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ASIAN CITIES AS FUTURE POTENTIAL FINANCIAL CENTERS OF THE WORLD

Summary: The article describes key factors for future financial centers of the World. We describe the current financial centers of the world, which are divided into three areas like Europe, Asia, and North America. The article also presents what will happen in 15 years with the biggest financial centers of the world facing a creation of a new financial center of the world in China.

Keywords: growth factors, global financial centers, GDP, global capital market.

1. Introduction

Today the biggest financial centers of the world are the following: New York, London and Tokyo; but most economists think about Asia as a new financial center of the world with its location in China.¹ The financial centers are facing huge competitiveness between one another. The financial market has been changed after the credit crunch in USA. Investors are expecting much more from the future financial centers of the world than today. Half of the world's population already lives in cities, generating more than 80% of global GDP today. But the urban economic story is even more concentrated than this suggests. Only 600 urban centers, with a fifth of the world's population, generate 60% of global GDP. In 2025, we can still expect 600 cities to account for about 60% of worldwide GDP – but the cities will not be the same. The earth's urban landscape appears to be stable, but its center of gravity is shifting decisively, and at speed. Investors and companies trying to identify the most promising growth opportunities need to be able to map this movement and spot the individual cities, where their businesses are most likely to thrive. Today, major urban areas in developed regions are, without doubt, economic giants. The 380 developed region cities in the top 600 by GDP accounted for 50% of global GDP in 2007, with more than 20% of global GDP coming from 190 North American cities alone. The 220 largest cities in developing regions contributed another 10% – China's

¹ The city-state has a handy habit of taking advantage of financial upheaval, *The Economist*, 2011.

cities generated 4% and Latin America's largest cities another 4%.² Across all regions, 23 megacities – metropolitan areas with ten million or more inhabitants – generated 14% of global GDP in 2007. Over the next 15 years, the makeup of the group of top 600 cities will change as the center of gravity of the urban and financial world moves south and, even more decisively, east. One of every three developed market cities will no longer make the top 600, and one out of every 20 cities in emerging markets is likely to see its rank drop out of the top 600. By 2025, we expect 136 new cities to enter the top 600, all of them from the developing world and overwhelmingly (100 new cities) from China. These include cities such as Haerbin, Shantou, and Guiyang. But China is not the only economy to contribute to the shifting urban and financial landscape. India³ will contribute 13 newcomers including Hyderabad and Surat. Latin America will be the source of eight cities that include Cancún and Barranquilla.

2. Global Financial Centers of the World (GFC)

The full set of GFC 7⁴ ratings and rankings are shown in Table 4. The changes in individual center ratings remain important and allow identifying certain headline changes:

- greater confidence amongst financial services professionals, shown by a rise in assessments;
- London and New York are now level in the ratings for the first time. Respondents continue to believe that these centers exhibit good levels of co-operation;
- London has dropped 15 points in the ratings, from 790 to 775 points – the second largest drop in scores. New York has overtaken London in three of the subindices: business environment, people and infrastructure;
- Hong Kong and Singapore still lead in Asia but there is continuing uncertainty about secondary Asian centers.

Figure 1 shows that London and New York still lead the field although the gap between them and the third placed center has been steadily cut from 81 points in 2009 and 45 points in June 2010 to just 36 points till the end of 2010. The main concerns voiced about London's competitiveness are the fear of a regulatory backlash that limits the freedom of financial institutions and the levels of corporate and personal taxation that may drive high earners abroad.⁵ New regulatory arrangements are also a concern in New York, and the loss of skilled personnel to the industry is a concern of respondents in all the leading centers.⁶

² *Farewell to Cheap Capital? The Implications of Long-term Shifts in Global Investment and Saving*, McKinsey Global Institute, San Francisco 2011.

³ India's economy is racing with China's, *The Economist*, 2010.

⁴ *Global Financial Centers 7*, City of London, London 2010.

⁵ www.londonfs.com.

⁶ *Global Financial...*, *op. cit.*, p. 8.

