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WORLD FINANCIAL CENTERS ARE SOURCES OF ECONOMIC GROWTH

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Annotation

This article is devoted to the study of theoretical aspects of the functioning and characteristics of financial centers in modern conditions. International financial centers are key platforms of the global financial system, where mechanisms for attracting and managing capital flows from all over the world are built. The article provides an overview of approaches to defining the concept of "international financial center", common in foreign and domestic academic literature.Considerable attention is paid to the analysis of approaches to considering IFCs as a function of a global city, and the consideration of the characteristic features of IFCs at the present stage of development is based on the analysis of methodological data from the GFC Global Financial Centers Index, which is compiled by the London analytical center Z/Yen Group Limited.

Keywords: international finance, regional economics, financial globalization, global financial system, international financial center, global city, global financial centers index.

Introduction

It should be noted that nowadays, a main attention is being paid to the transformation and internationalization of economies, access to financial markets and the growth of financial flows moving beyond the national level are being transformed into global ones, rushing from one to another country, where, in competition in liberalized national markets, a comfortable infrastructure is located in international Business.Currently,there are 10 thousand branches and branches of foreign banks are concentrated in 13 global financial centers of America, Europe and Asia. By themselves, global financial centers are attractive not from the point of view of individual conditions, but from the point of view of the global strategy for locating business in the selected region.

In terms of globalization and fragmentation of world trade, there is an increase in the number of international companies and institutions, the integration of international markets and the strengthening of the role of the financial sector, which generally contributes to the emergence of new international financial centers, where the total share of financial services in GDP reaches 10% or higher investments.

A financial world is structured in a way that capital tends to go where it is safer, cheaper and more profitable, which reserves the right to choose the infrastructure for placing capital and mobilizing other factors of production. International financial centers act as a key nexus of the global financial architecture today, facilitating the transformation of savings and capital flows into investment.

Literature Review

The attention of scientists and specialists has always been focused on such a category as "international financial center"; let us consider a number of existing interpretations of the term "financial center" in foreign economic literature. The first mention of the term "international financial center" dates back to the 19th century,Cambridge Dictionary [1].It offers the following definition: it is a city characterized by high financial activity, where a significant number of banks and financial institutions are located and there is a stock exchange.In the scientific literature on the topic, financial centers are associated with the concept of a "global city", as well as a world city. In 1927, R. McKenzie noted that the world is built on a system of large cities that are dynamically developing and serve as a place of concentration of wealth and enterprising people.2

The next significant study in the field of financial centers is devoted to the professor of economic theory at the University of Freiburg, Thomas Gehrig, who defined a financial center as a kind of geospace, in certain areas of the territory of which there is a concentration of subsidiaries, branches and representative offices of banks and other financial intermediaries. An important contribution by P. Hall, who considered world cities (London, Paris, New York, Tokyo, Moscow, etc.) as centers of the world with a high level of development in areas such as trade, finance, education, culture and technology.[3]

In 1974, in one of the scientific works devoted to the IFC, Ch. Kindleberger[4] ,noted that this is a place of financial transformation capital from savings into investments in isolation from consideration of the location of the center - a specific city, and on the other hand, it is assumed that the MFC is a global city where favorable conditions have been created for the placement of capital by investors from all over the world.

In the historical aspect, financial centers originated as the largest cities in the world, for the first time the concept of "global city", this is the place where trade and financial transactions took place, the term denoted a large-scale form of settlement that was formed by combining several smaller agglomerations .[5]

The global financial system began to form with the emergence of regional financial centers such as Amsterdam, Lyon, Anwarpen. Historically, financial centers in the architecture of the global economy were formed due to the strengthening of the banking sector due to

1What is Financial Centre? // Cambridge Dictionaries Online.

[2] McKenzie R. The Concept of Dominance and World-Organization // American ournal of Sociology. 1927. No. 33. PP. 28-42

[3] Hall P. World Cities. New York. McGrawHill, 1966. 256 p

[4] Kindleberger Ch.P. The Formation of Financial Centers: A Study in Comparative Economic History. Princeton Studies in International Finance. No. 36. New Jersey, 1974. 85 p.

