EVOLUTION MODEL FOR GLOBAL FINANCIAL CENTERS BASED ON THE GFCI

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Abstract:
This article examines the evolution of global financial centers (GFCs) using the Global Financial Centers Index (GFCI) as a framework for analysis. It proposes a life-cycle model that captures the rise, maturity, and possible decline of centers and evaluates the key factors shaping their competitiveness. By analyzing trends in major hubs such as New York, London, Singapore, and Shanghai, the study identifies human capital, regulatory quality, technological innovation, and global reputation as decisive drivers of long-term success. The findings highlight how the GFCI reflects structural transformations in international finance and serves as a predictive tool for policymakers and market participants.

Keywords: Global Financial Centers Index (GFCI), financial competitiveness, evolution model, international finance, agglomeration, financial globalization.

Introduction:
International financial centers (IFCs) are hearts of global finance where banks, investment firms, insurers, fintech companies, and professional services concentrate. Historically, IFCs have shaped the geography of global capital flows, from Amsterdam and Venice in the early modern era to London and New York in the 20th century. In today's world, competition has become increasingly global, as Asian and Middle Eastern cities challenge established Western dominance.
The Global Financial Centers Index (GFCI), published biannually by Z/Yen Group and the China Development Institute, evaluates more than 100 cities based on over 100 quantitative indicators and qualitative survey responses.[1] It covers five key areas: business environment, human capital, infrastructure, financial sector development, and reputation. Because of its breadth and continuity, the GFCI has become one of the most widely used tools to benchmark and compare financial hubs.
The purpose of this study is to develop an evolution model of global financial centers based on the GFCI. This model highlights how centers emerge, grow, mature, and sometimes decline under the influence of policy, market, and technological changes. Moreover, it also explores

how new centers such as Shenzhen and Shanghai have risen in recent decades, while traditional leaders like London and New York face challenges from geopolitics and fintech disruption.

Main Content:

Theoretical Background: Evolution Model of Financial Centers

The development of a financial center is rarely linear. Instead, it follows a cyclical process influenced by both internal strengths and external shocks. Building on agglomeration theory and financial geography, the evolution can be divided into four stages:

1. Emergence: Centers develop niche advantages, often based on geography (time zone), tax incentives, or commodity trade. [4]
2. Growth: A virtuous cycle of investment, talent inflows, and reputational gains expands the center's influence. [4]
3. Maturity: The center becomes globally recognized, offering diversified services and deep markets. [4]
4. Decline or Renewal: Centers may lose competitiveness due to crises, regulation, or geopolitical tensions, unless they renew through reforms and innovation. [4]

The GFCI helps identify which stage a center is in, as rising or falling scores mirror these life-cycle shifts.

GFCI as a Tool for Measuring Evolution

The GFCI combines quantitative data (macroeconomic indicators, infrastructure, governance) with qualitative assessments from finance professionals. This dual approach captures both hard fundamentals and soft reputation effects.

For example:

- New York and London consistently hold the top two positions, signifying their entrenched roles in global finance. However, their rivalry shows a shifting balance influenced by regulatory changes and geopolitical events.

New York's Dominance: New York has maintained the #1 rank since GFCI 24 (September 2018). While specific GFCI 38 scores are often not fully disclosed in summaries, reports indicate New York continues to lead, reinforcing its status as the world's financial powerhouse. It also retains the top spot in the FinTech ranking in GFCI 38.[5]

London's Resilience and Brexit Impact: London remains highly ranked, but the economic and political fallout from Brexit has introduced volatility. Quantifiable economic data related to Brexit's macro-impact on London's economy includes:

- London's Gross Value Added (GVA) was estimated to be 6.2% (£32 billion)[3] lower in 2019 than it would have been if the UK had remained in the EU.
- Forecasts project London's GVA could be 7.5% lower by 2035[2] than a "remain" scenario, with the UK projected to have nearly 500,000 fewer jobs in London alone by 2035.

