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# **INTERNATIONAL FINANCIAL CENTERS**

**Textbook**

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## **Annotation**

Textbook "International Financial Centers" contains a fundamental and comprehensive review of the evolution and specific features of the contemporary development of international financial centers that are hubs providing concentration and redistribution of global financial capital. The textbook consists of 13 chapters, each of them characterizing certain aspects of the development of international financial market and international financial centers.

The textbook is aimed at providing fundamental theoretical knowledge of the causes of origin, characteristics and peculiarities of IFC development under economic globalization.

International financial centers in the contemporary world economy are an inseparable link providing integration of global financial markets, which plays an important part in financial globalization and occupies a central place in the global financial architecture. The first part of the textbook reviews the structure of the global financial environment, the global financial market, international banking, international portfolio investment, and finances of multinational enterprises, whose development is exposed to the influence of economic globalization.

In this context, the textbook deals with financial globalization, its preconditions and factors, essential and distinctive features, benefits, risks and instruments of regulation at regional and global levels, as well as the enhancing role of the financial sector in the world economy. Economic globalization gave impetus to the emergence of tendencies towards the formation of the global financial market; it enhances the significance of the financial sector for the world economy, promotes the proliferation of transnational financial intermediaries, and boosts the growth rate of foreign direct investments and capital accumulation. Meanwhile, the global financial architecture undergoes transformation from a unipolar to multipolar, multi-faceted state.

Considerable attention is paid to the exploration of the 2008-09 global financial crisis, which exposed the controversies of modern globalization. The textbook provides a detailed analysis of the causes and distinctive features of the crisis, its chronological order and anti-crisis measures taken by governments to hold it and prevent similar crises in future. The authors make a number of proposals for reforming the global financial architecture under the current stage of globalization.

The second part of the textbook exposes that under financial globalization international financial centers have become hubs of the global financial market. They are of particular importance, contributing to the free movement of capital, overcoming certain barriers to the movement and redistribution of capital between individual companies, markets and regions.

The role of international financial centers in the modern world is extremely multifaceted. They are the cores around which the entire global investment, financial and banking systems are built. This is a specific sector of the global economy, which is highly profitable and influential and is one of the main engines of globalization. The role of IFCs in the global economy is also defined by their ability to mobilize and redistribute significant amounts of financial resources around the world, ensure the acceleration of capital turnover due to the large number of participants and the size of the market, its better organization and the use of financial instruments. As a result, they create conditions for an increase in the profitability of capital and the efficiency of its turnover, increases influence on economic growth due to a greater return and wider opportunities for selection of optimal directions of investments.

Under economic globalization, IFCs are transformed into centers of development that unite a large number of organizations in a system that makes use of the state-of-the-art financial instruments and technologies, high competences in various areas of the economy, management and various services. As a result, they turn into powerful information-analytical and organizational-management complexes with significant credit potential.

The textbook pays considerable attention to highlighting the essence and prerequisites for the creation of IFCs as well as their basic characteristics. It examines in detail the infrastructure of international financial centers comprising banks, stock exchanges, insurance companies, venture capital companies, etc., with special reference to peculiarities of their development under economic globalization. The development of the IFCs has been traced from the time of emergence of the first banks and stock exchanges to the present day. International financial centers have a long history of their formation and development, their prototypes being the centers of international trade that existed in ancient times. The first of them originated at the crossroads of trade routes in large Mediterranean ports back in the days of the Roman Empire. Later on, they arose in the Middle Ages in the port cities of Europe –Genoa, Venice, Pisa and Constantinople and competed with each other for leadership in monetary and trade matters. Within 200–300 years afterwards, such centers spread all over the world. The main reasons for their emergence were the development of trade relations and the economic development of countries, which contributed to the accumulation of significant free financial resources or excess capital. This led to the gradual development of the function of financial intermediation and became an important precondition for the financial market formation.

Since the 17th century, IFCs, which earlier had predominantly a regional character and operated with a small number of financial instruments, gained further development facilitated by the emergence of large banks and stock exchanges. The key functions of international financial centers during the 16–19th centuries were targeted at financial support for international trade and provision of international loans.

A new stage in the development of international financial centers that commenced in 1770s was associated with the development of capitalism, the growing internationalization of the world economy and shifts in global economic relations. Financial centers at this stage were characterized by the transition from mere supporting commercial transactions to the function of providing opportunities for financial transactions and mediation.

The development of international financial centers in the 1950-80s was associated with the emergence of supranational foreign exchange markets, European capital markets, regional and peripheral financial centers, as well as offshore centers. During this period, financial centers cease to be a mere concentration of banking and financial structures used for performing transactions but become centers of attraction for capital and human resources, serving as key points of the global financial architecture.

