

Jan Fabisiak, Sergiusz Prokurat

**KONSEKWENCJE KRYZYSU FINANSOWEGO Z ROKU
2008 DLA KLUCZOWYCH ASPEKTÓW
KONKURENCYJNOŚCI GLOBALNYCH CENTRÓW
FINANSOWYCH: GŁÓWNE TRENDY I ZMIANY W
RELATYWNEJ POZYCJI**

Słowa kluczowe: *centra finansowe, kryzys, konkurencyjność*

Artykuł przybliży zjawisko globalnych centrów finansowych, które w 2008 roku znalazły się w epicentrum światowego kryzysu finansowego. Handel instrumentami pochodnymi, choć odbywał się prawie wyłącznie w Europie i USA, w znaczący sposób wpłynął na globalną gospodarkę i konkurencyjność centrów finansowych. Opracowanie to na podstawie GFCI (The Global Financial Centres Index) pokazuje, iż pomimo wzrostu znaczenia gospodarki Azji na świecie, wzrostu konkurencyjności miast w tym regionie oraz napływu kapitału do centrów finansowych Azji Wschodniej, to pozycja dwóch miast, Londynu i Nowego Jorku, będących przed kryzysem dominującymi centrami, jest wciąż niezachwiana.

**THE IMPLICATIONS OF THE FINANCIAL CRISIS OF 2008
FOR KEY COMPETITIVENESS DRIVERS OF GLOBAL
FINANCIAL CENTRES: UNDERLYING TRENDS AND
CHANGES IN RELATIVE STANDINGS**

Keywords: *financial centres, crisis, competitiveness*

This chapter focuses on global financial centres, which played a key role in the financial crisis of 2008. The trade in derivatives, despite being limited in large part to Europe and the USA, significantly influenced the global economy and the competitiveness of financial centres. This study demonstrates, on the basis of the GFCI (The Global Financial Centres Index), that despite the relative rise of Asia's economic significance, enhanced competitiveness of its cities and capital inflows to East Asian financial centres; that the position of London and New York, which were dominant centres before the crisis, remains unwavering.

FINANCIAL CENTRES AND THEIR IMPACT ON THE CRISIS OF 2008

In spite of the lack of consensus in terms of a homogenous definition of capitalism and how the word should be used as an analytical category, it is one of the most frequently used thought constructs in economics (Grassby, 1999: 1). Its moral implications and various ways of evaluating the phenomena it brings along do not change the fact that it is a way of amassing wealth (Goody, 2006: 40). Capitalism is supposed to have been born and bred in cities and these urban agglomerations are the main seat and tool of capitalism – a place where amassing wealth proceeds to the fullest extent.

A tendency to identify capitalism with cities is to a large degree determined by the historical inclination of human nature for taking actions, which Adam Smith described plainly with the following words: ‘the propensity to truck, barter, and exchange one thing for another’ (Smith, 2009: 12). Each city, with its characteristic practices of trade and commerce, has a potential to grow into a major cluster, however, various historical and socio-economic relations moulded by the *path of dependency*, do not let every city take full advantage of its potential. Thrift claims that large cities – which are, in fact, financial centres with a tangled structure adjusted to modern times, are a network of dependencies – they function as centres of knowledge and expert abilities in four related ways. Firstly, they act as places where the direct exchange of information takes place. Secondly, as gathering points which transfer information. Thirdly, cities fulfil the role of institutional seats which interpret the transmission. Finally, a city is increasingly regarded as home to many different global ‘epistemic communities’, occupational groups with their own specialised vocabularies, rhetoric, knowledge, practices and text (Thrift, 1994: 350). Thus, a city is an area of information exchange processes, resources, work allocations and a place for signing agreements and trade.

The largest and most prosperous cities, the so-called world cities, have become international financial centres, places of global competition, competing in many aspects with one another. As the process of globalisation evolves, financial services are becoming more internationalised and the access to loans and advanced methods of financial engineering is ever-broader – large financial centres earn greater significance. The critical mass of financial services and other commercial activities stimulates the growth of many other dimensions of urban life, such as iconic cultural venues, centres of academic excellence and specialized industries subservient to financial services. Furthermore, it

seems that the seats of large institutions and corporations will be more and more likely to cluster in selected cities, forming ‘command and control’ centres of the global economy (Friedmann, 1986).

Table 1. Competitiveness rankings by sector

Rank	City	GFCI 8 Score
1	London	772
2	New York	770
3	Hong Kong	760
4	Singapore	728
5	Tokyo	697
6	Shanghai	693
7	Chicago	678
8	Zurich	669
9	Geneva	661
10	Sydney	660
11	Frankfurt	659
12	Toronto	656
13	Boston	655
14	Shenzen	654
15	San Francisco	654
16	Beijing	653
17	Washington D.C.	649
18	Paris	645
19	Taipei	639
20	Luxembourg	634

Source: The Global Financial Centres Index 8, 2010

Financial centres have been the subject of many analyses and studies, specifically focusing on their *modus operandi*, which has significantly influenced economic growth. As no homogenous nomenclature has been agreed upon so far, there are many terms in the literature determining and classifying financial centres, with the following ones among them: World Financial Centres (WFC), Regional Financial Centres (RFC), International Financial Centres (IFC), Offshore Financial Centres (OFC), International Banking Centres (IBC), Global Financial Centres (GFC). Financial centres are most often defined as ‘a central location where financial transactions of an area are coordinated and cleared’ (Reed, 1981: 1). An extended definition has been proposed by

Knox, who regards financial centres as: 'centres of transnational corporate headquarters, of their business services, of international finance, of transnational institutions, and of telecommunications and information processing' (Knox, 1995: 5).

