Globalisation and Guanxi: The Ethos of Hong Kong Finance

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According to classical economic theory, money is significant only in so far as it services the ‘real economy’, the production and exchange of tangible goods and services. From this assumption has emerged two myths: that of money’s rationality and neutrality. New students to economics are taught that, as a mere lubricating agent for real economic activity, money is nothing more than slave to enterprise—‘prices float gently to their natural levels, goods and capital are led magnetically to their most fruitful roles, and material production and human happiness are thereby maximized’. Yet such interpretations divorce money from its veritable other half: finance. While separating the concept of money from finance—the business of allocating money for profit—may make for elegant theory, it certainly does not reflect the realities of the modern global economy. Money is the raw material financiers purposefully use to make their primary product: more money. The two concepts are tightly interwoven. It is misguided to speak of the money-finance complex in neutral terms today, given precedents set by Asian, and subsequently global, contagion and repeated cases of market-making throughout the financial world. Finance, which has come utterly to dwarf real economic activity, is clearly an autonomous, if somewhat irrational, force in the world economy. As one commentator aptly remarked, ‘the stock market isn’t about making sense, it’s about making money’. This pursuit drives financial players to employ every advantage at their disposal—knowledge, information, connections—to maximise profits. These advantages defy the ‘perfect market’ assumptions upon which classical theories of money are based and have deep roots in local business culture.

Despite its dizzying complexity, modern finance is a product of human intelligence and society. Real people, whose professional lives are very much influenced by the social realities and norms which surround them, work on Wall Street, in Tokyo, Frankfurt and Hong Kong. In fact, knowledge-intensive industries like finance—where profits reside in information asymmetries, accurate interpretations and the speed of response—demand that operators be immersed in the regional business culture. Otherwise, it is almost impossible to acquire the trust necessary to tap into local knowledge and contact networks, and thus to survive. In emerging market financial centres with still diverse business cultures, barriers to entry can be even greater for outsiders. Since profit
maximisation hinges upon contacts, information and trust, and these factors are deeply connected to local business culture, it follows that various financial districts will harbour particular traits and tendencies. These traits and tendencies are important, if only for outsiders attempting to navigate what can be opaque, though potentially profitable, business environments. This article is mainly devoted to examining the political economy of an important node in the drive to integrate the vast ‘emerging markets’ with the global financial system: Hong Kong. As a Western-oriented financial centre and access point to mainland China, the territory plays a pivotal position in the advance of economic globalisation. Yet, as the following analysis emphasises, this interplay of forces has forged a distinct financial culture in Hong Kong. The next section lays a framework for understanding the interaction of financial globalisation and regional business culture before moving on to the main task of unearthing Hong Kong’s ethos.

**Intersecting forces: global finance and regional business culture**

Globalisation suggests that the lives of people around the world are interconnected, mutually interdependent and increasingly exposed to one another’s practices irrespective of national boundaries. The multiple dimensions of national life ‘are being loosened from, and lifted out of, their traditional moorings, squeezed together and exposed to each other’s influences’. In short, societies and economies are becoming less self-contained. It would be an exaggeration to claim that the unravelling of segregated ‘internationalism’ and ascent of ‘transnationalism’ foreshadows the death of the nation-state, but it is increasingly clear that national governments no longer hold exclusive rein in the economic realm, nor have they in the past save for the anomalous post-World War II era. The revival of what Robert Cox has called ‘hyper-liberalism’ has seen international-national economic buffer functions transferred, in part, to private market operators and agents. Whether this is a function of deteriorating state capacity in the face of rapid technological and market advance, a radical normative shift in the nerve centres of power or the growing influence of commerce in the considerations of elected officials is a hotly contested issue, but one which is beyond the scope of this piece. For my purposes it is enough to make this assertion: the freedom granted to market actors, be it through a decline in the power resources available to state decision-makers or through ideological reorientation and self-imposed state withdrawal, has contributed to the unraveling of state-centric economic authority. Market operators increasingly work in an environment defined by openness, competition and the retraction of state intervention. Indeed, their collective decisions shape global economic fortunes to an alarming degree.

Over and above issues of democratic accountability, this has significant implications for patterns of contemporary integration. Most obviously, it has added great momentum to the process. Globalisation is, after all, largely driven by market forces—from transnationally integrated production and distribution networks to global marketing campaigns. Nowhere is the spirit of global integration more dominant, however, than in the financial world. Finance is
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today characterised by an unprecedented degree of interconnectedness via information technology and constant monitoring, few formal restraints on the movement of capital, a global market for foreign currency which recycles close to US$1.5 trillion every day, heavily leveraged institutional investors with more involvement in speculative portfolio activities than long-term investment and the integration of underdeveloped emerging markets more completely than ever. Financial systems around the world have undergone sweeping transformations which have had the cumulative effects of globalising, privatising and ultimately adding volatility to the business of capital allocation. These realities were made evident during 1997 and 1998 when Asian contagion spread from the Pacific Rim to Russia and finally to Latin America, transforming what was a regional crisis of confidence into a global one. The precedent set by such profound shifts in investor sentiment solidified the influence of finance, and those who control finance, in international affairs, as well as a trend towards more comprehensive harmonisation in the global economy. As financial officials from Thailand to Mexico can attest, there are severe repercussions to operating outside the logic of ‘international’ standards, particularly with respect to disclosure and transparency. Given the consistency and force with which global capital markets punish those countries deemed ‘irresponsible’, it is difficult to foresee many nations stepping too far out of line with the emerging Anglo-American financial order. Indeed, financial integration and capital mobility act as powerful forces of convergence in the modern world.

Yet this hardly signals the end of capitalist diversity. While powerful incentives exist to emulate Western financial supervision and practices, it would be presumptuous to argue that the pressures of financial globalisation are absolute or that traditional foundations are simply crushed beneath the weight of these transnational forces. While the demands of the global financial elite increasingly resonate the world over, distinct political, economic and cultural foundations continue to filter these pressures in unique ways. An obvious and useful example—given the centrality of Hong Kong to the present argument—can be found in the practices of the ethnic Chinese of Southeast Asia. In recent years, many authors have examined the distinct ethos of the region’s increasingly powerful Chinese businessmen, emphasising their ‘Confucian’ character and Chinese capitalism’s status as the dominant mode of business in Southeast Asia. Indeed, ethnic Chinese and the web of social networks that has spread outward with the diaspora are at the centre of the region’s economic gravity and have been for centuries. This mode of capitalism hinges upon a basic principle: guanxi, an informal, yet highly compelling and closely knit, system of reciprocity built upon familial and sub-ethnic connections. A configuration of secretive cross-border relationships—often referred to as the ‘bamboo network’—connect businessmen from specific Chinese clans throughout Southeast Asia and Greater China, and are conducive to the non-contractual trust that has come to define business ventures in the region. Such networks are very much in accord with the Chinese tradition. They allow for flexible and efficient transmission of information, finance, goods and capital in what are often informal agreements and
transactions. Confidence and trust replace contracts as major
guarantees that commitments will be met satisfactorily. In a
region where capital markets are rudimentary, financial disclosure
is limited, and contract law very weak, interpersonal networks are
critical to moving economic resources across borders.  