The end of the 19th and the beginning of the 20th century became an era of rapid economic development throughout the world, the period of the formation of the world economic system and the free movement of goods, capital and people – a phenomenon that at the end of the 20th century acquired signs of globalization of the world economy. The current stage of development of international financial centers began in the 1980s. It is connected with the development of economic globalization, which initiated trends towards the formation of a global financial market, opened new financial markets, launched the formation of transnational financial intermediaries operating globally, increased the rates of economic growth and capital accumulation, and caused the unprecedented development of international financial centers.

There are a number of specific features in the formation and development of IFCs in the global economy. They include the growing active role of IFCs in the world economy; their faster rate of formation; significant changes in their geographic location and in their functions played in the world economy as well as intensified creation of new regional international financial centers. A significant role is played here by global cities, which appear under globalization as not only centers of economic, political, cultural, educational, but also financial development. The latter may be considered as pivotal financial centers that demonstrate a high level of investment activity and concentrate significant amounts of financial resources and capital, become business platforms for leading firms offering financial and information services, form up transnational markets where firms and governments can buy financial instruments and specialized services, and appear as poles of the information economy.

The textbook demonstrates the uneven development of IFCs, the competition between them and changes in financial leadership, as evidenced by major international ratings. The latter comprise, inter alia, the following indices:

- Financial Development Index (FDI) used by the World Economic Forum;

- Global Financial Centers Index (GFCI) calculated by the Z/Yen Group, a London-based commercial research center, and published by the City of London Corporation (municipal administration of the City of London);
- International Financial Centers Development Index (IFCD) calculated by the Chicago Mercantile Exchange and Dow Jones & Company together with the Chinese Xinhua News Agency;
- Emerging Markets Index used by MasterCard Worldwide for emerging markets.

The textbook also exposes the competitive advantages, tools and mechanisms that allowed individual financial centers to attract huge financial resources and occupy high positions in international rankings.

The peculiarity of modern financial centers is that they are a kind of incubators of ideas and are aimed not only at the development of banks, stock exchanges, credit relations and investments; they create a particularly favorable environment that promotes the development of creativity, skills, business initiative, and entrepreneurship.

The contemporary information revolution and the global spread of information and communication technologies have acquired great importance for the development of financial centers. They contributed to the emergence of an integrated global financial space, in which information technologies and systems that instantly process and transfer information from one end of the world to the other, have integrated national financial markets into a single global financial market. Within this process, IFCs become centers of rapid development and introduction of new digital and financial technologies, financial innovations, creation and spread of new financial instruments, which is important for the current formation of the foundations of the Fourth Industrial Revolution and the new technological order.

The second part of the textbook reviews and characterizes the leading international financial centers. It pays considerable attention to London, New York and Tokyo as the largest IFCs in the world. London is the oldest and one of the most developed global financial centers, as the development of London's financial sector dates back to the introduction of the Royal Exchange in 1565 and the Bank of England in 1694. The textbook analyzes the historical track of the emergence of IFC London and prerequisites for its further development, the peculiarities of the current development stage and its prospects after BREXIT.

The textbook considers in detail the economic, political and financial prerequisites for the formation of the largest international financial center – New York. It houses the boards of many of the world's largest and most influential banks, insurance companies, industrial and other corporations, and the headquarters of most of the investment banks involved in mergers and acquisitions. New York as a financial center is the city with the largest stock markets in the world with the highest rate of



liquidity. Two of the world's largest stock exchanges are located here. The book exposes the distinctive features of New York's financial market and its development in the conditions of globalization.

Tokyo is one of the three most influential IFCs globally and one of the most economically developed agglomerations in the world. The city accommodates headquarters of a number of the world's largest investment banks and insurance companies. The textbook reviews in sufficient detail the Tokyo IFC, the peculiarities of its formation and development, its position on the world financial market, as well as the features of its current functioning.

A characteristic feature of the development of modern IFCs is fierce competition between them. Thus, before the First World War, London was the dominant financial center due to the high level of development of capitalism in the United Kingdom, its strong and extensive trade relations with other countries, the relative stability of the pound sterling, and the developed credit system of the country. Financial instruments and products, which today are actively used on the platforms of world exchanges, initially emerged on the site of the financial center in London. At the same time, New York was gaining financial strength.

Before and after World War I, Europe lost its leadership in the financial market as European financial capital shrank and reduced its influence. Therefore, the world's leading financial center moved to the USA and its main functions concentrated in New York. During the Second World War and until the 1960s, New York had maintained a monopoly position on the world financial market. Meanwhile, London managed to preserve its financial importance and its banks, stock exchanges and insurance companies largely regained the earlier lost positions and continued to play an important role in foreign exchange and international credit and financial transactions confirmed by its first place in the IFC ratings. However, since 2018, according to the GFCI Index, New York displaced London from the first place.