Most researchers highlight the fact that financial markets are hierarchical structures and financial centres occupy the top of the hierarchy. The position of these hubs is not stable; in fact it fluctuates in time. From the historical perspective one may observe that the financial centres which became prominent in the 15th century, Amsterdam and Venice, in time faded from their dominant role and gave way to London. Meanwhile the British capital succumbed to the challenge of New York by the mid-20th century, only to regain its lost position at the start of the next millennium.

The most important features of financial centres are:

- The grouping of a certain number of financial services in a city
- A critical mass of intermediaries which coordinate financial transactions and arrange for payment to be settled
- External economies (reductions of costs due to competition proximity and the size of the grouping) trigger the concentration of intermediaries (Cassis, 2010: 2)
- A large and diversified non-financial sector servicing the needs of financial firms and professionals

A real game-changer in the world of finance has been technological innovation, basing on the latest achievements in information technology and telecommunication. A common example of a phone call shows that in 1930 a call between London and New York cost 300 USD (in a dollar value of 1996), today its cost is not higher than one USD and the Internet enables the price to go even lower (Friedman, 1999). Thus, with diminishing costs, the communication obstacles between financial centres are fast becoming history, resulting in a radical increase of competition among them.

Toffler observed three subsequent waves: agrarian, industrial and information-related, each of them revolutionising the world technologically (Toffler, 1980). Financial centres in the capitalist economy not only adjusted to technological changes but also contributed to the hastening of change. The last wave, according to Toffler, has created an information society, where economic activity is based on knowledge and human capital. Reducing the barriers separating the centres from one another, the process which is often referred to as globalisation, creates the reality where information is the absolute determinant of competitiveness among units operating in the market.

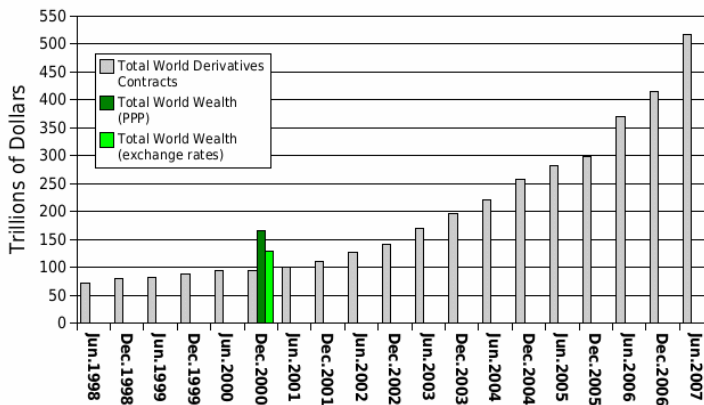
Neither did financial innovation lag behind technological advances. On the verge of the 20th and 21st centuries, financial centres bred a new

attitude towards credit and focused on new ways of raising capital, such as securities issuance. This process of transferring the weight of classic bank loans to alternative sources of acquiring capital is called securitisation (Reksa, 2004). As changes in the markets occurred, financial centres became intermediaries of risk transformation through securitisation and derivatives.

Calder and Ye rightly remark that derivatives give investors amplified power to deploy capital at very specific times, and in quantities much larger than the investment at risk, against specific targets (Calder and Ye, 2010: 87). Such changes in the market of derivative tools have resulted in an increasing interest among investors in securing the transactions made with these tools. Before the crisis, derivative tools were considered an element of economic stability. What is interesting, the development of these innovations is currently often denounced as the reason for the lack of stability of the modern financial system.

The fuse of the financial crisis of 2008 was lit by derivative tools based on loans, *collateralised debt obligations* (CDO). American investment banks re-purchased pools of loans from mortgagers, split them and then grouped them according to degrees of risk. Loan shuffling was supposed to protect investors from the consequences of a single bankruptcy and, as an additional precaution, policies for such a case, *credit default swaps* (CDS), had been devised (Fabozzi and Goodman, 2008). As a result, risk and price discovery had been distorted in debt markets.

Figure 1. Total world wealth and notional value in derivative contracts, 1998-2007



Source: calculated by authors from: BIS (<http://www.bis.org/statistics/derstats.htm>) and http://www.wider.unu.edu/events/past-events/2006-events/en_GB/05-12-2006/; Accessed 15/03/2011

Financial centres in OECD member countries, mostly American and European, became the epicentre of the crisis. More than 70% of all private and public debt securities and almost 80% of all interest-rate derivatives outstanding are registered in the established financial centres in the USA and the EU (Transatlantic Business Dialogue, 2010: 9). These transactions were traded mostly between New York and London, which best exemplifies the nature of this phenomenon and underscores the argument that financial centres in emerging-markets countries in large part did not participate in the trade of loan derivatives.

THE IMPACT OF THE 2008 FINANCIAL CRISIS ON GLOBAL FINANCIAL CENTRE COMPETITIVENESS

The financial crisis of 2008 has affected the competitiveness of global financial centres in three broad categories: by causing profound changes in their growth drivers, discriminating between more- and less-exposed hubs; and by bringing about a new awareness of the relative rise of East Asian centres, especially those which have strong links with the Chinese market. This chapter seeks to identify the factors which contributed to the success of cities such as Hong Kong, Singapore, Shanghai, Beijing and Shenzhen¹ in enhancing their competitive strengths while their North American and European peers stagnated or declined, which led some scholars to advocate the notion that growth of the developed-world and East Asia had in fact decoupled (i.e. Park and Shin, 2009).

