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The rise of international financial centers in mainland China

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ABSTRACT

This paper assesses the major cities in mainland China that are competing to become international financial centers (IFC). Shanghai, Beijing, and Shenzhen are compared in terms of their strengths and weaknesses as IFCs. We find that in China, the state plays a particularly important role in the growth of a financial center by providing favorable policies, creating localization economies, consolidating banks, and strengthening the city's power through state-owned enterprises. Our analyses generate a contour map of China's emerging IFCs in a global context and thus provide an important first step toward theorizing IFC development in a transitional economy.

Introduction

Recent financial geography literature highlights the importance of global financial institutions and stresses the role of money in the economic landscape of capitalism (Clark, 2005; Clark & Wojcik, 2007; Cohen, 1998; Lee, Clark, Pollard, & Leyshon, 2009; Leyshon & Thrift, 1998; Martin, 1999). With the financial industry's growing share of the global economy, finance is becoming an important source of power and innovation, as well as a way to govern circuits of value (Levine, 1997; Lee et al., 2009). In conjunction with these discussions, the ups and downs of financial centers have become a focus both of academic research and of public policy (Dicken, 2003; Gehrig, 2000; Grote, 2009). Since the 1980s, financial services have shifted and diversified on multiple geographic scales. International financial centers (IFCs), such as New York and London, continue to amass significant resources such that they remain the most powerful financial control centers in the world (Sassen, 2001, 2006). Positioned lower on the hierarchy, some established financial centers such as Tokyo and Frankfurt are currently declining in importance, whereas others, including a few regional financial centers, Hong Kong and Singapore among them, are rising as new competitive IFCs (Z/YEN, 2007–2014).

In this context, the growing competitiveness of financial centers in mainland China has become a subject of both scholarly and popular interest (McCauley & Chan, 2009; Mu & Seng, 2010; Xinhua, 2007, 2008). China had the world's second largest economy in 2011, the largest foreign exchange reserves accumulated by trade surplus, a banking industry that had remained relatively intact since the global financial crisis of 2008–2009, and a capital market predicted to become the world's third largest by 2016 (Xinhua, 2007). Given the size and dynamism of China's economy and the rapid globalization of its corporations and banks, the nation's financial institutions are expected to become key players in the global financial market. It is also expected that China's currency, Renminbi (RMB), will assume a more important international role when the influence of American dollars declines in the emerging world (Economist, 2012c; World Bank, 2011). As an important step for China in its path toward modernization and global leadership, it is possible that an IFC on its mainland might eventually compete with Hong Kong and other rising IFCs (McCauley & Chan, 2009; Mu & Seng, 2010; Shan & Qi, 2006; Wong, 2007).

Against this background, a discourse has emerged that centers on a potential "contest" between rival cities, particularly between Shanghai and Beijing, over gaining recognition as China's leading national financial center and achieving IFC status. Some studies, such as the *Global Financial Centre Index* (*GFCI*) reports have rated Shanghai higher than Beijing in terms of both financial resources and competitiveness (Z/YEN, 2012). However, basing their assessments on more extensive comparative studies of Chinese cities, some scholars consider Beijing to be the most powerful financial center, stressing its status as the nation's capital and noting its recent success in expanding major domestic banks and attracting corporate headquarters (Yin & Cai, 2010; Zhao, 2003; Zhao, Zhang, & Wang, 2004). In addition to these two major cities, Shenzhen is a new contestant with great potential to rise as an IFC due to its vibrant economy and growing financial sector (Zhao et al., 2004; Z/YEN, 2009–2014). In the recent Z/YEN (2014) ratings, Shenzhen ranked 18th, above Shanghai in 20th and Beijing in 49th place.

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There is a gap in the current literature on IFCs in China in regard to how they compare with IFCs worldwide. The approaches used in many IFC studies are based on market economies (Cassis, 2010; Cohen, 1998; Poon, 2003; Wong, 2006). Therefore, it may not be appropriate to apply these approaches directly to an emerging economic powerhouse like China, because its state capitalism has a strong influence on the growth of financial markets. On the other hand, IFC studies on China are usually bifurcated and create ‘‘piecemeal’’ knowledge that pertains solely to China. For example, some scholars stress the importance of market power and the influence of global forces, whereas others primarily stress the supremacy of state control (Yin & Cai, 2010; Zhao, 2003; Zhao et al., 2004).

The aim of the present paper is to investigate rising Chinese financial centers in the world arena and the theoretical implications for the current literature on IFCs. In particular, the paper is intended to explore the interplay of market, institutional, and other forces in the development of mainland Chinese cities toward IFC status. First, we will explore how the three cities compare with established IFCs in regard to financial performance and what this means for the potential of each to achieve IFC status, and then we will examine the development of three financial cities in China: Shanghai, Beijing, and Shenzhen. Our study of mainland China's leading cities focuses on the interplay of four central forces—institutional, market, geographical, and historical—in the nation's development in an era of globalization. We find that although China's leading cities appear to be driven by similar factors including agglomeration, a strong state under incomplete marketization is the single dominant player creating favorable conditions for these cities. Such a hypothesis is key to understanding and elaborating state capitalism vis-à-vis global forces: the state that functions as the leading economic actor versus global forces that serve as the paramount market power in developing countries. With the empirical evaluation of the state's role in promoting financial centers, our methodology and argument address and bridge the conceptual gap in the literature regarding the geography of institutional forces (Clark, 2005) and advance research on the development of IFCs in emerging economies.

A review of the literature on financial services and financial centers and a brief survey of empirical studies on China in this regard are outlined in the next two sections. The fourth section analyzes three leading Chinese cities, Shanghai, Beijing, and Shenzhen, in the context of financial centers worldwide. The fifth section compares the state's role in shaping the respective strengths and weaknesses of each city. The final section summarizes the study's findings.

Financial services and the development of international financial centers (IFCs)

Financial services are tertiary sectors that facilitate the transfer of monetary assets. In the current global economy, banks, stock brokerages, investment funds together with credit card, insurance, and consumer finance companies are the main providers of financial services (Wojcik, 2007, 2009). In recent history, finance has become a booming industry, fueled by an explosive combination of economic growth, globalization, technology, and innovation.

Financial services usually cluster in cities, or what are known as financial centers (Kindleberger, 1974; Nadler, Heller, & Shipman, 1955; Tschoegl, 2000). Measured by the geographic scope of the services offered, financial centers can be classified as national, regional, or international. National centers, such as Athens and Jakarta, act as the main center for financial services within a single country (Poon, 2003). Regional centers, such as Frankfurt and Toronto, conduct a large proportion of cross-border transactions among countries in a region (Garcia-Herrero & Wooldridge, 2007). National and regional financial centers are not only markets that channel funds between demand and supply, but play important roles in investment, capital accumulation, urban economic growth, and technological change (Levine, 1997; Martin, 1999).

International financial centers or IFCs, such as London and New York, participate in cross-border asset trade on a global level. Historically, an international financial center with a truly global reach develops in a large, stable economy where the national currency is an international reserve currency widely used in global invoicing and settlement (Krugman, 1984). In the 17th century, Dutch guilder was accepted worldwide and Amsterdam was the top IFC in the world. In the 19th century, however, the British pound sterling replaced Dutch guilder as an international currency when London became the world's most important financial center, and the British pound was gradually replaced by the US dollar as a world reserve currency when New York City emerged as the paramount international financial center in the early 20th century (Cassis, 2010; Cohen, 1998; Krugman, 1984). All these international financial centers grew and their currency strengthened when their national economy took a predominant role in the world. Therefore, it is argued that an international financial center's competitiveness lies in the size and power of the domestic market (Economist, 1992).

In the modern economy, IFCs often have a large share of foreign-exchange markets and are usually home to world-famous banks and/or a stock exchange (Economist, 1992; Gehrig, 2000; Poon, 2003; Sassen, 1999). For instance, New York City hosts the New York Stock Exchange as well as world-leading banks such as Goldman Sacks, JP Morgan, and Citigroup. Similarly, London hosts the London Stock Exchange as well as world-leading banks such as HSBC, Standard Chartered, and Barclays. The growing power of these IFCs may penetrate the national space of capital to reshape international political and economic relations (Cohen, 1998).

