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V.N. Karazin Kharkiv National University***INTERNATIONAL FINANCIAL CENTERS: FACTORS OF SUCCESS**

The conditions of transformation of the national financial centers into the international financial centers are considered in the article. Features of London, New York, Hong Kong and Singapore as the international financial centers are studied. The factors of success of the leading international financial centers are generalized and systematized. It is concluded that major factors of successful activity of the leading international financial centers are the legislation that stimulates the entrepreneurial activity, the preferential tax and customs policy, the stable political situation, the openness of the national economy for financial flows, highly developed infrastructure of the national financial market.

Keywords: the international financial center, financial operations, foreign fund, financial institutions.

Шуба М.В., Асланова Д.Д. МІЖНАРОДНІ ФІНАНСОВІ ЦЕНТРИ: ФАКТОРИ УСПІХУ

У статті розглянуто умови перетворення національних фінансових центрів у міжнародні фінансові центри. Вивчено особливості Лондона, Нью-Йорка, Гонконгу та Сінгапуру у якості міжнародних фінансових центрів. Узагальнено та систематизовано фактори успіху провідних міжнародних фінансових центрів. Зроблено висновок, що основними факторами успішної діяльності провідних міжнародних фінансових центрів є законодавство, яке стимулює підприємницьку діяльність, пільгова податкова та митна політика, стабільна політична ситуація, відкритість національної економіки для фінансових потоків, високорозвинена інфраструктура національного фінансового ринку.

Ключові слова: міжнародний фінансовий центр, фінансові операції, іноземний капітал, фінансові інститути.

Шуба М.В., Асланова Д.Д. МЕЖДУНАРОДНЫЕ ФИНАНСОВЫЕ ЦЕНТРЫ: ФАКТОРЫ УСПЕХА

В статье рассмотрены условия превращения национальных финансовых центров в международные финансовые центры. Изучены особенности Лондона, Нью-Йорка, Гонконга и Сингапура в качестве международных финансовых центров. Обобщены и систематизированы факторы успеха ведущих международных финансовых центров. Сделан вывод, что основными факторами успешной деятельности ведущих международных финансовых центров являются законодательство, стимулирующее предпринимательскую деятельность, льготная налоговая и таможенная политика, стабильная политическая обстановка, открытость национальной экономики для финансовых потоков, высокоразвитая инфраструктура национального финансового рынка.

Ключевые слова: международный финансовый центр, финансовые операции, иностранный капитал, финансовые институты.

Statement of the problem. In the modern world the financial market has essential impact on the development of the world economy. Its importance and influence on economic processes is becoming more significant. The main priority for many countries is the creation of the competitive financial system, because the high level of its development allows the country to use vast opportunities for attraction of the foreign fund and high technologies from the world markets. The background for the rapid development of the financial sector was the significant progress in the field of communications that allowed transferring any operation to the electronic impulse, limited only by the speed of information transfer.

The major line in the strategy of the financial market's development in many countries is the creation of the international financial centers in its territory.

Analysis of recent researches and publications. Such scientists as M. Fratianni [1], R. James and Jr. Hines [2], A. Sakharov [3], V. Klimachev [10] and others devoted their works to research of the international financial centers. However, despite the existing scientific works devoted to the research of the international financial centers, some questions, including factors of the success of the leading international financial centers, still remain insufficiently studied.

The purpose of the article is generalization and systematization of factors of the success of the leading international financial centers.

The main part. «Financial centers», as a rule, are the cities – the concentration of the banking organizations and the financial institutions. Financial centers

have a significant impact on currency rates, as they are the largest trading platforms.

The leading international financial centers are powerful information, analytical, organizational and management systems with significant financial potential. The exchanges, the national and international banks and their branches, multinational corporations, investment and pension funds and other financial institutions hold key positions in the international financial centers. There are certain stages of development of the international financial center:

- the first stage – the development of the local market;
- the second stage – transformation into the regional financial center;
- the third stage – the development of the regional financial center to the stage of the international financial market [1].

