

March 2007

HK To Challenge the big two?

Can You build a leading financial centre from scratch?.

Is it inevitable that a global financial centre will develop in Asia as the region's economic power grows? These were two of the questions raised this week with the launch of the Global Financial Centres Index, a report that ranks 46 cities.

The index is produced by the ZYen research consultancy and was sponsored by the Corporation of London, which provides local government services for the City of London.

On a scale of one to 1,000, London pips New York by five points, with a top score of 765.

The UK capital leads the Big Apple in all five areas that underpin the rankings: people, business environment, market access, infrastructure, and general competitiveness.

The index brings together the results of online surveys with several hundred financial service executives and 47 separate indices of competitiveness.

It asserts that the two cities boast the only "global" financial centres, while Hong Kong, which ranks third overall, is deemed the world's only "international" financial centre.

Some people in Asia might dismiss the ranking as an Anglo-Saxon stitch-up, such is the level of self-confidence in countries such as India and China.

Pass through any airport in Asia and you are invariably greeted with billboards boasting about the prowess of the financial centre of the city in question.

Lest we forget the world's biggest IPO occurred last October in Hong Kong and Shanghai, when Industrial and Commercial Bank of China bypassed London and New York to raise \$21.9bn.

Asia does hold four of the top 10 positions, with Hong Kong ranked third with 684 points, followed by Singapore (fourth), Sydney (seventh) and Tokyo (ninth).

Hong Kong scores very highly on people factors, having developed strong expertise in professional services.

Many people may not be aware that Hong Kong boasts the fourth highest number of chartered financial analysts in the world behind the US, Canada and the UK.

There are nearly 3,000 of them compared with 200 in 1995.

The financial services cluster also extends to m'learned friends, with 5,000 solicitors and 1,000 barristers practicing in Hong Kong.

Sydney scores highly on regulation and quality of life, but its ranking slips because "many financial professionals leave for larger English-speaking centres."

Can any Asian financial centre rise to the very top?

The report notes the “considerable speculation as to whether Shanghai, Hong Kong or Singapore will emerge as a third global centre”.

But the consensus at the moment is that no single Asian centre will emerge as a global centre and that the liquidity being generated by the region’s economic boom is likely to emerge as a rival to London and New York.

Financial centres are where the liquidity is and the market liquidity is hard to move. So it is hard to see London or New York being pushed off their perches just yet.

This is assuming that a centre does not introduce ill—conceived laws, such as those in the US that enabled London to gain pre-eminence in the Eurobond market.

Some respondents said that the power of London and New York could wane in the coming years as technology advanced. They argued that physical location would matter less as electronic trading made further inroads.

But clustering of professional services remains a vital factor in the competitiveness of a financial centre.

The report should help puncture the egos of cheerleaders of centres such as Mumbai, Shanghai and Seoul. The Indian city is ranked 39th, a full 14 places below the upstart Dubai.

Shanghai comes in 24th position, in spite of the fact that it is forecast to outstrip Hong Kong and raise \$35bn from IPO’s this year- and regardless of its apparent new-found ability to cause a run on the world stock markets.

The index ought to caught the most Seoul-searching in South Korea, given that its capital city nearly props up the table. Seoul has often talked excitedly about becoming an Asian financial services hub.

Alas, the index ranks it 43rd, lagging behind ignominiously those giants of the financial world, Warsaw, Helsinki and Vienna.

-Sundeep Tucker-

c. 2007 Financial Times