That financial crises originated in one centre have the ability to cause contagion and worldwide spillover effects has never been clearer than during the rapid deterioration of liquidity in financial markets in 2008. A consensus emerged among scholars that the problems of the financial system with mortgage-backed securities in particular did not cause major problems in the real economy before the bankruptcy of Lehman Brothers, which 'forced markets to re-assess the risk' (Allen, Babus and Carletti, 2009: 3). The spillover to the real economy in effect harmed financial centres' competitiveness as political pressure to over-regulate financial activity mounted in the two global leaders, London and New York, as well as other international centres. Beside political reasons (which were threats to long-term growth), financial centres experienced major disruptions to

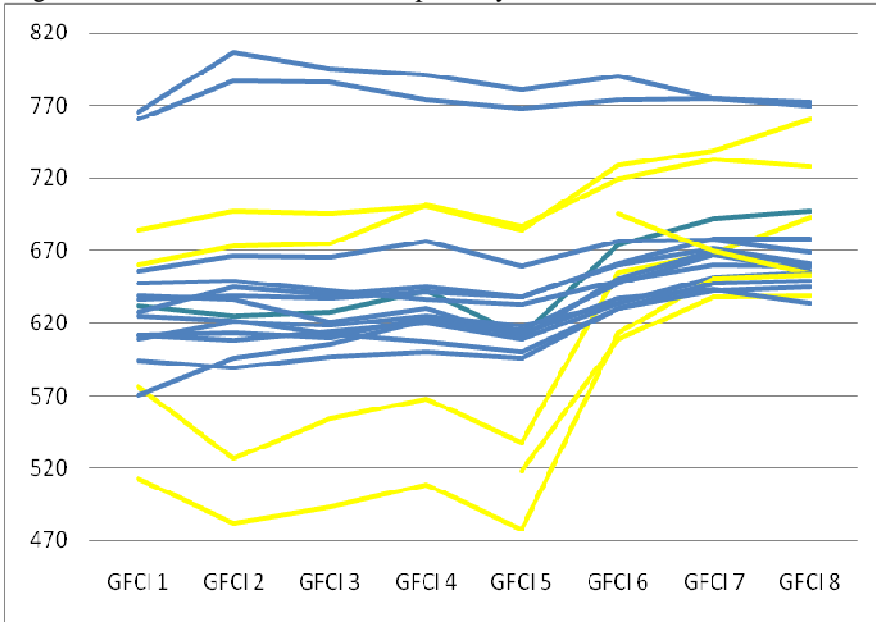
¹ Please note that Tokyo is left out of benchmarking by this chapter as it does not, in comparison with the centres mentioned, have significant ties to the Chinese economy, catering more than other commercial hubs to the domestic bond market. Furthermore, Tokyo's relative importance has declined with the rise of Hong Kong.

their strictly market-based parameters, such as the ability to draw on a wide asset pool or leverage the economic growth of their host countries. Yet the effects of the crisis on the real economy were varied and even more so the impact they had on the relative standing among the world's top financial hubs.

Before we can demonstrate how the financial crisis influenced concrete competitiveness factors of financial centres it is paramount to understand how current scholarship explains the way in which the financial and subsequent economic crisis, which began in 2008, spread and affected major commercial hubs. Gai and Kapadia argue that contagion in financial markets is a 'black swan' – while the probability of major contagion is very low, the effects of the phenomenon can be extremely profound and widespread (2010). In other words, the relative immunity of the global financial architecture to significant shocks before the recent crisis deteriorated once a critical mass of structural problems accumulated. Other studies suggest that the mentioned decoupling of developed-world and emerging markets has not taken place as far as financial markets are concerned; on the contrary, the change in risk perceptions in financial markets seems to be a common phenomenon (Frank and Hesse, 2009). Furthermore, crisis transmission to China's financial markets (protected by numerous capital controls and a controlled exchange rate mechanism) has been found to be equally effective as to other, less-insulated, financial centres (Luo and Tang, 2007). Other research tends to corroborate the findings of these studies (for further reading see: Caporale, Serguieva and Wu, 2009; Dungey and Martin, 2007; Hasman and Samartín, 2008).

Since contagion and spillover effects have been found to be universally transmitted to all global financial centres (albeit with different final effects), the explanation of the relative changes in competitiveness owing to the crisis has to be sought in particular components of each city's market access, human capital, infrastructure, business environment and general competitiveness. This chapter will adopt the Global Financial Centres Index (GFCI), published by Z/Yen, a consultancy, as the benchmark of competitiveness and use the underlying data indices to show the changes in financial centres' strengths and weaknesses. Admittedly, the GFCI has some drawbacks (Fabisiak, 2011); nevertheless it is the most comprehensive measure of financial centres' strengths and weaknesses to-date (see The Global Financial Centres Index 8, 2010).