In short, the historic uncertainties of economic activity in the region, particularly
the harsh realities of minority status in Southeast Asia and the related necessity
of ethnic solidarity, as well as Confucian cultural characteristics, have coalesced
into a distinct regional business culture that fundamentally challenges many
liberal economic principles.

Yet this is not to suggest the isolated existence of two static spheres—the
global and regional—in perpetual opposition to one another, one pressuring for
conformity, the other reasserting diversity. In a world defined by greater levels
of integration, or transnational contact, the forces of financial globalisation and
regional business cultures interact and redefine one another. For instance,
Chinese capitalism has very much been influenced by, and continues to be
responsive to, the pressures of globalisation. A revealing indication of this
influence has been the progressive internationalisation of ethnic Chinese firms in
the region. Agribusiness conglomerate Charoen Pokphand of Thailand, for
instance, has significantly diversified its operations since 1980, mainly through
*guanxi* ‘friendships’ in China, and now has ventures in 26 of China’s 30
provinces and assets estimated to be in excess of US$1.3 billion. Hong Leong,
Singapore’s premier hotel/property developer and financial house, has also been
quite active internationally. Its holdings grew from six hotels centred in Singa-
pore in 1989 to 62 spread across 13 countries in 1997, making the group the
eighth largest hotel empire in the world. In countless other instances, the
opportunities and threats presented by changing global economic circumstances
prompted adaptations in firm strategy. Chinese–Western joint venture part-
nerships, evolving management structures and public offerings on international
stock markets all respond to the realities of globalisation. These re-workings,
have employed the cultural assets—mainly knowledge and connec-
tions—of the diaspora. *Guanxi* constitutes an advantage, rather than a handicap,
for ethnic Chinese firms as they adapt to the new global economic terrain.
Likewise, Chinese capitalism has influenced the trajectory of globalisation by
throwing into question the benefits of unfettered financial liberalisation in the
aftermath of Asian contagion.

This dialectical interaction suggests the existence of channels which link
global and regional economies. Two prominent channels can be identified in
Southeast Asia: first, transnational corporation (TNC) production chains, includ-
ing joint venture partnerships, that link the activities of ethnic Chinese firms with
those of Western and Japanese TNCs; and, second, regional financial centres,
housing global financial firms and providing ethnic Chinese businessmen with
access to global capital markets. This article focuses upon the latter channel:
specifically, the status of financial centres as conduits through which economic
societies are ‘squeezed together and exposed to one another’s influences’,
particularly centres that service emerging markets with limited integration and
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still diverse regional business cultures. By acting as key connections between global financial houses and emerging markets as well as a crucial link between regional firms and global capital markets, regional financial centres play an extremely important coordinating function in the global economy. Yet this position, shaped by both global financial currents dominated by Anglo-American norms and distinct regional political economies often grounded in ‘non-Western’ economic logic, is a precarious one. Successful regional financial centres must mirror global standards, while simultaneously providing unique social access to emerging markets, offering—a unique niche, but doing so within the rules and norms of Wall Street or the City of London. Hong Kong, for instance, must be Chinese, but not too Chinese. This balancing act reproduces itself in various financial centres and has contributed to distinct hybrid financial cultures globally. As a crucial point of intersection between the economies of the Far East and the West—fusing the features of British democracy and law with the spirit of Chinese capitalism—Hong Kong presents a rich ground on which to explore this phenomenon.

At once a world-class financial centre, gateway to one of the world’s most dynamic emerging markets and a pivot for the flow of transnational funds in Southeast Asia, Hong Kong has acquired a prominent position in the region. Of the world’s top 100 banks, no fewer than 85 were present in Hong Kong at the end of 1995. During this time, Hong Kong was surpassed only by the City of London as a location for foreign banking and financial intermediaries and also had the highest concentration of Japanese banks outside Tokyo. While this number dropped to 79 of the world’s one hundred largest overseas banks in 1998, 19 of the top 20 institutions continue to base their regional operations in Hong Kong. Representation of the world’s most powerful financial institutions, as well as the international status of Hong Kong’s foreign currency, derivative and equity markets, suggest the importance of Hong Kong in the global financial community and its centrality in the region. As one analyst suggests, ‘you have to be there. It’s where the competition is and where the clients are’. Yet questions remain as to why global financial houses must have a presence in Hong Kong. What specific characteristics have made a former Crown Colony, now Special Administrative Region (HKSAR) of China, such a crucial centre? Two features account for this prominence. First, the extent to which Hong Kong provides a competitive—indeed a ‘Western’—financial atmosphere conducive to the interests and demands of global financial firms is clearly important. The city provides a familiar and stable investment climate for non-Chinese investors governed by the rule of law, sound economic principles in accordance with today’s neoliberal tenor, as well as a sophisticated and English-speaking financial services sector. Second, and of equal significance, however, is Hong Kong’s status as a bridge to China and a centre of ethnic Chinese capital. As a consequence of this position, Hong Kong has remained very deeply embedded in ethnic Chinese capitalism, as explained above. These two traits have contributed to the ethos of Hong Kong’s financial services industry and influence the way that the power of finance is exercised in the region.
Financial bastion of the West in the Far East

Prior to Hong Kong’s reversion to China, the city-state was depicted as a realisation, and one of the last bastions, of *laissez-faire*. As Milton Friedman argued, ‘to see how the free market really works, Hong Kong is the place to go’. In an era defined by protectionism in the developing world, Hong Kong adopted a policy of non-intervention and allowed the market to function without restrictions. The result has been spectacular economic growth over the past 30 years and a productive shift from low-wage manufacturing to technology and information-intensive service sectors with living standards and a per capita income on a par with the industrialised world. While the unique demands of the American market and military in the 1950s and 1960s certainly acted as catalysts for this expansion, competitiveness hinged upon a level of convergence with Western free market standards. Hong Kong has consistently provided an environment conducive to the demands of Western investors, a disposition that does not appear to be in jeopardy now that Hong Kong has returned to China’s sphere of authority as a Special Administrative Region. Convergence has been a driving force behind the ascent of the HKSAR’s financial sector; it is in the interests of Chinese development to maintain Hong Kong’s status as a world-class financial centre and thus to support this convergent trend.

