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'Are financial centres dead? Discuss the impact of key current issues, including Covid-19, on the future of business clusters that make up financial centres around the world'

Introduction

A financial centre (FC) is an urban space where financial transactions are conducted by a cluster of intermediaries, frequently from their head offices (Cassis & Wójcik, 2018; Jao, 1997). The widely recognised authority in establishing FC hierarchy is the Global Financial Centres Index (GFCI), which largely uses the same fundamental determinants as the pioneering Reed (1981), namely; Financial Sector Development, Business Environment, Infrastructure, Human Capital and Reputation (GFCI 28, 2020). These criteria are major factors contributing to financial service clusters.

Financial Centre Survival and Growth

FC growth depends on competitive advantages, brought about by factor creation or improvement (Porter, 1990). New York and London have consistently ranked first and second interchangeably in the GFCI, having unrivalled reputations, depth and breadth of financial services provision, highly liquid markets, and trustworthy regulatory environments (GFCI 28, 2020; Cassis & Wójcik, 2018).

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Asia-Pacific has gained new GFCI entrants Xi'an and Wuhan; whilst Taipei, Chengdu, and Qingdao have moved more than 30 places up, as their connections with other FCs deepen, and international trade and tax efficiency increases in the region (GFCI 28, 2020; Hong Vo & Nguyen, 2020).

Approximately 50% of all hostilities reported on the Global Conflict Tracker are within the Middle East & Africa, which consequently accounts for only 13 out of the 138 FCs in the GFCI 28 (CFR, 2021). Growth in this region is hampered by lack of robustness in the rule of law, quality of physical/technological infrastructure, and capital availability (Hatayama, 2019; Beck et al., 2009).

Impact of Current Issues on the Future of FCs

As the world economy contracted 3.5% in the Covid-19 pandemic, the Covid Economic Recovery Index indicates that FCs with advanced structural systems already in place have a greater capacity to rebound, for instance, the approved government stimulus package was \$900B in the US compared to just \$0.2B in Ghana (CERI, 2020; Fedor, 2020, KPMG, 2020). While unemployment is up, remote working widens the worldwide pool of skilled personnel as FCs rehire (Plecher, 2020). ICT infrastructure has assumed greater importance, presenting opportunities for exceeding adoption targets, although cyber security concerns will increase regulatory pressure on FCs (Boland et al., 2020; Livevox, 2020).

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Climate change is an ongoing risk, as highlighted by recent extreme weather events, so FC companies must ensure their business practice minimises risk and promotes a low-carbon economy (Chenet, 2019). The regional economic shock of Brexit means the UK has lost ‘passporting’ rights and has not been granted financial services regulatory equivalence (Kamm, 2021). London sustained some business and job losses, however dominance in capital availability and liquidity within Europe is retained (Faulconbridge & Jones, 2021).

Political unrest surrounding the US election augmented uncertainty to the markets, the volatility settling without major disruption to US FCs (Pladson, 2020). Lastly, enterprising Geneva, famed for banking secrecy, highlighted the importance of efficient systems and a skilled workforce as their banking sector continues to flourish, despite the recent introduction of transparency laws (Roth, 2002; GFCI 28, 2020).

Conclusion

Historically, FCs have demonstrated surprising resilience, such that they are likely to prevail through present challenges. Prospering financial services clusters represent global economic stability, which necessitate intervention from governments and central banks. FCs are certainly not dead, some FCs are experiencing growth, with new entrants to GCFI 28 even during the Covid-19 pandemic. FCs may falter but they tend to reinvent, restructure, downplay their weaknesses and make the most of their strengths.

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