Figure 2. Historical GFCI scores of top twenty financial centres



Source: The Global Financial Centres Index 8, 2010

Note: Scores of East Asian centres are marked in yellow

Table 2. Competitiveness rankings by sector

Rank	Asset Management	Banking	Government & Regulatory	Insurance	Professional Services
1	London	New York	New York	Hong Kong	London
2	New York	Hong Kong	London	Shanghai	New York
3	Hong Kong	London	Singapore	New York	Hong Kong
4	Singapore	Singapore	Hong Kong	Singapore	Singapore
5	Tokyo	Tokyo	Tokyo	London	Geneva
6	Chicago	Shanghai	Frankfurt	Tokyo	Chicago
7	San Francisco	Zurich	Chicago	Beijing	Tokyo
8	Shanghai	Shenzhen	Geneva	Shenzhen	Zurich
9	Boston	Chicago	Paris	Paris	Toronto
10	Zurich	Frankfurt	San Francisco	Chicago	Boston

Source: The Global Financial Centres Index 8, 2010

Table 3 Reputational advantage in GFCI 8 rankings

Centre	Average Assessment	GFCI 8 Rating	Reputational Advantage
Shenzhen	710	654	56
Beijing	696	653	43
Shanghai	732	693	39
New York	805	770	35
Singapore	761	728	33
Zurich	697	669	28
Taipei	665	639	26
Hong Kong	786	760	26
London	797	772	25
Sydney	684	660	24

Source: The Global Financial Centres Index 8, 2010

The above figures show the three predominant shifts which are taking place in the standings of financial centres, all of them connected with East Asian hubs. Hong Kong is now in direct contact with London and New York, changing the financial architecture of the world from the dominance of two cities to a three-city symbiosis. Singapore, Shanghai and Beijing have also considerably improved their ranking position. Moreover, East Asian centres are becoming world leaders in insurance and asserting their standing in other dimensions of a financial centre's activity. Yet, what is most important out of all the above data is the reputational advantage which is enjoyed by East Asian centres. Reputational advantage is a measure of the GFCI which derives from the difference between the scores financial centres receive basing solely on hard-data external indices and their scores supplemented by financial professionals' assessments. Again, the list of centres with the highest reputational advantage (as well as those which are expected to gain significance) is dominated by Shenzhen, Shanghai, Singapore, Seoul and Beijing. This trend of the rise of China's financial centres (and those which have significant business links with it) has been amplified by the crisis of 2008 (see The Global Financial Centres Index 8, 2010). To understand the root causes of these global shifts, the key drivers of East Asian centres' rise in competitiveness will be analysed and compared to the relevant measures of London and New York.

Growth drivers of East Asian financial centres

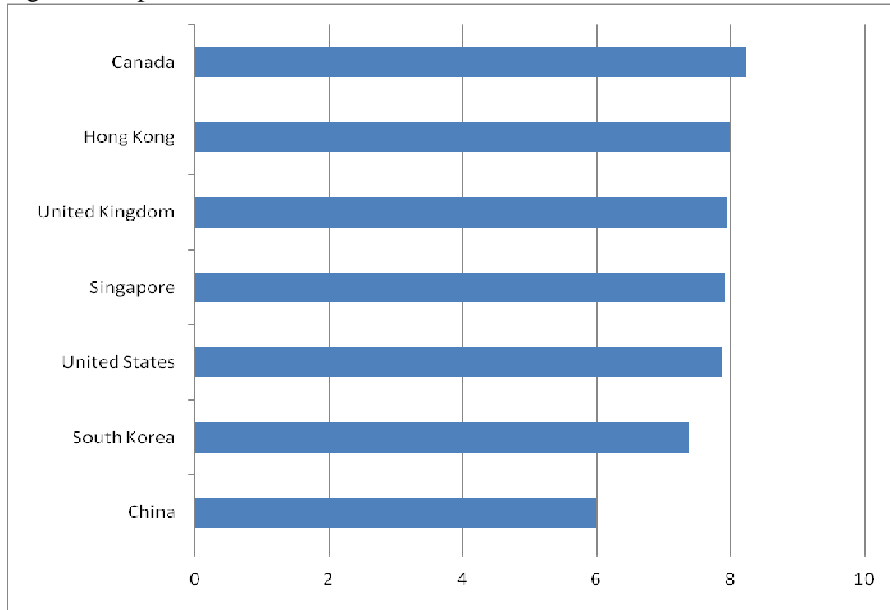
The GFCI 8 incorporates a total of 75 external indicators, which measure financial centre competitiveness in five broad categories: infrastructure-related, market-access-related, people-related, business-environment-related and general-competitiveness-related (The Global Financial Centres Index 8, 2010). Out of these this chapter identifies four which are the most significant growth drivers for financial centres with a large share of business linked to China. The indicators in question are:

- Capital Access Index
- Capitalisation of Stock Exchanges
- Projected City Economic Growth
- Economic Freedom of the World

We also specify three competitive areas in which the cities in question tend to perform badly: Corruption Perceptions Index, GDP per person employed and the Global Intellectual Property Index.

The Capital Access Index, compiled by the Milken Institute, evaluates the access to business capital in host countries of financial centres. While Hong Kong and Singapore are already established within the top five jurisdictions, even more importantly China has in recent years been the best improver globally, boosting institutional soundness and managing to keep credit flowing throughout the world liquidity crisis (Capital Access Index 2009, 2010). This is important news specifically for Shanghai and Shenzhen, as their already-prominent position in the GFCI rankings has still much potential for further growth. Despite having improved significantly, China is, as of yet, only ranked 32nd, largely lacking a domestic corporate bond market and therefore potentially allowing large gains in competitiveness with relatively small improvements. Further good news for Chinese financial centres comes from Hong Kong, which was one of the few cities in the upper echelons of the ranking not to have had its equity market development score downgraded in 2008 and 2009 (Capital Access Index 2009, 2010).

