cn*, November 27, 2006, http://english.gov.cn/2006-11/27/content_454961.htm; Hong Kong Legislative Council Secretariat, *The Development of Shanghai as an International Financial Centre*, 2.

750 Xiao, *金融战略与财经论衡：迈向国际金融中心的上海之路 Financial Strategy and Economic Forum: Shanghai Road to International Financial Centre*, 136.

751 Li, "Reclaiming the 'Head of the Dragon': Shanghai as China's Center for International Finance and Shipping," 5.

752 Yang, Heng, and Lim, *Shanghai As An International Financial Centre: Problems and Prospects*, iii.

institutions and financial professionals, and a compatible system of taxation, credit, regulation and law.[753]

This was the first time that Shanghai received explicit national-level support for its role and development as China's leading IFC.[754] The Shanghai 2020 plans were accompanied by policy initiatives such as tax incentives, measures promoting market liberalization, and the gradual convertibility of the RMB.[755] Significantly, Shanghai received permission from the central government in April 2009 to use RMB in overseas trade settlements.[756] This was in line with the government's goal of RMB full convertibility by 2020, as encapsulated in the Shanghai 2020 plan.

The central government's plans for Shanghai's development as an IFC were complemented by the key role of the municipal government in implementing and driving financial sector development. Housing and healthcare benefits were introduced by Shanghai city officials to attract financial sector professionals.[757] Liu has also noted that China's central and

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753 Bill Leung and Joanne Yim, *Shanghai's Future as an International Financial Centre*, Economic Focus (Hong Kong: Hang Seng Bank, June 24, 2009), 2.
754 Yang, Heng, and Lim, *Shanghai As An International Financial Centre: Problems and Prospects*, 3; Xiao, *金融战略与财经论衡：迈向国际金融中心的上海之路 Financial Strategy and Economic Forum: Shanghai Road to International Financial Centre*, 81.
755 Li, "Reclaiming the 'Head of the Dragon': Shanghai as China's Center for International Finance and Shipping," 3.
756 Ibid., 27.
757 Scott Tong, "Shanghai: Aspirations and Reality, and Implications for Hong Kong," *Hong Kong Journal*, no. 16 (October 2009), http://www.hkjournal.org/archive/102009.htm.

local governments share the same goals of turning Shanghai into Asia's leading IFC, surpassing even Hong Kong.[758]

The "Regulations on Promoting the Development of an International Financial Centre in the Shanghai Municipality" were subsequently approved and enacted during the 12th session of the 13th Shanghai Municipal People's Congress Standing Committee on 25 June 2009.[759] These regulations aimed to guide the implementation of the national strategy of establishing Shanghai as an IFC,[760] signifying a progression of this strategy from the policy level to the legislative level.[761]

In "The Opinions on Accelerating Shanghai's developing its Modern Service and Advanced Manufacturing Industries, and its development into an International Financial Centre and an International Shipping Centre" that was unveiled by the State Council on 25 March 2009, several governmental measures were detailed for the purpose of developing Shanghai as an IFC. These include expanding the depth and breadth of Shanghai's financial markets, encouraging greater participation by foreign investors, developing financial institutions, ensuring efficient provision of financial services, creating major financial hubs, fostering greater financial innovation, and

[758] Liu, *中国经济特区：从深圳到上海的特区政策变迁与现代化新路径 China's Special Economic Zones: From Shenzhen to Shanghai: A New Path to Industrialization, Urbanization, Globalization and Modernization*, 155–156.
[759] "Regulations on Promoting the Development of an International Financial Centre in the Shanghai Municipality," *Shanghai Municipal Commission of Commerce Website*, 2010, http://www.scofcom.gov.cn/engb/227375.htm.
[760] Ibid.
[761] Hong Kong Legislative Council Secretariat, *The Development of Shanghai as an International Financial Centre*, 3.

building up a sound legal and regulatory infrastructure to ensure the stability of the financial sector.[762]

While the regulations placed the Shanghai municipal government in charge of financial industry development, this was to be carried out under the "unified arrangement of the State".[763] The Shanghai municipal government was also tasked with fostering greater cooperation with Hong Kong SAR and other cities from the Yangtze River Delta area and fostering stronger exchange with other major IFC's, in accordance to the "strategic positioning and labor division determined by the State".[764] A "2010 Blueprint" for financial sector development was subsequently released, explicitly stating the municipal government's goal of turning Shanghai into a leading IFC for the Asia Pacific region.[765]

Importantly, the 12th Five-Year Plan in 2011 enunciated the government's commitment to accelerating the development of Shanghai as an IFC and enhancing Shanghai-Hong Kong cooperation.[766] The Fourth National Financial Work Conference held in Beijing in 2012 also emphasized the speeding up of Shanghai's development as an IFC, as part of the eight

[762] Ibid., 8–9.
[763] "Regulations on Promoting the Development of an International Financial Centre in the Shanghai Municipality."
[764] Ibid.
[765] Heilmann, "Policy-Making and Political Supervision in Shanghai's Financial Industry," 649.
[766] People's Bank of China et al., *The 12th Five-Year Plan for the Development and Reform of the Financial Industry*, 2011, 31, http://www.csrc.gov.cn/pub/csrc_en/newsfacts/release/201210/W020121010631355001488.pdf.

measures identified for financial reform over the next five years.[767] In the same year, plans were announced by the National Development and Reform Commission (NDRC) to make Shanghai a "global center of renminbi product innovation, trading, clearing and pricing" by 2015.[768] This was in line with plans to make Shanghai an "international financial centre in tandem with the national economic strength and the international status of the renminbi".[769]

These plans were further solidified with the launch of the Shanghai free trade zone on 29 September 2013, an initiative that allows the Chinese government to test significant financial and economic reforms such as loosening restrictions on foreign investments and introducing full RMB convertibility.[770] The FTZ is likely to enhance Shanghai's growth as an IFC by attracting greater foreign investment. Furthermore, given that currency convertibility is a significant advantage enjoyed by both Hong Kong and Singapore, RMB convertibility is an important step in cementing Shanghai's position as a leading IFC.

While Shanghai's financial sector has gradually liberalized in line with its ambition to become a leading IFC and its municipal government has obtained significant autonomy to do so, Shanghai's financial sector growth is

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767 Xinzhen Lan, "Setting Financial Tones: China's Financial Industry Focuses on Serving the Real Economy," *Beijing Review*, January 19, 2012, http://www.bjreview.com.cn/print/txt/2012-01/16/content_420832_3.htm; Subacchi et al., *Shifting Capital*, ix.

768 Xinzhen Lan, "Money Hub," *Beijing Review*, February 20, 2012, sec. Business, http://www.bjreview.com.cn/business/txt/2012-02/20/content_426253.htm.

769 Ibid.

770 "Shanghai Free-Trade Zone Launched," *BBC*, September 29, 2013, sec. Business, http://www.bbc.co.uk/news/business-24322313.

still controlled or at times constrained by the control wielded by the central government and regulators over the introduction of new financial products and exchanges.[771] Intuitively, this suggests that the Shanghai government is in charge of formulation and implementation of financial policies, while the Central Government decides on the overall IFC development strategy. This is further discussed in the sections on financial governance and policy subsystem.

Determinants of Competitive Advantage

Laurenceson and Tang have identified Shanghai's high rate of economic growth, international orientation, strategic access to key markets, low business input costs, as well as its rapidly improving physical and human capital stocks as the city's strengths as an IFC.[772] Many of these strengths stem from Shanghai's pre-existing advantages. These include a "financial culture" that emerged from the long history of its financial markets, a strategic geographical location in the Yangtze River Delta region, favourable time-zone, economic strength, availability of human capital, as well as the diversity and maturity of its financial markets.[773] Similar to Hong Kong and Singapore,

[771] Tong, "Shanghai: Aspirations and Reality, and Implications for Hong Kong."
[772] Laurenceson and Tang, "Shanghai's Development as an International Financial Center," 163.
[773] Hong Kong Legislative Council Secretariat, *The Development of Shanghai as an International Financial Centre*, 4–6; 上海市《迈向 21 世紀的上海》課题领导小组编 Shanghai City <Shanghai in the 21st Century> Discussion Group Editorial Group, *迈向 21 世紀的上海 Mai xiang 21 shi ji de Shanghai*, 189.

Shanghai's strategic location has allowed it to interact and cooperate directly with foreign investors and international financial institutions.[774]

According to Zhang, Shanghai's advantages include its strategic location, availability of skilled workers and national policies favourable to its development.[775] Representing a unique advantage enjoyed by Shanghai, favourable national policies arise from Shanghai's economic and political proximity to China. While Hong Kong is also geographically and economically close to China, its position as an SAR excludes it from the political proximity and Party linkages enjoyed by Shanghai. Shanghai's role as an onshore IFC also places it even closer to Chinese markets than Hong Kong.

Furthermore, the Chinese central government views Shanghai as it's "trump card" in the global economy and has thus provided Shanghai with incentives and resources that far exceed those offered to other SEZ's.[776] As such, Shanghai's proximity to the rapidly expanding Chinese economy and the availability of strong political support from the central government represents a key competitive advantage for the Chinese IFC,[777] providing a measure of policy and political stability.

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774 Liu, *中国经济特区：从深圳到上海的特区政策变迁与现代化新路径 China's Special Economic Zones: From Shenzhen to Shanghai: A New Path to Industrialization, Urbanization, Globalization and Modernization*, 165.

775 Zhang, "Shanghai: A Gateway to China's Economic Modernization," 263.

776 Liu, *中国经济特区：从深圳到上海的特区政策变迁与现代化新路径 China's Special Economic Zones: From Shenzhen to Shanghai: A New Path to Industrialization, Urbanization, Globalization and Modernization*, 195.

777 Leung and Yim, *Shanghai's Future as an International Financial Centre*, 6; Yatsko, *New Shanghai*, 85; DBS Bank Singapore Economic Research Department, *Development of*

Political support from the central government is aided by the presence of former Shanghai leaders (known as the "Shanghai Clique") in key state institutions such as the Politburo.[778] Specifically, Shanghai's financial sector benefits from the "favourable policies" enjoyed by the Pudong New Area as well as other "Shanghai-leaning" policies promulgated by the central government.[779] A more recent instance of such strong state political support can be found in Premier Li Keqiang's backing of the recently-established Shanghai Free Trade Zone despite opposition from various financial regulators.[780]

This strong role of the state gives rise to political stability, efficiency, and predictable planned development, advantages enjoyed by Singapore as well.[781] It is important to note that this "strong state" factor underpinning Shanghai's financial success includes both the central and municipal governments. As later sections will show, municipal government agencies play a significant role in regulating and developing Shanghai's financial sector, working under the purview of and in tandem with central government

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Shanghai as a Financial Centre: Implications for Hong Kong and Singapore, ASEAN/Singapore Briefing (Singapore: Development Bank of Singapore, October 1996), 8.

[778] DBS Bank Singapore Economic Research Department, *Development of Shanghai as a Financial Centre: Implications for Hong Kong and Singapore*, 8.

[779] 上海市《迈向 21 世紀的上海》課题领导小组编 Shanghai City <Shanghai in the 21st Century> Discussion Group Editorial Group, *迈向 21 世紀的上海 Mai xiang 21 shi ji de Shanghai*, 189.

[780] George Chen, "Li Keqiang Fought Strong Opposition for Shanghai Free-Trade Zone Plan," *South China Morning Post*, September 6, 2013, http://www.scmp.com/news/china/article/1282793/li-fought-strong-opposition-shanghai-free-trade-zone-plan.

[781] Ho, "Competitive Urban Economic Policies in Global Cities: Shanghai Through the Lens of Singapore," 77.

agencies. Shanghai's status as an IFC is also aided by its strong and well-diversified real economy,[782] which provides an additional engine to the growth of the financial sector.

Two distinct sets of competitive advantages can thus be discerned, separated by China's 1979 economic reforms. The first set comprises pre-existing advantages such as strategic location and time-zone, availability of human capital, and an existing financial sector; these existed before the 1979 reforms and can be seen as relatively 'natural-occurring'. These advantages were related to Shanghai's initial role as a trade entrepot.

Shanghai's second set of competitive advantages includes its participation in a rapidly expanding Chinese economy and strong political support from the central government in terms of favourable policies. This second set of advantages is essentially state-driven and the result of deliberate policy design. However, the existing literature does not distinguish between the 'natural-occurring' and 'state-driven' competitive advantages that have driven Shanghai's development as an IFC. This has significant implications for the study of IFC-development, since Shanghai has shown how IFC-development involves policies that enhance *existing advantages* and policies that *create new advantages*.

[782] Jao, "Shanghai and Hong Kong as International Financial Centres: Historical Perspective and Contemporary Analysis," 33.

While these key factors have driven Shanghai's rise to prominence, several competitive *disadvantages* continue to hinder the city's development. Firstly, China's inconvertible RMB continues to act as a stumbling block to Shanghai's development and prospects as an IFC.[783] As Tong has noted, Shanghai's future as a leading IFC hinges on the convertibility of the RMB, with partial or no RMB convertibility restricting Shanghai's role to domestic financial centre rather than a full-fledged IFC.[784] Furthermore, Shanghai's lack of capital mobility and RMB convertibility stands in stark contrast to the full currency convertibility and capital mobility that underpin Hong Kong's success as an IFC.[785]

Jao further notes that Shanghai continues to lag behind Hong Kong in terms of its inability to grant "national treatment" to foreign banks and financial institutions, the highly interventionist and restrictive nature of its financial governance mode, weak prudential supervision, complex and onerous tax system, and its ineffective legal system.[786] Due to such shortcomings, Shanghai is far less attractive as a location for regional headquarters when compared to Hong Kong.[787] However, the recent establishment of the Shanghai Free Trade Zone seeks to ameliorate some these weaknesses, by allowing the government to experiment with and progressively

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[783] Leung and Yim, *Shanghai's Future as an International Financial Centre*, 7.
[784] Tong, "Shanghai: Aspirations and Reality, and Implications for Hong Kong."
[785] Jao, "Shanghai and Hong Kong as International Financial Centres: Historical Perspective and Contemporary Analysis," 27.
[786] Ibid., 27–31.
[787] Laurenceson and Tang, "Shanghai's Development as an International Financial Center," 157–158.

introduce full RMB convertibility, liberalize interest rates and allow greater participation of foreign financial institutions within the area.

It has also been noted that Shanghai lacks the "software" of a successful IFC, such as strong rule of law, good accounting systems, financial sector talent, an attractive tax system, access to accurate information, market-oriented corporate incentives, and an English-speaking environment.[788] This lack of the necessary legal, regulatory, and human capital-related infrastructure reflects an under-representation of stabilizing policy instruments that would have aided in the establishment of such infrastructure. Instead, China's development-focused government relies on developmental and enabling instruments to stimulate financial sector development. This is discussed in a later section on Shanghai's financial policy mix.

Furthermore, Shanghai also lacks the "regulatory flexibility" that Hong Kong and Singapore possess.[789] Regulatory flexibility refers to the "streamlined, nimble systems of governance" that allow Hong Kong and Singapore to promote financial innovation and responsiveness to change through a transparent and investor friendly regulatory framework.[790] However, Lai has noted that local regulatory authorities in Shanghai possess significant autonomy to interpret and implement regulations formulated at the national

788 Yatsko, *New Shanghai*, 12; Chong, Interview.
789 "Turning Shanghai into a Global Financial Hub: So Much to Do, So Little Time," *Knowledge At Wharton*, July 7, 2010, http://www.knowledgeatwharton.com.cn/index.cfm?fa=viewfeature&articleid=2257&languageid=1.
790 Ibid.

level.[791] While this denotes some degree of regulatory flexibility, the central government remains able to exercise its authority over regulatory policy in Shanghai via indirect channels such as the Party cadre system or informal influence.

Shanghai's future as an IFC thus hinges on the development of these 'software' factors, albeit with much resistance, given that the development of these factors may require a reduction in the Party's power and influence over Shanghai's financial markets.[792] In contrast, such "software" is readily available in Hong Kong and Singapore and has become entrenched as part of these two IFC's key competitive advantages, particularly the presence of robust and reliable legal and regulatory infrastructures in both IFC's.[793] In response to these disadvantages, the Chinese government's Fourth National Financial Work Conference in 2012 has identified improving corporate governance, reinforcing financial infrastructure, and strengthening financial regulation and supervision as key areas of financial reform for the next five years.[794]

Shanghai's emergence and development as an IFC is likely to impact regional and international financial markets, providing both challenges and potential for cooperation to other IFC's. Shanghai's closest competitors are

[791] Lai, "Differentiated Markets," 1283.
[792] Yatsko, *New Shanghai*, 12.
[793] Chong, Interview; Tsang, Interview.
[794] Lan, "Setting Financial Tones: China's Financial Industry Focuses on Serving the Real Economy"; Subacchi et al., *Shifting Capital*, 6.

Hong Kong and Singapore, both leading Asian IFC's serving the East Asian and South East Asian regions. Shanghai's rise as an IFC poses direct challenges to Hong Kong by attracting project financing, syndication loans, potential stock listings and debt issues away from the SAR.[795]

Specifically, Shanghai's proximity to the booming Chinese industries and its increasingly internationalized listings will result in the SSE becoming a viable alternative to the HKEx[796] while Shanghai's burgeoning bond market poses a further threat to Hong Kong's attractiveness to Chinese fixed-income investors.[797] In contrast, Singapore's comparative advantage in serving the South East Asian region shields the republic from competitive pressures arising from Shanghai's rise to prominence.[798]

However, opportunities for cooperation are also abundant. The establishment of the Mainland Market Data Collaboration Programme between the HKEx Information Services Limited and SSE Infonet Limited in 2008 and the signing of the Closer Cooperation Agreement the HKEx and SSE in 2009 have ensured greater cooperation and coordination between Shanghai and Hong Kong.[799] Furthermore, cooperation between the two IFC's has been

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[795] DBS Bank Singapore Economic Research Department, *Development of Shanghai as a Financial Centre: Implications for Hong Kong and Singapore*, 1–2.
[796] Ibid., 14–16.
[797] Ibid., 16–17.
[798] Ibid., 1–2.
[799] Subacchi et al., *Shifting Capital*, 24.

ongoing at various levels between monetary and regulatory authorities, financial markets and institutions, and professional bodies.[800]

This reflects significant complementarity between the two competing centres,[801] given that Shanghai provides investors with strong access to China's domestic markets while Hong Kong offers good international exposure and diversity. Jao notes that Hong Kong and Shanghai are aligned in a relationship of "functional complementarity".[802] Given its strengths in the domestic market and the inconvertibility of the RMB, Shanghai can be positioned as China's National Financial Centre and RMB Centre while Hong Kong continues its current role as a full-fledged IFC and hard currency (HKD) centre.[803]

Similarly, Lai positions Shanghai as a commercial centre operating within China's "financial centre network" that also includes Beijing as the political centre and Hong Kong as offshore financial centre.[804] This suggests that Shanghai and Hong Kong occupy "differentiated markets" and therefore

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[800] Jao, "Shanghai and Hong Kong as International Financial Centres: Historical Perspective and Contemporary Analysis," 38.
[801] Bas Karreman and Bert van der Knaap, "The Geography of Equity Listing and Finanical Centre Competition in Mainland China and Hong Kong," *Journal of Economic Geography* 12, no. 4 (2012): 899–922.
[802] Jao, "Shanghai and Hong Kong as International Financial Centres: Historical Perspective and Contemporary Analysis," 35.
[803] Ibid., 35–37.
[804] Lai, "Differentiated Markets," 1277.

perform complementary roles amidst increasing interdependency and functional coordination.[805]

As these recent studies have shown, the relationship between Shanghai and Hong Kong is not necessarily characterized by zero-sum rivalry. Rather, both IFC's are enmeshed in a complex web of interdependency that necessitates cooperation and coordination amidst the ongoing competition for top spot in China's (and Asia's) IFC pecking order. With its emergence as a burgeoning offshore RMB trading centre, Singapore has too been drawn into the ambit of Chinese IFC competition. However, Singapore is less affected by Shanghai's growing strength as the republic retains comparative advantages in the South East Asian region.

