

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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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.

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