

MOSCOW AS AN INTERNATIONAL FINANCIAL CENTRE

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ABSTRACT

The creation, development, and function of the international financial centres (IFC) is the subject of the international finance investigation. The article deals with the perspectives of the Russian IFC. The paper embraces a wide range of challenges that are faced nowadays in the Russian Federation as a whole, and particularly Moscow. The article presents the comparative analyses of different rating and indices, which reflect the current situation in the business and financial situation of the country.

JEL CLASSIFICATION & KEYWORDS

■ E44 ■ F21 ■ G15 ■ Financial centre ■ Competitiveness ■ Moscow

INTRODUCTION

By definition, financial centres are cities and countries; which mobilize and redistribute a considerable volume of financial resources. Such centres usually combine the complexity of banking and financial institutions, carrying out foreign exchange, financial and credit operations, transactions with commodities, and different securities.

The situation of the Russian financial centre is complex; it has the topical significance and requires a detailed study. The questions which are of great practical importance deal with the following areas: firstly, the best suitable type of the IFC for Russia; secondly, the evaluation of current socio-economic development; and thirdly, the measures and steps for the IFC creation.

It is important to mention, in this particular situation, that it is possible to distinguish two aspects: legal and factual. The legal aspects are found its reflection in "The Conception of the IFC creation in the Russian Federation" (Conception). According to this document; Moscow must become "one of the leading centres in the Eurasian Area along with Shanghai and Dubai within 5 years prior to 2013". Certainly the creation of an IFC in the capital of Russia is logical. It is assumed that Moscow should become a centre of banking and financial services in the region.

The factual aspect consists of the objective analysis and evaluation of the economic, infrastructural, and political situation in Russia as a whole, also Moscow in particular. To examine all these points in detail, we must turn first of all to the IFCs' classifications. It is necessary to point out that there are different typologization criteria of IFCs.

IFCs' classification

Thus, in accordance with the historical origin, IFCs can be divided into old and new financial centres. The creation and development of old IFCs (e.g. London, New York, Frankfurt) can be explained by geopolitical reasons. The development of new IFCs (e.g. Singapore, Hong Kong, and Dubai) began in the 20th century and was the result of a special economic environment.

The presented classification enables us to draw a conclusion that on one hand, Russia has unique geopolitical features that influence the IFC creation positively. On the other hand, the development of an IFC requires the immediate creation of favorable economic conditions and special regulation mechanisms to achieve completion within 5 years prior to the year 2013.

Let us now turn to the IFCs' classification that is proposed in the Conception, which is bound up with a spectrum of available financial services. According to the classification, IFCs fall into the following types of services:

- Global: wide range of financial services (London, New York);
- regional: regional specialization (Hong Kong, Singapore, Dubai);
- local: financial services for a national market (Tokyo, Frankfurt, Paris);
- offshore: special financial services (Zurich, Geneva, Jersey, Cayman Islands).

The classification evidently demonstrates the existing possibilities in choosing an IFC profile. One can safely say that the creation of an IFC in Russia is hardly possible in the middle-term perspective. The explanation is quite simple: the IFC can be created only on the basis of gradual economic development; which is impossible without modern industrial technologies. This condition is also true for global financial centres, as well as for regional financial centres.

In 1999 the Globalization and World Cities Study Group (GaWC) from Loughborough University (UK) suggested to range cities in levels of advanced producer services. Global service centres are graded for accountancy, advertising, banking/finance, and law. Therefore, three levels of world cities were distinguished. It should be noted that Moscow joined the list of world cities in 1998, which means that the city is deeply integrated into the global economy (Table 1).

A. Alpha World Cities (full service world cities)	
12	London, New York, Paris, Tokyo
10	Chicago, Frankfurt, Hong Kong, Los Angeles, Milan, Singapore
B. Beta World Cities (major world cities)	
9	San Francisco, Sydney, Toronto, Zurich
8	Brussels, Madrid, Mexico City, Sao Paulo
7	Moscow, Seoul
C. Gamma World Cities (minor world cities)	
6	Amsterdam, Boston, Caracas, Dallas, Düsseldorf, Geneva, Houston, Jakarta, Johannesburg, Melbourne, Osaka, Prague, Santiago, Taipei, Washington
5	Bangkok, Beijing, Montreal, Rome, Stockholm, Warsaw
4	Atlanta, Barcelona, Berlin, Budapest, Buenos Aires, Copenhagen, Hamburg, Istanbul, Kuala Lumpur, Manila, Miami, Minneapolis, Munich, Shanghai

Source: Calculated by the authors from commercial banks' annual reports

According to the latest research of the Study Group, published on September, 14 2011; Moscow continues to remain among the leading cities of the world, such as Milan, Beijing, Toronto, Mexico, Amsterdam etc.