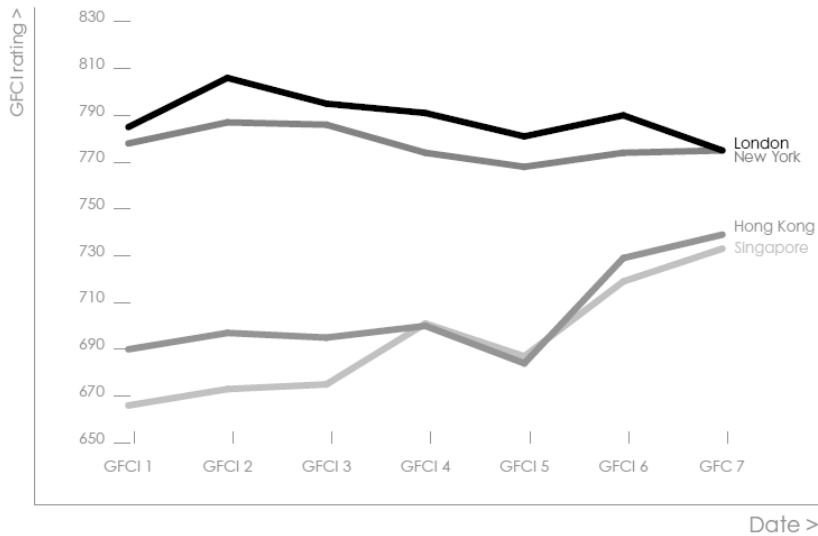


Figure 1. Top four financial centers of the world

Source: Z/Yen Group Ltd, [in:] *Global Financial Centers 7*, City of London, London 2010, p. 8.

Table 1. Top 15 European financial centers

Centre	GFC 7 Rating	GFC 7 Rank	Change in Rating since GFCI 6	Change in Rank since GFCI 6
London	775	1	-15	0
Zurich	677	7	1	-1
Geneva	671	8	11	1
Frankfurt	660	13	11	-1
Luxembourg	643	19	6	-3
Paris	642	20	12	-1
Edinburgh	615	29	10	-2
Dublin	612	31	-1	-9
Munich	610	33	22	-3
Amsterdam	604	35	18	-4
Stockholm	595	38	26	-2
Brussels	591	39	23	-2
Copenhagen	587	=41	27	0
Vienna	583	43	28	3
Madrid	581	=45	21	-5

Source: Z/Yen Group Ltd, [in:] *Global Financial Centres 7*, City of London, London 2010, p. 9.

European financial centers have had mixed fortunes since GFCI 6.⁷ Table 1 shows the top 15 European financial centers, all of which have increased their ratings since GFCI 6 with the exception of London (-15) and Dublin (-1). All the major

⁷ *Global Financial..., op. cit.*

European centers display a good degree of consistency across the industry sub-indices and the area of competitiveness sub-indices. London is the leading financial center in Europe but Frankfurt, Zurich and Paris also perform well in all the areas.

Table 2. Top North American financial centers

Centre	GFC 7 Rating	GFC 7 Rank	Change in Rating since GFCI 6	Change in Rank since GFCI 6
New York	775	1	1	1
Chicago	678	6	17	2
Toronto	667	12	20	1
Boston	652	14	18	3
San Francisco	651	16	17	2
Washington D.C.	647	17	17	3
Vancouver	623	23	34	6
Montreal	617	26	31	6

Source: Z/Yen Group Ltd, [in:] *Global Financial Centres 7*, City of London, London 2010, p. 10.