Transformation into one of the leading international financial centers requires compliance with several conditions:

- economic freedom: the financial market can't exist without freedom of activity, consumption, accumulation and investment;
- the stable currency supporting internal economy, providing trust of foreign investors;
- the effective financial institutions and tools that are capable to canalize savings in productive capital investments;
- the active, comprehensive and mobile markets – the complex markets, such as the long-term and short-

term markets, the markets of the transactions for the term and the future markets, the commodity markets providing borrowers and investors great opportunities;

- the technology and communication media allowing to carry out effectively non-cash and cash payments;
- financial special knowledge and human capital, the result of training and education;
- maintenance of the appropriate legal and social climate, creation of the environment, that is attractive for international capital flows [2, p. 10].

Financial centers stimulate investments, both in internal economies, and at the international level. Competitive financial centers provide the cities with the economic advantages in the form of information, knowledge and access to the capital.

The capitals that are the parts of the international financial system through the financial centers get advantages in the form of the increase in foreign trade and more stable economic growth.

The international financial centers can be classified by the principle of historical and economic development:

- the «old» centers, whose formation was caused, first of all, by a number of the historical and geopolitical reasons (London, New York, Frankfurt am Main);
- the «new» centers, whose development began relatively recently (10-20 years ago) and whose growth is based mainly on the artificial creation of the conditions for the stimulation of local economy (Singapore, Hong Kong, Dubai) [3, p. 24].

There are several classifications and ratings of financial centers. The main uniting criterion in different types of classifications is that the relations between financial centers combine elements of cooperation with fierce competition thanks to which each international financial center specializes on the concrete financial operations and plays a certain role in the world economy [4, p. 86].

According to Global Financial Centers Index there are several international financial centers which traditionally take the top places of the rating: London, New York, Hong Kong and Singapore.

London functioned as a single international financial center for 200 years because the British gold standard was «cornerstone» of the world monetary system of that time, and capital investment in pounds sterling abroad dominated both in world trade, and in investments and finance to the First World War.

The period between the First and Second world wars is characterized by the fact that London, despite the challenge of New York, remained the dominating financial center in the world as it continued to head the sterling currency block of the countries of the British Commonwealth and kept the main positions regarding performance of world bank operations [5].

The period after the World War II is characterized by considerable deficit of the balance of payments of the country. The British government implemented capital controls on the currency market to mitigate the problem of the «flight» of capital in 1957. Participants of the currency market, who used pound sterling for financing of the international trade, had to use dollar. The increase in demand for dollar in London led to its rise in the cost. Since 1960 London became the center of the international eurocurrency market (75-80% of it was expressed in dollars). In 1986 the British government initiated a «big shock» when the ability of London to serve the wide range of the international financial needs was under threat. The structure of the London securities markets was completely changed and the new International stock exchange equipped with

the computerized electronic system of quotations was created. The representation of foreign dealers in securities on the securities market of London after the «big shock» considerably increased [6].

Thus, London is one of the most important financial centers of the world thanks to:

- the dominating positions in the international eurocurrency market;
- the size of its currency market (a currency turn to 300-500 billion dollars per day);
- the international listing of securities;
- the excellent communication network;
- the reasonable liberal legislation;
- proximity to the EU markets;
- a low rate of income tax (a corporate tax) in comparison with other European countries;
- the developed transport infrastructure.

New York is considered to be the second international financial center. As a financial centre it was formed in 1914-1945. The headquarters of the majority of the investment banks involved in operations of mergers and acquisitions are situated in New York. In favor of this financial centre also says the existence of stock exchange's «paradise» – Wall-street, as well as the major stock exchanges NASDAQ and NYSE.

There are more than 2/3 of all assets of foreign banks operating in the USA in New York. The average daily turnover of currency market in New York exceeds 500 billion U.S. dollars [7].

Traditional domination of New York and the USA in general in the financial markets was undermined at the beginning of the XXI century because of the American legislation, in particular, because of Sarbanes-Oxley Act, and also immigration rules. Sarbanes-Oxley Act was adopted in 2002 on a wave of corporate scandals in the USA, when many large companies were convicted of falsification of the reporting. The main purpose of the act was to protect shareholders, so strict rules of control over a company's financial statements were established. As a result, the costs and risks for foreign companies to withdraw their securities on the New York Stock Exchange rose, so some foreign investors have shifted to European exchanges [8].