As mentioned above, a successful financial industry hinges upon a centre’s social, economic, political and technological endowments. If a financial centre fails to provide services that are available in other cities, it will inevitably lose business and the benefits major financial operations hold for local supporting industries. These competitive pressures and the mobility of capital have ensured a degree of homogeneity worldwide with respect to regulatory environment and the context of financial activity. Hong Kong authorities are certainly aware of the pressures of competition, particularly those emanating from Singapore and increasingly Shanghai. For instance, Hong Kong lost the lucrative Asia-dollar market to Singapore when it failed to match the incentives offered to financial operators by the proactive Singaporean government. Such harsh lessons have predisposed Hong Kong towards a convergent posture—most of Hong Kong’s market operators and certainly its regulators aspire to the type of financial environment prevalent in Wall Street or the City of London. Two convergent trends have solidified Hong Kong’s reputation as a Western-style financial centre in the Far East: first, its adherence to liberal political-economic principles and, second, its internationally competitive financial services sector.

*Hong Kong’s political-economic fundamentals*

One could begin by gathering a number of elements under the umbrella of political-legalistic features conducive to investor confidence. These would include Hong Kong’s traditional enforcement of the rule of law, protection of property rights, national treatment of foreign firms and generally its political stability—financial centre cannot survive without these elements. The British administration provided Hong Kong with an institutional framework, ensuring judicial independence, individual freedoms and other human rights, the rule of
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law and the protection of property rights from the arbitrary actions of government. The return of Hong Kong to China has certainly raised questions over the long-term efficacy of this framework. However, Article 3(vii) of the 1984 Joint Declaration of the United Kingdom and the People’s Republic of China states that, after 1997, Hong Kong ‘will retain the status of an international financial centre, and its markets for foreign exchange, gold, securities and futures will continue. There will be free flow of capital. The Hong Kong dollar will continue to circulate and remain freely convertible.’ Article 109 of the 1990 Basic Law also specifies that the ‘Government of the (HKSAR) shall provide an appropriate economic and legal environment for the maintenance of Hong Kong as an international financial centre’. Some question the faithfulness of China’s ‘concession’, while others fear the export of corruption from the mainland, given Chinese aversion to Western-style legalism. Yet it seems to be in the vested interests of Chinese development to maintain the stability of Hong Kong as a financial platform and access point to global capital markets and thus to respect the Basic Law. The ‘one country, two systems’ approach suggests that Hong Kong’s tradition of national treatment to foreign financial institutions will continue, at least in a formal sense, despite integration with perhaps the world’s most opaque political-legal system.

Hong Kong’s liberal economic base also strengthens its position as the ‘Wall Street of South China’. As emphasised above, Hong Kong’s success has been contingent upon free enterprise. Apart from prudential supervision, the government does not attempt to interfere in the financial process unless there is a patent case of market failure or, as recent events attest, a deep financial crisis. There are no capital controls or any restrictions on banks or other financial intermediaries with respect to their foreign exchange activities. Thus, in one of the most free of world markets, financial firms enjoy total flexibility in the movement of capital and the repatriation of profits. This hands-off stance and ideological devotion to market efficiency has also ensured fiscal responsibility—though 1998 and 1999 saw the HKSAR run deficits—in addition to flexible wages and prices, which all reinforce investor confidence. A healthy current account also contributes to Hong Kong’s sound investment climate. While its trade deficit with the rest of the world rose to US$11 billion in 1999, Hong Kong ran a services surplus of US$14.5 billion, suggesting a competitive business environment. Finally, the stability of the Hong Kong dollar is maintained through a currency board, the only one left standing in East Asia. The Hong Kong Monetary Authority (HKMA)—HKSAR’s de facto central bank—is committed to converting Hong Kong dollars on demand at the fixed exchange-rate of HK$7.8 per American dollar and, generally, to maintaining the integrity and stability of Hong Kong’s financial system. With US$89.6 billion in reserves, the HKMA can undoubtedly maintain the exchange-rate peg and has battled speculative pressures since 1997, raising interest rates as high as 300 per cent. The confidence that such predictability inspires among global investors has taken priority over the economic downturn that high interest rates encourage. These political-economic foundations—liberalism, the rule of law, openness, fiscal responsibility and sound currency—converge with ‘international standards’ and
have been paramount in establishing confidence in Hong Kong as a financial centre.

**Hong Kong’s financial services industry**

The high calibre and Western orientation of Hong Kong’s financial industry—including its regulatory system and infrastructure, technological capacity and tax structure, as well as English-speaking workforce—has also contributed to its regional affluence. In terms of financial regulation, HKSAR aspires to world standards and has adopted Western practices. Since the banking crises of the 1980s, Hong Kong authorities have overhauled the system of prudential supervision in order to conform to the standards established by the Bank of International Settlements. Hong Kong met the Basle Accord’s capital adequacy requirements by 1989, three years ahead of the deadline, and has also made significant strides with respect to transparency. As Hong Kong Stock Exchange Chairman Alec Tsui explained:

> Disclosure is key. We have always encouraged full disclosure, and our rules are of international standards. Recently, we stated that if a company has pledged its shares to a bank as part of a debt workout, then it is obliged to tell us. We also have a lot of rules about cross-ownership of companies because this is a common practice among family-controlled companies in Hong Kong.²⁰

Hong Kong’s banks are also well regulated and capitalised. A recent survey by the *Political and Economic Risk Consultancy* of more than 400 Asian businessmen placed Hong Kong’s banking system as the best in East Asia in terms of transparency, openness to foreign competition, international practices and lack of bureaucracy.²¹ The Securities and Futures Commission (SFC), a body responsible for regulating and formulating rules for the securities industry, has also introduced a new regulatory framework designed to incorporate US and UK disclosure and transparency measures. In the aftermath of financial contagion, Hong Kong has come under greater pressure to monitor investors more stringently, particularly in the areas of short-selling and insider information. Given plans to merge the Hong Kong Stock Exchange with the Hong Kong Futures Exchange so as to provide traders and issuers with a larger market, transparency will continue to be a major issue and should ultimately induce further disclosure regulations.