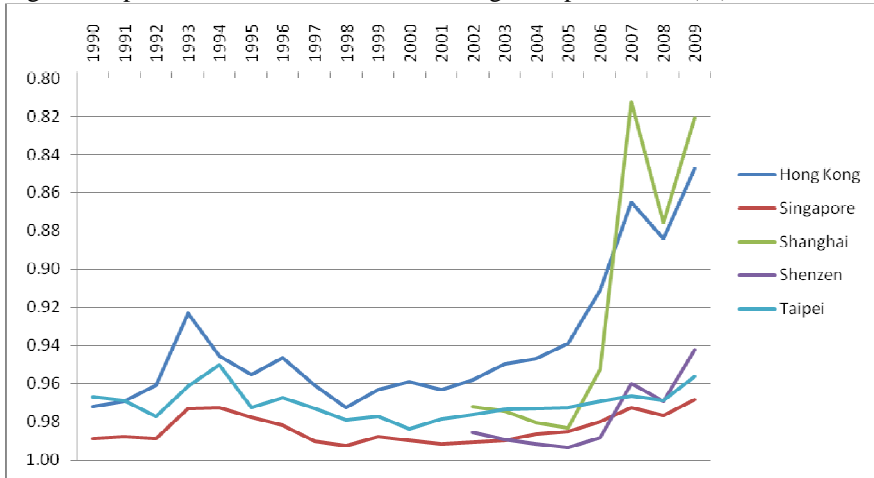
Figure 3. Capital Access Index Scores



Source: Capital Access Index 2009, 2010

Similarly to capital access, the capitalisation of stock exchanges in East Asian centres is closing the gap to benchmark leaders, albeit still lagging far behind major bourses. As observed in Figure 4, since the decision to partially liberalise the exchange rate regime of the Chinese Renminbi, the two mainland financial centres' stock exchanges capitalisation has begun to grow exponentially. Hong Kong, which besides Shanghai and Shenzhen greatly benefited from this decision, saw its growth accelerate. Singapore and Taipei did not experience such changes as they are far less dependent on developments in the mainland Chinese markets. The profound effect of Renminbi controls' liberalisation demonstrates that the Chinese authorities may provide a boost to the analysed financial centres by further loosening capital controls and restrictions to the currency's value variations. Whether they will do so remains to be seen, as they also have significant incentives to retain capital controls as they are or at least postpone their abolition.

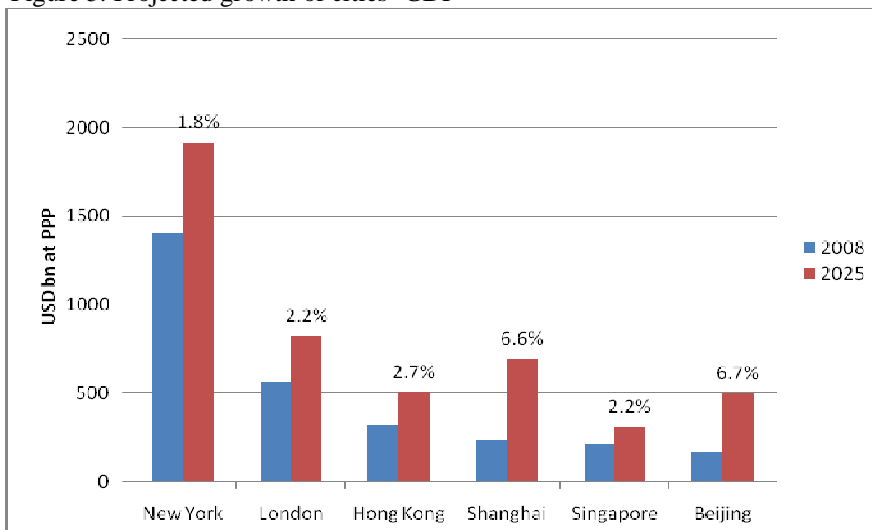
Figure 4. Spreads on New York stock exchanges' capitalisation (%)



Source: World Federation of Exchanges

Yet another key driver of growth of East Asian financial centres is the underlying economic expansion of the cities and countries they are located in. Seade finds that a dynamically growing regional economy requires a 'strong, modern and diversified financial sector', which in turn, once created, enjoys considerable economies of scale in delivering financial services (2009: 61, 92). Also the historical perspective confirms the correlation between host country and city economic growth and the rise of financial centres, of which the two prime examples are London and New York (Cassis, 2010). All reputable sources of macroeconomic statistics point to a sustained long-term advantage in the growth base of East Asia in comparison with the developed world, which intrinsically grants East Asian hubs an advantage over London or New York as they close the competitiveness gap.