The North American centers have all performed reasonably well in GFC 7 and all have increased their ratings from GFCI 6. As reported, New York has been impacted on the most by the financial crisis and has only risen by one point, while the Canadian centers have seen a greater increase in scores than the US center. Chicago retains its position in the GFC 7 top ten and remains the 2nd North American financial center, after New York. Chicago is not just strong in derivatives trading, for which it is probably best known, but is a real “all-rounder”: it is strong in all areas, and in the top ten in all industry and area of competitiveness sub-indices. Chicago is rated highly by respondents based in New York but, surprisingly, very few other respondents in North America assessed Chicago. Toronto has risen 20 points in the GFC 7 ratings. It is the 3rd North American financial center and the clear leader in Canada. Toronto performs well in the people sub-index, where it is in 6th place, and in the asset management and professional services sub-indices, where it is 9th place in both categories. New York, Chicago and Toronto all fit the profile of global leaders – they are well diversified, well connected and have strength across the sectors. San Francisco is profiled here as a global diversified center – it is well connected and serves a diversified industry but does not, as yet, show sufficient depth in enough sectors to be classified as a global leader.⁸

With the exception of Shenzhen, all Asian centers have shown an improvement in the GFC 7 ratings, which for many comes on top of a substantial increase in scores in GFCI 6. Both Hong Kong and Singapore have continued to show a stable and strong performance. They are in 3rd and 4th places in all industry sector and competitiveness sub-indices, with the one exception of Singapore’s 5th place in the Insurance sub-index. Tokyo, which, with the exception of GFCI 5,⁹ always appeared

⁸ *Global Financial...*, *op. cit.*, p. 10.

⁹ *Ibidem*.

Table 3. Asian financial centers

Centre	GFC 7 Rating	GFC 7 Rank	Change in Rating since GFCI 6	Change in Rank since GFCI 6
Hong Kong	739	3	10	0
Singapore	733	4	14	0
Tokyo	692	5	18	2
Shenzhen	670	=9	-25	-4
Shanghai	668	11	13	-1
Beijing	651	=15	38	8
Taipei	638	21	29	4
Dubai	618	=24	1	-3
Seoul	615	=28	39	7
Osaka	606	34	41	4
Qatar	600	36	42	8
Bahrain	587	=41	29	2
Kuala Lumpur	571	51	14	-6
Mumbai	562	58	20	-5
Riyadh	507	69	50	-1

Source: Z/Yen Group Ltd, [in:] *Global Financial Centres 7*, City of London, London 2010, p. 11.

in the top ten, has risen two places to 5th, and is the third highest ranked Asian center. It is a leading financial center that performs well in most areas, placing it in the top 10 in all sub-indices. Shanghai currently sits in 11th place and Beijing has risen by 38 points since GFCI 6 to 15th place. Shanghai does particularly well in the banking, asset management and insurance sub-indices.¹⁰ Beijing does well in the insurance sub-index, where it is in 7th place. Seoul, with an increase of 39 points has risen seven places in the rankings to position 28th. Other notable improvements are recorded by Taipei and Osaka.¹¹

The top five positions in each of the subindices are generally occupied by the five top GFC 7 centers. Shenzhen's 4th position in the ratings from the Insurance sector respondents and Zurich's 5th in the professional services sub-index are the only exceptions. The Asian centers have tended to perform well in the insurance sub-index both in GFCI 6 and here, with seven of the top ten spots filled by Asian centers. Asian centers have also performed well in the banking sub-index, filling six of the top ten places, with Beijing entering the top ten for the first time. Toronto performs strongly in these sub-indices, entering the top ten in the asset management sub-index for the first time, and appearing in the top ten for three categories in total, while

¹⁰ Y. Wang, J. Xu, A. Yip, *China's Changing Wholesale Landscape*, McKinsey Global Institute, Hong Kong 2011.

¹¹ *Global Financial...*, *op. cit.*, p. 11.