[5] О. Шпенглера «Закат Европы. Том 2: Очерки морфологии мировой истории». Москва., 1998. 606 с.

maritime trade; the next cornerstone was the emergence of exchanges. Thus, in 1773, the first stock exchange appeared in London. Following the positive experience in 1792 in New York, a document was signed regulating securities trading.

Further, from the 1950s to the 1980s, when the emergence of supranational foreign exchange capital markets increased the mobility of capital flows, the activation of investors led to the formation of regional centers in the Middle East, in particular in Qatar and Egypt (Cairo), in South Africa (Johannesburg), Latin America and offshore jurisdictions such as Panama, Luxembourg, Virgin Islands.

The emergence of offshore banking centers dates back to the 1960s, when the eurocurrency market began to grow sharply. In global financial centers, where transactions with non-residents in a foreign country prevail, they are called “offshore” financial centers. Such offshore jurisdictions “safe havens” are attractive primarily due to lower tax and operating costs and minor government intervention. The main flows of monetary resources at the end of the 20th and beginning of the 21st centuries were accumulated and redefined through the “USA + UK + offshore” structure.

In the modern world, a financial center is no longer just a specific territory in which a large number of credit and financial institutions of international level are located, but also a platform for attracting and distributing capital flows of global significance, as well as a field for investors and companies within the framework of a wide range of solutions tasks.

The activities of international financial centers play a positive role for the national economy, where geographically the financial center is located, contributes to the overall level of competitiveness of the country, increasing its investment attractiveness.

“An international financial center is a city or territory of a state that mobilizes and redistributes huge volumes of financial resources, combines a complex of banking and specialized financial institutions that carry out international currency, financial and credit transactions, operations with goods and securities.[6]

Analysis and Results

The hierarchy of international financial centers (global, regional, local, specialized) appeared as a result of the chronology of events or historical prerequisites, for example, London inherited financial power from the British Empire, and New York took over the status of the largest world capital after the First World War. In particular, in the twentieth century, the ways of regulating financial markets diverged seriously. Following the financial crisis caused by the Great Depression in the United States, the legal system was significantly modernized to protect investors in the stock markets.

Banks were divided into investment and classic in Anglo-Saxon countries; As for continental Europe, no such division occurred there. As a result, the so-called continental model of the financial market has taken hold in Europe, in which banks play a significant role. They make the majority of investments in financial markets, and are linked to the dominance of debt

[6] Urban world: Cities and the rise of the consuming class. McKinsey Global Institute, June 2017.77 p

capital in European financial markets and the widespread involvement of private investors in financial mechanisms such as deposits and insurance.In numbers, this is expressed as follows: in countries where the continental legal model is used, share capital is highly concentrated - up to 70–80% is owned by large institutional investors (banks, insurance companies, pension funds, industrial corporations). For example, foreign investors in Germany own about 15% of shares, the state - 5%, which is more than double the similar figures in the UK.

By 2022, an increasingly large part of monetary resources will be concentrated and passed through regional players located in Asia, where Singapore, Taiwan, and Hong Kong have taken the lead, which have increased cross-border ties with China and developing countries markets. The impetus for this growth of Asian financial centers was given by the development of key technological areas, as well as payment systems.

When the structure of trade changes, we should expect changes in the financial system, which is auxiliary to trade. Financial centers were associated and acted as islands of free trade, they evolved into large-scale financial hubs, contributed to the strengthening of economies and, from a historical perspective, transformed from points of capital redistribution into powerful institutions; a third of the growth of foreign investment in the world falls on the sites of financial centers, where the withdrawal of new financial and digital technologies [7]

Table 1. Dynamics of the globalization process[8]

Indicator	1980	1990	2000	2007	2008	2020
Cross-border capital flows / World GDP at current prices,	4,7	5,2	15,3	20,7	3,1	23-28
Accumulation of foreign direct investment (worldwide) World GDP at current prices	6	8,5	18	28,3	24,5	42-47