Localization of these financial institutions produces a strong agglomeration effect. Given that today's complicated global economic network relies on intensive division of labor, spatial agglomeration of financial services reduces firms' transaction costs when gathering and interpreting information (Agnes, 2000; Guillain & Huriot, 2001; Storper & Venables, 2004). Such a Marshallian-localization economy also generates a large pool of financial professionals, which deepens regional specialization and lowers the costs associated with recruitment (Agnes, 2000; Hanson & Pratt, 1992; Porter, 1998). Furthermore, an economy of this nature facilitates technology spillover and innovation in financial services (Fosfuri & Ronde, 2004; Fujita & Thisse, 2000; Romer, 1990).

Aside from a localization economy, an urbanization economy serves as an important factor in the formation of IFCs as well. First of all, large cities enable financial services to take advantage of economies of scale in terms of information and communication industries so that financial intermediation can be provided to large volumes of trade at a low cost (Porteous, 1995). World City and Global City theories also offer explanations for the formation of IFCs (Friedmann, 1986; Sassen, 2006). Both theories argue that by hosting multinational corporation (MNC) headquarters large cities have control and management power in the international economy and in international politics. In a complicated global market, MNC headquarters rely extensively on advanced producer services in a volatile world economy, including financial services (Mori, 2002; Noyelle & Stanback, 1984; Sassen, 2006; Thrift, 1994). Due to the complexity of these businesses, only a small number of large cities are capable of providing services that are sophisticated enough to allow an MNC's headquarter to operate globally. Such cities are most likely to grow into IFCs that provide cross-border transactions on a global level.

In conjunction with the effect of an agglomeration economy, path dependence offers an important explanation for the continued growth of financial centers (Clark & Wojcik, 2005; Porteous, 1995). According to path dependence, whether accumulation is derived from increasing returns to scale, the benefits of tacit knowledge, or information externalities, the pathways to accumulation can be reinforced and taken into the future (Clark & Wojcik, 2005; Porteous, 1995). A financial center gains initial advantages by attracting commercial banks, investment banks, and/or a capital market (Kindleberger, 1974). Such an initial advantage produces a positive spillover effect over time, including the accumulation of capital flows, specific knowledge and expertise, skilled financial professionals, and access to information and markets (Porteous, 1995). In the long run, these advantages may become self-reinforcing such that they continue into the future. As a result, a financial center may keep growing and become more competitive.

However, path dependence may be interrupted when conditions that favor the growth of IFCs disappear and new cities replace existing ones. For example, New York City replaced Philadelphia as the primary financial center in the U.S. due to the former's concentration of investment banks and the dominance of the U.S. stock market located in NYC. Similarly, Sydney gained on Melbourne, Toronto surpassed Montreal, and Sao Paulo overtook Rio de Janeiro (Sassen, 1999). Given the global nature of the contemporary economy and the advanced telecommunication technology that is widely available, some scholars argue that some financial centers will thrive at the expense of others, and that predominantly national financial centers of the present will be replaced by just a handful of IFCs (Economist, 1992).

One important way in which new financial centers are becoming more competitive is through institutional support (Demirguc-Kunt & Levine, 1999; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997; Lee et al., 2009; Porteous, 1995; Thrift, 1994). Generally, a business-friendly environment is viewed as essential for a financial center to grow: a legal system that protects the rights of investors and creditors is important to the development of capital markets (Demirguc-Kunt, 1999; La Porta et al., 1997). Financial deregulation and low taxes are also often cited as factors that attract financial businesses (Mainelli, 2007; Sassen, 1999).

Economic systems vary in regard to the institutional forces that shape them. In the U.K. and the U.S., for example, free entrepreneurship is a fundamental way in which innovation arises in business activities in the market economy, despite government regulations on the market or policies to foster certain industries (Binns, Cliff, & Harman, 1987; Bremmer, 2009, 2011; Janjigian, 2010). In contrast, some transitional economies are characterized by state-directed capitalism or state capitalism, where the state acts as the dominant economic player with enormous power to allocate and mobilize resources, credit, and investment and where government intervenes in the economy for the benefit of large-scale, state-owned enterprises (Bremmer, 2011; Economist, 2012a; Gerard, 2007; Walter & Howie, 2011). Such a state capitalist system exerts paramount influence on the spatial configuration of national financial centers.

Singapore offers an interesting example of state-directed capitalism: the city grew rapidly in terms of its financial sector and became a competitive IFC in a relatively short period of time, all with strong government support designed to attract international financial firms (Economist, 2011a). In addition to providing a business-friendly environment including such factors as tax breaks and trust laws for the financial industry, Singapore's government began its own special government school to train private bankers and helped to develop the asset management industry and foreign exchange market—all of which have made the city appealing for wealth-management firms worldwide (Economist, 2011a; Kui, 1998). To some extent, Singapore's approach is the antithesis of laissez-faire, but the state-directed IFC growth has been very successful (Economist, 2011a).

To summarize the literature review, a strong domestic market, a localization economy driven by a concentration of financial institutions, an urbanization economy characterized by high-end service demand from MNC headquarters, path dependence, and institutional forces are all possible reasons for a rising international financial center. Given the growing influence of emerging markets such as China, the question is how institutional power interacts with market, geographic, and historic forces in the formation of IFCs.

Debates on emerging financial centers in China

China's economy took off in the late 1970s with the opening-up policies. The country's GDP rose to second place worldwide around 2010. A large domestic market, a huge impact on the global commodities market, and significant foreign direct investment flows all demand an efficient financial industry and accordingly domestic financial centers to grow. However, compared to developed countries and some emerging economies, the modern financial industry in China has made a late start. It was not until the mid-1980s that China began to slowly reform its financial industry by commercializing banks, introducing insurance businesses, and opening equity markets (Liu & Wu, 2008). Accompanying these steady reforms, the nation has been slowly opening up financial markets since the mid-1990s, accelerating the pace after joining the World Trade Organization (WTO) in 2001 (Leung & Young, 2002).

However, the country's banking market is not fully liberalized yet. Once plagued by large non-performing loans, major Chinese banks received tremendous financial and managerial help from the central government on their balance sheets after the Asian financial crisis of 1997. In fact China's banks transformed from almost insolvent institutions into profitable companies in the following decade (Walter & Howie, 2011). In contrast, international banks face stringent regulations in their business operations and have only a limited influence on China's financial industry. By 2012, foreign financial institutions accounted for less than 2% of the assets in China, the lowest share among major emerging markets, lower even than the Brazilian and Indian markets (Bloomberg, 2012). Under China's current incomplete market system, four large state-owned banks dominate the nation's highly regulated financial system (Allen, Qian, & Qian, 2007; Dacosta & Foo, 2002; Lai, 2011; Walter & Howie, 2011).

Against such a background, financial centers in mainland China gradually opened and took shape. The current debate is mainly centered around comparing Shanghai and Beijing to determine which will achieve IFC status (Laurenson, Tang, & Wong, 2003; Zhao, 2003). Overall, it is argued that Shanghai's prosperity is driven by market-related forces and favorable policy support from the Chinese government in the context of a rising national economy in the global market (Han, 2000; Zhang, 2003). Studies that emphasize Shanghai's primacy stress the importance of an urban economy, capital markets, international reach, and path-dependency (Eversheds, 2009; Laurenson et al., 2003; Loechel & Boeing, 2010; McCauley & Chan, 2009). In comparison, Beijing amassed tremendous fiscal power during the era of the planned economy, which was subsequently strengthened by several waves of reforms in the domestic banking and insurance industries from the 1990s onward (Walter & Howie, 2011). Some scholars argue that the financial industry in China is characterized by asymmetric information, and that Beijing as the information heartland is more attractive than other cities as a host for multinational corporation headquarters—an essential element of a world city—and thus best-placed to become an IFC (Zhao, 2003; Zhao et al., 2004). Similarly, it is argued that Beijing surpasses Shanghai as a national financial center in terms of the strength of the former's financial industry and power in financial decision making, as well as in other competitiveness factors such as urban infrastructure and human resources (Yin & Cai, 2010).