In sum, Shanghai's key comparative advantages as an IFC stem from its proximity to China's burgeoning national economy as well as strong support from the central government. Support from the central government also means access to economic and political resources, as is evident from the recent establishment of the Shanghai Free Trade Zone. Nonetheless, Shanghai is comparatively disadvantaged due to its weak rule of law and lack of the necessary 'software' that typically drive other successful IFC's such as Hong Kong and Singapore.

805 Ibid., 1277–1278.

Financial Governance

Shanghai's development and continued success as an IFC is driven by the guiding hand of a strong state. From the beginning, Shanghai's development as an IFC has been seen by the government as a means of promoting national economic development. As Jarvis has noted, "Shanghai's financial sector development is not its own but reflects a national development strategy substantially controlled by Beijing".[806] This also means that "financial policies must be subsumed under economic policies".[807] In his study of the Chinese securities market, Karmel notes that the Chinese government employs a financial governance mode of "state-managed capitalism".[808]

However, the Chinese state is far from a monolithic unified entity. Rather, both the central and local governments, as well as a slew of state-owned enterprises and other state-related institutions, are heavily involved in Shanghai's financial sector development. This bears some similarity to the case of Singapore, particularly in terms of the use of specialized state agencies and government flexibility in identifying and exploiting new opportunities in both cases.[809]

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[806] Jarvis, "Race for the Money," 73.
[807] Yang, Heng, and Lim, *Shanghai As An International Financial Centre: Problems and Prospects*, 8.
[808] Solomon M. Karmel, "Emerging Securities Markets in China: Capitalism with Chinese Characteristics," *The China Quarterly* 140 (1994): 1105.
[809] Ho, "Competitive Urban Economic Policies in Global Cities: Shanghai Through the Lens of Singapore," 87–88.

As the municipality's main policy implementer, the Shanghai municipal government is influential and powerful in directing financial policy and economic governance in Shanghai,[810] occasionally even influencing the formulation of central government policies.[811] Strategic decisions involving the financial sector are generally made by the Municipal CCP committee or it's Standing Committee. By virtue of their membership in the Standing Committee and their positions within the Core Party Group of the municipal government, the Shanghai Mayor and Vice-Major in charge of financial sector policy are effectively the key decision-makers in Shanghai's financial policymaking process.[812] Furthermore, Shanghai Mayors tend to possess high levels of influence in the central government, with several former individuals moving on to key Party positions after their tenures as Shanghai Mayor.[813]

Aside from the Mayor and Vice-Mayor, another important figure in Shanghai's financial policymaking process is a Deputy Chief of Staff within the General Office of the Municipal Government who is tasked with overseeing the financial sector and who serves a concurrent appointment as

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[810] Heilmann, "Policy-Making and Political Supervision in Shanghai's Financial Industry"; Xiangming Chen and Anthony M. Orum, "Shanghai as a New Global(izing) Cirty: Lessons For and From Shanghai," in *Shanghai Rising: State Power and Local Transformations in a Global Megacity*, ed. Xiaoming Chen (Minneapolis: University Of Minnesota Press, 2009), 241–242.

[811] Linda Chelan Li, "Provincial Discretion and National Power: Investment Policy in Guangdong and Shanghai, 1978–93," *The China Quarterly* 152 (1997): 800–801.

[812] Heilmann, "Policy-Making and Political Supervision in Shanghai's Financial Industry," 650.

[813] Liu, *中国经济特区：从深圳到上海的特区政策变迁与现代化新路径 China's Special Economic Zones: From Shenzhen to Shanghai: A New Path to Industrialization, Urbanization, Globalization and Modernization*, 147.

head of Municipal Financial Services Offices (FSO).[814] Another key financial policymaker is the Secretary of the Shanghai Financial Work Party Committee (FWPC) who also serves as Deputy Director of the FSO, while the Director of the FSO serves as Deputy Secretary of the FWPC.[815] This inverse ranking between the FWPC and FSO was introduced in 2002 and allows clearer division of responsibilities and functions between the Party Secretary and Administrative Head for financial work bodies.[816]

Formed in 2000, the FWPC acts directly under the purview of the Shanghai Municipal CCP Committee.[817] The FWPC provides municipal political leaders with a means through which they can direct and oversee Shanghai's financial industry, particularly through deciding the appointment of senior executives and top managers of local financial institutions in Shanghai.[818] Even in privately-held financial institutions, the FWPC is able to influence executive appointments through the CCP cadre membership system.[819]

Local financial institutions are also controlled by local governments through shares held by government trust and investment or asset management

814 Heilmann, "Policy-Making and Political Supervision in Shanghai's Financial Industry," 652.
815 Ibid.
816 Ibid.
817 Ibid., 653.
818 Ibid., 654.
819 Ibid., 658.

companies.[820] In other words, the FWPC is also able to indirectly exert its influence over Shanghai's financial markets by holding shares in major local financial institutions. This allows the local government to use local financial institutions "as a policy tool ... to support economic growth",[821] making the FWPC a "major political player in Shanghai's financial business".[822]

Given the secretive nature of the FWPC and its inaccessibility to foreign investors and other non-Party actors, the Municipal FSO was established in 2002 and was tasked with enforcing national regulations, minimizing systemic risks, planning Shanghai's medium to long term development as an IFC, and coordinating the allocation of financial resources.[823] However, the FSO was from the start led by officials who were involved in the FWPC, leading to views that the FSO was merely "an organizational extension and ... state facade organization of the FWPC".[824] This means that both the FWPC and FSO are organizations or channels through which the Shanghai municipal government facilitates and directs financial sector development.

Given the role of the Shanghai municipal government in financial sector development, Heilmann has noted that communication and coordination between financial policymakers in Shanghai and their counterparts in the

[820] Ibid., 657.
[821] Ibid., 666.
[822] Ibid., 660.
[823] Ibid., 655.
[824] Ibid.

central government remains weak, with exchanges between Shanghai's financial work bodies and central regulatory commissions as well as Shanghai branches of the central bank carried out through informal personal connections.[825] As such, central government bodies are seen as "outsiders" to Shanghai's financial sector policy-making process, resulting in "grave deficiencies" arising from the "lack of effective coordination between central government regulators and municipal financial administrators".[826]

However, such a view neglects the indirect channels through which the central government is able to influence or direct Shanghai's economic and financial development. For instance, China's 'policy banks', namely the China Development Bank, the Import and Export Bank of China, and the Agricultural Development Bank of China", established branches in Shanghai during the mid-1990s and have since become "a leading force in the economic development of Shanghai".[827]

State-owned commercial banks play a similar role, with their Shanghai branches becoming "a leading force in promoting Shanghai's economic development with their abundant resources, perfect functions, superior services, and advanced technology".[828] Through these state-owned banks, the central government is able to determine Shanghai's financial sector growth and development.

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[825] Ibid., 652.
[826] Ibid.
[827] Ji, *Shanghai Finance*, 38.
[828] Ibid., 26.

Importantly, Shanghai's status as a Special Economic Zone (SEZ) allows the melding of central and local government interests and influence in the city's development as an IFC. This reflects an interactive and mutually constitutive relationship between the central and local governments.[829] Beginning with the economic reforms of Deng Xiaopeng, China's SEZ model has been used as a strategy for economic development, allowing a constructive combination of top-down Party-driven central government control with bottom-up local influence from local leaders and administrators.[830]

Liu has noted that the Chinese government often treats these SEZ's as 'experiments' in market liberalization and development, applying combinations of capitalist and socialist economic governance principles within SEZ's.[831] Such a hybrid model of economic governance is particularly evident in Shanghai. For instance, the Pudong New Area's more liberal "small government" style of economic governance was established as an experiment in economic policy reform and liberalization.[832] However, the literature provides little insight into the political machinations of such SEZ's. In particular, little has been said about the amount of influence and exact roles of central and local governments within SEZ's.

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[829] Li, "Provincial Discretion and National Power."
[830] Liu, *中国经济特区：从深圳到上海的特区政策变迁与现代化新路径 China's Special Economic Zones: From Shenzhen to Shanghai: A New Path to Industrialization, Urbanization, Globalization and Modernization*, 1–2.
[831] Ibid., 167.
[832] **上海市**《迈向 21 **世紀的上海**》**課**题领导小组编 Shanghai City <Shanghai in the 21st Century> Discussion Group Editorial Group, *迈向 21* ***世紀的上海*** *Mai xiang 21 shi ji de Shanghai*, 539.

In sum, Shanghai's model of financial governance is highly state-centred. Through various government agencies and state-owned financial institutions, both the central and municipal governments are heavily involved in the governance and development of Shanghai's financial sector. This is largely due to the importance of Shanghai's financial sector development in contributing to economic development at the national level. The next section provides a brief overview of the regulatory regime in Shanghai, discussing the agencies and institutions that are involved in financial policymaking in the municipality.

Regulatory Regime

Shanghai's regulatory regime is made up of two levels: national and municipal. At the national level, China's financial regulatory framework operates on the "One-Bank, Three-Commissions" model, with the PBC playing a central leading role as the nation's central bank and the three commissions (the CBRC, CSRC, and CIRC) overseeing and regulating their respective financial sectors.[833]

All four organizations report directly to the State Council, which is in charge of formulating regulatory and monetary policies as well as implementing financial reform strategies.[834] The PBC, CBRC, CSRC, and

[833] Subacchi et al., *Shifting Capital*, 8.
[834] Ibid.

CIRC have all established branches in Shanghai and play significant roles in regulating the respective financial sectors in Shanghai through these branches.

At the municipal level, the FSO is tasked with the implementation of financial regulations, laws, policies and guidelines, in cooperation with central regulatory authorities.[835] Importantly, the FSO "play(s) a key inside role in the local financial sector" that involves supervising local financial institutions and maintaining financial system stability.[836] Given the various central and municipal government regulatory agencies present, financial policymaking in Shanghai is bifurcated along central-municipal lines. While central level regulatory agencies generally formulate financial policies, municipal level agencies are tasked with implementing these policies.

Financial policymaking is further imbued with an additional level of complexity in Shanghai's securities market. The Shanghai Securities Regulatory Bureau (SSRB) is the key regulatory agency of Shanghai's securities markets, operating as the Shanghai branch of the CSRC.[837] However, the Shanghai Stock Exchange (SSE) also plays a role in regulating

[835] *Notice of the General Office of Shanghai Municipal People's Government about Printing and Distributing The "Provisions on the Allotment of Functions, the Set-up of Internal Structure, and The Manning Quotas of Shanghai Municipal Financial Service Office*, Bulletin (Shanghai: Shanghai Municipal People's Government, September 16, 2002), http://www.shanghai.gov.cn/shanghai/node17256/node17261/node17362/node17386/userobject26ai634.html.

[836] Heilmann, "Policy-Making and Political Supervision in Shanghai's Financial Industry," 647.

[837] China Securities Regulatory Commission, "Shanghai Branch," *China Securities Regulatory Commission Website*, 2008, http://www.csrc.gov.cn/pub/csrc_en/about/organ/Regionaloffices/200811/t20081122_95860.htm.

and supervising the securities market, operating a “self-regulatory framework with a focus on supervision of listed companies, SSE members and the securities market”.[838] Nonetheless, the SSE remains governed under the purview of the CSRC.[839]

The complementary roles played by the SSRB and SSE in Shanghai’s securities regulation is highlighted by the fact that firms issuing and listing securities in Shanghai are required to submit applications to both the SSRB and SSE.[840] At the national level, the Securities Association of China (SAC) facilitates self-regulation of the securities industry under the guidance and supervision of the CSRC and Ministry of Civil Affairs of China.[841] In other words, the governance and regulation of Shanghai’s securities markets is highly complex and involves the CSRC, SSRB, SSE, and SAC.

Importantly, the separation of central and local regulatory authority in Shanghai has resulted in a “lack of specificity” that allows local branches of national regulatory authorities to adapt laws and regulations to local needs.[842] As such, local regulatory authorities in Shanghai possess significant autonomy to interpret and implement laws formulated at the national level.[843] However,

[838] Shanghai Stock Exchange, “Historical Review,” *Shanghai Stock Exchange Website*, 2010, http://edu.sse.com.cn/sseportal/en/c01/c05/c02/p1110/c15010502_p1110.shtml.
[839] Shanghai Stock Exchange, “Brief Introduction,” *Shanghai Stock Exchange Website*, 2010, http://edu.sse.com.cn/sseportal/en/c01/p996/c1501_p996.shtml.
[840] Robert Nottle, “The Development of Securities Markets in China in the 1990s” (presented at the Asiatic Friendship Association and Institutional Investors, Geneva, June 21, 1993), 105.
[841] Securities Association of China, “Introduction to SAC,” *Securities Association of China Website,* 2012, http://www.sac.net.cn/en/About_US/Introduction_to_SAC/.
[842] Lai, “Differentiated Markets,” 1283.
[843] Ibid.

such a ‘lack of specificity’ has its drawbacks as well. Jurisdictional overlaps among regulatory agencies and continuously evolving mandates have also resulted in “regulatory confusion” or even obfuscation[844].

Having provided a brief overview of Shanghai’s regulatory regime, the next section discusses Shanghai’s financial policy mix.

Financial Policy Mix

With China’s burgeoning trade and high savings rate, the financial sector has been seen as a key means through which the central government can exercise national economic governance or control.[845] The development of Shanghai as an IFC constitutes a key part of the Chinese central government’s “state strategy” of enhancing the role of China’s financial sector as a key driver of economic growth and revenue.[846] This means a dominant and varied role of the state in driving Shanghai’s development as an IFC that involves distributing financial policy roles across central and municipal government agencies.

Such a distribution of financial policy roles is reflected in Shanghai’s focus on financial innovation and new markets while Beijing plays a larger

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[844] Jarvis, “Race for the Money,” 74–75.
[845] **上海市**《迈向 21 **世紀的上海**》**課**题领导小组编 Shanghai City <Shanghai in the 21st Century> Discussion Group Editorial Group, *迈向 21* ***世紀的上海*** *Mai xiang 21 shi ji de Shanghai*, 221.
[846] Xiao, ***金融****战略与财经论衡：迈向国际金融中心的上海之路 Financial Strategy and Economic Forum: Shanghai Road to International Financial Centre*, 158.

role in financial regulation and macro-policy.[847] As such, Shanghai is "tasked with testing new products, developing new markets and financial innovation".[848] This suggests a heavy reliance on development-oriented financial policy instruments that stimulate such development of new markets and products. This section discusses Shanghai's heavily development-oriented financial policy mix and the role of the state in designing and implementing such a policy mix.

As Wei and Leung have noted, the Chinese state is involved in Shanghai's development as "a planner, a reformer, and a developer/entrepreneur",[849] with the local state acting specifically as "developer and financier".[850] Financial sector development is thus not an end in itself, but a means through which overall economic development and governance can be achieved or enhanced. The attainment of this development-oriented financial sector growth is greatly aided by the use of financial policy instruments aimed at promoting financial sector development.

At the most basic level, developmental financial policy instruments have been used to generate revenue for the state directly. As Gordon and Li have noted, the Chinese government behaves as a "discriminating monopolist", in selecting regulations that maximize its revenue income from

[847] Lai, "Differentiated Markets," 1284.
[848] Ibid., 1283.
[849] Yehua Dennis Wei and Chi Kin Leung, "Development Zones, Foreign Investment, and Global City Formation in Shanghai*," *Growth and Change* 36, no. 1 (2005): 19.
[850] Ibid., 22.

both foreign and domestic investors.[851] This is most clearly reflected in the Shanghai government's bank finance policies during the 1980s, which had discriminated against private enterprises in an effort to accrue revenues to the state.[852]

This means that financial policies and regulations have been used by the Shanghai government to *extract rents*, representing a direct but crude way in which financial policies can be used to attain developmental goals of increasing revenue and extracting rents. This developmental aspect of financial policy differs from that in Hong Kong and Singapore. While developmental financial policy instruments in Hong Kong and Singapore serve to develop specific financial markets or sectors by attracting investments and channelling resources to these sectors, Shanghai's extractive financial regulations serve to directly obtain government revenues with less focus on developing markets per se.

Given Shanghai's relatively weak legal and regulatory infrastructure, there is little evidence of financial regulation playing a stabilizing function in the municipality. As noted in an earlier section, the lack of a robust and transparent regulatory framework is a comparative disadvantage or weakness that continues to hamper Shanghai's prospects as an IFC. However, this is likely to change as Shanghai improves its regulatory infrastructure and seeks

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[851] Gordon and Li, "Government as a Discriminating Monopolist in the Financial Market."
[852] Li, "Provincial Discretion and National Power," 795.

to comply with international standards in order to attract more foreign investment and enhance its development as an IFC.

As noted by Mr Andrew Sheng, who has served on Shanghai's International Financial Advisory Council, financial regulations in Shanghai are moving towards international standards, particularly in the areas of clearing and payments system and logistical issues.[853] The PBC Shanghai Head Office has also started pilot programs in financial consumer protection.[854] This means that the Shanghai government is beginning to include stabilizing financial policy instruments such as establishing an efficient and transparent clearing and payments system in its financial policy mix.