Indeed, the merger will leave Hong Kong’s equity markets, already some of the most sophisticated in East Asia, more similar to exchanges in North America and Europe. Under the segregated structure, exchange members were effectively owners, which allowed a large number of small brokers to exercise disproportionate power: a power allegedly used to stifle forward-looking, competition-oriented proposals. The proposed merger allows small brokers to trade on the exchange, but will strip them of their veto powers. Once listed, the government plans to establish an independent body to regulate the exchange. According to Rafael Hui, secretary for financial services, the new regulatory body ‘will be restricted to the single mission of regulating the new combined exchanges and
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clearing houses'. Changes in Hong Kong’s financial regulation thus suggest a movement towards greater convergence with Western standards in the future. The HKSAR’s financial infrastructure and technological capacity are also state-of-the-art, matching—and in many instances surpassing—Western standards. The amalgamated exchange will operate using a new 24-hour automated system that will directly match orders placed by buyers and sellers at their chosen price and can accommodate orders placed over the internet. A real-time gross settlement system for banking transactions has been in place since December 1996, facilitating the HKMA's regulatory duties. Hong Kong also benefits from a sophisticated telecommunications system and world-class transportation facilities; despite early problems, Chap Lap Kok Airport is among the most sophisticated in the world. The simplicity of Hong Kong’s tax structure, especially its adherence to the ‘source principle’ under which only income arising in or derived from domestic transactions is subject to taxation, as well as its highly educated and English-speaking population, are also attractive to foreign firms.

Hong Kong is also a centre for financial information with prominent publications like Asia Money and the Far Eastern Economic Review, as well as a plethora of symposiums and institutes, all providing regional financial insight. For these reasons—convergence in political-legalistic framework, economic structure and financial business environment—Hong Kong is considered ‘the Wall Street of China’: a bastion of Western financial practices in the Far East. In Southeast Asia, it is the place where the financial opportunities are found and packaged, the deals are done and the financing put in place. Nonetheless, Hong Kong’s prominence is highly contingent upon a second factor: its proximity to, and integration with, the China markets.

Bridge to South China and financial epicentre of the ethnic Chinese abroad

According to the conclusions of the preceding section, we should expect Hong Kong—and, for that matter, any city which aspires to become a major player in global finance—increasingly to imitate, and become functionally similar to, Wall Street or the City of London. In a world characterised by capital mobility, each centre must fight to retain its market share. Such worldwide competition logically undermines diversity. Certainly, the HKSAR has converged with Western standards legally, economically, technologically and in terms of formal financial practice. While these developments are fundamental, the attractiveness of Hong Kong cannot be reduced to its comfortable or familiar financial atmosphere. This is a necessary, but not a sufficient, condition. Hong Kong is also the gateway to China and the financial epicentre of Southeast Asia’s ethnic Chinese. These endowments have played an extremely important role in establishing Hong Kong’s global financial stature, capturing the imaginations of Western investors and ensuring the primacy of a Hong Kong presence.

Financial bridge to South China

Since the Opium Wars, cities along the coast of China have acted as primary nodes in east–west interaction. To access the markets of the mainland, European
trading firms were forced to employ wealthy Chinese merchants who could negotiate the political economic complexity of China through extended kinship, or *guanxi*, networks.\(^{25}\) Finance capital was effectively filtered through merchant intermediaries who had the knowledge and capabilities necessary to employ capital effectively in China. These merchants came to coordinate regional commerce, accumulating capital and posing serious competition to foreign trading firms. However, these cities continued to represent important points of coordination where Western capital and Chinese networks formed a loose partnership. Today, Hong Kong remains a centre of coordination in Greater China, where powerful financial intermediaries from around the world congregate with the aim of tapping the mainland market. Major decisions and negotiations concerning investment in the region are made in the HKSAR.

A revealing indicator of Hong Kong’s pivotal role is its disproportionate share of China’s foreign investment. In 1989, Hong Kong’s share of China’s US$6.3 billion inflow of foreign investment—including foreign investment and commercial credits—was US$3.6 billion, or roughly 58 per cent.\(^{26}\) This proportion, as well as the level of interaction between Hong Kong and the mainland, has continued to increase. For instance, the claims of HSKAR banks *vis-à-vis* Chinese institutions rose from HK$29.2 billion in 1991 to HK$67 billion in 1997. The liabilities of HKSAR banks to Chinese banking and financial institutions rose during the same period from HK$79.7 billion to HK$131.3 billion.\(^{27}\) A significant portion of this investment actually flows between Chinese-owned or Chinese-controlled banks based in Hong Kong and their parent firms in China. The number of Chinese institutions in Hong Kong is also indicative of the HKSAR’s status as financial bridge to the mainland. At the end of 1996, China had 35 banking institutions operating in Hong Kong with equity interests in at least four other Hong Kong incorporated banks. By contrast, only 13 Hong Kong banks—six of which were actually Chinese banks incorporated in Hong Kong—had branches on the mainland at the end of 1995.\(^{28}\) This one-sided representation implies that Hong Kong remains the premier international financial centre in Greater China.

A basic reason for this predominance is the fact that Chinese banks can undertake activities that would otherwise be forbidden or unavailable inside China. Given the presence of the world’s largest banking and financial institutions and prominent Chinese financial institutions, Hong Kong has become a leading syndication centre in East Asia. Together, large overseas banks and Chinese banks have arranged substantial financing for mainland projects. The HKSAR also raises capital for China through the issue of shares on its stock exchange. Chinese state-owned enterprises, or H-shares, had raised more than HK$20 billion (US$3.6 billion) on the Hong Kong stock exchange, while 64 ‘Red Chips’, Hong Kong-listed companies whose assets and business interests are in China, were available by 1997. The total value of Chinese enterprises listed on the eve of the handover was HK$512 billion (approximately US$66 billion), or 13 per cent of total market capitalisation of the Hong Kong stock market.\(^{29}\) Furthermore, hundreds of transnational and mainland corporations have regional offices or subsidiaries in Hong Kong; interaction between these firms has facilitated extensive project finance packages and joint ventures to fund
mainland activities. Finally, extensive cooperation and consultation between the People’s Bank of China and the Hong Kong Monetary Authority have upgraded China’s investment climate and accelerated the integration of Hong Kong’s financial markets with China’s industrial base. Thus, in many respects, the HKSAR has become a major banking and financial centre for, and the international gateway to, the mainland.

Financial epicentre of the ethnic Chinese abroad

Hong Kong is also an epicentre of ethnic Chinese capital. Despite their minority status in Southeast Asia, the Chinese command considerable economic might. The 500 largest listed overseas Chinese firms control over US$500 billion in assets today and the linked global network of Chinese entrepreneurs controls liquidity in excess of US$2 trillion. Such wealth is both a cause and a consequence of the remarkable economic miracles achieved by many Southeast Asian countries. Chinese enterprises were initially small and funded by informal capital markets where financial resources were transferred without the intervention of commercial banks, professional venture capital companies or government investment agencies. It was through merchant associations or huiguan and family ‘gold shops’ scattered throughout Southeast Asia that capital was pooled, coordinated and transferred within extended kinship systems. Trust, rather than formal contract, was the linchpin of this system. While Chinese corporations have matured from small trading and manufacturing firms into cash-rich diversified enterprises, whose acquisitions and patterns of investment are increasingly transnational, they retain some of their traditional guanxi-based orientations.