Over the past relatively short period of the 21st century, we can observe different stages of development of the global financial system. A new stage in the development of the global financial system, which has recovered from the lockdown crisis and the restoration of cross-border financial ties. At the same time, in 2023, international capital flows began to increase again, largely under the influence of economic policy measures taken to overcome the crisis caused by the escalation geopolitical conflicts, increasing inflation rates and tightening monetary policy of central banks, so since March last year, the US Federal Reserve has been raising rates to combat inflation. Today it is 4.5–4.75%, which is a record since 2006 (5.25%).

The increase in FDI in developing countries has been unevenly distributed. Much of the growth was concentrated in a few large developing countries, where foreign direct

[7] Hines J. International Financial Centers and the World Economy. Step Report 2009 / J. Hines. – London: Society of Trust and Estate Practitioners, 2019. – P. 3

[8] Рассчитано по FDI Stat Database, UNCTAD, IMF World Economic Outlook Database, McKinsey, Global Markets Annual report

investment grew by 4% in 2023, reaching US$916 billion.[9] We are observing significant changes in the structure of global GDP, if previously in The top 5 largest economies in the world included the USA, China, Japan, Germany and the UK, then last year India took fifth place in the ranking.

According to the forecasts of international analysts, recession in the global economy in 2023 may give way to growth. The IMF and the UN give the most optimistic forecast for the increase in global GDP - 2.9% and 1.9% versus 1.7% from the World Bank.[10]

Global capital is now focused not so much on the depth and volume of a particular market, but on the opportunities that a particular financial center provides for remote management of this capital. For example, Singapore was one of the first, together with the state central bank, to adapt regulation to provide fintech startups with maximum privileges; Switzerland was among the first to liberalize legislation.

In particular, the efforts of governments in search of new sources of economic growth sought to create financial centers that in the long term brought positive effects for the national economy in the form of direct GDP growth, but also indirect ones accompanying the development of the national financial market, improving the quality of institutions, achieving macroeconomic stability, development of the business environment.

Research in the field of financial centers made it possible to identify a number of fundamental factors when creating an MFC:

— stable currency and stable financial system;

— developed financial and social infrastructure;

— a wide instrumental range of the financial market, providing lenders and borrowers with a variety of options for costs, risks, control and liquidity;

—adapted legislation, including tax legislation;

— legal guarantees that promote trust on the part of international borrowers and lenders;

— human capital possessing the necessary financial knowledge through periodic training and advanced training;

— modern and effective information exchange technologies and means of communication.

The permanent growth of the global economy and competition in terms of the technology race, leads financial centers to comprehensive coverage of financial operations or their emphasis on their specialization; competition for global financial centers comes not only from growing regional, but also specialized sites. Some focus on bond issues, others on the development of the interbank market. So for example, Hong Kong is focused on the development of the banking and investment business sector, Singapore - foreign exchange transactions, the development of the insurance market, Luxembourg claims to be a financial center of "green" finance, Malaysia and Bahrain have become centers of Islamic banking," Hong Kong has become a global center for asset management, achieving exceptional high level of financial stability.

[9] World Investment Report 2021: Investing in Sustainable Recovery, 2021. 34p.

[10] World Bank group. Flagship report "Global Economic prospects". January 2023.

The examination of the characteristic features of MFCs at the present stage of development is based on the analysis of methodological data from the GFCI Global Financial Centers Index, which is compiled by the London analytical center Z/Yen Group Limited. Current GFCI ratings are formed on the basis of two groups of variables: instrumental factors (five areas - business environment, level of development of the financial sector, infrastructure, human capital, reputation and general factors - include 102 elements), expert assessments (opinion of financial sector specialists.