Nonetheless, financial policies in Shanghai remain heavily skewed towards enablement and development, with Shanghai's development as an IFC replete with examples of the government's use of development-oriented financial policies. For instance, regulatory authorities directed enterprise bond issuances in 1991 towards industries in foreign trade, textiles, and electronics, in a bid to develop and expand these industries.[855] The direct channelling of funds to these favoured industries through bond issuances is a clear example of the Shanghai government's developmental policy instruments.

[853] Sheng, Interview.
[854] People's Bank of China, *2012 Annual Report* (Beijing, 2012), 121.
[855] Xu, *China's Financial System under Transition*, 112.

The developmental role of financial policy in Shanghai is also well-understood and practiced by its regulatory agencies. For instance, the CSRC is tasked with both 'developing' and 'regulating' China's capital markets and is "expected to do both well".[856] Aside from regulating Shanghai's financial sector, the FSO is also tasked with promoting financial development as well as financial sector reform and innovation, albeit in accordance with national developmental plans and financial policies.[857] In particular, the FSO promotes the financial services sector to serve local economic and social development goals.[858]

The FSO is further responsible for restructuring municipal assets held in financial companies; this includes initiating mergers among financial companies under the control of the Shanghai government to improve the competitiveness of these financial companies and Shanghai's financial sector in general.[859] Similar to the state-engineered consolidation of local banks in 1980s Singapore, such mergers can be seen as an important developmental instrument used by the FSO in developing and increasing the competitiveness of Shanghai's financial sector. Furthermore, the FSO provides administrative

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[856] JiangYu Wang, "Dancing with Wolves: Regulation and Deregulation of Foreign Investment in China's Stock Market," *Asia-Pacific Law & Policy Journal* 5 (2004): 34.
[857] *Notice of the General Office of Shanghai Municipal People's Government about Printing and Distributing The "Provisions on the Allotment of Functions, the Set-up of Internal Structure, and The Manning Quotas of Shanghai Municipal Financial Service Office*.
[858] Shanghai Municipal Government, "Shanghai Municipal Office of Finance Service," *Shanghai Municipal Government Website*, 2010, http://www.shanghai.gov.cn/shanghai/node27118/node27386/node27400/node27848/userobject22ai38993.html.
[859] Heilmann, "Policy-Making and Political Supervision in Shanghai's Financial Industry," 656.

support to Non-Shanghainese financial companies, encouraging them to set up their headquarters in Shanghai.[860]

Importantly, the FSO is able to regulate and promote Shanghai's financial sector to both Chinese and foreign financial institutions as a non-Party institution, although foreign financial institutions generally prefer to deal with the national regulatory bodies.[861] In 2003, central government banking regulators played a major role in supporting the Shanghai's efforts at encouraging Citigroup to invest in Pudong Development Bank and HSBC in the Bank of Shanghai.[862]

The two foreign banks eventually agreed to the deals after they were allowed to issue dual currency credit cards in Shanghai, a service that was hitherto not available in China and hence required special permission from national banking regulators.[863] The PBC has also sought to promote Shanghai's development as an IFC through its various initiatives aimed at attracting foreign financial institutions and increasing cross border RMB business.[864] As such, central government agencies retain a significant interventionist role in promoting Shanghai's financial industries.

In sum, Shanghai's financial policy mix is comprised largely of developmental and enabling financial policy instruments. These instruments

[860] Ibid.
[861] Ibid., 657.
[862] Ibid., 656.
[863] Ibid.
[864] People's Bank of China, *2012 Annual Report*, 70–75.

allow direct government intervention in the promotion and development of Shanghai's financial sector. Developmental instruments also allow the government to extract revenues through the use of financial regulations. However, both central and municipal governments have recently placed more attention on stabilizing financial policy instruments, in a bid to improve investor confidence in Shanghai and hence contribute to Shanghai's development as an IFC.

Financial Policy Subsystem

In contrast to both Hong Kong and Singapore, Shanghai's financial policy subsystem is heavily dominated by state actors from both the central and municipal governments and features very limited participation by non-state and industry actors. Combined with its focus on national economic development, this state dominance has resulted in the formation of an advocacy coalition comprising state and state-related actors, reflecting developmental policy beliefs. This has allowed state actors acting through this coalition to influence policy mix through an ideational channel that converts such developmental beliefs into a preference for enabling and developmental financial policy instruments.

Financial policymaking in Shanghai involves both central and municipal level government actors. As mentioned earlier, the Shanghai municipal government has maintained a significant level of autonomy in economic and financial policymaking,[865] making it a dominant policy actor in Shanghai's financial policy subsystem. In particular, the highly influential Shanghai municipal government has driven Shanghai's development as an IFC through two main organizations: the FWPC and FSO. Both organizations and their roles have been discussed in earlier sections.

While Shanghai's municipal government retains significant autonomy in governing the city's financial sector, the central government has also been able to exert a significant amount of influence by establishing branches of key state financial institutions in the city. For instance, the PBC had set up its headquarters in Shanghai in 2005, establishing a "significant interactive relationship" between the central and municipal governments.[866] The PBC has since established itself as a significant policy actor in Shanghai's financial policy subsystem through its Shanghai Head Office.[867]

The establishment of the CSRC Shanghai Bureau in 1993, the CIRC Shanghai Bureau in 2000, and the CBRC Shanghai Bureau in 2003[868] also means that state regulatory authorities continue to play a key role in the promulgation and implementation of rules and regulations governing Shanghai's financial sector. Aside from local branches of central government

[865] Wu, "The Global and Local Dimensions of Place-Making"; Lai, *Reform and the Non- State Economy in China*.
[866] Hong Kong Legislative Council Secretariat, *The Development of Shanghai as an International Financial Centre*, 2.
[867] People's Bank of China, *2012 Annual Report*, 70–75.
[868] Ji, *Shanghai Finance*, 201–215.

agencies, the central government also influences financial sector development in Shanghai by enacting preferential policies and channelling resources towards the municipality's development.[869]

However, the simultaneous presence of central and municipal government agencies has also been seen as a source of regulatory uncertainty, given competing political interests and jurisdictional overlaps among agencies from both levels.[870] In particular, the central government's more protectionist 'centralizing tendencies' has been seen as an important cause of the aforementioned deficiencies in Shanghai's 'software' or "soft-institutional capacities". [871] Nonetheless, these differences between the central and municipal governments may easily be overstated, given that the central government retains control and influence over municipal government officials through the Party cadre system.[872]

Another channel through which the central government influences and supports Shanghai's development as an IFC is through its state-owned banks and other financial institutions, which have established a strong presence in Shanghai. China's three policy banks, namely the China Development Bank, the Import and Export Bank of China, and the Agricultural Development Bank of China, have been operating branches in Shanghai since the mid 1990's.

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[869] Wei and Leung, "Development Zones, Foreign Investment, and Global City Formation in Shanghai*," 22.
[870] Jarvis, "Race for the Money," 74–75.
[871] Ibid., 75–76.
[872] Heilmann, "Policy-Making and Political Supervision in Shanghai's Financial Industry"; Heilmann, "Regulatory Innovation by Leninist Means."

State-owned commercial banks have also been used as "mechanisms" of economic governance and control in Shanghai by the central government,[873] especially through their provision of special development loans.[874]

More importantly, state-owned banks and financial institutions are able to dominate Shanghai's financial policy subsystem by virtue of their strong political connections.[875] Such political connections act as an effective barrier to entry, given the unwillingness of local financial institutions to face the political consequences of competing directly with well-connected state-owned firms.[876] Furthermore, firms in China generally require political connections in order to gain access to loans and capital.[877] Aside from the "big four" state-owned banks that include the Bank of China, the China Construction Bank, the Agricultural Bank of China, and the Industrial and Commercial Bank of China and the policy banks identified above, other smaller commercial banks are also strongly involved in Shanghai's development as an IFC.

For instance, a key goal of the Shanghai Pudong Development Bank is to build itself into a "financial flagship that fits the needs of Shanghai

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873 陈伟恕, "论我国银行主体角色的转变 Changes in the General Role of China's Banks," in *"复关"与上海金融 GATT and Shanghai Finance*, ed. 张恩照 and 冯国荣 (Shanghai: Shanghai People's Publishing House, 1993), 40–46.
874 Wei and Leung, "Development Zones, Foreign Investment, and Global City Formation in Shanghai*," 22.
875 Chong, Interview.
876 Ibid.
877 Minggui Yu and Hongbo Pan, "The Relationship between Politics, Institutional Environments and Private Enterprises'Access to Bank Loans," *Management World* 8 (2008); Hongbo Duan and Abdul Razak bin Chik, "Institutional Environment, Political Connection and Financial Constraints---Evidence from Private Enterprise in China," *Business and Management Research* 1, no. 1 (2012): 133–40.

international financial center",[878] having from its inception "actively supported and promoted Shanghai's economic revitalization and development of the domestic economy".[879] While the Shanghai Pudong Development Bank is technically a joint-stock commercial bank, 8 of its 11 Board Directors are CCP Party members.[880] Majority owned by the Shanghai Municipal Government, the Bank of Shanghai also serves to "support the development of Shanghai into an international financial center".[881] Whether through direct government ownership or Party linkages, commercial banks in Shanghai are an important part of the municipality's financial policymaking process.

The state's influence on Shanghai's financial markets also extends beyond the banking sector, with listings on Shanghai's stock market dominated by state-owned companies.[882] Given that the government is involved in Shanghai's financial markets through its agencies, authorities and state-owned banks, state actors in Shanghai's financial policy subsystem play both the roles of regulator and market participant, effectively dominating the subsystem.

Given that state actors in Shanghai's financial policy subsystem come from both the central and municipal level, a cooperative set of relations have emerged between state and local government bodies that are geared towards

[878] Shanghai Pudong Development Bank, *2010 Annual Report* (Shanghai, 2010), 7.
[879] Ibid., 12.
[880] Ibid., 46–50.
[881] Bank of Shanghai, *2012 Annual Report*, 2012, 2.
[882] Laurenceson and Tang, "Shanghai's Development as an International Financial Center," 161.

the shared goal of developing Shanghai into a successful IFC. The concept of a "Financial Safety Zone" was introduced in the early 2000's, providing a platform for "intensive and regular cooperation between central regulators and local government bodies".[883]

The key duties of the FSO also require it "to cooperate with the central supervisory institutes of the central government in implementing national finance-related guidelines, policies, laws and regulations" and "be responsible for the contact between the local government and the financial institutes of the central government and their financial agencies in Shanghai".[884] In this regard, the FSO has established regular "3+2" meetings between the FSO, PBOC Shanghai Head Office, and the three state financial regulatory authorities.[885]

While non-state actors are also involved in Shanghai's financial policy subsystem, their influence over financial policymaking is typically limited. Examples of major non-state actors include the Shanghai Banking Association (SBA), a professional, non-profit trade association that represents the interests of Shanghai's banks and financial institutions; members include commercial banks, policy banks, foreign-funded banks, asset management companies, and

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[883] Heilmann, "Policy-Making and Political Supervision in Shanghai's Financial Industry," 646.
[884] *Notice of the General Office of Shanghai Municipal People's Government about Printing and Distributing The "Provisions on the Allotment of Functions, the Set-up of Internal Structure, and The Manning Quotas of Shanghai Municipal Financial Service Office*.
[885] Ji, *Shanghai Finance*, 216–217.

representative offices of foreign financial institutions.[886] The Securities Association of China (SAC) performs a similar role for the securities industry at the national level, complimenting the Shanghai Stock Exchange. The interests of the asset management industry are represented by the Asset Management Association of China (AMAC).

The Shanghai government has also established an International Financial Advisory Committee that advises the Shanghai mayor on Shanghai's development as an IFC, based on the input of mostly foreign committee members, which has included the City of London's Policy Chairman.[887] The Mayor is further advised by an International Business Leaders Advisory Council comprising enterprisers from major transnational corporations. Through this Council, business leaders such as Junichi Ujiie, Senior Adviser to the Board of Directors of Nomura Holdings, Inc and Michael Diekmann, Chairman of the Board of Directors of Allianz S.E., have suggested increasing the participation of foreign financial institutions and liberalization of the RMB in order to boost Shanghai's development as an IFC.[888]

At the central level, the CBRC has established a similar international advisory committee. Such international consultation allows China to learn

[886] "About SBA," *Shanghai Banking Association Website*, June 27, 2012, http://www.sbacn.org/En/ComDetail.aspx?st=00010001.

[887] Sheng, Interview; City of London, "Priority Areas of Focus," *City of London Website*, 2013, http://www.cityoflondon.gov.uk/business/support-promotion-and-advice/promoting-the-city-internationally/china/Pages/Priority-areas-of-focus.aspx.

[888] Foreign Affairs Office of Shanghai Municipality, *At the Meeting of the International Business Leaders Advisory Council to the Mayor of Shanghai, International Think Tankers Make Suggestions for Shanghai Strengthening the Construction of Market System*, Press Release (Shanghai, 2009).

from international experience and collect policy advice from international experts; it also allows China to anticipate and understand the response of international and foreign actors to its financial policies.[889] Yet despite such efforts at incorporating the views of domestic and international non-state actors in Shanghai's financial policymaking process, the continued dominance of state owned banks and financial institutions suggest an overwhelmingly state-dominated financial policy subsystem in Shanghai.

Importantly, foreign banks and financial institutions are severely under-represented in Shanghai's financial policy subsystem. This is due to government restrictions on foreign bank participation and the scope of their financial activities in Shanghai.[890] While it has been noted that foreign banks hold the most potential of challenging Chinese state-owned financial institutions by virtue of their immunity from the political consequences of doing so,[891] they have shown neither interest nor capacity to increase their influence over financial policymaking in Shanghai, choosing instead to further their business interests within Shanghai's existing financial policy subsystem configuration.

While the establishment of the Shanghai free trade zone provides much promise for greater foreign bank participation in its financial markets, the only foreign banks which have started operating in the zone are Citigroup and

[889] Sheng, Interview.
[890] Shahid Yusuf and Weiping Wu, "Pathways to a World City: Shanghai Rising in an Era of Globalisation," *Urban Studies* 39, no. 7 (June 1, 2002): 1213–40.
[891] Chong, Interview.

DBS.[892] In contrast to the large number of foreign financial institutions in Hong Kong and Singapore and the strong influence of these institutions in Singapore's financial policy processes, Shanghai's financial policy subsystem features foreign financial institutions to a much lesser extent. In contrast to the ability of banks in Singapore to inform or influence financial policy, foreign financial institutions in Shanghai wield negligible influence over financial policy.

Conclusion

This chapter has discussed and explored Shanghai's development as an IFC, placing particular focus on its historical development, comparative advantages, financial governance model, regulatory regime, the financial policy mix it has used for IFC development, and the financial policy subsystem within which financial policies are formulated and implemented. These discussions have shown that Shanghai's development as an IFC has largely been a state-dominated process. This differs markedly from Hong Kong's laissez faire financial governance approach and Singapore's extensive inclusion of industry actors in its financial policy process.

Financial policies are generally formulated by central government agencies such as the PBC, CBRC, CSRC, and CIRC while the implementation

[892] Simon Rabinovitch, "Global Banks Cautious on Shanghai Free-Trade Zone," *Financial Times,* September 29, 2013, http://www.ft.com/intl/cms/s/0/2181cd44-2906-11e3-ab62-00144feab7de.html#axzz2mbzDw8NM.

of these policies is carried out by municipal level government agencies such as the FSO and the Shanghai branches of the four central government regulators. The central government also exerts a significant influence on Shanghai's development as an IFC through its policy banks and state-owned enterprises. While the recently established Shanghai Free Trade Zone promises to liberalize foreign entry requirements, only two foreign banks have been awarded licenses to establish branches in the area, namely DBS and Citibank. State-owned banks continue to dominate the Free Trade Zone.

While future developments are likely to involve the entry of more foreign financial institutions, Shanghai's financial policy subsystem is likely to remain state-dominated and development-focused. This also means that state actors in Shanghai's financial policy subsystem make up a development-oriented advocacy coalition that affects policy mix design by expressing developmental policy beliefs through an ideational channel. As a consequence, Shanghai's financial policy mix is largely comprised of enabling and developmental policy instruments.

While this necessarily provides a developmental slant to Shanghai's development as an IFC, fledgling steps have been made to introduce more stabilizing policy instruments to the mix, in a bid to improve Shanghai's legal and regulatory infrastructure. However, the impacts of such efforts remain to be seen and Shanghai's financial policy mix will largely retain its development-orientation for the foreseeable future.

Chapter 7: Comparisons and Analysis

This chapter provides a comparative analysis of the three cases of Hong Kong, Singapore, and Shanghai, based on data gathered in the process of field research and existing studies on the three IFC's, which were summarized and discussed in the case chapters 4, 5 and 6. In line with the descriptive sections of these three case chapters, this chapter compares the three IFC's across the areas of comparative advantages, financial governance models, regulatory agencies, financial policy instrument mixes, and financial policy subsystems.

Table 7.1 below presents a summary of comparisons for the three cases, in the form of a matrix, based on more detailed comparisons which are discussed further below. Table 7.1 also includes the case of London and New York, which are representative of IFC's in Western developed economies and hence taken as analytical benchmarks. As discussed below, London and New York represent the traditional model of IFC development that is dominant in the existing financial policy and IFC literatures. The inclusion of the two Western IFC's further serves to highlight the unique political economic contexts within which financial policymakers in Hong Kong, Singapore, and Shanghai operate.

As shown in table 7.1, the two axes of the matrix generally describe the roles of the state and industry in financial policy, with state involvement measured by low versus high state intervention in financial markets while the role of industry actors is defined by whether they are influential in financial policy or not. These two axes provide an operationalizable way of measuring and describing policy subsystem configurations in the three cases and categorizing the types of financial policy mixes that arise from different subsystem configurations.

Table 7.1 Summary of Comparative Analysis

	Low State Intervention	High State Intervention
Industry Actors Influential in Financial Policy	**New York/London?** Industry Interest Groups dominant Stabilizing and Industry-centred Policy Mix	**Singapore** State-Industry 'Co-creation' Stabilizing and Development-Oriented Policy Mix
Industry Actors not Influential in Financial Policy	**Hong Kong** Limited Government Intervention; Limited Industry Influence Stabilizing Policy Mix	**Shanghai** State-Dominated Development-Oriented Policy Mix

Given the government's commitment to a laissez faire approach of non-interventionist financial governance and the lack of industry influence on financial policy-making, Hong Kong's financial policy mix is comprised largely of stabilizing financial policy instruments. This means that the HKMA is mainly focused on maintaining financial market stability and investor protection, with the industry driving financial sector growth in the general absence of direct developmental policies or incentives from the government. This reflects the SAR's commitment to a 'big markets, small government' doctrine of financial governance.