Hong Kong is the third financial center in the world and the leading financial center of Asia. Its banks are among the most reliable in the world. It is the center of the international syndicated lending, and the results of the Asian trading session depend on activity of the stock exchanges of Hong Kong for 90% [7].

Hong Kong takes honorable first place in the list of the countries with the highest level of economic freedom (Heritage Foundation). It is the leader in it almost 20 years in a row. In 2015 Hong Kong scored 89,6 points from 100 possible on this index (the world average level of 59,7 points) [9].

Another feature that attracts investors is the powerful financial, office and transport infrastructure in Hong Kong. It is maintained in perfect condition: all parts of Hong Kong, including big islands, are connected among themselves by a network of bridges, overpasses and tunnels. Also the ultra-modern airport operates in Hong Kong. There is one of the largest duty-free container port of the world, the merchant marine fleet consists of more than 660 vessels, nearly 570 vessels registered in other countries. There are about 250 banks in Hong Kong. About 70 banks out of 100 world's largest banks have offices in Hong Kong, its banking system remained stable even during the crisis [10, p. 83-84]. There is the analog of the Silicon Valley – Science & Technology Park, where all the con-

ditions for companies engaged in perspective ideas are created: new laboratories, equipment and office space on preferential terms.

Hong Kong is attractive to foreign investors due to its favorable tax system and business environment. Corporation tax is 16,5%, there are no capital taxes, VAT and sales tax in Hong Kong. According to the World Bank, Hong Kong takes high 3rd place in terms of doing business.

We should also pay attention to Singapore. In a relatively short period of time Singapore from the small size agricultural island turned into one of the most competitive countries of the world thanks to the reforms and innovations. As financial center (as well as in other capacities) Singapore is developing with enormous speed. Singapore took the 2nd position (the 4th year consecutively) in The Global Competitiveness Report 2014–2015 which annually formed by the World Economic Forum, losing only to Switzerland.

Singapore takes the 2nd place in a world index of competitiveness in the field of protection of the rights of investors, intellectual property protection, infrastructure development, development of the financial market, the efficiency of public expenditure [11].

In Global Innovation Index 2015 Singapore took the 1st place in Asia and the 7th in the world [12].

Singapore's economy is very «generous»: income tax here is one of the lowest in Asia while interest rates of banks for deposits are rather high. For several years Singapore leads in the index of ease of doing business of the World Bank [13].

The world financial crisis slowed down for a while the development of the leading centers in the developed countries. Tighter regulation, higher taxes are some of the negative factors that inevitably worsen the overall attractiveness of the financial centre for international business. In the medium-term traditional leaders, London and New York, will face even more fierce competition from the growing Asian cities (Singapore, Hong Kong).

Conclusions. Thus, the pillars of the financial world are four non-replaceable for last 10 years leaders: London, New York, Hong Kong and Singapore. London holds the leading positions mainly due to reasonable liberal legislation, a low rate of income tax and proximity to the EU markets. Factors of success of New York are the presence of the largest world stock exchanges and headquarters of the major financial institutions, vigorous activity in the field of mergers and acquisitions. Hong Kong is among the 3 leaders thanks to favorable tax system, business environment and the level of economic freedom. For Singapore factors of success are loyal tax policy, high interest rates of banks for deposits, high innovation and ease of doing business.

Generalizing the experience of the leading international financial centers, it is possible to formulate major factors of their success: the legislation that stimulates the entrepreneurial activity, the preferential tax and customs policy; the stable political environment and macroeconomic situation, high living standards; the functioning financial market which is constantly growing and is served by this international financial center; the openness of the national economy for financial flows; highly developed infrastructure of the national financial market (stock market, insurance market, credit market); compliance with the international accounting and auditing standards; low transaction costs of business registration; low level of corruption.

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