Moscow's high ranking in this rating causes lots of discussions among the experts. It should be kept in mind that a world city is the economic centre of the post-industrial era and it should offer the wide range of financial and social services. It is very doubtful though, that Moscow corresponds to these criteria.

	GFCI (Sept. 2011)	GFCI9 (March 2011)	GFCI8 (Sept. 2010)	GFCI7 (March 2010)	GFCI6 (Sept. 2009)	GFCI5 (March 2009)	GFCI4 (Sept. 2008)	GFCI3 (March 2008)	GFCI2 (Sept. 2007)	GFCI (March 2007)
London	1	1	1	1	1	1	1	1	1	1
New York	2	2	2	1	2	2	2	2	2	2
Hong Kong	3	3	3	3	3	4	4	3	3	3
Singapore	4	4	4	4	4	3	3	4	4	4
Shanghai	5	5	6	11	10	35	34	31	30	24
Tokyo	6	5	5	5	7	15	7	9	10	9
Zurich	8	8	8	7	6	5	5	5	5	5
Frankfurt	16	14	11	13	12	8	9	6	6	6
Paris	24	20	18	20	19	19	20	14	11	11
Dubai	36	28	28	24	21	23	23	24	22	25
Sao Paulo	49	44	44	40	41	54	52	53	49	0
Warsaw	56	59	67	67	69	59	56	55	48	40
Moscow	61	68	68	68	67	60	57	56	-51	45
Saint-Petersburg	71	69	71	70	70	–	–	–	–	–

Source: March 2009, Sept. 2009, March 2010, Sept. 2010, March 2011, Sept. 2011)

Competitiveness ratings of IFCs

Since 2007, the analytical centre of consulting company ZYen Group Limited, based in London, publishes biannually the Global Financial Centres Index (GFCI) in terms of competitiveness. The instrumental factors used in the GFCI model are grouped into five areas of competitiveness: People, Business Environment, Market Access, Infrastructure, and General Competitiveness. The Table 2 contains the data on the GFCI from 2007 to 2011.

The complete analysis of the presented GFCI ranks reveals the indisputable leadership of London, New York, Hong Kong, and Singapore. Zurich, Frankfurt, and Paris rank stable high positions. What is especially noteworthy is the Shanghai rating, which extremely grew up during the last five years.

As far as Moscow is concerned, we can conclude, that in the last six months of 2011 the city improved its position by moving into 61st place, up seven points in the ratings (among 75 financial centres). The higher Moscow positions in the ratings in 2007-2009 can be explained by narrow statistical data.

Thus, Moscow is still the “global contender” to the IFC. This, of course, is not enough. Skeptics reckon, that the high-level declaration about the IFC creation has allowed Moscow to enter the ratings.

Nevertheless, it should be noted that most of experts and business representatives think that Russia needs an IFC; which will attract foreign direct investments (FDI) in the country. Let us draw our attention to the figures. In 2006 the net capital inflow to Russia was 41.4 bln USD, in 2007 – 81.7 bln USD. However, the situation has changed dramatically in the recent years, especially in 2011. In 2008 the net capital outflow from Russia was 130.2 bln USD, in 2009 – 56.1 bln USD, in 2010 – 33.6 bln USD. In the first three quarters of 2011 the net capital outflow from Russia was 50 bln USD. So, the investment climate in Russia can be characterized as extremely negative.

To a certain extent this situation can be explained by the fact that Moscow ranks very low positions in different ratings, which were prepared by the international financial institutions. The potential investors are aware of the unexpected problems in the market.

In the past few years Russia ranks 63 (among 139) in the ratings of the World Economic Forum, which is called the

Global Competitiveness Index (GCI). The Table 3 contains the information on it.

The GCI evaluates the perspectives of economic growth for different countries in the middle and long term period.

Such countries, as the UAE, Poland, and Brazil improved their positions in the ratings in 2007-2011; moving up 12, 12, and 14 points respectively.

Russia has not improved its positions in the ratings. In comparison to 2007 the country has lost five points. It seems essential to emphasize that in 2010-2011 Russia ranks 125th in the pillar of the level of financial market development, 128th in the pillar of the property rights, 132nd in the pillar of the protection of minority of shareholders interests.

Another solid international indicator of economic development in the global competitive environment is the World Competitiveness Scoreboard, prepared by the IMD, Switzerland. The IMD World Competitiveness Scoreboard measures 59 countries on the basis of four criteria groups: economic performance, government efficiency, business efficiency, and infrastructure. Compared to 2007 Russia has dropped six places in the ratings to 49th place (Table 4).

One can safely say that the loss in rating positions does not always reflect problems in an economy. Nevertheless, the contents in Table 4 demonstrate that Russia always loses in comparison to other countries.