In contrast, Singapore's financial policy subsystem is marked by strong state intervention along with heavy involvement of industry actors in financial policymaking. While financial sector development has been a state-led endeavour that began with Singapore's independence in the late 1960s, industry actors have also been able to influence financial policies through the MAS's consultative or advisory committees as well as through their membership in Singapore's governing elite.

Importantly, this co-dominance of state and industry actors in Singapore's financial policy subsystem means a "co-creation" of financial policies,[893] with the consequence being the design of a financial policy mix comprising a full spectrum of stabilizing, enabling, and developmental policy instruments. This dual focus on market stabilization and development reflects

[893] Former Senior Regulatory Official, Interview.

the government's prudential and developmental concerns, as well as private sector input in terms of recommending policies that contribute to industry interests.

While Shanghai's financial policy subsystem similarly exhibits strong state intervention, industry actors in the municipality possess little or no influence over financial policymaking. Given this dominance of state actors and the government's overarching focus on financial sector growth and national economic development, Shanghai's financial policy mix largely comprises enabling and developmental policy instruments. Instances where stabilizing policy instruments have been implemented, such as the recent FTZ, are also based on a desire to stimulate financial sector development, in this case attracting foreign investors and financial institutions through improving regulatory stability.

Lastly, low state intervention and strong industry influence on policy making may describe the financial policy subsystem of traditional Western IFC's such as New York and London. In these IFC's, a fundamental belief in the free market entails a financial policy mix that is largely comprised of stabilizing policy instruments. However, industry actors such as banks and financial conglomerates are highly influential and hence able to introduce policy instruments that favour their own interests into the financial policy mix. These instruments may not necessarily be geared towards development and may instead address only the narrow interests of industry actors. However, these IFC's remain outside the scope of this thesis.

Having provided a summary of the comparative analysis of the three cases, the following sections provide comparative analyses of Hong Kong, Singapore, and Shanghai across the areas of comparative advantages, financial governance, regulatory agencies, financial policy mixes, and financial policy subsystem configurations. These areas of comparison represent the variables which underpin the comparative analysis provided in Table 7.1. This is followed by the application the nested instrumental approach to the three cases, which allows this thesis to structure the existing case material around the framework of the nested instrumental approach.

Comparative Advantages

The three IFC's occupy different niches in the global financial markets. Hong Kong is well-established as a loan syndication centre and a gateway into China through its role as leading offshore RMB centre. Conversely, Singapore has established itself as a leading centre for wealth management and foreign exchange; it has also recently sought to establish itself as an offshore RMB centre and a commodities hub. Lastly, Shanghai has attained pre-eminence as China's national financial centre, serving domestic business and trading interests. With the recent establishment of a Shanghai free trade zone and complementary moves to attract foreign financial institutions into the municipality, Shanghai is also seeking to establish itself as a full-fledged IFC rivalling Hong Kong.

The different roles played by the three IFC's stem from differences in their comparative advantages. While all three IFC's share similar 'natural' or 'external' advantages arising from favourable geographical locations and time zones as well as similar histories as colonial port cities, differences in the political systems and developmental strategies or policies across the three IFC's mean that each IFC is characterized by its own unique set of 'internal' comparative advantages. Before delving into the three IFC's policy subsystems and policy mixes, it is useful to first compare and contrast these advantages which, have characterized IFC success and continue to influence financial policymaking in the three cases.

The respective comparative advantages enjoyed by Hong Kong, Singapore and Shanghai are listed in Table 7.2 below.

Table 7.2 Comparative Advantages

	Hong Kong	Singapore	Shanghai
Robust Regulatory Infrastructure	X	X	
Rule of Law	X	X	
Political and Economic Stability	X	X	
Sovereign independent state		X	
Deep Talent Pool	X	X	

Proximity to China	X		X
English as working language	X	X	
Support from Chinese government			X
Strength of domestic economy	X	X	X

As Table 7.2 shows, Hong Kong and Singapore share many similar comparative advantages. Both have established robust and trusted regulatory systems along with a strong commitment to the rule of law, based on similar common law systems derived from their respective British colonial histories. Furthermore, both cities are known for their high levels of political and economic stability. In both cases, such stability is underscored by the longevity and autonomy of the governing regime.

Given its lack of universal suffrage, the Hong Kong government is effectively appointed by the Chinese government and a core group of local elites and granted economic policy autonomy by the Chinese government. While elections are held as part of Singapore's parliamentary system, the ruling People's Action Party has been in power since independence. Through its dominance over parliament as majority ruling party, the Party possesses significant policy autonomy. This means a firm establishment of the government as a significant and enduring subsystem actor in both cases, as will be discussed in a later section. Lastly, both Hong Kong and Singapore boast of a deep pool of financial sector talent and the use of English as an official working language.

However, the two IFC's differ on one significant score. Given its geographic location and its position as a Chinese SAR, Hong Kong enjoys close geographical and political proximity to China. Not only does this proximity make Hong Kong the gateway into China's burgeoning markets, it has also contributed to Beijing's decision to grant Hong Kong a head start in its development as leading RMB offshore centre.

In contrast, Singapore is an independent sovereign state with a comfortable distance from China, granting it 'safe haven' status and allowing it to become established as a successful wealth management centre.[894] As noted by a fund manager, Hong Kong's proximity to China and its potential vulnerability to Chinese interference tend to deter fund managers.[895] Given its political distance from China, Singapore does not face this problem.

More importantly, Singapore's independence allows it to formulate its own foreign policies. This has resulted in close ties with China and other Southeast Asian nations, allowing Singapore to establish itself as an offshore RMB centre and gateway into emerging Southeast Asia. Furthermore, Singapore's position as a sovereign city-state has resulted in the infusion of its financial policies with national economic development goals. This feeds into the Singapore government's proactive and industry-inclusive approach to financial sector development, which are discussed in later sections.

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[894] Koh, Interview, August 7, 2013.
[895] Fund Manager with a US Asset Management Firm, Interview.

In contrast to Hong Kong and Singapore, Shanghai is comparatively disadvantaged in terms of its weak rule of law and less established regulatory infrastructure. However, Shanghai possesses a key advantage in terms of its proximity to and strong support from the Chinese central government. As a municipality located within China, Shanghai is firmly placed within China's political regime and economic development. This means that Shanghai's proximity to China both economically and politically surpass that of Hong Kong.

Indeed, Shanghai enjoys strong political support from Beijing. This is evidenced in the State Council's longstanding commitment to establish Shanghai as a full-fledged IFC by 2020 as well as Premier Li Keqiang's recent drive to establish a Shanghai free trade zone. While both Hong Kong and Shanghai are Chinese IFC's, Shanghai represents a "domestic market engine" focused largely on its internal market while Hong Kong is an "international market engine" by virtue of its convertible currency and highly liberalized financial markets.[896]

Lastly, all three IFC's enjoy high rates of domestic economic growth. It is important to note that these differences in comparative advantages arise from differences in each IFC's model of financial governance and regulatory agencies. These are discussed in the next section.

[896] Tsang, Interview.

Financial Governance and Regulatory Agencies

While financial governance in Hong Kong, Singapore, and Shanghai represent three distinct models that involve varying extents of state intervention, differences between the how the regulatory agencies of the three are set up tend to be less stark. Table 7.3 details the financial governance models and regulatory agencies of the three IFC's.

Table 7.3 Financial Governance Models and Regulatory Agencies

	Hong Kong	**Singapore**	**Shanghai**
Financial Governance	State-facilitated, industry-driven: "big market, small government"	State-led with heavy industry involvement: "policy co-creation"	State-dominated
Regulatory Agencies	Single Regulator: HKMA	Single Regulator: MAS	Multiple Regulators: PBC, CSRC, CBRC, CIRC, Municipal level regulatory agencies

Hong Kong's "big market, small government" approach to financial governance involves minimal government intervention, with any intervention limited to instances of necessity such as crises or market failures. In contrast, Singapore's model of financial governance exhibits strong state leadership with heavy involvement of the private sector through a 'governing elite' comprising both government and industry leaders as well as the MAS's various channels of industry consultation. This allows for a "co-creation" of financial policies in Singapore.[897]

Differences between Hong Kong's and Singapore's financial governance models stem from differences in their philosophies of (public) management.[898] Historically, Hong Kong's laissez faire approach was established by the British government, who was seeking an indirect way of benefiting its own companies.[899] In contrast, the independent Singapore state was concerned with ensuring that economic gains accrue to the state.[900] This means that private entrepreneurs tend to accumulate windfall profits in Hong Kong, while such profits accrue to the state in Singapore.[901] However, this also means that the Singaporean government possesses much more resources than the Hong Kong government.[902]

897 Former Senior Regulatory Official, Interview.
898 Independent Expert, Interview.
899 Ibid.
900 Ibid.
901 Ibid.
902 Ibid.

Furthermore, Singapore and Hong Kong are characterised by their different underlying "political engines".[903] While the Singaporean government has played the role of a "leader" with its strong central state institutions, the Hong Kong government was a "facilitator" that enabled a strong society to adjust and adapt with little government intervention.[904] Given that Singapore lacks many of the natural advantages which Hong Kong enjoys, it also had to develop artificial advantages through heavy government interventions in order to thrive as an IFC.[905]

Lastly, Shanghai's financial sector is governed by the heavy hand of the state, with the involvement of both central and local governments. While the Shanghai municipal government is highly autonomous in economic and financial policymaking, it also receives strong support from the Chinese central government, which has expressed its drive to develop Shanghai as an IFC. However given its position as a Chinese municipality and its political proximity to Beijing, Shanghai may also need to on occasion "submit to the will of the state".[906] Furthermore, Shanghai's financial markets are largely dominated by state-owned banks that are politically well-connected[907]. This means state-dominance in both financial policymaking and financial market participation.

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[903] Louis W. Pauly, *Hong Kong's International Financial Centre: Retrospect and Prospect* (Hong Kong: Savantas Policy Institute, February 5, 2011), 32.
[904] Ibid.
[905] Topping, Interview.
[906] Independent Expert, Interview.
[907] Chong, Interview.

In sum, financial governance across the three cases involves varying degrees of state intervention. Specifically, Hong Kong's model of financial governance requires minimal government intervention, with the state merely facilitating or supporting financial sector development. In contrast, the Singapore state plays a more significant role, in leading financial sector development through the extensive involvement of private sector industry actors in its financial policy processes. Shanghai's model of financial governance involves an even greater extent of state intervention, with the state effectively dominating the financial sector through both government agencies and state-owned enterprises.

Differences in the set-up and operations of regulatory agencies across the three cases are more subtle. While Hong Kong's and Singapore's financial sector regulatory activities are each carried out by a single chief regulatory agency, the HKMA and MAS respectively, the two agencies differ in terms of policy instrument preferences, as discussed in the next section. However and as Chapter 6 as shown, Shanghai's financial sector regulation involves a plethora of regulatory agencies associated with central and local levels of government.

Differences in financial governance models and regulatory agencies are reflected in differences in financial policy mixes and policy subsystem configurations across the three IFC's. The different financial policy mixes used by the governments the three IFC are discussed in the next section.

Financial Policy Mix

Due to the varying extents of state intervention in financial sector development, as reflected in their differing financial governance models and subsystem configurations, the financial policy mixes of the three IFC's differ in composition and design across the three cases. Based on the instrument preferences and interests of dominant subsystem actors, the three IFC's feature financial policy mixes that differ in their weightage of stabilizing, enabling, and developmental policy instruments. The three types of instruments have been discussed at length in Chapter 3.

Specifically, stabilizing instruments ensure financial sector stability and investor protection while enabling instruments allow for the establishment or implementation of market conditions favourable for the development and operation of financial institutions. Developmental instruments allow policymakers to directly channel resources towards specifics financial sectors or markets deemed beneficial to economic development.

More importantly, each IFC's financial policy mix is characterized by a *dominant* type or class of policy instruments that reflects the interests and instrument preferences of dominant subsystem actors. This means that while a policy mix may feature instances of all three types of instruments in varying weightage, whether a policy mix is geared towards financial market stabilization, enablement or development depends on the mix's dominant or major instrument type(s).

This allows for a general characterization of each financial policy mix as stabilizing, enabling, developmental, or various combinations of the three, in accordance to the type(s) of financial policy instrument dominant within each mix. Table 7.4 provides such a characterization of the financial policy mixes in the three cases.

Table 7.4 Financial Policy Mixes

	Hong Kong	**Singapore**	**Shanghai**
Stabilizing,	X	X	
Enabling,		X	X
Developmental		X	X

Given Hong Kong's laissez faire approach to financial governance, government intervention is limited, with the HKMA relying largely on stabilizing financial policies to maintain market stability and protect investors and depositors. While enabling financial policies have occasionally been used to encourage the formation of new markets, offshore RMB businesses being the most recent case in point, the HKMA's financial policy mix remains largely comprised of stabilizing policy instruments that enhance Hong Kong's key advantages of stability and reliability. These instruments include developing the financial infrastructure and strict supervision of financial institutions.

In contrast, Singapore’s financial policy mix comprises all three types of financial policy instruments. Like Hong Kong, Singapore is renowned for its transparent and reliable regulatory infrastructure as well as its strong rule of law. These are maintained through the MAS’s stabilizing policy instruments that involve strict regulation and supervision of financial institutions. However, Singapore’s financial sector also contributes significantly to its GDP and economic growth.

The government has thus employed enabling and development policy instruments in order to develop and sustain its financial sector. These include establishing the necessary conditions and incentives for new growth markets such as wealth management to emerge[908] as well as providing direct incentives to existing financial institutions. As noted by MAS Managing Director Mr Ravi Menon, tax incentives to financial institutions are an important part of the MAS’s policy toolkit.[909]

However, differences between Hong Kong’s and Singapore’s financial policy mixes can sometimes be nuanced and subtle. This is particularly so when similar policy instruments are used for different purposes. A key policy instrument used by both Hong Kong and Singapore for the purpose of IFC development is the establishment of tiered bank licensing systems. Hong Kong had established its tiered bank licensing system in response to an increase in the number of unlicensed DTC’s, with the aim of ensuring financial market

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[908] Koh, Interview, August 7, 2013.
[909] Menon, Interview.

stability and investor protection through the licensing and regulation of these DTC's.

In contrast, the Singapore government established its tiered bank licensing system in order to attract foreign banks and at the same time protect or even advance the interests of domestic banks. As such, the tiered bank licensing system is used by the HKMA as a stabilizing policy instrument while Singapore's tiered banking system is used as an enabling and developmental policy instrument by the MAS.

Lastly, Shanghai's financial policy mix is largely comprised of enabling and developmental policy instruments. Given Shanghai's role as a key driver of China's economic growth, both the Shanghai municipal government and Chinese central government have used developmental policies in order to direct financial sector development towards generating revenues. Furthermore, enabling policies have also been enacted to promote the development of specific markets, in a bid to drive Shanghai's overall development as an IFC.

The recent establishment of the Shanghai FTZ and liberalization of regulations and entry restrictions for foreign financial institutions are clear examples of enabling policy instruments. However, stabilizing policy instruments do not factor heavily in Shanghai's financial policy mix. This has resulted in Shanghai's perceived weaknesses in its regulatory infrastructure and weak rule of law. Nonetheless, the Shanghai government has recently announced its intentions to improve Shanghai's legal and regulatory infrastructure.

Importantly, differences in financial policy mix stem from different policy subsystem configurations across the three cases. As discussed in Chapter 3, dominant subsystem actors tend to influence and affect policy mix design through instrumental and ideational channels, by virtue of their membership in instruments constituencies and advocacy coalitions respectively. While this causal linkage between subsystem configuration and policy mix design is discussed in a later section that applies the Nested Instrumental Approach to the three cases, the next section provides a comparative analysis of the policy subsystem configurations within each IFC.

Financial Policy Subsystem

Policy subsystems can be characterized by their level of complexity. Complex subsystems typically comprise a large set of actors with their membership in the subsystem fluid and changing, with such high turnovers of subsystem actors reflective of their limited influence over policy. In contrast, a simple subsystem is characterized by the enduring presence of a small but often influential group of dominant actors. Furthermore, as Chapters 2 and 3 have shown, dominant actors in a subsystem often exercise their influence over policy through their membership in advocacy coalitions or instruments constituencies.

This section comparatively analyses the financial policy subsystems of the three IFC's, paying particular attention to subsystem complexity and the presence of advocacy coalitions and instruments constituencies. Table 7.5 below provides an overview of the financial policy subsystems in the three cases.

Table 7.5 Financial Policy Subsystems

Dimensions	**Hong Kong**	**Singapore**	**Shanghai**
Number of Members	Large	Moderate	Small
Homogeneity of Membership	Low	Moderate	High
Influence of non-state actors on financial policy	Low	High	Low
State dominance over financial policy	High	Moderate	High

Given its commitment to a laissez faire model of financial governance and limited government intervention in markets, Hong Kong's financial policy subsystem displays a high degree of complexity. This is reflected in its large number of subsystem actors. Furthermore, homogeneity of subsystem membership is low, with subsystem actors including a wide array of state, private sector and other non-state actors. Yet paradoxically, financial policymaking in Hong Kong is dominated by the HKMA. This means that industry and non-state actors possess little influence over financial policies, with their presence in Hong Kong's financial policy subsystem dependent upon the availability of business opportunities.

As interviews have shown, industry consultation in Hong Kong is largely a one-way process, with private sector industry actors possessing little influence over financial policymaking.[910] This points towards the presence of a highly centralized and state-dominated policy process as well as the insulation of policymakers from political and societal forces.[911] Nonetheless, the private sector continues to play a crucial role in driving financial sector development, given the lack of direct government intervention in markets. While independent experts and academics are involved in consultative processes, they do not possess significant influence over financial policymaking.

[910] Topping, Interview; Chong, Interview.
[911] Harris, *Hong Kong*; Scott, "Administration in a Small Capitalist State"; Painter, "Transforming the Administrative State."

Hence while the HKMA has full authority over financial policy, it limits its interventions in financial markets to instances of "absolute necessity".[912] This leaves industry actors with a significant amount of space and leeway to develop their business interests, in the process driving financial sector development through their participation in Hong Kong's free and open markets. In other words, while the state dominates financial policymaking, this dominance is not always obvious, given the government's commitment to laissez faire approaches to financial governance.