The less high-profile city of Shenzhen, a major city in south China and north of Hong Kong, is a new contestant. Although most studies on Chinese IFCs do not consider this city to be more competitive than Shanghai or Beijing, in *The Global Financial Centres Index* of 2014, Shenzhen is given a higher world ranking than either of the other two Chinese cities under discussion here. The city's rise as a financial power can be attributed to its proximity to Hong Kong (China's offshore IFC), its institutional support, and its vibrant economy.

Beijing, Shanghai, and Shenzhen in the global arena

There is no consensus on how financial centers should be measured such that scholars have ranked the world's financial centers according to various protocols. Some studies have utilized banking or capital market as measurements and subjected cities to statistical analyses based on these measures (Poon, 2003; Reed, 1980; Tschoegl, Choi, & Yu, 1986). Others have evaluated financial centers based on interviews and perceptional factors (Kui, 1998; Tschoegl, 2000; Wigley, 2008; Z/YEN, 2007–2014). Each method and the associated dataset has strengths and weaknesses and, therefore, the results have varied significantly. In quantitative analyses, when banking activities are used, the role of the equity market is often neglected, and vice versa. In qualitative studies, particularly those based on surveys, results may be biased, depending on the sampling strategy, the sample size, the geography of the survey participants, and the extent and nature of the participants' knowledge of financial centers.

In the present study, we rely on *Forbes Global 2000*, a list of the world's leading public companies published annually by *Forbes* magazine since 2003. The Global 2000 list measures firms according to four scales: assets, market value, profits, and sales. Most of the firms included in the list are MNCs. We collected information about all the financial firms on the Global 2000 list in the years 2005 and 2010. Three major types of firms are included: commercial banks, insurance companies, and all other diversified financial service companies. As compared to databases that present information on banking or equity markets, this database provides relatively comprehensive data on the entire financial industry. It is important to note that this database includes only the most competitive public financial institutions in the world; therefore, our study of financial centers does not take into account privately owned or small financial businesses. Despite this limitation, scholars of economics and finance have used the Global 2000 database in their studies (Alfarano & Milakovic, 2008; Taylor et al., 2009), as it offers comprehensive information on all financial sectors and is a good measure of a financial center's performance.

After collecting information on individual firms, we determined the location of the firms' headquarters from their websites and then compiled city-level data based on five performance measures: the total number of financial institutions with headquarters in the city and the four scales used in the Global 2000 list. Overall, Shanghai, Beijing, and Shenzhen were not among the world's top financial centers when considered in terms of the number of Global 2000 financial firms present in each city in either 2005 or 2010 (Tables 1 and 2). However, all three cities improved their rankings on all five measures during this five-year period. In particular, the gap between Beijing and the other top financial centers narrowed notably.

As of 2005, the majority of the 233 financial centers were located in Europe, East Asia, and the eastern United States (Fig. 1). At the top of the list was Tokyo with 44 firms, followed by New York, London, Hong Kong, and Taipei, with 35, 19, 15 and 14 companies, respectively. Beijing had four firms, and Shenzhen had three, whereas Shanghai had only one firm listed. In terms of assets in the financial industry, Beijing's value was only 41% of Hong Kong's, and Shenzhen's was 87% of Beijing's whereas Shanghai's value was 36% of Beijing's. In regard to market value, Beijing was worth less than a quarter of Hong Kong, Shenzhen was two-thirds of Beijing, and Shanghai was worth a mere one-seventh of Beijing. Regarding sales value, Beijing was close to Hong Kong, whereas Shenzhen's value was 60% that of Beijing with Shanghai lagging far behind. None of the financial industry in Beijing, Shanghai or Shenzhen made a large profit in 2005.

In expanding from four to ten financial firms in five years, Beijing improved its ranking from 31st in 2005 to 10th in 2010. Shanghai increased the number of firms from three to four from 2005 to 2010, and therefore promoted its world ranking from 82nd to 31st. For the city of Shenzhen, its number of financial firms grew from three to four, moving its place from 35th to 31st. Thus, by 2010, all three cities have started to gain some status on the global map (Fig. 2). On other measures of performance in the financial industry, the gap between Beijing and the top IFCs narrowed considerably during this five-year period. Even though the financial industry's assets and sale value in New York were double those of Beijing, Beijing's market value and profit exceeded those of New York. Both Shanghai and Shenzhen improved on all these indicators over the five years. Although they remained behind Beijing in regard to the overall strength of the financial industry, these two cities reduced the gap with Beijing dramatically.

As expected, our indices reflect short-term changes from 2005 to 2010. The weakened performance of some leading IFCs in advanced economies may have been caused by the global financial

Table 1
Measures of financial centers, 2005. *Source:* Global 2000 list, 2005.

City	Total firm		Assets		Market value		Profit		Sales		Avg. rank
	#	Rank	($B)	Rank	($B)	Rank	($B)	Rank	($B)	Rank	
Tokyo	44	1	5926	2	476	2	21	3	372	2	2
New York	35	2	7476	1	1077	1	72	1	562	1	1
London	19	3	4069	4	471	3	27	2	326	4	3
Hong Kong	15	4	300	35	118	12	6	19	17	46	23
Taipei	14	5	378	26	67	24	3	28	24	35	23
Paris	13	6	4080	3	250	5	16	5	329	3	4
Seoul	12	7	755	16	100	17	−3	230	63	16	57
Sydney	11	8	606	19	129	10	8	11	52	20	13
Chicago	10	9	325	31	115	13	7	13	73	13	16
Los Angeles	9	10	236	42	40	34	4	22	30	30	27
Beijing	**4**	**31**	**123**	**63**	**28**	**42**	**0.3**	**119**	**17**	**47**	**60**
Shenzhen	**3**	**35**	**107**	**68**	**19**	**60**	**0.6**	**82**	**10**	**66**	**62**
Shanghai	**1**	**82**	**45**	**115**	**4**	**137**	**0.2**	**139**	**2**	**139**	**122**

The values of the three Chinese cities are highlighted in bold.

Table 2
Measures of financial centers, 2010. *Source:* Global 2000 list, 2010.

City	Total firm		Assets		Market value		Profit		Sales		Avg. rank
	#	Rank	($B)	Rank	($B)	Rank	($B)	Rank	($B)	Rank	
New York	29	1	8339	3	680	2	20	3	593	2	1
Tokyo	27	2	6321	4	325	4	−24	231	330	4	49
Hong Kong	19	3	524	34	215	8	9	11	38	39	19
London	18	4	8609	2	424	3	31	2	610	1	2
Paris	15	5	9375	1	290	5	15	5	541	3	3
Taipei	13	6	635	28	59	28	0	215	38	38	63
Seoul	12	7	1129	20	116	16	0	171	151	9	44
Sydney	11	8	1405	17	246	6	8	13	122	15	12
Mumbai	11	9	683	26	111	17	6	20	63	25	20
Beijing	**10**	**10**	**4203**	**5**	**786**	**1**	**47**	**1**	**247**	**5**	**4**
Shenzhen	**4**	**31**	**427**	**27**	**135**	**13**	**7**	**17**	**44**	**33**	**24**
Shanghai	**4**	**31**	**642**	**36**	**137**	**14**	**5**	**23**	**44**	**33**	**27**

Note: The average rank is calculated as the sum of rank on each measurement (total firm, assets, market value, profit and sales) divided by 5.
The values of the three Chinese cities are highlighted in bold.

crisis that spanned 2008 and 2009, when they suffered severely from downturns in stock markets and the subsequent economic recession. In contrast, the rise of Chinese cities in the global financial arena can be attributed to a relatively stable national economy and a consolidated banking system (Lambe, 2009; Walter & Howie, 2011). With tremendous help from the central government on their balance sheets, the largest Chinese banks went public after 2005 (Walter & Howie, 2011), and by 2011, the four largest state-owned commercial banks in China had made the top 20 list in the world (Bankers Almanac). This indicates that the state government is capable of consolidating its financial centers and improving their rankings in the world in turbulent times characterized by a global financial crisis, when cities in advanced economies suffer from recession.