Hong Kong has long been a safe haven for the ethnic Chinese abroad. However, increasingly aggressive transnational investment strategies—particularly recent acquisitions in China—have accelerated the recycling of Chinese controlled financial assets in Asia and have thus heightened the significance of ethnic Chinese financial centres. Hong Kong is now a coordinating centre for, and platform from which, Chinese entrepreneurs and financiers spearhead their regional and global strategies. These businesses are attracted to the HKSAR for reasons similar to their Western counterparts: a laissez-faire environment, respect for the rule of law, relatively low levels of corruption, fiscal and monetary stability and an atmosphere where wealth creation is not looked upon with suspicion by indigenous governments. But Hong Kong also provides an environment where Chinese entrepreneurs and financiers ‘can congregate, network, plan, coordinate and execute their regional and global business strategies’. A concentration of overseas and mainland enterprises provides an important arena for ethnic Chinese entrepreneurs to exchange market information, build guanxi, negotiate joint ventures and forge strategic alliances.

In an era of globalisation and expanding ethnic Chinese wealth, many Chinese have acquired or opened Hong Kong-based investment banks, which continue to embody some of the traditional Chinese funding principles. The decision to base operations from Hong Kong has been influenced by the two factors mentioned above: advantageous regulatory climate and cultural atmosphere conducive to
business relationships. Most Southeast Asian nations have in the past constructed restrictive financial environments, which has made Hong Kong an appealing alternative. For instance, when Taiwanese businessman Jeffrey Koo Lien-sung wanted to establish an ethnic Chinese, Asia-wide investment wing of Chinatrust, he chose Hong Kong as headquarters. In fact, five major Taiwanese banks—ICBC, Chinatrust, Chang Hwa, Chuo Trust and Banking, and Bank of Taiwan—opened branches just prior to the transfer of sovereignty. Given substantial Taiwanese investment in mainland China—officially US$10 billion, but reportedly as high as US$20 billion—and strict Taiwanese restrictions on banking operations in China, Hong Kong became the only logical location from which to base the new investment bank, KG Investments.

However, aside from these evasion priorities, the social infrastructure of Hong Kong’s ethnic Chinese financial community also made the HKSAR an important destination for KG. This, after all, was an ethnic Chinese initiative that aimed at creating an exclusively Asian regional financial group. It was thus built upon the Koo family’s wealth and its connections with powerful Chinese businessmen throughout Southeast Asia and mainland China. Two major players in the financial group—Salim and China International Trust & Investment Corporation (CITIC)—reveal the centrality of connections in ethnic Chinese finance and Hong Kong’s status as an arena for forging and strengthening these relationships. The Salim Group of Indonesia is represented by its holding company First Pacific International Ltd. in Hong Kong which, with market capitalisation of US$1.2 billion, is among the top 35 listed companies in the HKSAR and operates in more than 25 countries in Asia, North America and Europe. Marketing, distribution, manufacturing, telecommunications, property and banking operations in Hong Kong and around the world render the contributions of First Pacific much greater than start-up capital—it allows the KG group access to Salim’s powerful Southeast Asian and global business networks.

CITIC provides similar access to mainland China. Close relationships between Koo and Wang Jun, chairman of CITIC—China’s premier state-run financial consortium and Red Chip—and Larry Yung, head of CITIC’s Hong Kong subsidiary, ensured that CITIC would take a stake in KG Investments and that Wang would sit on the board. Although the stake was rather small—about US$5 million of the US$100 million original pool of capital—the intangible benefits of the relationship were significant. CITIC has equity in many of Hong Kong’s most important companies, ranging from Cathay Pacific to Hongkong Telecommunications, and unparalleled financial contacts with mainland Chinese firms. The inclusion of CITIC ensured that KG could draw on the vast funds of the state-run holding company, that it had access to CITIC’s knowledge with respect to the emerging mainland market and that the investment bank would be able to apply for a license for corporate financing in China. From this brief overview of the emergence of an ethnic Chinese regional investment bank, the importance of Hong Kong as a centre for negotiation and network building among powerful Chinese financial interests is clear. Hong Kong is the place where consortia are constructed and where the decisions that shape regional investment patterns are made. In sum, the infrastructure—regulatory, technological and social—necessary for Southeast Asia’s globalisation strategies exists in Hong Kong.
Globalisation and Guanxi

A distinct financial culture? Hong Kong’s synthesis of east and west

As a gateway to China’s emerging markets and financial epicentre of the ethnic Chinese abroad, Hong Kong has emerged as an important financial centre. Major global financial institutions have expanded into the HKSAR, attracted by both a familiar or ‘Western’ investment climate—shaped by the competitive dynamics of convergence—in addition to profitable financial opportunities. The greatest opportunities are realisable in the Chinese and Southeast Asian markets and are available mainly through joint ventures with ethnic Chinese players. Hong Kong is thus a functional hybrid where the institutions, technologies and norms of global finance are interwoven with guanxi, extensive kinship networks and secretive, family-based financial management structures. These endowments, unique to the HKSAR, have played an extremely important role in enhancing the territory’s global financial stature, but have also influenced the overarching context within which finance is practised. Hugh Baker has accordingly described ‘Hong Kong man’ as a

unique social animal … neither British nor Chinese … quick thinking, flexible, tough for survival, excitement craving, sophisticated in material tastes and self-made in a strenuous world. He operate(s) in the context of a most uncertain future, control over which was in the hands of others and for this as well as historical reasons he live(s) in the short-term.  

In a similar vein, Hong Kong market players are unique financial animals, using the most sophisticated tools and strategies of global finance, yet also tapping into traditional ethnic Chinese networks and adhering to social norms: in short, neither Western nor Chinese, but rather a synthesis of both. It is in this sense that Hong Kong is considered a distinct financial culture. This distinct culture is particularly observable in two recent financial developments: the Red Chip phenomenon and the practices of Peregrine Investment Holdings.