Furthermore, the HKMA's almost exclusive preference for stabilizing instruments suggests the presence of an instruments constituency that advocates the use of stabilizing financial policy instruments. Similarly, the Hong Kong government's adherence to free market principles is likely to derive from an advocacy coalition formed around such principles. Specifically, free market principles make up the coalition's policy core beliefs while the belief that stabilizing instruments will allow these free market policy core beliefs to be fulfilled make up the coalition's secondary beliefs. Hong Kong's dominant state actors are thus simultaneously members of a stabilizing instruments constituency and an advocacy coalition based on a belief in free market principles.

In contrast to Hong Kong, Singapore's financial subsystem features less actors but comprises a less homogenous mix of actors formed around an

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[912] Tsang, Interview.

enduring 'governing elite'. Importantly, both state and non-state actors are influential in financial policymaking. While the MAS leads financial sector development with its full array of stabilizing, enabling and developmental financial policy instruments, private sector industry actors are also heavily involved in financial policymaking through the MAS's extensive consultative processes.

As interviews have shown, the MAS is concerned with developing financial policies that are both implementable and beneficial for industry development.[913] This means a 'co-creation' of financial policy by the MAS and industry,[914] with both state and industry maintaining significant influence over financial policymaking. Industry participants from the private sector have also noted the MAS's willingness to accept industry feedback and policy suggestions, facilitating regulatory compliance on their part.[915]

Furthermore, independent experts and academics are also involved in the MAS's consultative processes, often providing constructive feedback that informs the MAS's financial policies.[916] As such, Singapore's financial policy subsystem involves the state, industry, and other non-state actors, with all three sets of actors involved financial in policy 'co-creation', although the

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913 Former Senior Regulatory Official, Interview; Koh, Interview, August 7, 2013; Menon, Interview.
914 Former Senior Regulatory Official, Interview.
915 Fund Manager with a US Asset Management Firm, Interview; Senior Banker, Interview.
916 Koh, Interview, June 18, 2013.

state retains its leadership over financial policymaking under the aegis of the MAS.

Given that the MAS employs a wide array of stabilizing, enabling and developmental financial policy instruments in its regulation and promotion of Singapore's financial markets, there is no identifiable instruments constituency in Singapore. Rather, instruments are selected based on their efficacy in attaining the desired policy outputs. However, dominant subsystem actors in Singapore are focused on common goals of financial market development and stability, with the financial policy mix design based on a shared desire for financial sector growth by both the state and industry.

This means that the dominant state and industry actors in Singapore's financial policy subsystem are members of an advocacy coalition formed around development-oriented policy core beliefs, with secondary beliefs predicated upon the efficacy of stabilizing and development-oriented instruments in attaining developmental goals. As later sections will show, this has resulted in the design of a diverse and varied financial policy mix that includes a wide array of stabilizing, enabling, and developmental financial policy instruments, reflecting the interests and instruments preferences of both state and non-state actors in Singapore's 'governing elite'.

In contrast to the highly internationalized financial markets in Hong Kong and Singapore, Shanghai's financial markets are dominated by state-owned institutions and small domestic firms. This is largely due to Shanghai's focus on the rapidly expanding domestic markets and the Chinese government's perceptions of Shanghai's financial markets as a means for "propelling domestic economic growth".[917] More importantly, this suggests that Shanghai's financial policy subsystem comprises fewer members and a higher degree of actor homogeneity when compared to Hong Kong and Singapore.

Aside from limited and homogenous subsystem membership, the limited role of the private sector in financial policymaking also makes Shanghai's financial policy subsystem relatively simpler, as compared to both Hong Kong and Singapore. While financial policies are formulated and implemented by state actors including the various financial regulatory agencies, state-owned financial institutions dominate Shanghai's financial markets by virtue of their political connections.[918] However, the Shanghai government has on occasion consulted external and internal experts through various consultative and advisory committees.[919]

Furthermore, Shanghai's financial policy subsystem has recently become slightly more complex, with the implementation of the Shanghai free trade zone. Restrictions on foreign participation in Shanghai's financial sector have been liberalized, bringing forth an influx of foreign financial institutions. However, these foreign financial institutions do not possess any influence over

[917] Pauly, *Hong Kong's International Financial Centre: Retrospect and Prospect*, 39.
[918] Chong, Interview.
[919] Sheng, Interview; Independent Expert, Interview.

the state's financial policymaking processes. Shanghai remains a state-dominated IFC, with financial policymaking kept tightly within the purview of the central and municipal governments.

Given the dominance of state actors in Shanghai's financial policy subsystem and the state's overarching focus on financial sector growth and national economic development, developmental and enabling instruments are often selected based on policymakers' interest and desire to fulfil developmental goals. Yet as the recent establishment of the Shanghai FTZ has shown, the state is not averse to implementing stabilizing policy instruments, so long as these are shown to be beneficial for Shanghai's development as an IFC. This focus on development and the consequent selection of instruments based on a need to fulfil developmental goals suggests the absence of a strong instruments constituency in Shanghai.

Rather, the focus of Shanghai's dominant state actors on financial sector growth and national economic development suggests the presence of an advocacy coalition, with developmental and state ideologies making up its policy core beliefs. Secondary beliefs are thus predicated upon the perceived efficacy of particular instruments in the pursuit of developmental and state objectives. Given the dominance of state actors in Shanghai's financial policy subsystem, such a coalition comprises government agencies of all levels as well as state-owned enterprises.

Summary of Comparisons

The financial policy subsystems of Hong Kong, Singapore, and Shanghai can be respectively characterized by the terms ‘big market, small government’, ‘governing elite’, and ‘state-dominated’. While state intervention is limited in Hong Kong, the Singaporean state retains a leadership position even as financial policymaking involves heavy participation industry and other non-state actors. Although private sector industry actors are present in both Hong Kong’s and Singapore’s financial policy subsystems, Hong Kong’s industry actors possess little influence over financial policymaking.

In contrast, the private sector plays a significant role in Singapore’s financial policymaking processes. This is institutionalized formally in the MAS’s and overall government’s various consultative and advisory committees as well as informally in terms of continuous state-industry interactions and the presence of a governing elite comprising both state and industry actors. Lastly, financial policymaking in Shanghai remains largely dominated by state actors from both the central and municipal levels. Shanghai’s private sector has little or no influence over financial policymaking in the municipality.

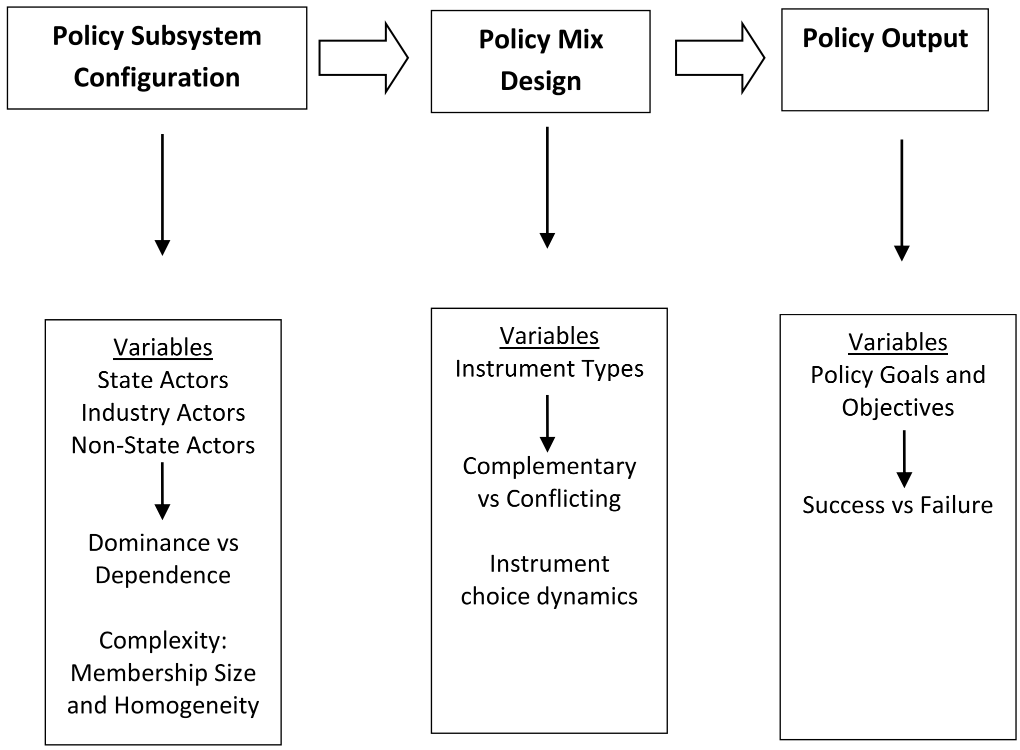
In sum, Hong Kong, Singapore, and Shanghai differ across the areas of comparative advantages, financial governance model and regulatory agencies, financial policy mix, and financial policy subsystem. Furthermore, each IFC’s unique policy subsystem configuration affects the policy mix developed and used by its government in attaining specified policy outputs. These linkages between policy subsystem configuration and policy mix design are further explored in the second part of this chapter below, which applies the nested instrumental approach introduced in Chapter 3 to the three cases.

Application of the Nested Instrumental Approach

As discussed in Chapter 3, this thesis develops the nested instrumental approach as its framework for analysis, providing an integrated approach to understanding IFC development that accounts for both political context and policy considerations in financial policy. This is achieved by the combination of the policy subsystems and policy instruments approaches, drawing on the insights of both approaches while at the time, avoiding their individual shortcomings. This section applies the nested instrumental approach to the three cases, in the process providing two key contributions to the existing literature.

First, it contributes to the empirical understanding of IFC's by structuring the case material around the nested instrumental approach, providing a more structured and nuanced understanding of IFC development and success. Second, empirically testing the nested instrumental approach through its application to the three cases improves its explanatory strength, contributing to its potential as a theoretically-driven framework for analysis. An illustrated overview of the nested instrumental approach is reproduced in Table 8.1 below, followed by a brief recapitulation of the approach.

Figure 8.1 Nested Instrumental Approach



To recapitulate from Chapter 3, policy subsystem configurations define policy mix design, with dominant actors shaping a policy mix around their preferences, interests, and beliefs. Policy mixes in turn determine the achievement of policy outputs through the application of policy instruments to a policy issue. This means that causal linkages exist between policy subsystem configuration and policy mix design, as well as between policy mix design and policy output. In particular, policy subsystem configurations influence and affect policy mix design through the actions of dominant subsystem actors, exercised through instrumental and ideational channels that involve varying levels of participation in instruments constituencies and advocacy coalitions.

Furthermore, policy mix design determines the successful attainment of desired policy outputs. Policy mixes are designed to comprise stabilizing, enabling, or developmental financial policy instruments in varying weightage, with instruments choice related to the type of policy output which dominant subsystem actors choose to pursue, in this case either financial stability or IFC development. Hence both causal linkages are driven by a logic of ‘nested instrumentality’, with the use of policy instruments centring the study of policy around a means-ends dichotomy and policy subsystem configurations serving to ‘nest’ policy instruments within the wider political economic context.

According to the nested instrumental approach, an IFC’s policy subsystem configuration result in the design of a unique policy mix that reflects and caters to the political economic context of that subsystem, with the implementation of such nested policy mixes geared towards the attainment of a desired policy output. In the cases of Hong Kong, Singapore, and Shanghai, the policy outputs are relatively clear and homogenous across the three cases: all three cities are focused on attaining IFC success.

However, the three cases differ in terms of their political systems and economic conditions, as reflected in their different policy subsystem configurations. Yet despite such differences, all three IFC's have attained comparable levels of success. This re-centres the discussion around the two research questions that have driven the research for this thesis: First, how have Hong Kong, Singapore, and Shanghai achieved their current levels of success as IFC's? Second, how have these three IFC's managed to attain their comparable levels of success despite differences in political-economic conditions?

As this section will show, IFC success in all three cases is dependent upon the successful design and implementation of financial policy mixes in accordance with existing subsystem configurations. In other words, different subsystem configurations across the three cases have resulted in the design of different policy mixes that are 'customized' to the prevailing political-economic conditions of each IFC. This means that the balance of stabilizing, developmental, and enabling financial policy instruments within a policy mix varies across the three cases in accordance to subsystem configurations and the instrument preferences of dominant actors.

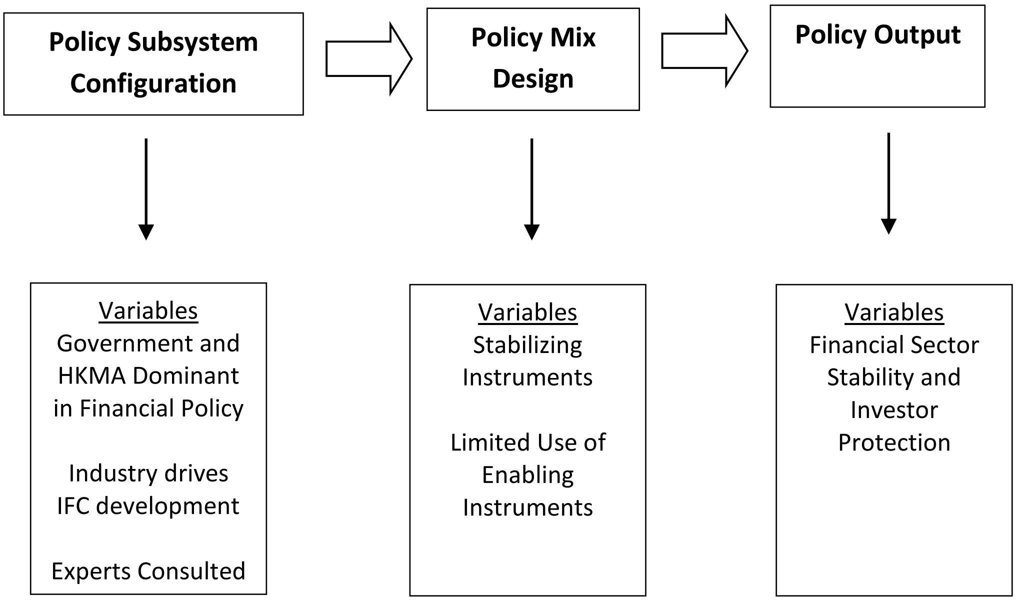
This suggests that IFC success does not depend solely on existing political economic conditions or the type of financial policies implemented by policymakers. Rather, both are important in contributing to IFC success. The three IFC's studied in this thesis have attained success through the adaptation of financial policy mix design to their individual financial policy subsystem configurations. The remainder of this chapter applies the nested instrumental approach to the three cases. Conclusions and implications for public policy theoretical development will then be discussed.

Hong Kong

As Chapter 4 has shown, financial policy in Hong Kong is characterised by the government's "big markets, small government" doctrine that involves limited government intervention and as a consequence, a financial policy mix that is largely comprised of stabilizing policy instruments. Enabling and developmental instruments that typically reflect significant government intervention do not factor heavily in Hong Kong's financial policy mix. Given the government's predisposition towards laissez faire approaches, financial policymaking in Hong Kong is geared towards achieving the policy outputs of financial sector stability and investor protection.

Figure 8.2 below provides an overview of Hong Kong's IFC development through the lens of the nested instrumental approach.

Figure 8.2 Hong Kong's nested instrumental framework



Financial policymaking in Hong Kong lies within the sole province of the government. While the HKMA carries out consultations and other interactions with industry actors, such consultations have been seen to represent a channel through which the government informs industry of impending policies rather than as a means of collecting industry feedback and policy inputs.[920] As such, government agencies such as the HKMA remain the dominant subsystem actors in financial policymaking.

While industry actors remain important driving financial sector development, they typically operate within the regulatory boundaries established by the HKMA and possess very limited influence over financial

[920] Topping, Interview; Chong, Interview.

policymaking. Other non-state actors such as experts and academics are occasionally consulted by the government and the HKMA, although their influence over financial policy is also limited.[921]

Given the government's predisposition towards laissez faire approaches and its commitment to the "big market, small government" doctrine, Hong Kong's financial policy mix largely comprises stabilizing instruments that aim to maintain financial system stability and investor protection, thereby providing the fundamental "software" necessary for financial sector development.[922] This focus on providing the infrastructure or environmental conditions necessary for financial market stability stands in contrast to Singapore's and Shanghai's developmental and enabling policies that aim to channel resources or advantages to specific markets or sectors.

While enabling instruments have on occasion been used to stimulate the development of new markets, such as the government's more recent efforts to establish the necessary infrastructure and conditions for the establishment of offshore RMB business in Hong Kong, government intervention in financial markets remain limited to instances of necessity or market failure.[923] Furthermore, past HKMA interventions in the market have also been justified as means to ensure systemic stability and do not contradict with the

[921] Chong, Interview.
[922] Ibid.
[923] Tsang, Interview; Sheng, Interview.

government's commitment to laissez faire.[924] In short, Hong Kong's financial policy mix is largely skewed towards stabilizing policy instruments.

The government's dominance over financial policymaking and the limited influence of industry and other non-state actors over policy also serve to reinforce the stabilizing character of Hong Kong's financial policy mix. With industry actors possessing limited influence over financial policymaking, Hong Kong's financial policy mix does not reflect or cater to specific industry interests. As shown in the case of Singapore, enabling and developmental instruments tend to reflect the demands of industry for financial policies that benefit their going concern[925] or minimize costs of regulatory compliance[926]. The dominance of stabilizing instruments and relative under-representation of enabling and developmental instruments in Hong Kong's financial policy mix thus reflects a lack of input or influence from the private sector.

In sum, the dominance of the government and HKMA in Hong Kong's financial policy subsystem and the focus of these dominant state actors on laissez faire approaches have resulted in a policy subsystem configured around the government's chief role as regulator and the industry as drivers of financial sector development within the regulatory purview of the state. As a consequence of this stability-focused and regulation-based subsystem configuration, Hong Kong's financial policy mix predominantly comprises

[924] Sheng, Interview.
[925] Former Senior Policymaker, Interview.
[926] Menon, Interview.

