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Shanghai As World Financial Capital? Maybe Next Century.

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Just finished a fascinating article in Atlantic by Richard Florida, entitled, "How The Crash Will Reshape America." It makes some very interesting points as to why Phoenix and Las Vegas (and large swaths of Florida) may never recover and why New York, Austin, and Seattle (yeah), will do just fine. But within it, and of great relevance to this blog, is a section on why New York will remain as the world's financial capital and why, despite the projected growth of Asia's economies, we should not expect Shanghai, Hong Kong, or anywhere else to usurp it. At least not for an exceedingly long time.

At first glance, few American cities would seem to be more obviously threatened by the crash than New York. The city shed almost 17,000 jobs in the financial industry alone from October 2007 to October 2008, and Wall Street as we've known it has ceased to exist. "Farewell Wall Street, hello Pudong?" begins a recent article by Marcus Gee in the Toronto Globe and Mail, outlining the possibility that New York's central role in global finance may soon be usurped by Shanghai, Hong Kong, and other Asian and Middle Eastern financial capitals:

Amsterdam stood at the center of the world's financial system in the 17th century; its place was taken by London in the early 19th century, then New York in the 20th. Across more than three centuries, no other city has topped the list of global financial centers. Financial capitals have "remarkable longevity," Cassis writes, "in spite of the phases of boom and bust in the course of their existence."

The transition from one financial center to another typically lags behind broader shifts in the economic balance of power, Cassis suggests. Although the U.S. displaced England as the world's largest economy well before 1900, it was not until after World War II that New York eclipsed London as the world's preeminent financial center (and even then, the eclipse was not complete; in recent years, London has, by some measures, edged out New York). As Asia has risen, Tokyo, Hong Kong, and Singapore have become major financial centers—yet in size and scope, they still trail New York and London by large margins.

In finance, "there is a huge network and agglomeration effect," former assistant U.S. Treasury secretary Edwin Truman told The Christian Science Monitor in October—an advantage that comes from having a large critical mass of financial professionals, covering many different specialties, along with lawyers, accountants, and others to support them, all in close physical proximity. It is extremely difficult to build these dense networks anew, and very hard for up-and-coming cities to take a position at the height of global finance without them. “Hong Kong, Shanghai, Singapore, and Tokyo are more important than they were 20 years ago,” Truman said. “But will they reach London and New York’s dominance in another 20 years? I suspect not.” Hong Kong, for instance, has a highly developed IPO market, but lacks many of the other capabilities—such as bond, foreign-exchange, and commodities trading—that make New York and London global financial powerhouses.

“A crucial contributory factor in the financial centres’ development over the last two centuries, and even longer,” writes Cassis, “is the arrival of new talent to replenish their energy and their capacity to innovate.” All in all, most places in Asia and the Middle East are still not as inviting to foreign professionals as New York or London. Tokyo is a wonderful city, but Japan remains among the least open of the advanced economies, and admits fewer immigrants than any other member of the Organization for Economic Cooperation and Development, a group of 30 market-oriented democracies. Singapore remains for the time being a top-down, socially engineered society. Dubai placed 44th in a recent ranking of global financial centers, near Edinburgh, Bangkok, Lisbon, and Prague. New York’s openness to talent and its critical mass of it—in and outside of finance and banking—will ensure that it remains a global financial center.

I *completely* buy it. Do you?