The textbook provides extensive review of the European international financial centers – Frankfurt am Main, Luxembourg, Geneva, and Zurich. It gives coverage to the prerequisites for their emergence, features and prospects for their development under economic globalization.

In the modern conditions of world economic development, dozens of new fast-growing financial centers with huge economic potential are emerging and strengthening alongside the already existing financial capitals. Apart of multinational enterprises based in developed countries, the national banking capital in developing countries is also actively expanding its activities to serve international business. Demand and supply for loan capital in Southeast Asia, Latin America, the Middle East, and Africa have been feeding the development of regional capital markets in these areas.

Each country has interest in the creation of IFCs, because it has positive socio-economic consequences. They include: contribution to the inclusion of a country in global processes and the global world financial market; participation in the creation and redistribution of global income in the financial sector; direct impact on economic growth of a host country due to openness of the financial market, thus making it more attractive for capital and investments; contribution to socio-economic development; receiving significant income from taxes, etc.

A number of prerequisites are necessary for the local market to be able to turn into a developed international financial center, in particular: macroeconomic and political stability in the country, legal conditions, resilience of the financial system and a stable currency, openness of the economy to capital mobility, a large financial market and developed financial infrastructure, availability of skilled personnel, etc. Countries can create IFCs if they possess the prerequisites.

In the conditions of economic globalization of the economy, the liberalization of transnational links, the growth of international financial markets and capital flows enable financial centers to transcend the local market and form capital hubs that are transforming into international financial centers. In recent decades, regional international financial centers have been growing rapidly, and they need increasingly less time to attain international level. These processes acquire special features: they cover new regions and countries, use new financial instruments, in particular, FinTech.

In their aggregate, they create a new structure of the zonal organization of finance and operate according to the principles of a network economy having nodes of different strength. They make up a special system that serves the global economy and appear as certain integrity, while each of IFCs occupies a specific place in the system of international division of labor and global movement of capital. However, they strive to redistribute spheres of influence, as evidenced by the permanently changing IFC ratings.

The textbook makes special focus on the characteristics of Asian international financial centers. At the end of the 20th century, the capital concentrated in Asia have built up enough strength in conjunction with the emergence and spread of new megacities with developed infrastructure based on national and transnational banks connected to major stock exchanges, full-fledged foreign exchange and credit markets, and markets trading in precious metals. As a result, Singapore, Hong Kong, and China have expanded the system of major global financial centers.

The authors pay considerable attention to the emerging IFCs of Singapore and Hong Kong, where the strengthening of the financial sector relies on sustainable economic development, innovative development model, advanced international competitiveness, a high level of human capital, comprehensive inclusion in global processes, well-established banking and insurance, a mild tax climate, a well-developed corporate sector and investment system.

International financial centers located in China are growing rapidly due to the China's strengthening position in the world economy and international economic relations, accelerated and innovative economic development. Among China's IFCs, Shanghai, Beijing, Shenzhen, Qingdao, and Chengdu are demonstrating the fastest growth and have fully entered the global financial space. According to the Global financial centers index (GFCI), Singapore, Hong Kong, Shanghai, Beijing, and Shenzhen have been present among top ten IFCs in recent years.

Among the largest regional international financial centers, the textbook singles out the IFCs of the United Arab Emirates's Dubai and Abu Dhabi, Bahrain, Mumbai, Sao Paulo, Sydney, Casablanca, Doha, and Johannesburg.

In recent decades, offshore financial centers have developed and occupied a prominent place on the global financial market. The spread of globalization to financial markets fostered active involvement of offshore financial centers and tax havens in strategies to ensure the efficiency of international capital flows. The offshore business has reached huge scales and turned into an independent sector of the world economy, having become an integral part of the world financial market. The growth rates of turnover in offshore zones, until recently, exceeded those of the aggregate external economic turnover worldwide.

The attractiveness of offshore financial centers is associated primarily with zero or low rates of taxes on income from capital; low level of transparency regarding investment, tax and other components of the business climate, regulatory norms and supervision as well as exposure of financial information; lack of effective exchange of financial information between national regulators, etc. Approximately fifty countries and territories have resorted to this business and tax model.

The use of such jurisdictions can have both positive and negative consequences for all entities involved in capital flows. The growth in the number of offshore financial centers and their impact worldwide requires comprehensive study and proper regulation in order to improve the framework of their activities. These measures have already been launched at several levels: global (OECD, IMF, UN, FATF, FSB), regional (mainly within the framework of the European Union), bilateral (based on international agreements), and national.

The textbook "International Financial Centers" will be useful for university courses on world economy, international economic relations, international finance, international business, multinational corporations, international management, and others. This textbook will help to acquire the necessary theoretical and practical knowledge and understanding of the global financial market, in particular, international financial centers, which is vital for training specialists in international economic relations.