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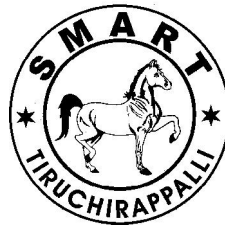
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# ASSESSING MUMBAI AS AN INTERNATIONAL FINANCIAL CENTER

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The following address was delivered by Dr.Sankaran Venkateswar at the International Conference 2009, organized by the Department of Commerce and Financial Studies, Bharathidasan University in Trichy, India. The author is very thankful to Dr.M.Selvam, the convener of the conference.

## **Emergence of IFCs: A brief history**

The world had a global currency viz., gold and silver for several centuries. Pre-modern International Financial Centres (hereafter IFC) flourished across Europe, the Middle East and coastal Africa, under the umbrella of the Roman Empire. The antecedents of modern IFCs are traceable to the Renaissance when the City States of Venice, Florence, Naples, and Genoa dominated the trade between Europe and the Orient from the 14<sup>th</sup> to the 16<sup>th</sup> centuries. The Mediterranean centers were superseded by the rise of Amsterdam, Lisbon, Madrid and London.

## **The first round of Globalization: 1860 – 1914**

In 1856, a 4000 mile telegraph system, linking Calcutta, Agra, Mumbai, Peshawar, and Madras, was completed, providing the first high speed messaging system in India. After the US civil war, economic growth took off and in the 1860s the first transcontinental railroad was built. In 1865, telegraph links between Europe and India became operational. In 1869, the Suez Canal was built, reducing the sailing time between London and Mumbai by half. By 1870, two large economic blocks emerged – the British Empire with India as its economic centerpiece and the US. During this era, London was the pre-eminent IFC and New York was still in its infancy.

## **The second round of Globalization: 1945 – 71**

The 30 year period between 1914 and 1945 was interrupted by two world wars. Post-war reconstruction finance in large part by the US resurrected IFS and galvanized it at a more frenetic pace. During this period, New York replaced London as the pre-eminent IFC.

## **The take-off of second round of globalization after 1980**

Since 1980, the nature and direction of capital flows has changed. From being the world's largest creditor, US has become the largest debtor.

## **Classification of IFCs**

**Global FCs :** those that serve clients from all over the world in the provision of widest array of IFS – London, New York and Singapore.

**Regional FCs :** those that serve the region in addition to their national economies – Dubai and Hong Kong.

**International, non global, non regional FCs:** those that primarily serve their national economies like Frankfurt and Paris.

**Offshore FCs:** those that serve as tax havens for wealth management.

## **Implications for Mumbai to emerge as an IFC**

Given its present role and size in the world economy, India is becoming a major user of IFS and India's needs for IFS will grow exponentially as global trade and investment grow. India has emerged as a competitive and reliable provider of IT services and this is a necessary element of providing world class International Financial Services (hereafter IFS).

**21<sup>st</sup> century IFS provided by IFCs -**

**Fund raising in IFCs:**

- A liquid and efficient bond market that enables global corporate and sovereign bond issuance.
- An efficient, liquid, large and globally connected equity market that can support equity issuance by issuers not just from India but elsewhere.

- Diverse Risk Management Services – interest rate, currency etc.
- A large and liquid currency trading market.
- Globally efficient insurance and reinsurance markets.

The **Table - A** below provides the markets for foreign equities in 2005. The data in the table clearly establish the dominance of New York and London as IFCs.

**Table A: Markets for foreign equities (2005)**

	<b>Turnover (\$bn)</b>	<b>% of global turnover</b>	<b>No. of Foreign cos. Listed</b>
London	2,496	43	554
NYSE	1,234	21	452
Switzerland	896	16	116
Nasdaq	591	10	332
Germany	165	3	116
Others	401	7	1,295
<b>Total</b>	<b>5,783</b>	<b>100</b>	<b>2,653</b>

**Source: World Federation of Exchanges, LSE**

The **Table - B** below provides the market for bonds in 2005. Again, the market for bonds is dominated by IFCs in USA and Europe. Mumbai has a long way to go in developing bond markets that would be competitive with other IFCs.

**Table B: International Bond Markets (2005)**

	<b>Net Issues (\$bn)</b>	<b>% share</b>
UK	361	19
Spain	211	11
US	199	11
Germany	157	8
France	132	7
Italy	89	5
Netherlands	84	5
Others	989	53
<b>Total</b>	<b>1,861</b>	<b>100</b>

**Source: Bank of International Settlements**

### International Financial Services

The arrays of international financial services provided by IFCs include the following:

- Asset Management:
  - \$125 trillion in globally managed assets.
  - An asset management fee of 1% will generate \$1 trillion in revenues, making it one of the largest industries.
  - India's share of this market is infinitesimal.
- Personal wealth management.