The rise of China's financial centers is also accompanied by the growing Chinese economy and the growing power of the country's currency RMB. In 2009, the People's Bank of China, the country's central bank, tried to promote the global recognition of the RMB

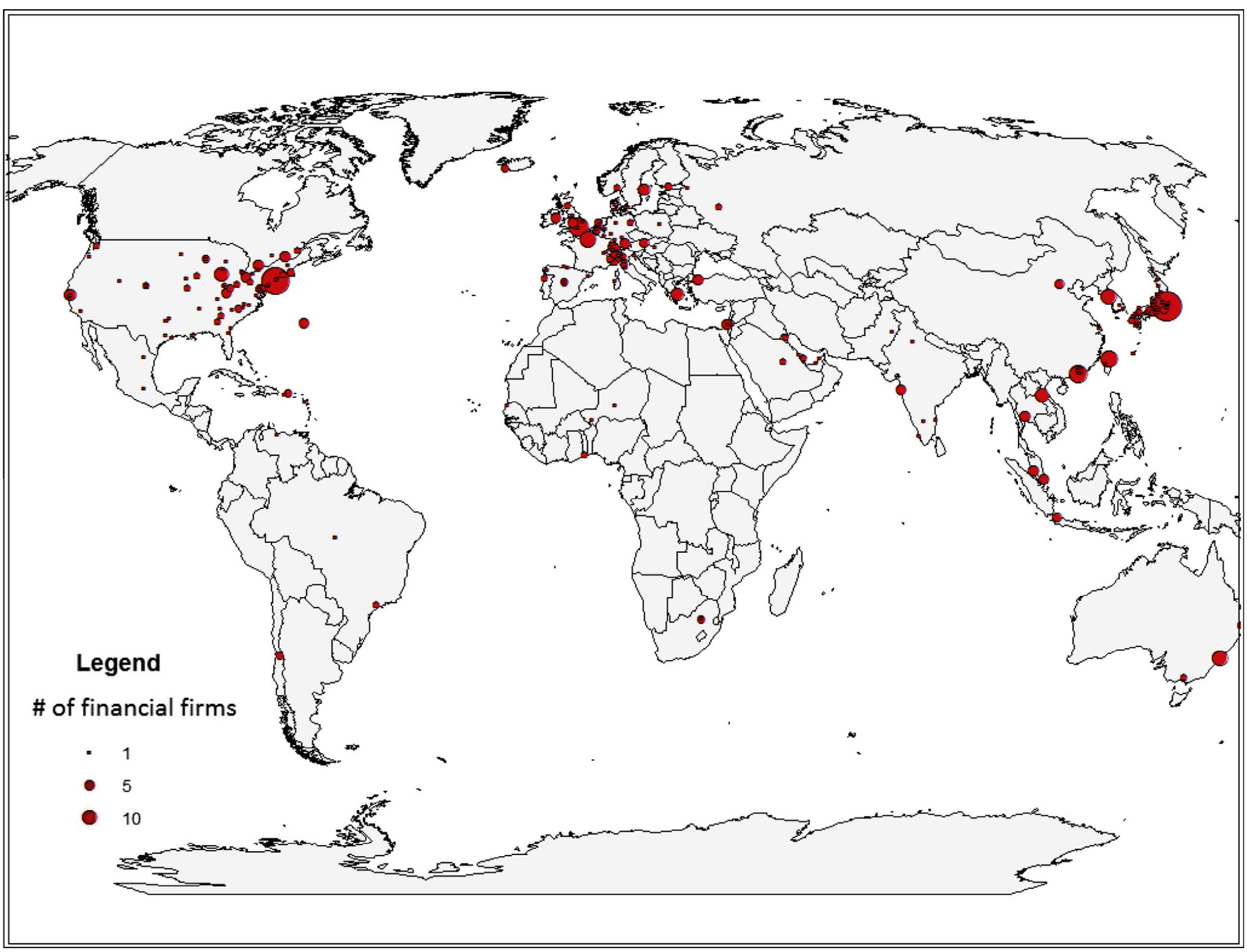

Fig. 1. Geography of financial centers based on Global 2000 financial firms, 2005. *Note:* Created by the authors based on Global 2000, Forbes.

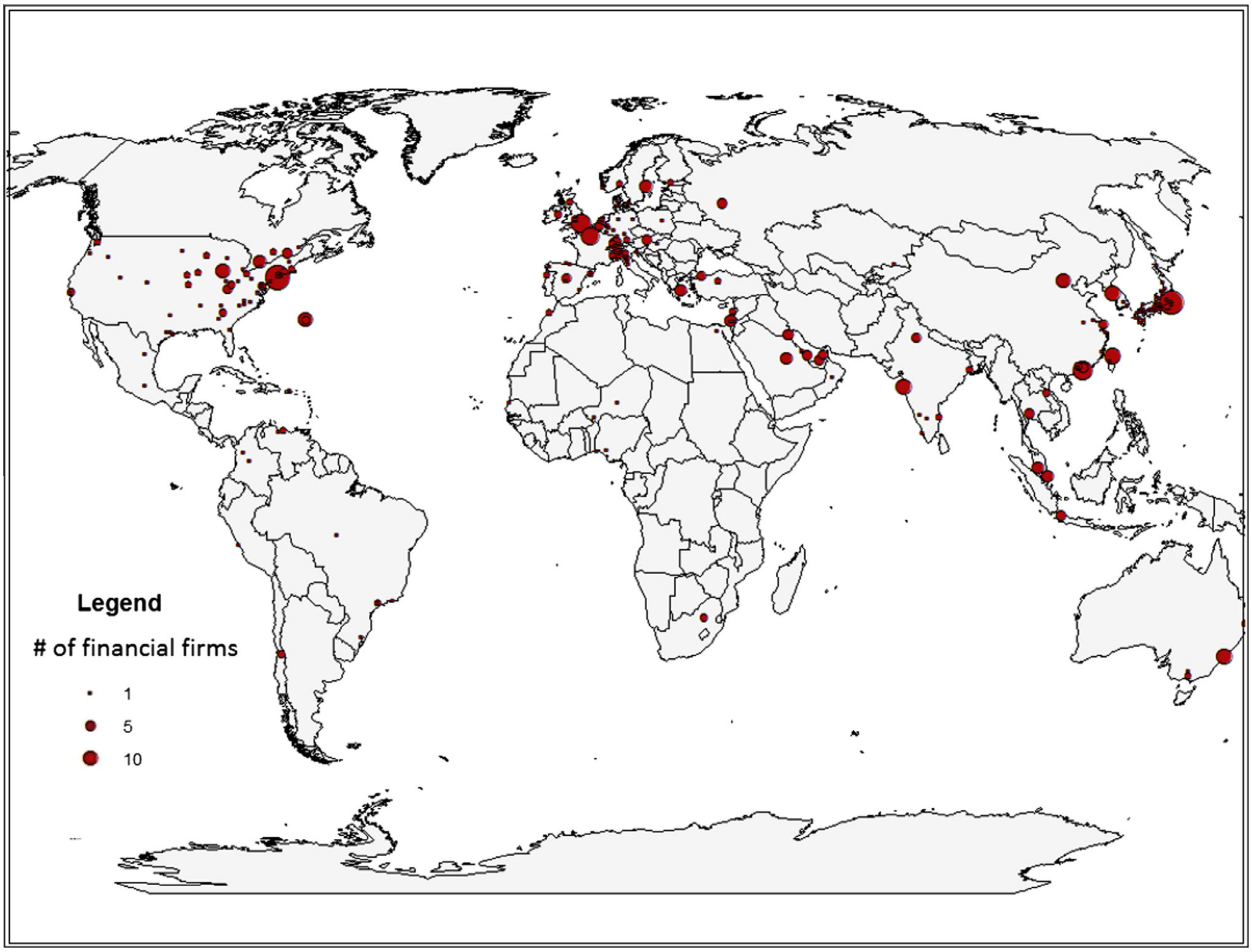

Fig. 2. Geography of financial centers based on Global 2000 financial firms, 2010. *Note:* Created by the authors based on Global 2000, Forbes.