Figure 5. Projected growth of cities' GDP



Source: PricewaterhouseCoopers UK Economic Outlook November 2009

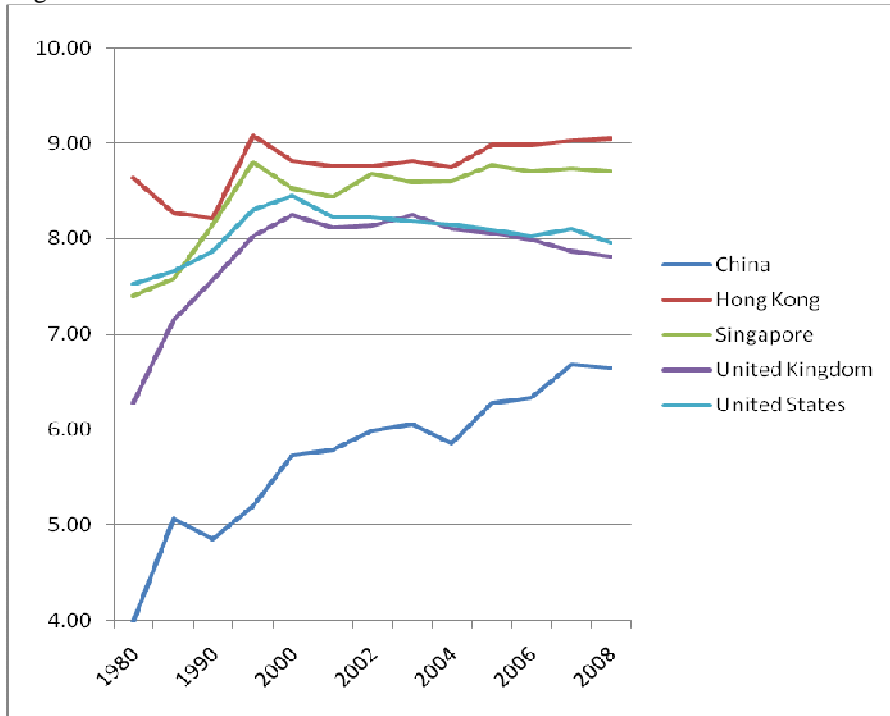
Note: Percentage values indicate expected year-to-year growth in the analysed period

The final growth driver of East Asian financial centres as identified by this chapter is the increasing economic freedom of their host countries. Economic freedom in given jurisdictions is incorporated into financial centres' competitiveness benchmarks for two principle reasons. Firstly, according to the authors of the study of economic freedom worldwide, the freer a country economically the more immune it is to excessive volatility of its business cycle. Secondly, economic freedom positively correlates with the quality of political, economic and legal institutions (Economic Freedom of the World: 2010 Annual Report). The second point is relevant owing to the empirically observed implications of the Lucas Paradox – the better the institutions of a given jurisdiction, the higher the capital inflows will be (see Alfaro, Kalemli-Ozcan and Volosovych, 2008).

Hence the observed dynamic rise of economic freedom in China (see Figure 6) is an important driver of Shanghai's, Shenzhen's and Beijing's rise in competitiveness rankings. Admittedly, Hong Kong and Singapore, which top world rankings in economic freedom, do not have much room for further improvement in the GFCI ranking. Nevertheless, they can benefit indirectly from China's rising competitiveness – as more foreign investment enters this market, it will often use the less-regulated financial centres of Hong Kong and Singapore as intermediaries. What is

more, while the USA and the UK demonstrate a clear trend towards less economic freedom, Hong Kong and Singapore uphold their high scores.

Figure 6. Economic Freedom of the World scores



Source: Economic Freedom of the World: 2010 Annual Report

GROWTH INHIBITIONS TO EAST ASIAN FINANCIAL CENTRES

As in economic freedom, the prevalence of corruption varies significantly between Hong Kong and Singapore and mainland China. In the Corruption Perceptions Index 2010, published by Transparency International, Hong Kong and Singapore rank 13th and 1st respectively as corruption-free jurisdictions. Conversely, China's record is much worse, ranking it jointly in 78th place out of a total of 178 countries and territories benchmarked. Not only does this score represent a downward pressure to Shanghai's, Shenzhen's and Beijing's GFCI position. More importantly, it constitutes a growth inhibition for their local, regional and national economies. This is due to the fact that widespread corruption leads to a significant and systemic loss of resources available for productive investment (Blackburn, Bose and Haque, 2010). It also leads to greater

risk-averseness among potential foreign investors, especially in high-margin investments (Javorcik and Wei, 2009).

Admittedly, there are many types of corrupt activities which differ in their impact on long-term growth and competitiveness (Aguirre, 2008). Some scholars even advocate the view that in some emerging markets corruption may in fact boost economic growth by providing a quicker way of dealing with inefficient and over-centralised bureaucracies (Aidt, 2010; Houston, 2007). Nonetheless, financial centres' competitiveness, in large part dependant on the attractiveness of a given jurisdiction to foreign capital, suffers from high levels of systemic corruption. Therefore the People's Republic of China is at a large disadvantage, and with it its principal financial centres (see Table 3).

Table 4. Corruption Perceptions Index 2010 scores

Rank	Country/Territory	Score
1	Denmark	9.3
1	New Zealand	9.3
1	Singapore	9.3
4	Finland	9.2
4	Sweden	9.2
6	Canada	8.9
7	Netherlands	8.8
8	Australia	8.7
8	Switzerland	8.7
10	Norway	8.6
11	Iceland	8.5
11	Luxemburg	8.5
13	Hong Kong	8.4
14	Ireland	8.0
15	Austria	7.9
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7	China	3.5