Table 4. Financial centers of the world

	GFC 7 Rank	GFC 7 Rating	GFCI 6 Rank	GFCI 6 Rating	Change in Rank	Change in Rating
London	=1	775	1	790	► 0	-15
New York	=1	775	2	774	▲ 1	1
Hong Kong	3	739	3	729	► 0	10
Singapore	4	733	4	719	► 0	14
Tokyo	5	692	7	674	▲ 2	18
Chicago	6	678	8	661	▲ 2	17
Zurich	7	677	6	676	▼ -1	1
Geneva	8	671	9	660	▲ 1	11
Shenzhen	=9	670	5	695	▼ -4	-25
Sydney	=9	670	11	651	▲ 2	19
Shanghai	11	668	10	655	▼ -1	13
Toronto	12	667	13	647	▲ 1	20
Frankfurt	13	660	12	649	▼ -1	11
Boston	14	652	17	634	▲ 3	18
Beijing	=15	651	23	613	▲ 8	38
San Francisco	=15	651	18	634	▲ 3	17
Washington D.C.	17	647	20	630	▲ 3	17
Jersey	=18	643	14	640	▼ -4	3
Luxembourg	=18	643	16	637	▼ -2	6
Paris	20	642	19	630	▼ -1	12
Taipei	21	638	25	609	▲ 4	29
Guernsey	22	632	15	638	▼ -7	-6
Vancouver	23	623	29	589	▲ 6	34
Isle of Man	=24	618	24	609	► 0	9
Dubai	=24	618	21	617	▼ -3	1
Montreal	=26	617	32	586	▲ 6	31
Melbourne	=26	617	33	584	▲ 7	33
Seoul	=28	615	35	576	▲ 7	39
Edinburgh	=28	615	27	605	▼ -1	10
Cayman Islands	=28	615	26	608	▼ -2	7
Dublin	=31	612	22	613	▼ -9	-1
Hamilton	=31	612	28	597	▼ -3	15
Munich	33	610	30	588	▼ -3	22

Source: Z/Yen Group Ltd, [in:] *Global Financial Centres 7*, City of London, London 2010, p. 27.

placing 12th in the overall GFC 7. Shanghai and San Francisco have also made significant improvements in the asset management sub-index, rising 10 and 4 places respectively. The professional services area remains largely unchanged from GFCI 6. The Swiss centers of Zurich and Geneva move into 5th and 6th positions respectively, with Guernsey (5th in GFCI 6) moving out of the top ten.¹² Zurich and Geneva have also climbed into the top ten of the government and regulatory sub-index, replacing Paris and Sydney.¹³

¹² *Global Financial...*, *op. cit.*, p. 28.

¹³ R. Dobbs *et al.* (eds.), *Urban World: Mapping the Economic Power of Cities*, McKinsey Global Institute, San Francisco 2011, pp. 2-8.

3. Future financial centers of the world

Currently, companies' looking for growing markets, locating in the most promising cities requires yet another lens beyond just the top cities. To position their portfolios, they should be looking for those urban and financial markets that are likely to contribute most to the global growth. A growing market offers opportunities for incumbents and newcomers alike, and companies that position themselves effectively in fast-growing urban markets are likely to outperform their peers. The top 100 cities ranked by their contribution to global GDP growth in the next 15 years will contribute around 35% of GDP growth to 2025. And the top 600 the Cities will generate 60% of global GDP. Looking for growth gives us a dramatically different list of target cities. This group includes around 230 cities that do not make it into today's top 600, all of them emerging region cities with current populations of between 150,000 and ten million inhabitants, the so-called "middleweight cities". These middleweights include many relatively unfamiliar cities such as Ahmedabad, Huambo, Fushun, Medan, and Viña del Mar. It is expected the 216 Chinese cities in the City 600 alone to contribute nearly 30% of global growth between 2007 and 2025 compared with 3% generated by the cities in India, which is a much earlier stage of its urbanization.¹⁴ Companies now need to ask themselves which cities, and where, will offer the most promising prospects for each of their businesses and how they can best position themselves to capture these market opportunities through their activities and relationships. The fact that many of the new urban economic dynamos entering the City 600 over the next 15 years are not household names underscores the need for companies to look at the world's economic geography at a granular level of detail. Projecting the economic and demographic evolution of cities over the next 15 years is inherently subject to multiple sources of uncertainty and companies need to test the robustness of their business decisions against a broader set of plausible scenarios. For policy-makers, understanding the shifting gravity of the global financial and urban landscape is equally valuable. Policy-makers, who anticipate financial and urban trends, will not only be better prepared to respond to the increasing complexity of larger cities but can use effective planning and management to help boost the growth prospects of their urban regions. Moreover, diplomatic efforts in support of business need to evolve to reflect the shifting financial and urban world. For embassies, financial consulates, and high commissions to support their nations' trade interests more effectively, they need to move away from networks of embassies designed around the world as it was in the late 20th century to identifying which cities are likely to shape the 21st century. As an illustration, take Wuhan in China that we expect to deliver more than ten times the GDP growth of Auckland. But most countries have an order of magnitude more diplomats in Auckland than they have in Wuhan – if they have any at all in the latter.