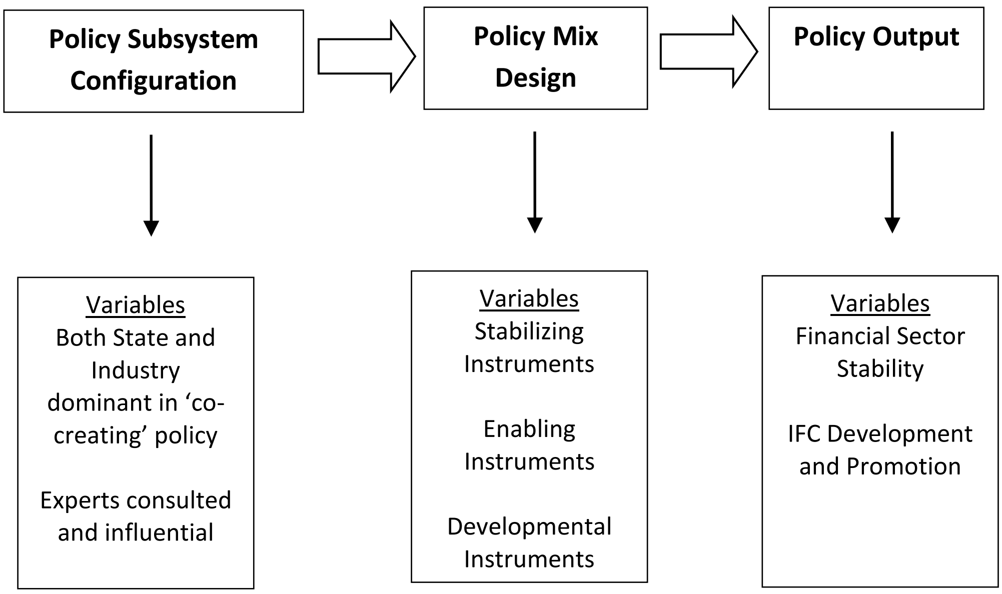
stabilizing instruments and excludes more ‘industry-friendly’ enabling and developmental instruments.

Singapore

In contrast to Hong Kong, financial policymaking in Singapore involves a relatively larger extent of state intervention. However, state intervention is complemented by industry participation in financial policymaking. Industry and other non-state actors are highly involved in financial policymaking through various channels of formal and informal consultative processes. This ‘co-creation’ of policy by state and industry actors reflects the presence of a ‘governing elite’ comprising state and non-state actors.

As a consequence, Singapore’s financial policy mix comprises a full array of stabilizing, enabling, and developmental financial policy instruments that reflect the interests and preferences of Singapore’s diverse ‘governing elite’. Singapore’s desired policy outputs of financial sector stability and IFC development similarly reflect both state and industry interests, contributing to the state’s desire for stability and industry needs for growth. This ‘nesting’ of Singapore financial policy mix and its policy outputs within the context of its policy subsystem are illustrated in Figure 8.3 below.

Figure 8.3 Singapore's nested instrumental framework



As Singapore's lead agency for financial sector policy and development,[927] the MAS has consistently involved industry actors in its financial policies through various formal and informal consultative processes.[928] These include consultative and advisory committees as well as informal interactions between regulators and financial sector professionals.[929] Other non-state actors such as academics have also been included in many of these consultative processes.[930]

This means that Singapore's financial policy subsystem is co-dominated by state and industry actors who work together to 'co-create'

[927] Koh, Interview, August 7, 2013.
[928] Menon, Interview.
[929] Senior Banker, Interview; Fund Manager with a US Asset Management Firm, Interview.
[930] Koh, Interview, June 18, 2013.

financial policies,[931] with other non-state actors such as independent experts and academics serving to provide constructive feedback that is also often factored into the MAS's policies.. Consequently, the MAS's financial policy mix is reflective of the interests and needs of both state and industry. While the MAS's overriding mandate or goal is that of financial sector stability, it is also tasked with developing or promoting Singapore as an IFC.[932]

This latter goal of IFC development requires the MAS to be cognizant of industry needs and able to provide a suitable environment for the development and flourishing of financial institutions in Singapore without compromising financial sector stability.[933] As such, industry actors have played a significant role in contributing to and improving on MAS policies and regulations.[934] As a consequence, Singapore's financial policy mix comprises stabilizing, enabling, and developmental financial policy instruments. While stabilizing instruments are typical of most IFC's seeking to ensure financial sector stability and investor protection, enabling and developmental instruments are reflective of both state developmental goals and industry needs.

The MAS's full spectrum of stabilizing, enabling, and developmental policy instruments thus reflects the co-dominance of state and industry actors in the financial policy subsystem, with the state focused on providing suitable

[931] Former Senior Regulatory Official, Interview.
[932] Menon, Interview.
[933] Ibid.; Former Senior Regulatory Official, Interview.
[934] Menon, Interview.

incentives and environmental factors for the maintenance of a thriving financial system and the industry in turn providing inputs on the form and substance of financial policies that are necessary for financial institutions to contribute to Singapore's continued success as an IFC. In particular, industry actors tend to recommend and promote policies that enhance their business prospects[935] or minimize costs of regulatory compliance.[936]

However, the MAS's desired policy outputs of financial sector stability and IFC development remain defined by the state.[937] This means that the co-dominance of state and industry in financial policymaking and its inherent 'co-creation' of policy is deliberately designed by the state for the purpose of achieving state developmental goals. In other words, industry involvement in financial policymaking is specifically designed by the MAS such that regulations and policies may help financial institutions to thrive in Singapore and in the process contribute to the state's goals of IFC development.

In short, Singapore's policy subsystem is configured around a 'governing elite' made up of state and industry actors. Such a subsystem configuration has resulted in the design of a financial policy mix that comprises stabilizing, enabling, and developmental instruments, reflecting the goals and interests of both state and industry. However, industry participation or involvement is deliberately designed into the MAS's consultative processes

[935] Former Senior Policymaker, Interview; Koh, Interview, August 7, 2013.
[936] Menon, Interview; Senior Banker, Interview.
[937] Menon, Interview; Koh, Interview, August 7, 2013; Former Senior Policymaker, Interview.

and the state's governing elite structure. Hence, the government retains overall influence over the formation of Singapore's subsystem configuration through its inclusion of industry actors and its key role in defining the belief structure and norms underpinning this subsystem and hence remains the lead actor in Singapore's financial policy subsystem.

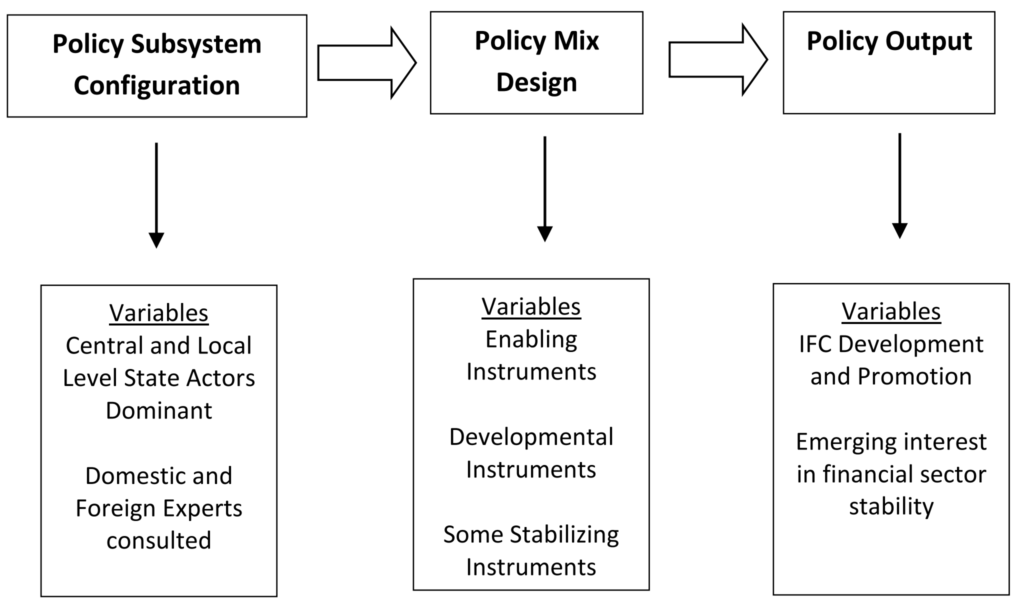
Shanghai

Compared to Singapore, financial policymaking in Shanghai is even more state-driven, with the municipality's financial policy subsystem largely dominated by state actors. However, conceptions of the state in Shanghai are necessarily more complex than both Singapore and Hong Kong, given the presence of both central and local level governmental actors.

With the State Council aiming to turn Shanghai into a leading trade, finance and shipping hub by 2020, central government involvement in Shanghai's financial sector development is predicated upon the municipality's contribution to national economic development. Shanghai's financial policy mix reflects these developmental concerns by including enabling and developmental instruments that aim to develop and promote Shanghai as an IFC.

However, stabilizing instruments remain weakly represented in the mix, with Shanghai's rule of law and regulatory infrastructure perceived to be relatively weak. Nonetheless, the government has more recently shown a greater interest in improving Shanghai's regulatory infrastructure and its compliance to international regulatory standards.[938] Despite such fledgling efforts at incorporating stabilizing instruments into Shanghai's financial policy mix, enabling and developmental instruments remain dominant in Shanghai's financial policy mix. Figure 8.4 below provides an illustration of a nested instrumental approach to understanding Shanghai's development as an IFC.

Figure 8.4 Shanghai's nested instrumental framework



Shanghai's financial policy subsystem is configured around the dominance of the state, with both central and local level government actors heavily involved in its development as an IFC. This is due to the significance

[938] Sheng, Interview.

of Shanghai's role in China's economic development and reform process.[939] The recent establishment of a free trade zone in Shanghai, along with its pending liberalization of the RMB and interest rates, is also testament to Shanghai's leading role in China's economic reform and experimentations with new reform measures.[940]

As such, both the central and municipal governments are highly involved in developing Shanghai as an IFC, given that issues of national economic development and reform are dependent on Shanghai's continued success. The near-monopoly of politically-connected state-owned financial institutions in Shanghai[941] has also served to reinforce the state-dominated nature of Shanghai's financial policy subsystem, with both government agencies and state-owned financial institutions exerting a strong influence on financial policymaking through their roles as dominant subsystem actors.

However, the government has also put in place various consultative committees; these involve domestic and foreign experts providing advice to central government agencies such as an advisory committee in the CBRC as well as the Shanghai mayor's advisory committee on Shanghai's development as an IFC.[942] Nonetheless, the influence of these experts on financial

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[939] David Wall, "China's Economic Reform and Opening-Up Process: The Role of the Special Economic Zones," *Development Policy Review* 11, no. 3 (1993): 243–60; Gang Tian, *Shanghai's Role in the Economic Development of China: Reform of Foreign Trade and Investment* (Westport: Praeger, 1996).

[940] "Shanghai Free-Trade Zone Launched."

[941] Chong, Interview.

[942] Sheng, Interview; Independent Expert, Interview.

policymaking in Shanghai remains limited. Private sector actors, whether domestic or foreign, also exercise negligible influence over financial policymaking in Shanghai. Rather, industry actors tend to be dependent upon state policy for their ability to operate and even thrive in Shanghai's financial markets.

As a result of the state-dominated and development-oriented aspects of Shanghai's financial policy subsystem, Shanghai's financial policy mix used is necessarily highly development-oriented. This means that Shanghai's financial policy mix largely comprises enabling and developmental policy instruments geared towards the development of Shanghai's financial markets.

Enabling and developmental instruments are favoured by the government, as these allow the state to directly determine or influence the growth and development of Shanghai's financial sector. An instance of this is the recent establishment of the Shanghai Free Trade Zone, with the associated promulgation of various enabling and developmental instruments such as the liberalization of interest rates and the lowering of entry requirements for foreign banks and financial institutions.

However, Shanghai is perceived to be relatively weak in its rule of law and regulatory infrastructure.[943] This is reflected in the relative under-representation of stabilizing policy instruments in Shanghai's financial policy mix. Nonetheless, the Shanghai government has taken up a more recent

[943] Chong, Interview.

interest in enhancing its regulatory framework and improving compliance to international regulatory standards.[944]

This means that stabilizing policy instruments are beginning to be incorporated into Shanghai's financial policy mix. Nonetheless, Shanghai's financial policy mix remains largely dominated by enabling and developmental instruments, given the government's current focus on building up Shanghai as a full-fledged IFC by 2020. This is further reflected in the government's policy outputs of IFC development and promotion, albeit with an emerging interest in ensuring financial sector stability. Like Shanghai's financial policy mix, these policy outputs are also state-determined.

In sum, Shanghai's state-dominated financial policy subsystem configuration has resulted in a highly development-oriented financial policy mix that comprises mostly enabling and developmental instruments. This is due to the central and municipal governments' desires to develop Shanghai into a leading IFC by 2020 through active state interventions in the form of enabling and developmental financial policies. Given the dominance of state actors in Shanghai's financial policy subsystem, the design of its financial policy mix is reflective of the state's goals and ambitions for Shanghai as an IFC, with its policy output essentially focused on IFC development.

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[944] Sheng, Interview.

Conclusion

This chapter has provided a comparative analysis and an in-depth application of the nested instrumental approach to the three cases of Hong Kong, Singapore, and Shanghai. This was based on the case material provided in Chapters 4, 5, and 6 as well as primary data collected over the course of fieldwork. The comparative analysis has shown how the three IFC's differ across the areas of comparative advantages, financial governance model, policy subsystem configuration, and financial policy mix.

As shown in Table 7.1, these differences stem from differing extents of state and industry involvement in financial policymaking, which means different combinations of dominant subsystem actors across the three cases. This has necessitated an application of the nested instrumental approach to the three cases, in order to derive a clearer understanding of the impacts and influence of policy subsystem configuration, as defined by dominance-dependence relations between subsystem actors, on policy mix design.

This chapter's application of the nested instrumental approach to the three cases has served two important purposes. First, it has provided empirical backing to nested instrumental approach, ensuring that this approach is practicable as a useful tool or framework for policy analysis. Second, applying the nested instrumental approach to the three cases has allowed for a deeper and more structured analysis of the three cases. Furthermore, the analysis remains theoretically driven, given the approach's foundations in the policy instruments and policy subsystems approaches.

In other words, the nested instrumental approach provides a useful frame of analysis, around which case data can be structured and comparative analysis carried out. Importantly, it has combined the insights of the policy instruments and policy subsystems approaches within one analytical framework, in the process overcoming the individual shortcomings of these two approaches. This paves the way for a more nuanced and in-depth understanding of IFC development and success that goes against the existing conventional wisdom of IFC convergence.

In the process, this thesis has provided a more accurate understanding of the policy and politics of IFC development in general. As such, the nested instrumental approach provides both empirical and theoretical contributions to the field. This is especially pertinent, given the limitations and gaps in the existing financial policy and IFC literatures identified in Chapter 2 and shortcomings of the policy subsystems and policy instruments approaches discussed in Chapter 3.

Understanding the policy process devoid of politics and vice versa presents a danger of omitted variable bias and more fundamentally, results in contextually-sterile analyses that may not be relevant to real world public policy practitioners. By melding policy and politics, the nested instrumental approach provides an analytical framework that ensures relevance in its analysis and provides policy practitioners with a more structured way of understanding policymaking and policy design within the political economic context of the policy subsystem.

In doing so, it encourages policymakers and policy designers to be cognizant of the political economic context within which they operate. This will encourage the development of a financial policy process that is attuned to political economic realities and nuances on the ground. The nested instrumental approach also provides policy scholars with a potentially useful tool for policy analysis. Given the identified limitations of the policy subsystems and policy instruments approaches identified in Chapter 3, there is an urgent need to ameliorate these shortcomings and at the same time consolidate their insights into a useful framework for analysis.

Chapter 8: Conclusions

This thesis had set out to understand how Hong Kong, Singapore, and Shanghai have achieved their individual successes as IFC's. In the first chapter, two research questions were posited, the first question being how have Hong Kong, Singapore, and Shanghai achieved their current levels of success as IFC's, and the second question relating to how these three IFC's managed to attain their comparable levels of success despite differences in political-economic conditions. These two questions have driven the research behind this thesis and contributed to its findings.

This thesis has largely answered both questions through the development and application of the 'nested instrumental approach' to the three IFC's, based on case material collected over the course of fieldwork. In particular, this thesis has found that relations of dominance and dependence among actors within a policy subsystem configuration influence policy mix design, with policy mixes reflecting and catering to the interests and instrument preferences of dominance subsystem actors. A more extensive summary of the findings of this thesis is provided in the next section.

In the process of answering these two research questions, several significant limitations in the existing literature were encountered. Specifically, the review of the literature on IFC's and financial sector development in Chapter 2 has revealed that these literatures are overly focused on the structural economic factors contributing to IFC emergence, development and success. This has further resulted in an over-statement of an assumed convergence in models or modes of IFC development and financial governance. Yet as Chapters 4, 5, and 6 have shown, IFC's such as Hong Kong, Singapore, and Shanghai have exhibited clear differences in their comparative advantages as IFC's, financial governance models, financial policy mixes, and policy subsystem configurations.

The neglect of differences in policy mix design and policy subsystem configurations across different IFC's limits current understandings of IFC development, with the implication being an incomplete understanding of the policies and political factors that drive IFC success. Furthermore, existing policy analytical frameworks such as the policy subsystems and policy instruments approaches respectively lack the scope and depth of analysis necessary to overcome such limitations in existing IFC and financial policy literatures.

As discussed in Chapter 3, the policy subsystems approach remains at an overly-broad level of abstraction and neglects the precise mechanisms through which policy is formulated and implemented while the policy instruments approach is too narrowly focused on instruments and has not adequately accounted for the political economic factors that may influence or affect the policy design process. Both approaches on their own do not make strong contenders for the analysis of IFC success. However, there remains scope for combining their insights into a more integrated framework for analysis that is able to provide a more complete analysis, which this thesis has achieved through the nested instrumental approach.

In the context of these limitations and shortcomings in the existing literature, there is scope for both empirical and theoretical advances in the study of IFC's and public policy in general. This thesis has attempted to contribute both empirically and theoretically to the study of IFC's and financial policy through the establishment and application of the 'nested instrumental approach' to the three cases of Hong Kong, Singapore, and Shanghai. In introducing the nested instrumental approach, this thesis has contributed to public policy theory by improving upon the existing policy subsystems and policy instruments approaches and combining them into an integrated framework for analysis.

Furthermore, the application of the nested instrumental approach to the study and analysis of Hong Kong, Singapore, and Shanghai has contributed to the empirical study of IFC success. In particular, the nested instrumental approach's incorporation of political economic context and policy design processes has allowed for a more in-depth and nuanced account of IFC development and success. The remainder of this chapter provides a summary of the findings of this thesis, its implications for policymakers, contributions to the existing financial policy literature and public policy theory, as well as issues for further research.