- Despite this, London has often closed the ratings gap with New York in certain GFCI editions, demonstrating resilience, particularly in areas like Foreign Exchange (FX) and OTC derivatives, where it accounts for a major share of global turnover.
- The long-standing rivalry between Singapore and Hong Kong for the title of Asia's top financial center shows a clear transition, with Singapore gaining significant ground.
Singapore's Ascendancy: Singapore overtook Hong Kong for the first time in GFCI 32 (September 2022)[5], moving from 4th to 3rd place. This shift was largely attributed to its perceived political stability and aggressive adoption of FinTech. While Hong Kong briefly regained 3rd place in GFCI 36, the scores between the two centers remain extremely close, indicating an ongoing, tight competition.
FinTech Competitiveness: Singapore has been a strong performer in the FinTech sub-index, though in the most recent GFCI 38, Hong Kong rose five rank places in the FinTech rankings, overtaking both Singapore and other US centers to take 3th position globally, signaling a renewed focus on innovation.
- Shanghai and Shenzhen reflect the increasing size and importance of China's domestic financial markets, steadily climbing the global ranks.
Shanghai's Progress: Shanghai was only 15 points behind the global leader in GFCI 38[1], a dramatic narrowing from a 193-point gap when the index began in 2007. It even reached 4th place in GFCI 27[2], briefly surpassing Hong Kong and Singapore. This upward trend underscores the sheer scale of China's economy.
Shenzhen's Tech Focus: Shenzhen's strength lies in its close link to technology and manufacturing, consistently ranking high, though its rank can be volatile (e.g., 14th in GFCI 25, 9th in GFCI 38). In the FinTech ranking, Shenzhen is a global powerhouse, holding 3rd position in GFCI 37.

Global Financial Centers Index

	GFCI 38			GFCI 37		
Center	Rank	Rating	Rating (+/-)	Rank	Rating	Region
New York	1	766	-3↓	1	769	North America
London	2	765	3↑	2	762	Western Europe
Hong Kong	3	764	4↑	3	760	Asia/Pacific
Singapore	4	763	13↑	4	750	Asia/Pacific
San Francisco	5	754	5↑	5	749	North America
Chicago	6	753	7↑	6	746	North America
Los Angeles	7	752	7↑	7	745	North America
Shanghai	8	751	7↑	8	744	Asia/Pacific
Shenzhen	9	750	7↑	9	743	Asia/Pacific
Seoul	10	749	7↑	10	7424	Asia/Pacific

Drivers of Competitiveness in Financial Centers

The evolution of IFCs is shaped by several interconnected drivers:

- Human Capital: Availability of skilled professionals, global mobility, and strong educational systems.
- Regulation and Governance: Transparent legal systems, predictable tax policies, and investor protection attract global business.
- Infrastructure and Connectivity: Advanced transport, telecommunications, and digital systems are critical for international transactions.
- Financial Market Depth: The breadth of banking, insurance, capital markets, and asset management determines global relevance.
- Innovation and Fintech: Adoption of digital assets, payment technologies, and blockchain increasingly drives competitiveness.
- Reputation and Trust: Survey data in the GFCI highlights how perception often influences rankings as much as objective factors.

Trends, Challenges, and Prospects

- Technological Transformation: Fintech and digital currencies are reshaping financial services, favoring centers that adapt quickly.
- Geopolitical Shocks: The war in Ukraine, U.S.–China tensions, and Brexit show how political events can suddenly alter competitiveness.
- Shift to Asia and the Middle East: Singapore, and Shanghai demonstrate how emerging centers can rise through targeted reforms.
- Sustainability and ESG Finance: Future competitiveness will increasingly depend on the ability to lead in green finance and sustainable investment.

The GFCI shows that while the dominance of New York and London remains, the global map of financial power is diversifying.

Conclusion

The evolution model of international financial centers illustrates that competitiveness is not static but cyclical. Using the GFCI as an analytical framework, it becomes clear that IFCs progress through stages of emergence, growth, maturity, and either decline or renewal. Established centers like London and New York face new challenges, while emerging hubs such as Dubai and Shanghai demonstrate how reforms, innovation, and human capital investment can elevate a center’s global role. Policymakers aiming to strengthen their financial hubs must prioritize transparent governance, skilled workforce development, and technological leadership.

Ultimately, the GFCI is more than just a ranking—it is a diagnostic tool that captures both structural strengths and vulnerabilities, helping predict the future evolution of global financial centers.

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