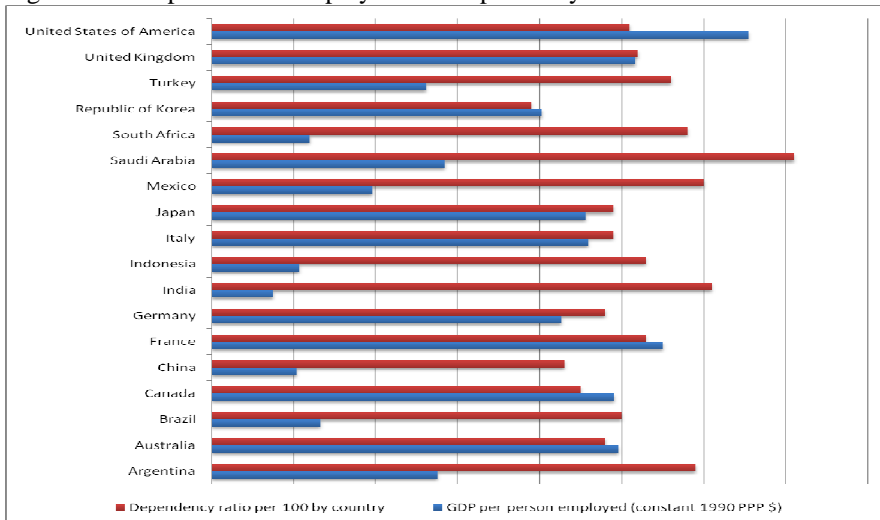
Source: Corruption Perceptions Index 2010

The next competitiveness parameter this chapter identifies as a growth inhibition to China-linked financial centres is the GDP per person employed as published by the World Bank. This might come to many as a

surprise since the low level of *per capita* GDP in China is perceived as a relative advantage, bearing in mind the rapid Chinese economic catch-up. This argument is indeed valid, as China's GDP per person employed is growing much quicker than that of the United States or the United Kingdom. Yet this thinking does not consider a fundamental threat to China's long-term growth – its demographics.

To make this point understood this chapter must first explore the motives of including GDP per person employed into financial centres' competitiveness rankings. The authors of the GFCI consider this measure a direct strength of a given commercial hub in attracting top talent – the higher the average income of a worker, the more likely it is that a highly-skilled professional will decide to relocate to a given city. Yet GDP per person employed does not take into account the redistribution of this income to dependants of an employee, both state-ordained and voluntary. In short, the higher the dependency ratio in a given country the more likely obligatory wealth redistribution is to non-working individuals, diminishing the ultimate disposable income of a worker. In the case of China, the dependency ratio is quite low in comparison with other large economies (see Figure 7). However, China's one-child policy, which is currently contributing to a significant demographic dividend, will begin to be a liability as the population bulge will start retiring, drastically raising China's dependency ratio. The state-imposed drop in Chinese fertility, which occurred very early in the country's economic development, suggests that the demographic structure of the population might become unfavourable much too soon, hampering base growth and financial centre competitiveness.

Figure 7. GDP per Person Employed and Dependency Ratio



Source: World Bank; World Health Organization

The third and final threat to East Asian financial centres (mainly those located in mainland China) is the extremely weak protection of intellectual property rights. The most recent Global Intellectual Property Index, published by TaylorWessing, an international law firm, ranks China as the jurisdiction with least protection of intellectual property (Global IP Index Report, 2009). This is important owing to the positive correlation between the strength of Intellectual Property (IP) protection and both FDI inflows and the long-term innovation base of host countries (Khoury and Peng, 2010). This relationship holds true in the case of China, despite several unique circumstances of this country (see Park and Lippoldt, 2008). What weak IP protection does not grant China and other countries which are technology- and know-how-importers is a favourable catch-up mechanism (Kanwar and Evenson, 2003). Therefore, China coming in last in four of the six categories of IP protection is a major hindrance for Shanghai, Shenzhen and Beijing.

Yet, it has to be noted, that weak IP protection in China is not necessarily a growth obstacle to commercial hubs. While for the aforementioned reasons financial centres in mainland China may be negatively affected, their host country may actually benefit from intellectual property rights not being fully enforced (Priest, 2006). Indeed, some data seem to suggest that this is a purposeful and lucrative policy, pursued by the Chinese government (Office of the United States Trade

Representative, 2009: 14). What the combined effect on China's financial centres may be remains to be studied.

Table 5. Global Intellectual Property Index 2009

Jurisdiction	GIPI 2 Rank	GIPI 2 Rating
UK	1	776
Germany	2	760
USA	3	751
Australia	4	748
Netherlands	5	745
Canada	6	737
Ireland	7	731
New Zealand	8	723
France	9	713
Singapore	10	708
Japan	11	690
Israel	12	679
Spain	13	661
South Africa	14	656
South Korea	15	638
-	-	-
China	24	491