through currency swap lines with Asian and Latin American trading partners (Wang, 2009). In the same year, the governor of China's central bank challenged the U.S. dollar's hegemony in global finance and called for the IMF to create a substitute for the dollar as the reserve currency in the world economy (FT, 2009). According to the Economist (2012c), the dollar's influence is waning in the emerging world and the Chinese Yuan is gaining global power. In East Asia, in particular, the U.S. dollar has in the past played a dominant role. But RMB now plays a growing role in the Asia-Pacific. Seven currencies in the region now follow the yuan more closely than the dollar. Outside East Asia, the influence of RMB is still limited. But with the internationalization of RMB, China's currency will continue to grow in stature as its economy and trading activity grow in size, and the rise of RMB suggests the continued growth of Chinese financial centers. In fact, some experts forecast that China's currency will surpass the dollar as a key currency around 2035 (Economist, 2012c).

Strengths and weaknesses of Shanghai, Beijing, and Shenzhen as future IFCs

This section offers an in-depth comparison of these three top cities by considering their strengths and weaknesses as candidates for IFC status. Our hypothesis is that although the relative success of the three Chinese financial centers may appear to be driven by similar factors including agglomeration, a strong state with incomplete marketization is the single dominant force in creating favorable conditions for financial centers. Such a hypothesis is key to understanding and elaborating the development model of state capitalism in an emerging economy wherein the state functions as the leading economic actor in a transitional market influenced by global forces.

To test this hypothesis, the cities were compared in regard to the following: the city's urban economy, the role of the state in the city's local institutional environment, the city's command of and involvement in the global economy, and the city's path dependence. This focused comparison is based on data from multiple sources, namely, each city's yearly statistics from 2000 to 2010 together with other information from China Banking Regulatory Commission (CBRC), China Insurance Regulatory Commission (CIRC), China Securities Regulatory Commission (CSRC), the People's Bank of China Quarterly Bulletin, the Shanghai Stock Exchange Fact Book, and the World Federation of Exchanges.

Shanghai

Urban economy

Shanghai flourished as a center of commerce between east and west in the second half of the 19th century and became the predominant financial hub of the Asian Pacific in the 1930s. However, during the planned economy era, the city's international influence declined sharply and its path as a regional financial center was interrupted abruptly. In the 1990s, the city became prosperous once again and began attracting foreign investment. Unlike Beijing and Shenzhen, Shanghai has a large urban economy and is a center

Table 3
Urban economic measures. *Source:* City Statistical Book, multiple years; converted to U.S. dollars using currency rate of the year; http://money.cnn.com/magazines/fortune/global500/ (accessed on January 25th, 2011); CIRC and CSRC, 2011.

	Shanghai	Beijing	Shenzhen
Population 2010 (in thousands)	23,026	19,625	10,357
Population 2005 (in thousands)	18,902	15,384	8269
Population 2000 (in thousands)	16,086	13,640	7008
GDP 2010 ($billion)	256.2	208.4	141.5
GDP 2005 ($billion)	115.6	85.1	60.4
GDP 2000 ($billion)	57.7	38.1	26.4
Average annual GDP growth rate (2000–2010)	16.1%	18.5%	18.3%
Per capita GDP 2010 ($)	11,238	11,218	13,930
Per capita GDP 2005 ($)	6061	5614	7422
Per capita GDP 2000 ($)	3630	2914	3962
Foreign direct investment 2010 ($million)	15,307	8490	4290

for manufacturing and commerce in mainland China (Table 3). In 2010, Shanghai's GDP was $256 billion surpassing Hong Kong ($224 billion) and Singapore ($222 billion).

Shanghai's wealth is also attributed to an affluent hinterland composed of 'star' cities such as Suzhou and Wuxi, which are well known for their high-growth rate propelled by foreign direct investment (FDI) as well as privately owned manufacturing enterprises. In particular, FDI brings in international capital, new technology, and management experience, resulting in high productivity. In addition, foreign firms compete with local companies, which may also lead to greater efficiency and improved overall corporate governance standards, thereby catalyzing the area's economic growth and competition in the global market.

Because of its history, locational advantages, and foreign investment, the established manufacturing base of the Yangzi-Delta area creates a strong domestic market from which Shanghai can rise as a dominant financial center in the region. For instance, the city concentrates 41 fund management firms that manage 45.3% of the funds nationwide in 2013, more than any other Chinese city. Shanghai enjoys the most vibrant economy in the nation and is, therefore, a strong competitor in the global arena.

The role of the state

Shanghai would not have become a financial center without policy support from the central government (Table 4). In 1990, the state council declared the opening of Lujiazui District located in the eastern side of Shanghai as the first financial district of the nation. Financial firms in this district enjoy special tax policies, incentives, and support in regard to matters such as training personnel and expedited visa services. Based on these policies, domestic and foreign financial institutions have established branches in the area. In 2005, the State Council reaffirmed the positioning of the Lujiazui area as the only finance and trade zone among the 185 state-level development zones in mainland China, and the preferential policies have continued to draw financial firms.

Given Shanghai's economic achievements and potential to grow further, the State Council passed a bill in 2009 that envisioned Shanghai becoming China's International Financial Center and Shipping Center by 2020. This bill demonstrates the central government's commitment of policy support for Shanghai and supports the city's image as a potential IFC. Four years later in 2013, an initiative called the Shanghai Free Trade Zone (SFTZ) was launched with the approval of the State Council. For this initiative, officials outlined six areas where industries including banking would be established over the next three-year period. According to financial experts, the most significant advance that the SFTZ could bring is the "predictability of regulation," and there is hope that regulatory policies are being administered in a transparent and predictable fashion (Economist, 2013).

Another policy-supported advantage that Shanghai enjoys is the development and growth of a stock exchange. In 1990, the Shanghai Stock Exchange (SSE) was established by the Chinese government. SSE provides a platform for companies to raise capital and enhance corporate governance and enables investors to mobilize savings and create investment opportunities for individuals. Gradually, Shanghai established diverse financial markets, including futures trading, a foreign currency exchange, and interbank lending. In 2002, the Chinese government allowed approved foreign institutional investors to invest in local Chinese stocks. In April 2014, Premier Li Keqiang expressed the Chinese government's support for mutual access between the stock markets of Shanghai and Hong Kong. Under this scheme, Hong Kong brokers will be able to place orders on the Shanghai Stock Exchange and Chinese brokers on the Hong Kong Stock Exchange on behalf of their clients (People Daily, 2014). The announced guidelines promise three new developments for international investors. First, international investors will have direct access to "eligible" individual stocks listed on the Shanghai Stock Exchange. Second, individual investors will have direct access to the SSE through their brokers in Hong Kong. Third, overseas investors will have greater access to China's domestic stocks than they do at present. These new policies are expected to provide a strong boost to the capital market in Shanghai.

Command of and involvement in the global economy

Shanghai has benefited from strong state policies that triggered a powerful localization effect, which attracted foreign financial firms. By 2013, 445 MNCs had established regional headquarters in Shanghai, far exceeding the number in Beijing, 142. These MNCs include world-renowned banks such as Citibank, HSBC, and Standard Chartered, which may generate a snowball effect whereby more foreign financial institutions are attracted to the city and strengthen the city's image as a potential IFC. These foreign banks have played an important role in introducing advanced management expertise, intensifying competition in the Chinese financial

Table 4
Institutional support.