The experts of the China Finance Corporation Holding Company, which is the daughter company of the Xinhua News Agency and the CME Group Index Services LLC; which is the part of the Dow Jones Indexes Company, calculate International Financial Centers Development Index (IFCD). The indicator system values IFCs from five aspects, i.e. financial market, growth and development, industrial support, service, and general environment. It uses questionnaires to collect survey subjects' opinions from different groups of people.

In 2011 the research group came to a comprehensive ranking of 45 IFCs (Table 5).

Thus, in 2011 the most competitive IFCs were New York, London, and Tokyo. Moscow ranked only 35th.

There is not the least doubt that the investors, deciding about capital movements, take into consideration these results and indicators as well.

	GCI 2010-2011		GCI 2009-2010	GCI 2008-2009	GCI 2007-2008
	Rank	Score			
Switzerland	1	5,63	1	2	2
Singapore	3	5,48	3	5	7
USA	4	5,43	2	1	1
Germany	5	5,39	7	7	5
Japan	6	5,37	8	9	8
Hong Kong	11	5,3	11	11	12
UK	12	5,25	13	12	9
Taiwan, China	13	5,21	12	17	14
France	15	5,13	16	16	18
UAE	25	4,89	23	31	37
Poland	39	4,51	46	53	51
Brasil	58	4,28	56	64	72
Russia	63	4,24	63	51	58
Kazakhstan	72	4,12	67	66	61

Source: The Global Competitiveness Report (2007-2008, 2008-2009, 2009-2010, 2010-2011)

	2011	2010	2009	2008	2007
Hong Kong	1	2	2	3	3
USA	1	3	1	1	1
Singapore	3	1	3	2	2
Switzerland	5	4	4	4	6
Taiwan	6	8	23	13	18
Germany	10	16	13	16	16
China	19	18	20	17	15
UK	20	22	21	21	20
Japan	26	27	17	22	24
UAE	28	–	–	–	–
France	29	24	28	25	28
Poland	34	32	44	44	52
Kazakhstan	36	33	36	–	–
Brasil	44	38	40	43	49
Russia	49	51	49	47	43

Source: IMD World Competitiveness Yearbook (2007, 2008, 2009, 2010, 2011)

	Rank	Score
New-York	1	87,69
London	2	85,96
Tokyo	3	85,81
Hong Kong	4	82,18
Singapore	5	74,53
Shanghai	6	71,42
Paris	7	71,37
Frankfurt	8	64,4
Zurich	12	54
Dubai	16	51
Moscow	35	35,4
Sao Paulo	41	29,71

Source: Xinhua-Dow Jones International Financial Centers Development Index, 2011, p. 5

Let us now turn to the World Bank Doing Business Rating, which investigates the regulations that enhance business activity and those that constrain it. According to the ratings

	Rankings			
	2012	2011	2010	2009
Singapore	1	1	1	1
Hong Kong (China)	2	2	3	3
USA	4	4	4	4
UK	7	6	5	6
Germany	19	19	25	27
Japan	20	20	15	13
Taiwan (China)	25	24	41	61
Switzerland	26	22	21	19
France	29	26	31	31
UAE	33	35	33	47
Kazakhstan	47	58	63	64
Poland	62	59	72	72
Russia	120	124	120	118
Brasil	126	120	129	127

Source: Doing Business (2010, 2012)

data, Russia ranks only 120th place among 183 countries. Here are the rankings for 2009-2012 (Table 6).

Doing Business measures and tracks changes in regulations affecting 10 areas in the life cycle of a business: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. The Table 7 illustrates the aspects mentioned above.

What clearly demonstrates problems within Russia's low rankings is business environment. The business environment does not appeal to foreign investors; which is a very negative issue.

Additionally, it may be interesting and beneficial to analyze the Corruption Perceptions Index, for it summarizes the opinions of independent experts and ranking countries according to the perception of corruption. It scores countries on a scale of 0 to 10, where 0 is perceived to be highly corrupt and 10 indicates low levels of corruption (Table 8).

The high scores of the developed countries reflect the relative wellbeing in the public sectors that are backed by stable political situations, efficient conflict resolving mechanisms, information disclosure policies, and public control.

Traditionally Russia ranks very low in the ratings, i.e. in 2010 it was in 154th place among 178 countries. According to the index methodology, bribery is a very serious problem in the countries that scored less than 3. Unfortunately, this problem has not been solved in Russia.

IFCs' infrastructure

Another actual challenge for Moscow as an IFC is the infrastructure's improvement: i.e. transport, communication networks, qualified human resources, etc.

According to the Economist Intelligence Unit (EIU), in 2011 Moscow ranked 70th place among the 140 most comfortable cities in the world. The rating is assigned across 30 indicators, grouped into five broad categories: stability, healthcare, culture and environment, education, and infrastructure (Economist, 2011).