- Global Tax Management.
- Global/regional Corporate Treasury Management.
- Global/regional exchange trading of securities, commodities, and derivatives.
- Financing for public-private partnerships.

The **Table - C** below compares Mumbai against several emergent IFCs. The data clearly indicate the lack of demand for IFS from global and regional clients compared to the other emergent IFCs. This is something that Mumbai has to work on to emerge as a leading IFC.

**Table C: Comparing Mumbai against Emergent IFCs**

Attributes, Characteristics and Capabilities of IFC (Scale of 0-10, with 0 = worst, 10=best)	Mumbai	Hong Kong	Labuan	Seoul	Sydney	Dubai
A. Demand Factors for IFS						
A1. National (Domestic) Demand for IFS	10	4	2	7	6	2
A2. Demand for IFS from Regional Clients	1	7	5	2	3	9
A3. Demand for IFS from Global Clients	0	2	2	2	3	5

The **Table - D** below compares Mumbai against the leading IFCs. Once again, it is evident that there is very little demand for IFS in Mumbai from regional and global clients. The reason for this may be inadequate currency and bond markets in Mumbai.

**Table D: Comparing Mumbai against Existing IFCs**

Attributes, Characteristics and Capabilities of IFC (Scale of 0-10, with 0 = worst, 10=best)	London	New York	Tokyo	S'pore	F'furt	Mumbai
A. Demand Factors for IFS						
A1. National (Domestic) Demand for IFS	10	10	10	4	10	10
A2. Demand for IFS from Regional Clients	10	10	3	9	7	1
A3. Demand for IFS from Global Clients	10	10	3	5	3	0

**Table E: Comparing Mumbai against Existing IFCs**

Attributes, characteristics and capabilities of an IFC : (Scale of 0-10 with 0 = <i>worst</i> 10 = <i>best</i> )	London	New York	Tokyo	S'pore	F'furt	Mumbai
<b>B. Supply factors for IFS : Markets, products &amp; services</b>						
B1. Full Array of international banking services for corporates and individuals	9	9	9	10	6	5
B2. Full Array of international capital markets products and services	10	10	7	8	5	3
B3. Full Array of risk management services	10	10	5	7	6	2
B4. Full Array of insurance and insurance services	10	10	7	5	8	1
B5. Full Array of commodities markets, trading and hedging services	9	9	5	5	4	1
B6. Full Array of business support services for IFS (accounting, legal, IT Support)	10	10	8	10	8	5
<b>C. Institution / market endowments enabling range of IFS products/ service offerings :</b>						
C1. Range, width, depth of international commercial banks represented in the IFC	10	7	5	8	6	2
C2. Range of global, regional and national investment banks represented in the IFC	10	10	8	9	7	2
C3. Range of global, regional and national insurance companies represented	10	9	8	6	8	2
C4. Existence of wide and deep reinsurance markets	10	9	8	6	9	1
C5. Existence of global, regional, national equity markets (i.e., exchanges & support)	10	10	9	8	6	4
C6. Existence of wide and deep bond markets of government corporate, other bonds	10	10	9	5	9	1
C7. Existence of wide, deep and liquid derivatives markets for Equities and indexes	10	10	6	7	6	5
Interest rates	10	10	8	7	7	1
Currencies	10	10	7	8	8	1
Commodities	10	8	7	5	8	3
C8. Innovative Abilities of Institutions and Markets	10	10	5	6	4	5
<b>D. Services offered</b>						
D1. Fund Raising, Wholesale and Corporate Banking	10	10	8	7	7	5
D2. Asset Management	10	10	8	9	6	4
D3. Private Banking & Wealth Management	10	7	5	7	5	2
D4. Global Tax Optimisation & Management	6	5	3	8	4	1
D5. Corporate Treasury Management	10	10	9	8	8	4
D6. Risk Management	10	10	7	7	6	2
D7. Mergers & Acquisitions : (national, regional, global)	10	10	6	5	5	3
D8. Financial Engineering for Large Complex Project and ppp Financing	10	10	8	7	6	3
D9. Leasing & Structured Financing of Mobile Capital Assets (ships, planes etc)	10	10	9	9	10	2

## Conclusion

The data presented above clearly shows that Mumbai has a long way to go before it can claim its rightful place as an IFC. Primarily, bond and currency trading are at an infant stage in Mumbai. However, it is just a matter of time before Mumbai emerges as a true IFC.