City	State and local policies
Shanghai	• In 1990 Lujiazui financial district was established by the State Council • In 2005 the State Council reaffirmed the positioning of the Lujiazui area as the only finance and trade zone among the 185 state-level development zones in mainland China • In 2009 the State Council passed a bill that envisions Shanghai as China's International Financial Center and Shipping Center by 2020 • In 2013 Shanghai Free Trade Zone (SFTZ) was launched in September with the approval from the State Council
Beijing	• In 1993 the State Council approved the Master Plan of Beijing and a "Financial Street" in the central city was designed to host all regulatory agencies • In 2001 Beijing CBD Administrative Committee was established to plan, build, and manage the business district. In 2008 Beijing government decided to grow the city into a world financial center • In 2009 the city government announced to build Beijing into a World City
Shenzhen	• In 1980 it became the first area in China to be designated as a special economic zone • In 2010 the master plan of Qianhai Bay was approved to establish a more "special" zone

Table 5
Financial institutions. Source: City Statistical Book, multiple years; converted to U.S. dollars using currency rate of the year; CIRC and CSRC, 2011.

	Shanghai	Beijing	Shenzhen
Stock exchange	• Shanghai Stock Exchange	N/A	• Shenzhen Stock Exchange
Domestic banks (top 10)	• Bank of Communications • Shanghai Pudong Development Bank	• Industrial and Commercial Bank of China • Agricultural Bank of China • China Construction Bank • Bank of China • Minsheng Banking Corp • China CITIC Bank	• China Merchants Bank
Domestic insurance companies (top 10)	• China Pacific Insurance • Taiping Life	• China Life Insurance Company • New China Life Insurance • PICC Life Insurance • Taiking Life • Sunshine Insurance	• Ping An of China • Sino Life
Fund management firms (national total of 89 in November 2013)	• 41, accounting for 45.3% of national capital	• 15, accounting for 17.5% of national capital	• 22, accounting for 23.9% of national capital

market, and promoting the improvement of efficiency and corporate governance of local banks. The involvement of foreign financial institutions improves the role of Shanghai as a major connecting gate between China and the rest of the financial world and as a regional command center with global reach.

However, one of Shanghai's most significant disadvantages as a national financial center is the lack of regulatory power, dominant commercial banks, and major insurance companies in the nation (Table 5). Although the second headquarter of the People's Bank of China is located in Shanghai, the city does not host the headquarters of any of the three regulatory bodies in banking, insurance, or securities—all of which are of paramount importance in regard to determining and implementing policies. Furthermore, of the top ten Chinese banks, only two are headquartered in Shanghai: the Bank of Communications and the Shanghai Pudong Development Bank. The former is ranked 6th nationwide, and the latter is 10th. Of the top ten insurance companies, Shanghai is home to only two: China Pacific Insurance and Taiping Life. In comparison, Beijing has six banks from the top ten list and five insurance companies that lead in the nation.

Because Shanghai lacks powerful domestic financial institutions, it is undermined in terms of its drive to become a capital of capitals, a breeding ground to grow, train, and attract financial professionals, a center for financial renovation, and a magnet to generate localization economy.

Further, because few domestic firms are headquartered in Shanghai, it also lags behind Beijing as a national command and control center. As of 2013, Shanghai hosted only eight of the 87 Chinese firms that made the Fortune 500 list, compared to 48 in Beijing and four in Shenzhen (Table 5). This is because most Chinese MNCs are state-owned enterprises (SOE), most of which are headquartered in the capital city of Beijing so that the party can easily manage them. These SOEs control a large portion of the national economy, particularly in strategic sectors where no market competition is allowed. With the continued growth of China's economy, many SOEs have expanded globally in the past decade to advance the party's political aim of fostering national champions (Economist, 2011b, 2012a; Szamosszegi & Kyle, 2011). Without a large number of multinational corporation headquarters, Shanghai can hardly be considered a power center on a national scale and certainly not in global terms.

Beijing

Urban economy

Compared to Shanghai as a commerce and finance center, Beijing was a political and cultural center before it became the capital of China in 1949. Since then, the central government built the city's heavy industry as well as its public sectors. The economic reforms of the 1990s created an economic boom for Beijing with the influx of foreign capital and technology. At present, Beijing enjoys a large, vibrant, and growing urban economy, with GDP and per capita GDP comparable to those of Shanghai (Table 3).

However, compared to Shanghai, Beijing has yet to develop an extensive economic hinterland with established manufacturing chains. Its long-time competitor, the nearby city of Tianjin has recorded impressive GDP growth rates in recent years. Its other immediate neighbor, Hebei Province ranked 11th nationwide for per Capita GDP in 2010. The city's northern neighbor, Neimenggu Province ranked 7th, whereas a neighboring province to the west, Shanxi, ranked 21st. In comparison, Shanghai's two neighboring provinces Zhejiang and Jiangsu ranked 4th and 5th, respectively. This is an important reason that some MNCs chose to relocate their regional headquarters to Shanghai in the mid-1990s to tap into a more affluent and fully developed economic hinterland (People, 2013).

The role of the state

Beijing's rise as a national financial center is often attributed to its 1993 Master Plan, approved by the State Council. According to the Plan, a ''financial street" in the central city was designed to host all regulatory agencies, including the central bank, the China Banking Regulatory Commission, the China Insurance Regulatory Commission, and the China Securities Regulatory Commission. It also hosts the headquarters of some major state banks and non-banking enterprises.

The development of a financial street has generated a strong localization economy. First of all, the spatial agglomeration of the central bank and government regulatory agencies serves as a financial policy center and information heartland (Zhao, 2003). Compared to the policies of advanced economies, financial policies are usually not transparent in China. Geographic proximity to an information center may be extremely important for financial institutions to swiftly access information and make interpretations correctly. In fact, the financial street attracted some world-renowned banks, such as Goldman Sacks, JP Morgan, and UBS, which set up regional offices there. In addition, in the early 21st century, some insurance companies moved their headquarters from Guangzhou to Beijing in order to foster communication with the CIRC (JRJ, 2011). The relocation choice of these businesses indicates Beijing's appeal as an information center. Also, by hosting major state banks and insurance companies, the financial street has become the national center of financial payment and settlement, and financial talent. Around 2010, 90% of China's credit and loans and 65% of its insurance funds were concentrated in the financial street. In fact, Beijing holds the predominant power in terms of financial investment decisions. All these factors create a strong localization effect in terms of the financial talent pool, technology spillover, innovation, and lowered transaction costs.

A second policy that has contributed to the growth of Beijing as a financial center is the establishment of a Central Business District (CBD), located in Chaoyang in the eastern side of the city. In the 1993 Master Plan, the city government of Beijing conceived a strategic plan to build a central business district to promote finance, information, commerce, and culture industries in Beijing. In 2001, the Beijing CBD Administrative Committee was established to plan, build, and manage the district. The committee is also responsible for providing information on laws, taxes, and government policies as well as a one-stop service to simplify approval procedures. In 2011, the CBD hosted regional headquarters of 50 MNCs and secured investment from 160 Fortune 500 businesses (Bjcbd, 2011). It is also drawing many international financial institutions from South Korea, Germany, Italy, and the United States. In addition, it appeals to overseas stock exchanges such that NASDAQ, the New York Stock Exchange, and the Tokyo Stock Exchange have established offices in the district. In 2014, the city of Beijing hosts a total of 48 regional headquarters of Fortune 500 companies, far exceeding Shanghai with only four (LWDF, 2014).

A third policy decision that may be responsible for fostering Beijing's financial industry is the city's announcements made in the years of 2008 and 2009 that it intends to become a "world financial center" and a "world city". To achieve these goals, Beijing will strengthen its finance and commerce industries, improve its urban infrastructure, attract international firms and organizations' headquarters, and strengthen its research and development capabilities, etc. (Beijing Commerce, 2010). By clustering world-level technology and human resources, Beijing aims to be a competitive city like London and New York City.