Moscow also ranks low positions in the Global Power City Index, prepared by the Institute for Urban Strategies (The Mori Memorial Foundation) since 2008. The Index assesses

	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
Singapore	4	3	5	14	8	2	4	1	12	2
Hong Kong (China)	5	1	4	57	4	3	3	2	5	16
USA	13	17	17	16	4	5	72	20	7	15
UK	19	22	60	68	1	10	24	13	21	6
Germany	98	15	2	77	24	97	89	12	8	36
Japan	107	63	26	58	24	17	120	16	34	1
Taiwan (China)	16	87	3	33	67	79	71	23	88	14
Switzerland	85	46	6	14	24	166	12	41	23	43
France	25	30	62	149	48	79	58	24	6	46
UAE	42	12	10	6	78	122	7	5	134	151
Russia	111	178	183	45	98	111	105	160	13	60

Source: Doing Business (2012)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Singapore	9,3	9,2	9,2	9,3	9,4	9,4	9,3	9,4	9,3	9,2
Switzerland	8,7	9	9	9	9,1	9,1	9,1	8,8	8,5	8,4
Hong Kong	8,4	8,2	8,1	8,3	8,3	8,3	8	8	8,2	7,9
Germany	7,9	8	7,9	7,8	8	8,2	8,2	7,7	7,3	7,4
Japan	7,8	7,7	7,3	7,5	7,6	7,3	6,9	7	7,1	7,1
UK	7,6	7,7	7,7	8,4	8,6	8,6	8,6	8,7	8,7	8,3
USA	7,1	7,5	7,3	7,2	7,3	7,6	7,5	7,5	7,7	7,6
France	6,8	6,9	6,9	7,3	7,4	7,5	7,1	6,9	6,3	6,7
UAE	6,3	6,5	5,9	5,7	6,2	6,2	6,1	5,2	–	–
Poland	5,3	5	4,6	4,2	3,7	3,4	3,5	3,6	4	4,1
Brasil	3,7	3,7	3,5	3,5	3,3	3,7	3,9	3,9	4	4
China	3,5	3,6	3,6	3,5	3,3	3,2	3,4	3,4	3,5	3,5
Kazakhstan	2,9	2,7	2,2	2,1	2,6	2,6	2,2	2,4	2,3	2,7
Russia	2,1	2,2	2,1	2,3	2,5	2,4	2,8	2,7	2,7	2,3

Source: Corruption Perceptions Index (2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010)

	2011	2010	2009	2008
New York	1	1	1	1
London	2	2	2	2
Paris	3	3	3	3
Tokyo	4	4	4	4
Singapore	5	5	5	11
Hong Kong	8	9	10	17
Frankfurt	10	13	16	16
Zurich	14	12	9	15
Shanghai	23	26	21	25
Sao Paulo	32	33	33	–
Moscow	33	32	32	23

Source: Global Power City Index (2009, p. 13, 2011, p. 8)

35 cities around the world. New York, London, Paris, Tokyo, and Singapore are traditionally in the top of the list (Table 9).

It should be added in this connection that the evaluation of the world's major cities is based on six main functions representing city strength: economy, R&D, cultural interaction, livability, environment, and accessibility. Four global actors who are leading the urban activities in their city (managers, researchers, artists and visitors) and one local actor (residents) examine cities from multiple angles.

	March 2011	March 2010	March 2009	March 2008
Moscow	4	4	3	1
Zurich	7	6	6	9
Singapore	8	11	10	13
Hong Kong	9	8	5	6
Sao Paulo	10	21	72	25
London	18	17	16	3
Shanghai	21	25	12	24
Paris	27	17	13	12
Saint-Petersburg	29	30	46	18
New York	32	27	8	22
Dubai	–	–	20	52
Alma-Ata	–	–	44	44
Frankfurt	–	–	48	40

Source: World Wide Cost of Living Survey (March 2008, March 2009, March 2010, March 2011)

It is worth, however, adding the rating of the Mercer Human Resource Consulting, which is called Mercer's Cost of Living Survey. Mercer measures the comparative cost of over 200 items in each location, including housing, transport, food, etc. New York is used as the base city for the Index and scores 100 points.

Moscow ranks leading positions in this rating (Table 10).

Furthermore, the global financial centres (e.g. London and New York) are not in the top of the rating.

Conclusion

After carrying out a comparative description and analysis, it became possible to arrive at the following conclusions. The imperative of the IFC development in Russia is a balanced macroeconomic policy and political stability. Moscow should become a comfortable city for working and living. Surveys demonstrate the necessity of the overall city's infrastructure modernization. Without proper conditions, the creation of an IFC in Moscow is almost impossible.

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