Red Chips: financial link to mainland Chinese assets

Hong Kong’s Red Chip phenomenon, which reached fever pitch in 1996 and 1997, says much about the way Hong Kong’s financial houses operate and the centre’s status as a hybrid between global financial mechanisms and culturally oriented business strategies. Red Chips are companies that are incorporated, listed and raise finance in Hong Kong, but are owned by mainland Chinese authorities. Parent companies are usually government ministries or municipalities. Prominent Red Chips include CITIC Pacific, Guangdong International Trust and Investment Corporation (GITIC), Beijing Enterprises, China Overseas Land, China Everbright and Shanghai Industrial. These holding companies operate under the regulatory laws of Hong Kong with significant autonomy, but are ultimately responsible to, and dependent upon, their parent companies on the mainland. In this sense, the emerging markets of China are brought into direct contact with the global financial system, with Hong Kong playing a crucial intermediary role. As one writer suggests, ‘while cross-border investment is an
old story, Red Chips represent another paradoxical dimension: the arrival of secretive Chinese institutions on the West’s capital escalator.\textsuperscript{38}

Investors were extremely bullish with respect to Red Chips in the run-up to Hong Kong’s 1997 reversion to China, which led to a surge in the Hong Kong stock exchange’s trade volume and in Red Chip prices. On 20 June 1997, a record HK$26 billion was traded, surpassing April’s average by HK$20 billion. This run was driven largely by Red Chip activity, which obviously pushed the market value of the Red Chips up as well. For instance, China Merchant International—which answers to the Chinese Ministry of Communications—began 1997 with a share price of HK$3.17. By mid June it was pushed to HK$19.35.\textsuperscript{39} When it was first listed in 1996, Shanghai Industrial Holdings—owned substantially by the Shanghai municipal government—had a share price of HK$7.28 and market capitalisation of only HK$1 billion. By May 1997, its share price had risen to HK$35 and market capitalisation had reached HK$38.7 billion, making it one of Hong Kong’s largest companies.\textsuperscript{40} Such dramatic upswings and rapid capital transfer can only be attributed to a herd-like mania. One investor interviewed by \textit{Euromoney} admitted to buying a Red Chip of which he knew nothing, save its stock number. Notwithstanding the short-term incentives of following market momentum, there was initially sound speculative reasoning behind the Red Chip boom.

The tremendous potential of the Chinese market was at the centre of this logic. Since reaching double-digit growth rates in the early 1990s, investors have considered exposure to the emerging Chinese market of paramount importance. When Red Chip stocks were listed en masse in the mid 1990s, Western investors saw an opportunity to buy into companies that could acquire valuable mainland assets from parent companies cheaply and improve those assets through injection of capital and management expertise.\textsuperscript{41} Western investors could then expect high profits while gaining access to the vast China markets. The value of the Red Chips was thus contingent upon potential ‘asset injections’ from parent government corporations which controlled a vast array of mainland companies in various industries. This, in turn, depended upon well-connected mainland firms listed in Hong Kong using \textit{guanxi} relationships. The advantages of solid political ties with mainland China thus fuelled the speculative frenzy as well. Yet obvious questions surfaced: how could these relationships be valued? Given the plethora of various assets under the control of mainland authorities, how could companies listed on Hong Kong’s stock exchange disclose which assets would be injected? Investors were forced to take it on faith that Red Chips would deliver access to profitable assets on the mainland.

With access to China at stake, financiers were initially more than willing to take this risk. Demand pushed share prices higher, making it easier for Red Chip companies to acquire assets, which swelled their balance sheets even further and, in turn, attracted more investor interest.\textsuperscript{42} While some of the more reputable Red Chips transformed political connections into valuable asset injections, many others acquired poor quality assets and reinvested their share revenue in speculative real estate and stock market ventures. On the side of sound management, directors like Michael Ng of China International Travel (CIT) negotiated favourable asset injections with parent companies. For instance, Ng’s
purchase of the Metropole Hotel in Hong Kong at a 45 per cent discount rate from the State Council revealed a strategy consistent with CIT’s specialisation in travel and entertainment services, generated growth synergies and thus warranted investor confidence. However, many other Red Chips were mere holding companies with perceived connections, no coherent strategy and very little in the way of attractive asset injections. These newly issued shares were driven up strictly through investor expectations, based on the precedent set by politically important Red Chips like CITIC. As a consequence of multiple Red Chip failures, most investors have become increasingly sceptical of the China plays. Indeed, the demise of well-connected parent companies like GITIC and China Everbright Holdings has significantly tainted the attractiveness of Red Chips in recent years.43

Of significance to my broader argument, however, is the tight intermeshing of global financial norms and ethnic Chinese business practices that the Red Chip phenomenon constitutes. The demand of investors and the supply of shares determined the market for Red Chip shares. Hong Kong’s investment banks—subsidiaries of the world’s largest financial institutions—clamoured to make placements for Hong Kong-listed Chinese companies. Such corporate listings take place in stock exchanges around the world, yet these placements were unique in that they provided access to China—encompassing all the possibilities of the vast emerging market—and their value resided in social capital particular to ethnic Chinese business culture. Investors were, in effect, betting that particular Red Chips had the ‘collusive’ political connections necessary to traverse the opaque Chinese investment climate. The Red Chip phenomenon was thus a product of Hong Kong’s sophisticated and competitive global financial environment and the ethnic Chinese articulation of networked capitalism that runs through the centre. Indeed, many financial analysts recognise the ‘sinification’ of Hong Kong’s financial atmosphere: ‘the red chips have changed the face of the Hong Kong market pretty drastically… Part of the (market) has taken on the characteristics of an emerging market once again’. Those characteristics—an obsession with asset values rather than earnings, a tendency towards opacity rather than transparency and, most of all, volatility—contrast sharply with the developed market characteristics retained by much of the Hong Kong Stock Exchange.44

**Peregrine Investment holdings: the Chinese characteristics of a Hong Kong investment bank**

The practices of the Hong Kong investment group Peregrine, headed by British expatriate Philip Tose and Hong Kong financier Francis Leung, also reveal the degree to which Hong Kong’s financial environment constitutes an intermeshing of global mechanisms and ethnic Chinese business norms. Peregrine was founded in 1988. By the mid 1990s, the group had emerged as the largest homegrown Southeast Asian investment bank and had risen to a position of prominence in Hong Kong’s financial scene. Through a series of corporate manoeuvres and acquisitions, Peregrine transformed a capital base of US$38 million in late 1988 into US$5 billion in assets and offices in 16 countries at its
peak.45 Between 1991 and 1995 the firm produced 160 per cent annual compound growth in turnover.46 This ascent was intimately connected to Peregrine’s Chinese financial management style—its high risk deals, centralised decision-making structure and reliance upon personal, in some instances political, connections were all reminiscent of traditional ethnic Chinese business strategies. Yet, in the realm of finance, connections and quick decisions are of heightened importance, given the speed needed to capitalise on information. Peregrine certainly made the most of its network opportunities in the early to mid 1990s.