In a short period of time, all these institutional measures and policies have produced a strong agglomeration effect that supports the growth of the financial industry in Beijing. Although China's central government does not have an explicit policy of ensuring that Beijing becomes an IFC, the state is very involved in helping Beijing become more competitive in this regard. The financial industry has brought many benefits to the city such as tax and human capital such that this industry is one of the most important. The industry has also served to increase the city's global influence. In light of the rapid growth of the Financial Street and the ensuing financial rewards accruing to the city, the local government of Beijing proposed an official plan in 2008 to develop the city as a financial center with international influence (Xinhua, 2008). Given Beijing's financial resources, this plan may attract more domestic and foreign financial institutions, thereby presenting a strong challenge to Shanghai.

Even so, Beijing's bid to become an IFC is hampered by its lack of a stock market. All IFCs worldwide host a stock exchange market as a powerful and efficient tool for capital formation and as an indicator of the country's economic strength and development. Recent Western history shows a growing public interest in investing in the stock market and shows funds flowing directly to the financial markets instead of through traditional bank-lending and deposit operations. Overall, financial markets are becoming more important for capital accumulation and economic growth (Levine, 1997). Correspondingly, the lack of a financial market is a major disadvantage for any city with hopes of becoming an IFC.

Command of and involvement in the global economy

As the capital city of China, Beijing hosts major state-owned enterprise (SOE) headquarters and holds prevailing political and economic control and command power at the national scale. For instance, all three national telecommunication companies are headquartered along the Financial Street. Expanded to the city level, in 2013, of the 87 companies in mainland China that made the Fortune 500 list, 48 were headquartered in Beijing. Most of these companies are SOEs that control essential resources and infrastructure, such as Sinopec, China Telecommunications, State Grid, and China National Offshore Oil. Despite three decades of privatization and restructuring since the economic reforms of the late 1970s, SOEs still exert major control over the nation's economy, accounting for more than 40% of China's non-agricultural GDP around 2010 (Szamosszegi & Kyle, 2011). The dominant controlling power of the SOEs is attributed to a favorable business environment created by the state government. When compared to private sector companies, SOEs and their subsidiaries enjoy preferred access to bank capital, below-market interest rates on loans from state-owned banks, favorable tax treatment, and large capital injections from the state government when needed (Szamosszegi & Kyle, 2011).

Not only do SOEs have the paramount economic power at home, they are also becoming more influential in the global market. Advanced by China's "Going Out" policy and fueled by massive foreign exchange reserves, large-scale SOEs have invested overseas in the past decade, especially in infrastructure, natural resources, and the energy industry (Szamosszegi & Kyle, 2011; Woetzel, 2008). Therefore, SOEs are strengthened both at home and abroad through support from the central government, which, in turn, enforces Beijing's role as a domestic and potential international control and command center.

Beijing is at a disadvantage thanks to the potential weaknesses of the SOEs. First, even though the four large state-owned banks receive significant assistance from the central government on their balance sheets and have also greatly improved their performance, non-performing loans remain a problem and impair bank earnings (Chang, 2012). Although these problems were not revealed to the general public, low accounting/auditing standards mean that such banks cannot be competitive if China abandons its closed financial system and opens the banking sector in the long run. Second, although China's SOEs are gaining a larger share of the global market, they are much less profitable than their international competitors (Galvez, 2012). Unless the SOEs improve their management system and allocate resources more efficiently, they cannot develop into world-class enterprises with major control and command power in the global arena. However, it is uncertain whether the SOEs can achieve such goals without sustained government policy support. Third, these SOEs lack the ability to innovate. Their success so far has relied on their state-controlled monopoly status and associated state policy support. Almost none of them has core products or internationally renowned brands, a reflection of insufficient research and development capabilities. The SOEs need to make higher-quality products with higher margins and offer services to complement them. The lack of innovative ability may make them vulnerable in the international market, and even in the domestic market, if the monopoly is broken and the state no longer provides preferential treatment.

Therefore, the continued growth of SOEs is maintained by the incomplete marketization under the current growth model of state capitalism. As Walter and Howie (2011) caution, if China fully opens its financial market, revokes support for its four largest banks, and eliminates favorable policies for SOEs, the financial sector in Beijing may not become competitive.

Shenzhen

Urban economy

When compared to its two northern rivals, Shenzhen has a smaller economy but higher productivity on a per capita basis

(Table 3). Located on the south coast of China, the city was a fishing town until the late 1970s. It became globally engaged when in 1980 the central government designated it the first special economic zone (SEZ) that could accept foreign investment. Unlike Shanghai, Shenzhen is a relatively young city and has not developed an economic hinterland. Similar to Shanghai, though, Shenzhen does not have strong political power in the nation such as that enjoyed by Beijing. Instead, Shenzhen has mainly benefited from its geographic proximity to Hong Kong, and the city's links with Hong Kong provide a foundation for Shenzhen to specialize in manufacturing and finance.

The role of the state

With state support, Shenzhen has succeeded in developing some financial markets. In 1990, the Shenzhen Stock Exchange was established by the state council. From the year 2000–2004, Shenzhen Stock Exchange suspended listing new firms in preparation for a new board for high-tech start-ups. This severely undermined the stock exchange's ability to attract capital. Compared to the Shanghai Stock Exchange, which mainly lists large-cap companies, the Shenzhen Stock Exchange focuses on small- and mid-cap enterprises. The Shenzhen Stock Exchange opened the ChiNext board, a NASDAQ-type exchange for high-growth, high-tech start-ups in 2009. These have provided some platforms for technology innovation and firm growth.

A more aggressive and ambitious step was proposed by the local government and subsequently approved by the central authority. In 2010, the state council approved the master plan for Qianhai Bay, a 15-square-kilometer zone on the city's west coast. The most significant feature of Qianhai is the proposed specialized laws and regulations on industrial policies, tax policies, and public administration that are close to international standards (Economist, 2012b). Also, by charging a low corporate-profit tax and not levying income taxes on finance professionals, lawyers, accountants, and creative people, it aims to attract modern service industries and talent. One of the city's central aims is to attract some of the offshore yuan that have pooled outside mainland China's borders. In Qianhai, the government will assist firms in their efforts to raise yuan offshore, and Hong Kong banks will be allowed to enter the zone more easily compared to the current situation (Economist, 2012b). There will be greater cross-border lending, and Qianhai may become a pioneer in term of the yuan's full convertibility. Based on these special policies, some major banking institutions have signed cooperation agreements with the new Qianhai Zone thus strengthening Shenzhen's position as a potential IFC (Global Times, 2012). It is highly likely that the creation of the Qianhai zone will generate a strong localization effect.

Command of and involvement in the global economy

In terms of its control and command power in national and global terms, Shenzhen has only four major firms that made the Fortune 500 list in 2013, such that the city lags far behind Beijing and Shanghai, which have 48 and eight, respectively. Among the four Fortune 500 firms in Shenzhen is Huawei, a privately owned company that manufactures networking and telecommunications equipment. Although the founder of this company benefited from connections with the military, Huawei has a strong focus on research and development. Founded approximately thirty years ago, it is highly professional and impressively innovative, resembling a Western-style high-tech firm more than a typical Chinese SOE. After succeeding in the domestic market, Huawei expanded into Latin America, Africa, and Eastern Europe (Businessweek, 2011). In 2012, it overtook Ericsson and became the largest networking and telecommunications equipment maker in the world. Huawei can be considered one of the world's most influential and innovative companies. For the city of Shenzhen, Huawei's impact exceeds its monetary value. The company attracts bright young people, acts as a model for private enterprises, enriches the entrepreneurial environment, and attracts investment in information technology.

In regard to domestic banking institutions, Shenzhen falls behind Beijing and Shanghai. Of the top ten banks in China, Shenzhen hosts only China Merchants Bank (CMB), the first share-holding commercial bank wholly owned by legal corporate entities in China. Despite its relatively small size, CMB provides much better services in many areas than state-owned banks. For instance, based on its early introduction of a one-card-for-all debit card, CMB has attracted a large share of high-quality customers and established a strong reputation. It now leads the country in terms of credit card loans and other private banking businesses. This in turn, may further increase CMB's competitiveness in retail banking. In regard to insurance companies, Shenzhen is home to Ping An of China and Sino Life, two of China's top firms in this area. On this measure, Shenzhen is similar to Shanghai, which also hosts two top insurance companies, but falls behind Beijing, which has five.