Rating of top 20 IFC GFCI 32 (2022)[11]

IFC	Rate
New-York	1
London	2
Singapore	3
Hon Kong	4
San Francisco	5
Shanghai	6
Los Angeles	7
Beijing	8
Shenzhen	9
Paris	10
Seoul	11
Chicago	12
Sydney	13
Boston	14
Washington	15
Tokio	16
Dubai	17
Frankfurt	18
Guang Chgou	19
Luxemburg	20

In a recent ranking of global financial centers, London lost sole leadership and is now tied with New York, home of the Nasdaq exchange. Four of the ten largest IPOs in 2019 occurred on American exchanges (Uber, Avantor, Lyft and XP). For comparison: all Chinese stock exchanges, including Hong Kong, together represent about 16% of the global stock market. And London's share fluctuates around 2.3%.

The functioning of the world's financial centers would be impossible without the work of the world's largest exchanges, where the concentration of money and the volume of transactions with it show the prospects of a business to receive the financing it needs in the city - through an IPO, bond placement or directly from funds. According to World Federation of Exchanges forecasts, the share of exchange American financial centers in the world stock exchange turnover by 2035 may increase from the current 42.1 to 45%. London remains the largest financial center in terms of banking activity - foreign exchange dealing, stock and bond markets, international banking, IPOs and SPOs."In total, the list includes twenty cities that account for a significant share of global financial activity. It should be noted that the competitiveness of the MFC directly depends on its image, brand and reputation. MFCs act as a kind of quality mark, which is recognized by the global business community, confirms the stability of functioning and expectations of further growth of the capital market and attracting additional investments.

$126 trillion in assets under management by global investment funds in 2022, more than $29 trillion was in the United States and more than $14 trillion in the United Kingdom and

[11] Yeandle M., Mainelli M., Harris I. The Global Financial Centres Index 3 / M. Yeandle, M. Mainelli, I. Harris. – London: Z/Yen Group, City of London Corporation, 2008. – P. 16.

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its financial center London city[12],, which has an autonomous and proprietary jurisdiction. The main investment activity usually occurs in the countries' largest financial centers; however, it is worth noting that Paris and Tokyo also added two points over the year, as did New York. And the German Frankfurt received three points at once, becoming the growth leader among the largest financial capitals.

At the same time, it is London that leads in the provision of financial services, such as insurance or auditing, even ahead of the United States. Interestingly, UK firms derive 70% of their revenue from this activity from serving US and EU clients.

Conclusion

An analysis of foreign economic literature revealed that there is no single approach to the categorical apparatus on the subject of financial centers. In particular, there is no single generally accepted definition of the concept of "international financial center" - this is a territory of significant attraction of financial resources and capital, concentration of institutions providing the full range of financial intermediation services, with a developed infrastructure and regulatory environment that ensures the effective functioning of national and international business. At the same time, an important place is given to social, transport and communication, innovation and business infrastructure.

A review of approaches to defining the concept of "international financial center", characteristic of economic science, allows us to conclude that the IFC is considered in it as a platform for concentrating global financial institutions, mostly from the perspective of international finance, without attention to the spatial location of centers.

The focus now is on the recovery process. But the challenge is not just restarting the economy, but also making the recovery more resilient and better able to withstand future shocks.

In order to compete on an equal footing with global financial centers, it is necessary to train highly professional personnel to manage key elements of the financial infrastructure, as well as develop new financial technologies, new methods of legislative regulation of the financial sector, improve the techniques and methods of legislative activity, develop an equal partnership between business and public sector.

It has been determined that in modern conditions, IFCs have a significant impact on the functioning of national financial systems and national economies. The positive effect is determined by the benefits for the home countries of the IFC: increasing the efficiency of allocation of financial resources and capital, increasing budget system revenues through additional tax revenues, increasing employment and reducing unemployment in the country, promoting the internationalization of the national economy.

The position and role of modern MFCs are determined by ratings and rankings of international structures and organizations, as well as a number of financial and macroeconomic indicators (volumes of the foreign exchange, credit and insurance markets,

[12] www.cityoflondon.gov.uk

investment flows, market capitalization, securities trading volumes, stock indices, market indicators and others)

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