Summary of Findings

Based on data collected from field research and an extensive review of the literature on the three cases, I argue that differences in policy subsystem configurations across the three cases have resulted in the formulation and design of policy mixes comprising stabilizing, developmental, and enabling policies in varying weightages. Each policy mix reflects the interests and instrument preferences of its dominant subsystem actors, given their influence on policy mix design. Policy mixes are in turn applied to the attainment of policy outputs, which are also defined by the dominant subsystem actors.

Furthermore, the formulation and implementation of all three types of financial policy instruments is typically carried out by regulatory agencies which are tasked with both regulating and developing their respective financial sectors. This means that regulators in the three IFC's are essentially financial policymakers in their own rights. Given their dual roles as regulators and policymakers, this thesis has focused on the financial regulatory agencies of each IFC, drawing on interviews with senior regulatory officials as well as official publications by these agencies.

As my research findings have shown, the ways in which dominant actors are arrayed within a subsystem configuration results in the design of policy mixes that reflect the interests and instrument preferences of these dominant actors. The interaction of interests and instrument preferences also factors into policy mix design. For instance, both Hong Kong and Shanghai exhibit state dominance over financial policymaking. However, state dominance is filtered through the Hong Kong government's laissez faire approach and the Shanghai government's development-orientation to result in Hong Kong's stabilizing policy mix and Shanghai's development-oriented policy mix respectively.

Such nuances were discussed in Chapter 7, through an application of the nested instrumental approach to primary and secondary data collected over the course of fieldwork. The analysis in Chapter 7 has shown that three different processes of financial policymaking are at work across the three IFC's. This stems from differences in their policy subsystem configurations, manifesting in different policy mixes that reflect and are tailored to the political economic context of each IFC's policy subsystem.

Differences in subsystem configuration are also reflected in a focus on different policy outputs across the three IFC's. While all three IFC's have been deemed successful by IFC rankings and hierarchies,[945] it is important to note that models of IFC development and desired policy outputs vary across the three cases. While Chapters 7 and 8 have comparatively analysed the three cases, the remainder of this section will provide a brief summary of the findings discussed in those chapters.

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[945] Poon, "Hierarchical Tendencies of Capital Markets Among International Financial Centers"; Poon, Eldredge, and Yeung, "Rank Size Distribution of International Financial Centers"; Yeandle and Dranev, *The Global Financial Centres Index 14*.

First, this thesis has found that Hong Kong operates on a financial governance system of “big markets, small government” that involves a laissez faire approach to financial governance, with government interventions limited to instances of necessity or market failure. Paradoxically, the government’s commitment to laissez faire also instates its dominance over financial policymaking, given that such a laissez faire approach connotes policy stability with policymakers facing a lower need to take industry interests into account.

As such, Hong Kong’s financial policy subsystem is dominated by government agencies such as the HKMA. However, industry actors continue to play an important role in driving Hong Kong’s financial sector development, although their activities are necessarily subsumed within the regulatory overview of the state. While other non-state actors are involved in consultative or advisory committees to the government, their influence over policy has also been shown to be limited.

In other words, Hong Kong’s financial policy subsystem is configured around a dominant state that is committed to free market principles and a laissez faire model of financial governance. This has resulted in the design of a financial policy mix that largely comprises stabilizing policy instruments, with little or no inclusion of enabling and developmental instruments that would usually involve more extensive government intervention in markets and reflect specific industry interests.

Given this focus on stabilizing instruments and laissez faire principles, the Hong Kong government is mostly focused on attaining the policy outputs of financial market stability and investor protection. This focus on financial market stability and the consequent use of stabilizing instruments have been the basis of Hong Kong's key comparative advantages as an IFC, namely its robust legal and regulatory infrastructure as well as political and economic stability, both of which are underpinned by a strong rule of law.

In contrast, IFC development in Singapore involves a larger extent of state intervention; Singapore's initial formation as an IFC was essentially a state-driven initiative. However, industry and other non-state actors have since achieved strong involvement in financial policymaking through the MAS's various consultative channels as well as the participation of select industry and non-state actors in Singapore's 'governing elite'.

By the MAS's own reckoning, financial policymaking involves a "co-creation"[946] of policy by state and industry actors. This means that Singapore's financial policy subsystem is configured around the co-dominance of state and industry actors, with other non-state actors such as experts and academics providing significant inputs to financial policies. However, it is important to note that this state-industry co-dominance of financial policymaking does not necessarily mean equal levels of authority or status among actors. Financial

[946] Former Senior Regulatory Official, Interview.

policymaking in Singapore remains state-led, with the MAS continuing to occupy a peak position in Singapore's financial policy subsystem.

As a consequence of this co-dominance of state and industry actors in financial policymaking, Singapore's financial policy mix comprises a wide array of stabilizing, enabling, and developmental policy instruments. This reflects the MAS's dual goals of financial market stabilization and IFC development. Furthermore, the inclusion of enabling and developmental policy instruments can also be seen as a consequence of industry involvement in policymaking, given that these policies are particularly beneficial to the interests of industry.

As interviews have shown, it is in fact the deliberate design of the MAS that its policies should include the inputs of industry and hence provide the conditions deemed necessary by industry actors for their success, which in turn contributes to Singapore's overall success as an IFC.[947] As a result of industry input in financial policymaking and the MAS's dual goals of stabilization and development, financial policymakers in Singapore are focused on achieving the two policy outputs of financial market stability and IFC development.

Relative to Singapore, financial governance in Shanghai involves an even larger degree of state involvement. Given the Chinese government's

[947] Menon, Interview; Koh, Interview, August 7, 2013; Former Senior Regulatory Official, Interview.

ambitions of developing Shanghai into a full-fledged IFC by 2020, both central and municipal governments are involved in developing Shanghai as an IFC. Furthermore, Shanghai's financial markets are largely dominated by state-owned enterprises with strong political connections that act as a barrier of entry to domestic private firms,[948] while foreign participation remains limited.

However, the recent establishment of a free trade zone in Shanghai portends a loosening of these restrictions and the entry of more foreign financial institutions. Nonetheless, both the Chinese central government and Shanghai municipal government have continued to maintain their control over financial policymaking. As a consequence, Shanghai's financial policy subsystem is configured around this state dominance, with dominant state actors including both central and municipal governments, their related regulatory agencies, as well as state-owned enterprises that include the "big four" state-owned commercial banks and three main policy banks.

Given this dominance of the state over financial policymaking and that of state-owned enterprises in the financial markets, private sector industry players possess little influence over policy. Rather, they are dependent upon the state's financial policies for their survival and business going concern. While other non-state actors such as experts and academics have been involved in the government's various advisory committees both at the central

[948] Chong, Interview.

and municipal level, their actual influence over policy has also been found to be limited.

Shanghai's state-driven financial policy subsystem as well as the Chinese central government's focus on developing Shanghai as an IFC and maintaining its contribution to China's overall economic development means that Shanghai's financial policy mix is necessarily development-oriented, comprising mostly enabling and developmental policies. Stabilizing policies remain under-represented, as reflected in Shanghai's relatively weak rule of law and under-developed regulatory infrastructure, although policymakers have more recently begun focusing on improving Shanghai's regulatory system and ensuring compliance to international regulatory rules[949]. Despite these efforts, Shanghai's financial policy mix remains largely dominated by enabling and developmental instruments, geared towards the central and municipal governments' desired policy output of IFC development.

Having provided a brief summary of the findings of this thesis in terms of the nested instrumental development of the three IFC's, this section has shown that IFC development across the three cases is characterized by a high degree of diversity and variegation. Yet such diversity has not prevented the three IFC's from attaining comparable levels of success. Rather, the three IFC's have attained success through a policy design process that is cognizant and reflective of the extant political economic context, and based on the

[949] Sheng, Interview.

actions and influence of dominant subsystem actors who are focused on attaining IFC success.

By 'nesting' policy mix design within policy subsystem configuration through the actions and influence of dominant subsystem actors, Hong Kong, Singapore and Shanghai have each been able to achieve their individual successes as IFC's. The findings of this thesis go against the grain of conventional thinking which predicts and espouses IFC convergence, presupposing and predicting an increasing homogeneity of financial policy mixes across different IFC's. Furthermore, this thesis has made valuable contributions both to the empirical study of IFC's and to public policy theory in general. The next section discusses these contributions.

Contributions to Literature and Theory

As Chapter 2 has shown, the existing literature on IFC's and financial policy tends to overstate the impacts of structural economic variables on IFC success, with the consequence being an assumed convergence of IFC development models around the development of these variables. In reality, IFC's exhibit a vast diversity in terms of the financial activities which take place within them, the financial policies formulated and implemented by policymakers in their development, and the political economic contexts within which they exist. More importantly, this thesis has found that IFC success across the three cases is dependent on the adaptation of policy mix design to the unique political economic context of its policy subsystem,

However, existing public policy theoretical approaches do not allow for a deeper understanding of this interplay between policy mix design and subsystem configuration. As shown in Chapter 3, extant shortcomings in the policy subsystems and policy instruments approaches present an incomplete picture of IFC development when these two approaches are individually applied to the study of IFC's. This has necessitated the establishment of the nested instrumental approach, which draws upon and combines the policy subsystems and instruments approaches into an integrated analytical framework.

The development of the nested instrumental approach and its application to the case data collected over the course of fieldwork have allowed this thesis to make significant contributions to both the empirical study of IFC's and theoretical developments in the study of public policy in general. This thesis's empirical and theoretical contributions are discussed in turn below.

First, the application of the nested instrumental approach to the three cases has served to provide a deeper and more nuanced understanding of IFC development, by accounting for policy subsystem configurations and their impacts on financial policy mix design. This inclusion of contextual subsystem data is a significant empirical contribution, given the existing literature's bias towards a quantitative understanding of IFC success that neglects less measureable but nonetheless significant contextual variables. The use of case study and qualitative methods in this thesis has particularly proven useful in providing such an in-depth understanding of how the political economic context affects IFC development and financial policy instrument choices.

Furthermore, the nested instrumental approach presents a useful structure around which case data can be organized, allowing for a more integrated understanding of how financial policy mix design is determined by its subsystem configuration, leading to the attainment of desired policy outputs. Given the abovementioned neglect of political context in the existing IFC literature, this melding of policy and politics in the nested instrumental approach contributes significantly to the existing literature and provides a useful new analytical framework for studying the politics of finance.

Secondly, the development and introduction of the nested instrumental approach in this thesis contributes directly to public policy theory. As Chapter 3 has shown, shortcomings in the policy subsystems and policy instruments approaches suggest that the subsystems approach tends to be overly broad and does not sufficiently explicate the policy instruments through which policies are made while the instruments approach downplays the influence of context in its focus on instruments design and implementation processes.

In combining the two approaches, the nested instrumental approach allows for a melding of key insights from both the subsystems and instruments approaches and a simultaneous negation of their individual shortcomings. As such, the nested instrumental approach represents a unique and theoretically-driven analytical framework that both addresses the political economic context and examines policies as instruments or means applied in the attainment of defined ends, in the process accounting for the interplay between instruments and subsystems in policymaking.

Through the facilitation of a more integrative approach to understanding policy processes, the nested instrumental approach presents a potentially useful tool for policy analysis. In particular, a greater understanding of policy mix design, coupled with a deeper appreciation of the political economic context and its influence on policymaking, will allow for a policy design process that is more attuned to political economic context and realities. The next section discusses the implications of the nested instrumental approach and this thesis's findings to policymakers.

Implications for Policymakers

Aside from the empirical and theoretical contributions discussed above, this thesis also has significant implications for policymakers, whether in the context of financial policy and IFC development or with regards to the policy process more generally. This section first discusses implications for financial policymaking, followed by the policy process in general.

As the findings of this thesis have shown, Hong Kong, Singapore, and Shanghai have attained comparative success as IFC's despite differences in their political systems and the types of financial activities they specialize in. This has been achieved in the three IFC's through the application of financial policy mixes which were designed in accordance to their respective policy subsystem configurations. Extrapolating from these findings, a case can be made that there are different paths to success for different IFC's. This means that policymakers need to re-evaluate preconceived notions or expectations of IFC convergence...

Rather, policymakers need to be cognizant of the political economic context within which successful IFC's have been developed as well as the ways in which context has shaped policy in order to bring about financial sector development and success. This requires policymakers to take on what Wu et al have termed a "political perspective" and develop related competencies in "policy acumen"[950]. This means that policymakers and policy designers need to build up deep extensive knowledge of inter-actor relations and dynamics within their respective IFC's, with the policy design process factoring in such relations and dynamics.

[950] Xun Wu et al., *The Public Policy Primer* (London: Routledge, 2010), 7–11.

Singapore presents a positive instance of such contextual understanding on the part of its policy makers, with financial policymaking processes driven by a strong appreciation of nested instrumentality. Specifically, Singapore's financial policymakers have exhibited a strong understanding of the city-state's policy subsystem configuration as an IFC and correspondingly designed their policies in accordance with this configuration, allowing for the attainment of both prudential regulatory goals and industry ambitions. This has been largely achieved through the MAS's extensive consultative processes, which have imbued regulatory officials with a keen understanding of industry interests and allowed for the inclusion of industry actors in the drafting of rules and regulations.[951]

In general, developing a keen understanding of policy subsystem configurations and dynamics requires policymakers to take on a political perspective which, according to Wu et al, allows the policymaker to understand the interests of key actors and the relationships between them[952]. In the context of the nested instrumental approach, taking on this political perspective essentially means achieving a deeper understanding of the relations of dominance and dependence among major subsystem actors which define and shape policy subsystem configurations.

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[951] Former Senior Regulatory Official, Interview; Senior Banker, Interview; Menon, Interview.
[952] Wu et al., *The Public Policy Primer*, 10.

This will allow for the design of policy instruments and mixes that are not only more effective in attaining the desired policy outputs, but also more relevant to the interests and preferences of subsystem actors. Policies that are reflective or representative of the political context are likely to benefit from increased compliance and greater public support, since such policies are able to cater to the interests and benefits of both policymakers and targets of these policies.

Aside from accounting for its policy subsystem configuration, policy mix design should also be attuned to desired policy outputs. In other words, policy mixes should comprise instruments that are more efficiently targeted towards the attainment of policy outputs through processes or pathways which are clear and well-understood by policymakers. While the policy instruments literature has made significant advances in this respect, there remains a need to understand how policy outputs themselves are defined by policy subsystem configurations, with a set of desired policy outputs typically defined or set in place by dominant subsystem actors.

In the context of IFC's, these policy outputs are also related to the type of financial centre that policymakers wish to establish (such as an investment safe haven with a strong wealth management industry, loan syndication centre with deep capital markets, or an international banking centre with strong international linkages and compliance with international regulations), as well as the comparative strengths and advantages enjoyed by each IFC.

As this thesis has shown, Hong Kong's policymakers have chosen to focus on policy outputs of financial market stability and investor protection based on their commitment to free market principles. In contrast, policymakers in Singapore and Shanghai view financial markets as a significant contributor to national economic development, with the result being a focus on IFC promotion and development, although Singapore has retained its desired policy output of financial market stability as well.

As previous chapters have shown, these have resulted in the design of financial policy mixes that are geared towards the attainment of policy outputs which the respective dominant subsystem actors of the three IFC's have chosen to pursue. In tying policy mix design to the interests and aspirations of senior policymakers and the IFC's existing advantages, financial policy instruments can be designed to be more efficient and effective in achieving targeted or desired policy outputs, whether in terms of financial market stabilization or IFC development and promotion.

In short, policy mix design needs to take into account policy subsystem configurations and as a corollary, the policy outputs deemed desirable by dominant policy actors, which also flow from the subsystem configuration. This means that there is a need to align the three components of policymaking which the nested instrumental approach has laid out, namely policy subsystem configurations, policy mix design, and policy outputs.

Limitations and Issues for Future Research

This last section discusses issues which were or could not be addressed in this thesis. Given limits on its length and size, this thesis has necessarily been more targeted and focused in its research approach. There are invariably issues which may lie beyond the scope of this thesis. Nonetheless, these issues provide potential avenues for future research, with this thesis acting as a foundational start to an emerging line of research on IFC's and nested instrumental policymaking.

First, in choosing to study the cases of Hong Kong, Singapore, and Shanghai, this thesis has limited its research focus to the study of successful Asian IFC's. The Asia-centric nature of this thesis does not present any immediate problems; given that IFC's in Western developed nations have received more than sufficient attention in the existing IFC literature. In fact, this thesis is itself a contribution towards more systematic analyses of IFC development in Asia.

However, IFC's which have failed to attain success remain under-studied. As such, one key issue which this thesis has not addressed is how and why IFC's have failed. While the study of IFC failures presents a promising avenue of future research, the findings of this thesis may nonetheless provide a useful starting point for such research on IFC failure. After all, failure is the flipside of success. However, it should also be noted that definitions of failure are subjective and contentious. Policymakers of less successful IFC's may well argue that they have not failed, but more time is needed before their cities can take off as IFC's. Regardless, there is still a need to understand why or how less successful IFC's have not been able to attain the levels of financial sector development and success which the three IFC's studied in this thesis have achieved.

This thesis has enumerated and discussed the various factors which have contributed to the success of the three IFC's. It then goes without saying that the lack of these factors is likely to contribute to failure or at the very least, raise the barriers of entry to success. Furthermore, the nested instrumental approach introduced and applied in this thesis suggests that IFC success is very much dependent on ensuring that financial policy mixes and policymakers are attuned to the political economic realities of the subsystem. Correspondingly, failure to address subsystem configurations is also likely to lead to IFC failure.

However, it is noted that such conjectures on failure based on success factors is insufficient in terms of providing a deeper understanding of IFC failure and its causes. As such, there remains a need for further research on failed IFC's, which will allow for a clearer understanding of why these IFC's have failed. In a similar vein to this thesis, research into failed IFC's will necessarily have to take into account the political economic context within which IFC's have failed. This requires taking a nested instrumental approach to studying failed IFC's.

Another potential avenue for future research is the study of second-tiered developing Asian IFC's such as Shenzhen, Kuala Lumpur, Qatar, and Dubai, just to name a few. While these IFC's have enjoyed varying degrees of success, they are still relatively new as IFC's and their development, size and scale continue to lag behind Hong Kong, Singapore, and Shanghai. This makes it problematic to compare these less developed but nonetheless successful IFC's with Hong Kong, Singapore and Shanghai, given that these three IFC's possess much larger financial sectors and are essentially much more developed as IFC's.

Future research may focus on these other emerging Asian IFC's by studying their success factors, the policies enacted in their development, as well as the political economic context within which their development as taken place. The nested instrumental approach provides a useful analytical framework for the future study of these other emerging Asian IFC's. With the development of the nested instrumental approach in this thesis, there is also potential for future applications of this new analytical framework to other policy areas, given that politics generally permeates policymaking across issue areas.