There is no doubt that Shenzhen's path to global engagement began with dependence on centrally directed resource allocations and a commitment to investment zones by national policy makers. However, Shenzhen has two major disadvantages. First, the lack of a large domestic market strongly mitigates against Shenzhen's bid to become a national financial center. The city also lacks an affluent hinterland for developed manufacturing chains. Second, its proximity to Hong Kong may limit its growth. Although Shenzhen has benefited tremendously from its geographic proximity to Hong Kong, its potential IFC status is also overshadowed by this proximity. Given Hong Kong's international status, it is unlikely that Shenzhen will take over or even seriously challenge Hong Kong's role in the global financial industry.

Summary

One point that all three cities have in common is that all have benefited from the central government's policy support in their progress toward becoming financial centers. Shanghai benefited from the state's decision to establish a financial district with favorable policies and to establish financial markets. Beijing benefited from the state's approval of the city's master plan to build a financial street and a central business district to attract major banking institutions, regulatory agencies, and SOE headquarters. The city's aspiration to become a world city also helps to grow its financial industry. Shenzhen benefited from the state's decision to set up special economic zones as an experimental market economy. For all three cities, state policies have produced a strong localization economy for the financial industry.

However, each city has distinct strengths and weaknesses (Table 6). Shanghai's advantages come from a strong local and hinterland economy, growing financial markets that are expecting continued reform and development, an established reputation as a financial center, and involvement in the global financial market. Its disadvantages include a lack of financial policy decision-making agencies, powerful domestic commercial banks and domestic MNCs, which may prevent the city from becoming a control and command center and thus from becoming dominant as a financial capital.

In contrast, Beijing's advantage lies in the fact that the city hosts the central bank and all regulatory commissions in banking, insurance, and securities industries, locates major commercial banks and insurance companies' headquarters, and concentrates the largest number of domestic MNC headquarters that are influential both at home and overseas. Therefore, Beijing is a national or even international power center. The city's disadvantage is related to the lack of a major financial market, the relatively weak performance and

Table 6
Strengths and weaknesses of Shanghai, Beijing, and Shenzhen as financial centers.

	Shanghai	Beijing	Shenzhen
Strength	1. Shanghai leads other cities in urban economy and hinterland economy 2. Shanghai has developed stock exchange, futures exchange, foreign currency exchange, and other financial markets 3. Shanghai enjoys an established reputation as a financial center 4. Shanghai has the most foreign MNC regional headquarters	1. Beijing hosts central bank and all regulatory commissions in banking, insurance, and securities industries 2. Beijing locates major commercial banks and insurance companies' headquarters 3. Beijing has a significant number of domestic MNC headquarters, which are influential not only in China but also in the global arena	1. Shenzhen is in geographic proximity to Hong Kong 2. Shenzhen enjoys the highest productivity among three cities 3. Shenzhen has developed strong information industry
Weakness	1. Shanghai is not a power center in the nation 2. Shanghai lacks world-renowned commercial banks 3. Shanghai lacks domestic MNC headquarters	1. Beijing has no stock exchange 2. The role of Beijing may be subject to the future of the state capitalism and the performance of SOEs 3. Beijing does not host as many foreign MNC regional headquarters as Shanghai	1. Shenzhen does not have a large hinterland market 2. Shenzhen does not have many domestic or foreign MNC headquarters 3. Shenzhen may be overshadowed by Hong Kong's international status

competitiveness of state-owned banks and non-banking enterprises, and a lower level of involvement in the global market as it hosts fewer foreign MNC regional headquarters than Shanghai. Regarding the southern rival Shenzhen, the city's main strength arises from its proximity to Hong Kong. Shenzhen enjoys the highest level of productivity when measured by per capita GDP among the three cities, and has developed a competitive information technology industry that attracts talent and strengthens the city's position on a global scale. However, the city itself lacks both a large hinterland market and domestic or foreign MNC headquarters. Its geographic proximity to Hong Kong may also serve to prevent Shenzhen from achieving IFC status.

Overall, the outcomes of the competition among the three cities may well be shaped by the vicissitudes of state government policies and the power play between local and central states. Indeed, it is no surprise that all three cities have strong connections with the central government. If the Chinese state government continues the current development model of state capitalism, Beijing's advantages as a growing financial center may continue. However, if China fully opens its financial market and removes favorable policy support for SOEs, the financial sector in Beijing may become less competitive, and Shanghai and Shenzhen may seize more power in the national financial sector. The race between Shanghai and Shenzhen may hinge on the institutional support and market freedom in the former's Free Trade Zone and latter's Qianhai Zone.

Further, the dynamic contour map of China's future IFCs offers a chance to generate hypotheses on the development of IFCs in emerging economies. Whereas previous studies on global financial institutions have focused on the role of market forces and business environment in the growth of IFCs, the role of institutional forces under different economic systems and growth models is rarely discussed. In this study, we find that although the factors including agglomeration evident in financial cities in an emerging market are similar to those evident in advanced economies, the Chinese central and local governments, in this case, appears to be the single dominant factor responsible for creating a localization economy and favorable conditions for the growth of financial centers. This observation may be the key to understanding the rise of financial centers in some emerging markets during a global economic undertow.

Conclusion

This study focused on comparing the potential of three mainland Chinese cities, Shanghai, Beijing, and Shenzhen, as international financial centers. Data from the Global 2000 financial firms show that all three cities improved their performance from 2005 to 2010 and that Beijing leads the other two cities in both years. Then a detailed comparison indicated that Shanghai's major advantages include a diverse financial market and a strong appeal to overseas financial institutes, driven by the state's policy support. Shanghai's major disadvantage lies in its lack of control power in the national economy. In contrast, Beijing's major advantage is its command and control power in the domestic and even global market, through a large concentration of state-owned enterprises. Such an advantage is deeply rooted in China's current development model of state capitalism. On the other hand, Shenzhen has considerably less economic power than the other two cities do. But it has benefited tremendously from state policies and its geographic proximity to Hong Kong.

Overall, all three Chinese cities have strengthened their financial industries through institutional support, and the future power of the three leading cities may depend on the Chinese government's policies. If the state government continues the current model of state-directed capitalism, Beijing's advantages as a potential IFC may continue. Instead, if China fully opens its financial market and removes its policy support for SOEs, the financial sector in Shanghai and Shenzhen may seize more power in the national financial sector. Then the race between Shanghai and Shenzhen may hinge on the institutional support and market freedom in the former's Free Trade Zone and the latter's Qianhai Zone.

Our study provides some important insights into the interplay between institutional forces and globalization in a transitional economy. Although the global economy and market openness are considered some of the most important factors underlying IFC status, in an emerging economic powerhouse like China, the state is capable of empowering the country's financial centers in the world arena by consolidating its banking systems. The state is also capable of strengthening a city's competitiveness as a national or global control and command center by strengthening SOEs through favorable policies. In addition, the government demonstrated its commitment to creating strong agglomeration effects by providing space, physical structure, and resources to nurture financial industries in at least some of its cities. Therefore, in appearance, China's leading financial cities have presented a pattern of agglomeration that is similar to those of financial centers in market economies, while more fundamentally, a strong state under incomplete marketization conditions plays a dominant role in promoting the development of China's cities into potential IFCs. Such a finding is key to understanding the interplay between state capitalism and global forces in the emerging market, where the state can function as the leading economic actor in the global market. This conclusion offers an important first step toward a theory capable of describing the growth of IFCs in a state capitalist system. In future research, we will examine the extent to which it is efficient and sustainable for the state to support SOEs and consider whether state capitalism serves to augment the free market as the preferred development model for emerging economies in terms of IFC development.

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