¹⁴ But it would be a mistake to assume that the growth story lies exclusively in emerging markets-98 rapidly growing North American cities will contribute almost 10 percent of global growth in this period.

Table 5. Top 25 city rankings of the world in 2025

Top 25 hot spots by 2025

Cityscope 2025 city rankings

Bold text Developing regions
Normal text Developed regions¹

Rank	GDP ²	Per capita GDP ²	GDP growth ²	Total population	Children ³	Total households	Households with annual income over \$20,000 ⁴
1	New York	Oslo	Shanghai	Tokyo	Kinshasa	Tokyo	Tokyo
2	Tokyo	Doha	Beijing	Mumbai	Karachi	Shanghai	New York
3	Shanghai	Bergen	New York	Shanghai	Dhaka	Beijing	London
4	London	Macau	Tianjin	Beijing	Mumbai	São Paulo	Shanghai
5	Beijing	Trondheim	Chongqing	Delhi	Kolkata	Chongqing	Beijing
6	Los Angeles	Bridgeport	Shenzhen	Kolkata	Lagos	New York	Paris
7	Paris	Hwasōng	Guangzhou	Dhaka	Delhi	London	Rhein-Ruhr
8	Chicago	Asan	Nanjing	São Paulo	Mexico City ⁵	Mumbai	Osaka
9	Rhein-Ruhr	Sar Jose	Hangzhou	Mexico City ⁵	New York	Delhi	Moscow
10	Shenzhen	Yōsu	Chengdu	New York	Manila	Mexico City ⁵	Mexico City ⁵
11	Tianjin	Calgary	Wuhan	Chongqing	Tokyo	Rhein-Ruhr	Los Angeles
12	Dallas	Al-Ayn	London	Karachi	Cairo	Paris	São Paulo
13	Washington, D.C.	Edinburgh	Los Angeles	Kinshasa	Lahore	Kolkata	Seoul
14	Houston	Charlotte	Foshan	London	São Paulo	Lagos	Chicago
15	São Paulo	San Francisco	Taipei	Lagos	Kabul	Osaka	Milan
16	Moscow	Durham	Delhi	Cairo	Buenos Aires	Dhaka	Mumbai
17	Chongqing	Ulsan	Moscow	Manila	Luanda	Tianjin	Cairo
18	Randstad	Washington, D.C.	Singapore	Shenzhen	London	Shenzhen	Hong Kong
19	Guangzhou	Boston	São Paulo	Los Angeles	Los Angeles	Moscow	Taipei
20	Mexico City ⁵	Belfast	Tokyo	Buenos Aires	Colombo	Chengdu	Randstad
21	Osaka	New York	Shenyang	Rio de Janeiro	Baghdad	Cairo	Shenzhen
22	Philadelphia	Grande Vitória	Xi'an	Tianjin	Shanghai	Rio de Janeiro	Istanbul
23	Boston	Canberra	Dongguan	Paris	Paris	Wuhan	Delhi
24	San Francisco	Seattle	Mumbai	Jakarta	Jakarta	Los Angeles	Buenos Aires
25	Hong Kong	Zurich	Hong Kong	Istanbul	Istanbul	Buenos Aires	Madrid

1 Developed regions comprise the United States and Canada, Western Europe, Australasia, Japan, and South Korea.

2 GDP, per capita GDP in 2025, and GDP growth 2007 to 2025 in predicted real exchange rate.

3 Population below age 15.

4 Households with annual incomes greater than \$20,000 in purchasing power parity (PPP) terms.

5 Mexico City Metropolitan Region.

NOTE: For metropolitan regions, we use the first name of the region e.g., New York for New York-Newark.