Among Hong Kong’s major investment institutions, Peregrine was the first to recognise the subtle shift of power in Hong Kong from the old British hongs to the emerging Chinese. Key relationships fostered in these early stages with major ethnic Chinese financial power brokers—Li Ka-shing, Larry Yung of CITIC Pacific, Malaysian tycoon Robert Kwok—ensured that Hong Kong’s most important corporate-finance deals would pass through Peregrine’s hands. Indeed, Li, CITIC and Kwok all held shares in Peregrine in the early stages. A unique trust between co-founder Philip Tose and Li—Hong Kong’s most powerful tycoon—was crucial, allowing Peregrine to access Li’s extensive network of friends and protégés. As a result of this expanding web of commercial contacts, Peregrine was consistently at the centre of major equity placements and underwriting for overseas Chinese corporations, as well as constituting a key player in Red Chip deals. For instance, when CITIC decided to buy a stake in Hongkong Telecom in 1993, it called Morgan Stanley for consultation. When the chairman of Morgan Stanley Asia, Jack Wadsworth, met with Larry Yung at CITIC, Philip Tose was already present: ‘I asked Yung what Tose was doing there’, recalls Wadsworth. He simply said, ‘I have a stake in Peregrine’. Thus ended Morgan Stanley’s hopes for an exclusive role in the deal.47

Such powerful connections ensured Peregrine’s supremacy with respect to market knowledge in Hong Kong. A 1996 share placement deal with Cheung Kong—the holding company of Li Ka-shing’s empire—is indicative of Peregrine’s Chinese style and its affluent position in Hong Kong’s financial community. Initially, Cheng Kong offered Morgan Stanley the placement, but gave the American firm only 20 minutes to evaluate the plan. It declined. Yet, without hesitation, Peregrine stepped in to assume the risk and lead-manage the $US679 million deal. Within two weeks of this placement, Peregrine made a $US419 million issue for CITIC Pacific and US$466 million issue for Hongkong Telecom. Connections, very quick responses via a centralised decision-making structure and a stomach for risk allowed the investment bank to broker these deals.48 Peregrine’s second co-founder, Francis Leung, was also an innovator and leading player in the Red Chip market. Of approximately US$8.2 billion raised between 1994 and 1997 through Red Chip listings, Peregrine was lead-manager—either on a sole or joint basis—of an estimated 35 per cent of the issues.49 Much of this was attributable to Leung’s network of relationships on the mainland, which actually grew with each new listing. After successfully listing and raising capital for various Chinese companies, Leung was made non-executive director at Beijing Enterprises, Shanghai Industrial, Shum Yip and other prominent Red Chips.
As might be expected, tight relationships between Peregrine and major Chinese power brokers sparked controversy over issues of transparency and market manipulation. On 10 September 1993 Peregrine was reprimanded by the Securities & Futures Commission for manipulating markets, subscribing to shares they issued and calling in favours among other brokerages to mislead investors as to the real demand for shares in various Chinese companies. In 1996 Peregrine put out a sell on Hutchison Whampoa—a company owned by Li Ka-shing—which drove prices down and allowed Li to repurchase shares at a discount. However, in Hong Kong, ‘what appears to be adverse publicity—even an official reprimand—can often amount to free advertising’. Among the Chinese, such manipulation is seen as merely guarding the shares you underwrite—in short, good business sense. However, Peregrine also expanded aggressively into riskier markets—Myanmar, North Korea, Vietnam, Bangladesh—and sectors, most prominently Asian corporate bonds.

During the expansive years of mass capital inflow, East Asia was in desperate need of a bond market which would have given companies and investors options outside of the banking system. Peregrine sought to capitalise upon this opportunity by establishing a fixed-income/bond division—a sector dominated by large financial firms given the huge sums of capital needed to provide initial bridge loans—and initiating joint ventures to deal in indigenous bonds throughout the region. Through this strategy, Peregrine hoped to assess various companies and persuade them to raise capital by issuing bonds. However, the reliance on connections, which aided Peregrine’s Hong Kong equity operations, hindered the firm in its Southeast Asian bond endeavours for two interrelated reasons. First, in the absence of government benchmarks, Asian bonds largely took their cue from bank loans. Yet tight relationships between Asian banks and their clients and a resulting lack of transparency worked together to misprice bonds and thus underestimate the real risk involved. Secondly, Peregrine’s fatal US$270 million bridge loan—one third of its total capital—to an Indonesian taxi company, ironically named Steady Safe, hinged upon political connections. The daughter of ex-President Suharto lent her name and patronage to the company. When the rupiah crashed and it became obvious that Steady Safe would be unable to repay its debt, Peregrine was left holding bonds that were literally unsaleable—for fear of a further dip in the rupiah—and was subsequently forced to fold. Peregrine was thus undone by the very practices it came to personify. Nevertheless, these cases reveal the degree to which ethnic Chinese business practices penetrate Hong Kong’s financial services industry and shape patterns of investment in Southeast Asia.

The Red Chip phenomenon and the practices of Peregrine Investment Holdings are admittedly extreme examples of the guanxi-based financial culture pervasive in Hong Kong, but they are neither isolated incidents nor anomalies. The number of firms that participated in Red Chip listings and were forced to interact with Peregrine, given its primacy in the Chinese financial community, suggests that many firms adopted, at least partially, a Hong Kong financial ethos. This ethos, rooted in the historical challenges of undertaking business in Southeast Asia and in Chinese cultural characteristics, laid the basis for extensive business networks and tied particular individuals into ethnically-rooted
relationships. At the fount of Hong Kong’s financial web sit Li Ka-shing and CITIC’s Henry Yung. These individuals have been at the core of overseas Chinese financial networks, Red Chips and Peregrine’s business dealings, and illustrate the primacy of tapping into the ‘bamboo network’. Profit maximisation in finance hinges upon contacts, accurate information and trust—in Hong Kong these factors have proven to be contingent upon culturally-rooted social capital or guanxi.

Conclusion: diversity in an era of globalisation?

Although business in every regional financial centre is defined by the pressure to converge with Western financial norms, thereby engendering a level of homogeneity, the work of global finance remains very much embedded in specific social and cultural contexts. A mode of financial intermediation that assumes the universality of Anglo-American economic principles has been superimposed upon an ethnic Chinese business culture in Hong Kong. Various Red Chips were, at their zenith in 1997, valued on the basis of political connections rather than objective earning potential, but their values were nonetheless a reflection of market demand for new firm listings. Peregrine was run in a manner consistent with traditional ethnic Chinese business strategies, but nevertheless participated in large-scale equity placements, underwritings and the Asian corporate bond market. These objectives and initiatives—consistent with global financial norms—were pursued through specific ethnic Chinese methods. Finance, it must be concluded, operates under a distinct logic in Hong Kong.