Source: Global IP Index Report, 2009

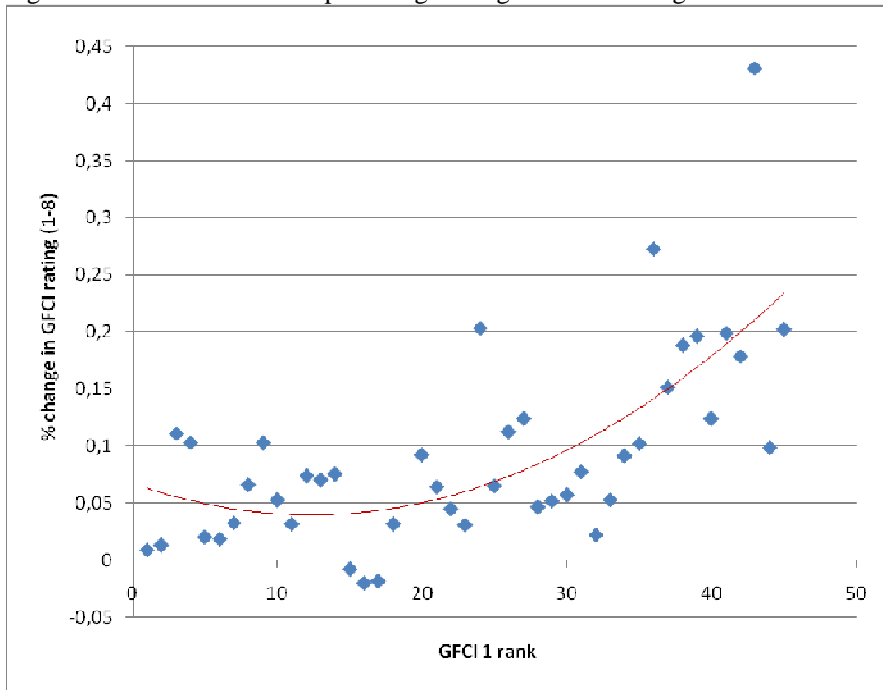
CONCLUSIONS: UNDERLYING TRENDS OF FINANCIAL CENTRES' COMPETITIVENESS

This chapter has focused so far on the implications of the 2008 crisis for East Asian financial centres. Yet the aim of this analysis was to identify the underlying trend of China's rise. As far as economic expansion is concerned, China's dynamic development is nothing short of a trivality, nevertheless its financial centres' development is a new phenomenon, which follows the historical pattern which applied to all major commercial hubs of the past – economic expansion of the host country led (with a delay) to greater financial prominence. This holds true contemporarily, as we have demonstrated that financial centres with significant business links with the Chinese market have been much less affected by the said crisis.

It is not to say that East Asian financial centres have not had their problems in recent years. Capital fled Hong Kong, Shanghai and Shenzhen for a safer haven in New York (observe Figure 4) in 2008. More worryingly for Chinese cities, their growth inhibitions and problems tend to be mainly institutional. Institutions may be difficult to reform quickly and efficiently, as entrenched interests seldom give up the *status quo* without putting up resistance. Further concerns gravitate to the notion of a ‘glass ceiling’ which mainland Chinese cities may hit if capital controls and the Renminbi exchange rate mechanism are not liberalised. As Hong Kong enters into a dominant global position among financial centres, joining London and New York in their symbiotic (rather than strictly competitive) relationship, Shanghai and others may find themselves marginalised, largely because of the lack of an offshore Renminbi market.

Departing from the more narrow focus on East Asian financial centres this chapter will draw some overall conclusions. While the rise of the above mentioned cities is a significant process, the 2008 crisis has not brought about a drastic change in the standings of commercial powerhouses – the United States and the European Union still account for approximately 75% of global financial services (Kern, 2010: 1). This owes much to the inertia among commercial hubs, as it is a very-long-term process to accumulate the critical mass required in human capital, market share, liquidity and infrastructure to compete globally. This favours the incumbents (London and New York) and (to a lesser extent) the cities immediately behind the top two: Hong Kong and Singapore. We also must not forget that the 2008 crisis has not fundamentally altered the primary global trading venues and the relative standing of the major economies, which undoubtedly is a major determinant of financial centres’ competitiveness. The flight of capital in 2008 from peripheral centres to the most liquid and global demonstrates that London and New York remain dominant. Still, while developed-world stock exchanges contracted or stagnated in recent years, those of the BRIC countries experienced annual growth exceeding 40% (Kern, 2010: 3). Furthermore, a general process of catching up can be observed since the GFCI was first published in 2007 (see Figure 8).

Figure 8. GFCI 1 rank versus percentage change in GFCI rating



Source: The Global Financial Centres Index 1, 2007; The Global Financial Centres Index 8, 2010

The smaller differences between financial centres' rankings lead us to believe that global finance is in the process (accelerated by the 2008 crisis) of developing a more multi-polar system, albeit London, New York and Hong Kong will most probably remain dominant in the foreseeable future. Having mentioned the potential cap on growth of financial centres in mainland China due to Hong Kong's prominence, it is equally important to stress the fact that a more diversified global financial architecture will enable the likes of Shanghai, Beijing and Shenzhen to thrive despite Hong Kong looming large in the region. Furthermore, despite the much faster projected growth of Asia in comparison with Europe and North America, financial flows from the latter to the former are expected to remain relatively low, which will open a major financing gap (International Monetary Fund, 2010: 79). This is a further chance for mainland Chinese cities to win market share. Other contributing factors may be substantial wealth accumulation (both public and private) in the region, further institutional reform and a new-found reputation of stability and reliability.

On a final note, this chapter identifies two contradictory trends in global finance. The 2008 crisis has shown that financial centres are

undergoing a continuous process of internationalisation, with liquidity flowing to the well-connected, most-diversified and biggest venues. The crisis has also motivated market participants to work on international regulatory coordination, yet still much remains to be done. On the other hand, the rise of emerging markets creates demand for local know-how and national and regional financing, as there are still many obstacles to free flows of capital globally. One of the major obstacles seems to be asymmetry in information, which influences investors' risk assessment and produces home bias. For this reason we have observed a smaller gap in competitiveness between the global leaders and other significant players among financial centres.

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