Source: McKinsey Global Institute, Cityscope 1.0, [in:] R. Dobbs *et al.* (eds.), *Urban world: Mapping the Economic Power of Cities*, McKinsey Global Institute, San Francisco 2011, p. 3.

Until now, a lack of global data at the city level has prevented companies and policy-makers from tracking the evolving role of cities in the global economy and positioning their business and policy activities accordingly. By analyzing demographic, incomes, and household trends in these cities, the database offers actionable insights on the choices facing companies looking for new markets and policy-makers. seeking to improve their financial and urban management and the alignment of their diplomatic efforts with their countries' trade interests.¹⁵

4. The advantages of scale in China based on Shanghai

Of the 858 cities (official and unofficial) in China, only 13 today have populations above five million. Yet these cities accounted for more than 25% of China's total GDP in 2007. China's larger cities are more successful than its smaller cities because of history, location, economies of scale, and broad preferences granted by the central government.¹⁶ We can identify three critical factors that explain why larger cities such as Shanghai, in general, have more advantageous conditions for economic success:

1. Larger cities attract the most talents. Shanghai has the skills and talents needs to feed growth. The city has access to 100,000 or more graduates from 60 higher education institutions every year. As a result, more than one-quarter (28%) of Shanghai's labor force has a college education – double the proportion of a decade ago. The city is also beginning to attract talents from overseas – the expatriate community is half a million strong.

2. Large cities attract more investment. Foreign direct investment (FDI) has disproportionately landed in larger cities. FDI in emerging markets, at least initially, tends to go to areas that have market access as well as better infrastructure, services, and tax and other financial incentives. Larger cities in China, including Shanghai, have been more competitive than smaller ones in the provision of these benefits and others that are favorable to businesses. The establishment of a foreign-invested community reduces perceived investment risks and creates a virtuous cycle that serves to attract more investment in the future. Large cities also tend to attract a disproportionate share of total financing for infrastructure, driven by larger local equity pools, greater perceived creditworthiness, and access to a larger range of financing sources due to scale (e.g., large cities can tap the bond market).

3. City network effects stimulate economic growth. Large cities are almost always at the center of a cluster of smaller cities, and network effects spur economic growth and productivity. Shanghai sits in the middle of a very close-knit cluster of economic centers on the Yangtze River Delta, and this proximity has driven growth in the entire region.

¹⁵ R. Dobbs *et al.* (eds.), *op. cit.*, p. 9.

¹⁶ For example Special Economic Zone status in China.

5. Conclusion

Mainland China's wholesale banking market is projected to grow at more than 10% per annum over the next five years. At that pace, it is set to overtake Japan's as the largest in Asia by 2015. National development strategies, such as urbanization and industrialization, will continue to drive double-digit annual increases in the sector's assets and revenues. This said, the landscape is changing, and both local banks and their foreign-owned counterparts face a more challenging competitive and regulatory environment. The aforementioned example of Shanghai, what also doing other cities in China, shows potentials, ability and knowledge to face a dream of being a new biggest financial center of the world. Shanghai, Hong Kong and Singapore are growing very fast, collecting new firms and financial managers. All data show one direction in creating China a new financial center of the world.

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AZJATYCKIE MIASTA JAKO NOWE CENTRUM FINANSOWE ŚWIATA

Streszczenie: Artykuł opisuje główne centra finansowe świata, z podziałem na trzy rejony: Azję, Amerykę Północną oraz Europę. Pokazano, jakie miasta są obecnie wiodące w zakresie finansów. Opisano, które miasta w perspektywie najbliższych 15 lat będą wiodącymi na rynkach światowych. Artykuł pokazuje, że siła chińskich miast pod względem rozwoju i przyciągania kapitału wskazuje na powstanie nowego centrum finansowego w Chinach z podziałem na trzy wiodące miasta.