Lastly, this thesis was hampered by empirical limitations arising from challenges or difficulties encountered in the field. In particular, there was a reluctance on the part of respondents to provide sensitive information. In instances where respondents did provide sensitive information, many of them chose to remain anonymous. As Chapter 3 has shown, this reflects existing power relations within the three IFC's and in Asian IFC's in general. In other words, there is a general aversion or fear of being 'punished' by the prevailing powers or authorities for revealing information that was not mean for the public domain.

While this thesis has addressed this problem by triangulating interview data with archival and secondary data, there remains a need to improve the information gathering process, particularly when working within the East Asian context. More needs to be done to assure potential interviewees of the anonymity of their responses and the protection of their identities. More fundamentally, there is an overall reluctance on the part of both public and private sector individuals to participate in interviews in the first place, as reflected the high levels of rejection encountered in the process of this research.

This too reflects the prevailing power relations of East Asian IFC's. Unfortunately, little can be done about this. As researchers and scholars, we can only hope that the authorities operating in these jurisdictions will eventually become more open and liberal in terms of informational disclosure and sharing of data with researchers. Nonetheless, researchers can work at assuring the authorities that collection and analysis of data is carried out purely for scholarly and research purposes, and that research projects are not politically motivated. This in turn requires researchers themselves to take an objective and empirically-driven approach to studying politics, even as they remain cognizant of the place which their research and the subjects occupy within the overall socio-political milieu of the subsystem.

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Appendices

Appendix 1 Interview Questions

<u>Introduction</u>

This interview is part of a larger comparative research study on financial regulation across various jurisdictions in East Asia. This is an open-ended, semi-structured expert interview that will allow the respondent to share his/her experiences in financial regulation and reflect on these experiences. Guiding questions will be used to direct the interview, with respondents granted flexibility and candour in their responses.

Respondents are encouraged to be frank and forthcoming with their responses.

<u>General Questions</u>

(1) How long have you been working for your organization?
   a. What are your main duties?
(2) In working for your organization, have you ever interacted with or consulted other organizations on a ***formal*** basis?
   a. If yes, please list these organizations.
   b. What is the frequency of such interaction?
   c. How would you describe your experiences and interactions with these other organizations?
(3) In working for your organization, have you ever interacted with or consulted other organizations on an ***informal*** basis?

a. If yes, please list these organizations.
b. What is the frequency of such interaction?
c. How would you describe your experiences and interactions with these other organizations?

Specific Questions

Financial Regulators

As a financial regulatory, what are the main goals of your regulatory policy/activity?

- Are these goals formally defined by your organization?
    - If not, who defines these goals?
- What difficulties do you face in achieving your goals?
- Do these goals include financial sector development?
- Is financial system stability more important, less important, or equally important as financial market development?
- Do you think financial regulation has any role to play in financial sector development/expansion?

Please describe some of the means or methods used in pursuing these goals.

- How are such means or methods chosen?
- Do you think these means or methods are effective or appropriate for achieving their stated goals?

There have been various instances whereby regulatory reform has been beneficial to your city's development as a financial centre.

- How often is regulatory reform conducted with a view to growing or developing the financial sector?
- Can you recall any specific regulations contributing to growth in a particular financial market, which you or your department has enacted?
- Were the goals of this specific regulation geared towards financial system stability, financial market development, or both?
- How do you view your agency/organization's role in:
    - Maintaining financial system stability (very important/important/neural/not important)
    - Stimulating financial market development (very important/important/neural/not important)
    - Do you think these two goals are complementary?

According to your organization's website, your organization places significant focus on the promotion of your city as an international financial centre

- Can you tell me a little more about the policies/ordinances that have contributed to the promotion of your city as an international financial centre?
- As a regulator, how do you perceive your role in the success of your city's financial sector?

How often do you consult and engage with external actors?

- Who selects these actors?
- What are the criteria used in identifying external actors to consult?

Have any external actors, on their own volition, ever put forward policy ideas or requested consultation with your organization pertaining to policy issues?

- Are there any channels through which such feedback is received?

Do you or your department/organization interact with financial institutions/professionals regularly?

- How often do you do so formally?
- How often do you do so informally?

Do you or your department/organization interact with non-governmental and non-financial sector organizations or individuals?

- How often do you do so formally?
- How often do you do so informally?

In your opinion, what is the role of the private sector in financial regulation?

- Does this role complement your organization?
- Does this role benefit the financial sector (in terms of financial system stability and financial market development)?

Finance-Sector Professionals (Bankers/Insurers/Wealth Managers, etc)

Please describe your relationship or your organization's relationship with your city's financial regulators

- Good/warm/average/cordial/bad
- How often do you or your organization/department interact with financial regulators on a formal basis?
- How often do you or your organization/department interact with financial regulators on an informal basis?

Are you or your organization consulted prior to the enactment of any new rules or regulations by financial regulators?

- How often does this occur?
- Can you describe in greater detail an instance of this?
- Can you describe in greater detail the sort of feedback that you have contributed to such consultations?

What is your view on the impact of financial regulatory policy on your organization's operations and business going concern?

- Have financial regulations been beneficial to your organization's business model and going concern?
- Can you think of a regulation that has proven beneficial (in terms of improving profits) to your organization or department?

- Can you think of a regulation that has proven disadvantageous (in terms of inducing losses or unnecessary costs) to your organization or department?

In your opinion, what is the role of the private sector in financial regulation?

- Does this role benefit your organization's operations and prospects?
- Does this role benefit the financial sector (in terms of financial system stability and financial market development)?

Interested Public (Academics/NGO's, etc)

Please describe your relationship or your organization's relationship with your city's financial regulators

- Good/warm/average/cordial/bad
- How often do you interact with financial regulators on a formal basis?
- How often do you interact with financial regulators on an informal basis?

How often have you served on a consultative or advisory committee involving financial or regulatory policy?

- Can you describe in greater detail any of the policy recommendations or advice that you have provided in your capacity as a consultative/advisory committee member?

- Were all your recommendations taken into serious consideration or enacted as policy?
- Do you feel that you have contributed to financial policy-making in your city?

Please tell me more about how these consultative/advisory committees operate.

- How often does the committee meet?
- Who sets the agenda for these meetings?
- Who leads the discussion at these meetings?

In your opinion, what is the role of the civil/non-state sector in financial regulation?

- Does this role benefit the financial sector (in terms of financial system stability and financial market development)?
- Does this role benefit you or your organization in any way?

Appendix 2: Advisory Committee Membership

The Exchange Fund Advisory Committee[953]	The Banking Advisory Committee[954]	The Deposit-Taking Companies Advisory Committee[955]
Chairman	***Chairman***	***Chairman***
Financial Secretary: The Honourable John TSANG Chun-wah, GBM, JP	Financial Secretary: The Honourable John TSANG Chun-wah, GBM, JP	Financial Secretary: The Honourable John TSANG Chun-wah, GBM, JP
Members	***Members***	***Members***
HKMA: Mr Norman T.L. CHAN, GBS, JP	HKMA: Mr Norman T.L. CHAN, GBS, JP (Ex Officio Member)	HKMA: Mr Norman T.L. CHAN, GBS, JP (Ex Officio Member)
Dr Christopher CHENG Wai-chee, GBS, JP (Chairman, Wing Tai Properties Limited)	Professor the Honourable K C Chan, GBS, JP (Secretary for Financial Services and the Treasury)	Professor the Honourable K C Chan, GBS, JP (Secretary for Financial Services and the Treasury)
Mr HE Guangbei, JP (Vice Chairman and Chief Executive, Bank of China (Hong Kong) Limited)	Mr HE Guangbei, JP (Vice Chairman and Chief Executive, Bank of China (Hong Kong) Limited) *Representing Bank of China (Hong Kong) Limited)*	Mr LEE Huat-oon (Acting Chairman, The DTC Association – The Hong Kong Association of Restricted License Banks and Deposit-taking Companies) *Representing the DTC*

953 Hong Kong Monetary Authority, "The Exchange Fund Advisory Committee."
954 Hong Kong Monetary Authority, "The Banking Advisory Committee."
955 Hong Kong Monetary Authority, "The Deposit-Taking Companies Advisory Committee."

Professor the Honourable Lawrence J. LAU, GBS, JP (Chairman, CIC International (Hong Kong) Co. Ltd.; Ralph and Claire Landau Professor of Economics, The Chinese University of Hong Kong	Mr Benjamin HUNG Pi-cheng, JP (Executive Director and Chief Executive Officer, Standard Chartered Bank (Hong Kong) Limited) *Representing Standard Chartered Bank (Hong Kong) Limited)*	Ms. Connie LAU Yin-hing, JP (Chief Executive, Consumer Council) *Representing the Consumer Council)*
Dr John CHAN Cho-chak, GBS, JP	Ms Anita FUNG Yuen-mei (Group General Manager, Chief Executive Officer Hong Kong, The Hong Kong and Shanghai Banking Corporation Limited) *Representing HSBC*	The Honourable CHAN Kam-lam, SBS, JP (Member, Legislative Council)
Mr Benjamin HUNG Pi-cheng, JP (Executive Director and Chief Executive Officer, Standard Chartered Bank (Hong Kong) Limited)	Mr Carlson Tong, JP (Chairman, Securities and Futures Commission) *Represent SFC*	Mr Frederick CHIN Voon-fat (Chief Executive, Bank of America Securities Asia Limited)
Mr Peter WONG Tung-shun, JP (Chief Executive Asia Pacific, The Hong Kong and Shanghai Banking Corporation Limited)	Dr the Honourable David Li Kwok-po, LLD, GBS, JP (Chairman and Chief Executive, The Bank of East Asia Limited)	Mr LEE Huat-oon (General Manager/Chief Executive, Public Finance Limited)
Mr Lester HUANG, JP (Managing Director,	Mrs Kathryn SHIH (Chief Executive Hong Kong Branch,	Ms Miranda KWOK Pui-fong (Director, China Construction

P.C. Woo & Co.)	UBS AG)	Bank (Asia) Finance Limted)
Ms Teresa KO Yuk-yin, JP (Chairman, China, Freshfields Bruckhaus Deringer)	Mr Weber LO Wai-pak (Chief Executive Officer & Country Business Manager, Citibank (Hong Kong) Limited)	Ms Joan HO Yuk-wai (Partner, Financial Services, KPMG)
Mr PANG Yiu-kai, SBS, JP (Chief Executive, Hong Kong Land Holdings, Limited)		
Mr Carlson TONG, JP		
Dr David WONG Yau-kar, BBS, JP (Managing Director, United Overseas Investments, Ltd.)		
Dr LO Kai-shui, GBS, JP (Chairman and Managing Director, Great Eagle Holdings Limited)		
Professor Stephen Cheung Yan-Leung, BBS, JP (Dean, School of Business and Professor (Chair) of Finance, Hong Kong Baptist University)		
Mrs Angeline Lee Wong Pui-Ling, SBS, JP (Partner, Woo, Kwan, Lee & Lo)		

Mr Phillip Tsai Wing-chung, JP (Partner, Deloitte Touche Tohmatsu)		
Secretary	***Secretary***	***Secretary***
Mr Alan AU (Head, Corporate Development, HKMA)	Ms Jasmin Fung	Ms Jasmin Fung

Appendix 3: BAC Membership

1993[956]	*1994*[957]	*1995*[958]	*1996*[959]	*1997*[960]	*1998*[961]
Chairman	**Chairman**	**Chairman**	**Chairman**	**Chairman**	**Chairman**
The Financial Secretary The Honourable Sir Hamish MACLEOD, KBE, JP	The Financial Secretary The Honourable Sir Hamish MACLEOD, KBE, JP	The Financial Secretary The Honourable Sir Hamish MACLEOD, KBE, JP (until 31/8/95)	The Financial Secretary The Honourable Donald TSANG, JP	The Financial Secretary The Honourable Donald TSANG, JP	The Financial Secretary The Honourable Donald TSANG, JP
		The Financial Secretary			

[956] Hong Kong Monetary Authority, *Annual Report 1993* (Hong Kong: Hong Kong Monetary Authority, 1993), 3.
[957] Hong Kong Monetary Authority, *Annual Report 1994* (Hong Kong: Hong Kong Monetary Authority, 1994), 4.
[958] Hong Kong Monetary Authority, *Annual Report 1995* (Hong Kong: Hong Kong Monetary Authority, 1995), 4.
[959] Hong Kong Monetary Authority, *Annual Report 1996* (Hong Kong: Hong Kong Monetary Authority, 1996).
[960] Hong Kong Monetary Authority, *Annual Report 1997* (Hong Kong: Hong Kong Monetary Authority, 1997).
[961] Hong Kong Monetary Authority, *Annual Report 1998* (Hong Kong: Hong Kong Monetary Authority, 1998).

		The Honourable Donald TSANG, OBE, JP (from 1/9/94)			
Ex-officio Member	**Ex-officio Member**	**Ex-officio Member**	**Ex-officio Member**	**Ex-officio Member**	**Ex-officio Member**
The Monetary Authority Mr Joseph Yam, JP	The Monetary Authority Mr Joseph Yam, JP	The Monetary Authority Mr Joseph Yam, JP	The Monetary Authority Mr Joseph Yam, CBE, JP	The Monetary Authority Mr Joseph Yam, JP	The Monetary Authority Mr Joseph Yam, JP
Members	**Members**	**Members**	**Members**	**Members**	**Members**
Deputy Chief Executive (Banking) Mr D T R CARSE, JP	Deputy Chief Executive (Banking) Mr D T R CARSE, JP	Deputy Chief Executive (Banking) Mr D T R CARSE, JP	Deputy Chief Executive (Banking) Mr David T R CARSE, JP (until 30/11/96)	Mr Christopher LANGLEY, OBE *Representing HSBC Limited*	Mr Christopher LANGLEY, OBE *Representing HSBC Limited*

Mr Paul E SELWAY-SWIFT *Representing HSBC Limited*	Mr Paul E SELWAY-SWIFT *Representing HSBC Limited*	Mr Paul E SELWAY-SWIFT *Representing HSBC Limited*	Mr C P LANGLEY, OBE *Representing HSBC Limited*	Mr LIANG Xiao-ting *Representing the Bank of China*	Mr LIU Jinbao *Representing the Bank of China*
Mr A W NICOLLE, OBE *Representing the Standard Chartered Bank*	Mr A W NICOLLE, OBE (until 15/5/94)	Mr I R WILSON *Representing the Standard Chartered Bank*	Mr LIANG Xiating *Representing Bank of China*	Mr Ian WILSON, CBE, JP *Representing the Standard Chartered Bank* *(until 28/12/1997)*	Mr E Mervyn DAVIES *Representing the Standard Chartered Bank*
Mr ZHOU Zhenxing *Representing the Bank of China*	Mr I R WILSON *Representing the Standard Chartered Bank*	Mr ZHOU Zhenxing (until 31/8/94)	Mr Ian WILSON, JR *Representing the Standard Chartered Bank*	Mr E Mervyn DAVIES *Representing the Standard Chartered Bank* (from 29/12/97)	Mr Nobuo KUCHIKI (until 28/5/98)
Mr Alan KEMP	Mr ZHOU Zhenxing	Mr LIANG Xiaoting	Mr Alexander S K AU, JP	Mr Alexander S K AU, JP	Mr Alain SIMON

	Representing the Bank of China	*Representing the Bank of China* (from 1/9/95)		(until 22.3.98)	(until 6/8/98)
The Honourable David K P LI, OBE, JP	Mr Alexander S K AU, JP	Mr Alexander S K AU, JP	Mr Roderick E D CHALMERS (from 1/12/96)	Mr Masahiko YUMINO (until 27.6.97)	Mr Didier BALME (from 23/9/98)
Mr David John SHAW	Mr Alan KEMP	Mr Alan KEMP	Mr Patrick FUNG (from1/12/96)	Mr Takeshi TANIMURA (from 1.7.98)	Mr Takeshi TANIMURA (from 24.7.98)
Mr Harry WILKINSON	Dr The Honourable David K P LI, OBE, LLD, JP	Dr The Honourable David K P LI, OBE, LLD, JP	Mr James E HULIHAN, JR (from 5/5/96)	Mr David S Y WONG, JP (from 7.4.98)	Mr Roderick CHALMERS
Mr Toshikuni HIRAI (until 9/6/93)	Mr David John SHAW	Mr David John SHAW	Mr Robert George	Mr Roderick CHALMERS	Mr Patrick FUNG

			KOTEWALL (from 1/12/96)		
Mr TC CHO (until 30/11/93)	Mr Takao WADA	Mr Takao WADA	Dr The Honourable David K P LI, OBE, LLD, JP	Mr Patrick FUNG	Mr James E HULIHAN Jr
Mr Peter Andre JOHANSEN (until 30/11/93)	Mr Harry WILKINSON	Mr Harry WILKINSON	Mr Alain Francois SIMON	Mr James E HULIHAN Jr	Mr Robert George KOTEWALL, SC
Mr W H TSANG (until 30/11/93)	Mr John YAN	Mr John YAN	Mr Masahiko YUMINO (from 1/12/96)	Mr Robert George KOTEWALL, SC	Dr The Honourable David K P LI, LLD, JP
Mr Takao WADA (from 14/8/93)	Mr Philip COTTUS	Mr Alain-Francois SIMON (from 6/2/95)	Mr Raymond YUNG (from 1/12/96)	Dr The Honourable David K P LI, LLD, JP	Mr David S Y WONG, JP
Mr Alexander S K			Mr Alan KEMP	Mr Didier	Mr Raymond

AU, JP (from 1/12/93)			(until 30/11/96)	BALME (from1.7.98)	YUNG
Mr Philip COTTUS (from 1/12/93)			Mr David John SHAW (until 30/11/96)	Mr Raymond YUNG	
Mr John YAN (from 1/12/93)			Mr Takao WADA (until 30/11/96)		
			Mr Harry WILKINSON (until 15/3/96)		
			Mr John YAN (until 30/11/96)		
Secretary	**Secretary**	**Secretary**	**Secretary**	**Secretary**	**Secretary**
Mr Eddie POON	Mr Eddie POON (until 10/4/94)	Mr Nelson MAN	Mr Nelson MAN	Mr Nelson MAN (until 15/2/98)	Mr Eddie WAN (until 15/11/98)
	Mr Nelson MAN			Mr Eddie WAN	Mr Peter LI

	(from 11/4/94)			(from 16/2/98)	(from 16/11/98 to 17/1/99)
					Mr Vincent LEE (from 18/1/99)