Yet given the causal connection financial elites have drawn between ‘collusive Asian values’ and Asian contagion, one might expect Hong Kong’s financial ethos to shed its Chinese component. It is now conventional wisdom in these circles that Chinese capitalism, and the clandestine web of ethnic networks that underpins it, must be swept aside through market-oriented reform. Hong Kong has certainly adapted to post-contagion financial realities, most obviously through a decisive shift in its concentration from bank finance to equity markets. Investment bankers estimate that Asian companies, excluding Japan, plan to sell as much as US$70 billion in initial public offerings and other forms of new stock in 2000. While this would constitute a significant transformation which promises to enforce corporate responsibility to a greater degree than was realisable under the ‘relationship-banking’ era, it hardly diminishes the importance of the ‘bamboo network’. As the Red Chip boom illustrated, equity placement is no less dependent upon personal connections than bank financing. Financial analysts, for instance, need information—the real assets of a mainland firm or the trustworthiness of a director in a context where contract is irrelevant—before they can recommend investment in a particular mainland venture; information which still remains locked within the business networks that connect Chinese throughout the region. The sale of Cable and Wireless HKT, Hong Kong’s largest fixed-line telephone company, to internet tycoon Richard Li—the son of Li Ka-shing—has again brought the powerful role of guanxi in Hong Kong to the surface. Singapore Telecommunications made an initial bid for HKT in January 2000, but the strategic importance of the firm—in both the Hong
Kong and mainland markets—encouraged state-owned China Telecom, which manages a 10.8 per cent stake in HKT, to throw its support behind Li. Close ties with the mainland, forged by his father’s unparalleled network of business relationships in Hong Kong and Beijing, allowed Li to tap into an extremely lucrative monopoly firm and market. With such precedents unfolding, it seems premature to forecast the end of Chinese capitalism in Hong Kong finance.

Determining what these findings imply for the trajectory of the global economy is a vast undertaking and clearly beyond the range of this article. The analysis presented here is only a single step in mapping the global financial terrain more comprehensively. But one implication is evident: financial centres that service large emerging markets in the early stages of integration with the global economy—China, India, Russia, South Africa—are likely to operate within the logic and norms of their regional business culture. Indeed they must if they are to provide the knowledge and contacts necessary to tap into the emerging market for foreign firms. Further research into the interaction of regional business culture and financial practice in these regions is, of course, needed to test this hypothesis. Nevertheless, my own sense is that finance rests on distinct foundations in different regions and that this has profound systemic implications. In a system defined by 24-hour real-time trading, a high level of cross-border sensitivity and speculative short-term investment, any shift in investor sentiment is capable of gaining tremendous momentum and triggering full-blown financial crisis. Certainly the confusion and misinterpretation that arises when various financial value systems interact is capable of escalating. The stability of a global financial system characterised by heightened transnational interaction and interdependence may in fact be contingent upon financial operators coming to understand the norms and logic of the markets in which they invest to a greater degree than at present—a suggestion worthy of considerable attention in an era of globalisation.

Notes

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12. In the second quarter of 1995, the net foreign assets of banks operating within Hong Kong were valued at US$705 billion while their liabilities stood at US$614 billion, fourth and fifth in the world respectively. (IMF International Financial Statistics, cited in Jao, *Hong Kong as an International Financial Centre*, p. 33.) By 1998, deposits in Hong Kong institutions from customers outside Hong Kong approached US$379 billion while loans or advances to customers outside Hong Kong reached approximately US$424 billion. (Hong Kong Monetary Authority, *Annual Report 1998*, pp. 153–4). In terms of foreign exchange markets, Hong Kong’s daily net turnover of US$90 billion placed it fifth in the world in 1995. Moreover, the proportion of Hong Kong’s foreign exchange transactions with forex dealers abroad was no less than 83.1 per cent (Hong Kong Monetary Authority, ‘The Foreign Exchange Market in Hong Kong’, *Quarterly Bulletin*, November 1995, pp. 12–18. Also see Jao, *Hong Kong as an International Financial Centre*, pp. 38–9). Hong Kong’s derivatives markets are also among the largest in the world, ranking fifth in foreign exchange derivatives, with a daily turnover of US$56 billion, and eighth in interest rate derivatives with a daily turnover of US$18 billion in 1995. In the same year, Hong Kong’s equity markets were ranked ninth in the world, at market capitalisation of US$303.7 billion. This figure reached US$445.6 billion in 1996—when Hong Kong also led the Asia Pacific region with 97 new equity issues at a valuation US$8.3 billion—but tapered off to US$341.2 billion in 1998. (Hong Kong Monetary Authority, *1998 Annual Report*, pp. 137–9. Also see Sara Webb, ‘Still on top. Hong Kong is the financial capital of the East Asia—and is likely to remain so’, *Wall Street Journal*, 18 September 1997, p. R18.)
22. ‘Exchanges’ merger enhances market-forces’, *Hong Kong Trader*, No. 157 (May 1999), p. 3.
24. Li, ‘Enter the Dragon’, p. 35.
29. Ibid., p. 21.
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35. Weidenbaum & Hughes, *The Bamboo Network*, p. 44. Also see Wu & Sin, ‘Hong Kong and Singapore: Twin Capitals’, p. 27.


42. Bruce Gilley, ‘Nice while it lasted: investors in Hong Kong’s Red Chips are sobering up’, *Far Eastern Economic Review*, 14 May 1998, p. 70.

43. GITIC closed 1998 with debts of US$4.3 billion and was declared insolvent soon after—the largest bankruptcy in the history of the People’s Republic of China. The China Everbright Group expanded rapidly into the Hong Kong property market just as the asset-price bubble peaked. From a peak market value of US$6.3 billion, its Hong Kong Red Chips—China Everbright Ltd, China Everbright International Ltd and China Everbright Technology Ltd—have shrunk to less than one-seventh of that amount. In sum, Red Chips fever has bottomed out and investors are increasingly wary of the China plays. See Eric Guyot, ‘Beijing Red Chips face potential strain’, *Wall Street Journal*, 15 January 1999, p. A8 and ‘Living dangerously in Guangdong’, *Business China: EIU Intelligence*, 15 April 1999.


49. Irvin, ‘South China sea bubble?’, p. 38.


