

China's stock exchanges

Selling out?

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The independent spirit that has inspired Hong Kong is at risk

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HONG KONG saw itself as a bit of a financial pioneer when in 2000 it sold shares in its combined stock exchange and clearing house to the public. Why then, when so many other exchanges have since copied its approach, has it sought to turn the clock back? On September 7th the government announced it had bought back a stake of almost 6% in the exchange. That is now worth more than \$1.5 billion.

That question was allowed to fester for days before John Tsang, the financial secretary, acknowledged on September 12th what had been widely suspected. He said it was a prelude to what he hoped would be closer ties with stock exchanges on the mainland and might eventually lead to share swaps with one or both of the mainland exchanges.

The very idea of such a large payment from the public purse has touched a raw nerve in Hong Kong. It pits the city's trumpeted belief in laissez-faire policies against the reality of government intervention in what should clearly be the most market-oriented aspect of any economy—a financial exchange.

Already, the government held substantial sway over the exchange's fate, including the right to appoint a majority of its directors and to vet shareholdings of more than 5%. The exchange's chairman, Ronald Arculli, is a member of Hong Kong's senior governing institution, the executive council. That not only gives the government a means of directing strategy; in effect, it also provides a veto against any unwanted takeover from overseas.

In recent years, its leaders have vehemently defended the importance of guarding the independence of the Hong Kong Exchanges and Clearing, as the bourse is officially called. After making a brief—and much regretted—foray into the fraught world of exchange consolidation, it has sneered at deals done between Tokyo and New York, and New York and Europe. It has not sought pan-Asian tie-ups either.

On the surface at least, this independent streak has kept it in fine fettle. It has recently overhauled its systems, its share price is at a record high, giving it a value of above 50 times earnings.

Increasingly, however, Hong Kong has depended on mainland Chinese companies to keep the cash pouring in. Last year 90% of funds raised on the exchange were for Chinese companies. Yet this year the Chinese government has blocked mainland companies from listing in Hong Kong or restricted the amount of shares they could sell. Instead, even the largest companies have been persuaded to list in Shanghai and Shenzhen.

AFP



Calling mainland China for orders

Hong Kong's government, especially Mr Tsang, has been lobbying Beijing to reverse this policy. It would not be a stretch to believe that in return, Beijing would like more sway over the Hong Kong market, and that it may have pushed behind the scenes for a share swap.

Such a deal would be easier to pull off between governments rather than with pesky independent shareholders. So buying them out makes sense.

Of course pesky independent shareholders are supposed to be what exchanges and markets are all about. If they, and their opinions, are stifled in favour of a government that likes to determine who can list and where, can a true market remain? And if Beijing is, in effect, determining the shape of Hong Kong exchange's business, why should a Hong Kong exchange exist at all?

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