

## MASTER'S THESIS

### The development of China's financial centres: a geographical perspective

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**The Development of China's Financial Centres -- A Geographical Perspective**

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**A thesis submitted in partial fulfillment of the requirements**

**for the degree of**

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## Abstract

The process of globalization and IT innovations in recent years has stimulated profound changes in the global financial landscape and attracted the growing interests on the geography of finance. Geography of finance is a newly emerged multi-discipline that specially deals with international capital flows, money landscapes and locations of banking and service enterprises as well as spatial evolution of financial centres. One interesting aspect of the subject is the 'information hinterland' theory. It suggests that information externalities, asymmetric information and path dependence are important forces in shaping the formation of information hinterland and determining the development of financial centres. China's landmark accession into the World Trade Organization (WTO) will undoubtedly have tremendous impacts on China's economic development and spatial restructuring. It will also change China's information hinterland, and thus, induce profound organizational and spatial impacts on China's financial centre development.

However, so far, it seems that few studies have checked the above theories by detailed empirical investigation. Particularly, there is much fewer applied in China's issue. This paper will, hopefully, fill in the gaps by examining China's Beijing-Shanghai city-pair as a case. Theoretically, by reviewing various forces behind the formation of a financial centre, we argue that the 'information hinterland' of a centre is a crucial impetus to promote the growth and create geographic agglomeration of financial activities.

Based on the rationale of identifying the financial competence of China's financial city-pair of Beijing and Shanghai, empirically, a method called financial centre index (FINDEX) will be developed, by which the relative importance of the

two cities may be assessed over time. In order to examine the rise and decline of the city-pair, a good deal of effort will go into measuring the information hinterlands of the two cities and examining the information thickness of the areas within each hinterland of the two cities. It is hoped that the most profitable area for accessing valuable information in China will be assessed. For testing the effect of asymmetric information and information externalities, a survey focusing on the regional distribution of Multi-national Corporation and their headquarters will be presented in the last section. Finally, based on the overall justification, the conclusion will be drawn according to the 'information hinterland' theory. In the foreseeable future, Beijing, as the prime source of state information (mostly non-standardized in nature), may be more advantageous than other Chinese cities in developing into the 'best access point' for financial centre development in the face of China's WTO accession.

## Table of Contents

<i>Chapter/Section</i>	<i>Title</i>	<i>Page</i>
<i>Declaration</i>		i
<i>Abstract</i>		ii
<i>Acknowledgements</i>		iv
<i>Table of Contents</i>		v
<i>List of Tables</i>		viii
<i>List of Figures</i>		x
<i>List of Abbreviations</i>		xi
<i>List of Appendices</i>		xii
<i>Chapter one</i>	<i>Introduction</i>	1
1.1	Research Background	1
1.2	Research Objectives	4
1.3	Organization of the thesis	6
<i>Chapter Two</i>	<i>Overview of China's Financial System and the Possible Impacts of China's WTO Accession</i>	8
2.1	China's Financial Reform in the Last Twenty Years	8
2.2	Problems and Prospects of Financial Markets in China	11
2.3	Some Basic Facts about Beijing and Shanghai	17
2.4	China's WTO Accession, Rule Change, and its Potential Impact on China's Financial Market	24
<i>Chapter Three</i>	<i>Location, Path Dependence and Information Hinterland: The Theoretical Framework</i>	32
3.1	Introduction	32
3.2	The Definition of Financial Centre and How it is Identified	33
3.2.1	Function and Characteristics of Financial Centres	33
3.2.2	Financial Centre Index (FINDEX) Analysis	38
3.3	Forces behind Financial Agglomeration and the Formation of Financial Centres	39
3.3.1	Forces of agglomeration	39
3.3.2	'Information Hinterland' Theory	41

3.3.3	The Application of 'Information Hinterland Theory' in China	47
3.4	Defining the Information Hinterland and Heartland for the Case in China	49
<b>Chapter Four</b>	<b><i>The Relative Financial Importance of Beijing and Shanghai in China</i></b>	<b>54</b>
4.1	Introduction	54
4.2	Financial Centre Index (FINDEX) Analysis	55
4.3	Employment in Finance	56
4.4	Assets of Financial Institution	60
4.5	Stock Exchange Volumes	65
4.6	Foreign Financial Institution Presence	67
4.7	Other characteristics	69
4.7.1	Large non-financial corporations	69
4.7.2	Communications	71
4.8	Calculation of Findex	75
<b>Chapter Five</b>	<b><i>Defining Information Hinterland and its Heartland</i></b>	<b>78</b>
5.1	Introduction	78
5.2	Defining the Boundary of Information Hinterlands of Beijing and Shanghai	80
5.3	Measuring Information Thickness in the Information Hinterlands of Beijing and Shanghai	86
5.3.1	Introduction	86
5.3.2	Identifying Information Flows Generated by Regions	88
5.3.3	The Coverage on China's Primary Media and Internet Domain Names	98
5.3.4	The Analysis of GDP, Trade, FDI and their Growth in China	101
5.3.5	The Location Distribution of Headquarters of Foreign Companies	108
5.3.6	Conclusion	116
5.4	The Possible Impact of WTO Accession to the Development of the Information Hinterlands of Beijing and Shanghai	117
5.5	Summery	121

<i>Chapter Six</i>	<i>Implications and Conclusion</i>	123
6.1	Summery	123
6.2	Implication and Discussion	126
6.3	Limitations, Contributions and Future Research	132
<i>Appendix</i>		135
<i>Bibliography</i>		142
<i>Curriculum Vitae</i>		151