INTERNATIONAL FINANCIAL CENTERS AS CHANNELS FOR FOREIGN INVESTMENT INFLOW TO EUROPEAN CITIES [1]

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The research purpose of the present paper is to analyze the role of the West and East European international financial centers as channels for the foreign investment inflow to cities and countries of these centers' location. The focus is made on such push-in factors of foreign capital inflow to guest cities as business environment, human capital, infrastructure, financial development, and reputation. The research is based on analyzing the performance of international financial centers in Amsterdam, Dublin, Frankfurt, London, and Warsaw. The paper argues that these centers' competitiveness rests at large on the competitiveness of guest cities which results in substantial foreign investment inflow into these cities and countries. At the same time, all studied international financial centers have their own specialization which helps to attract additional investment to the segments of their specialization. Some comparisons between those centers and Moscow are made as well as some ideas are proposed on the possibility to use European centers' experience in Moscow.

Key words: *international financial centers, foreign investment inflow, areas of competitiveness, Amsterdam, Dublin, Frankfurt, London, Warsaw, Moscow.*

Introduction

International financial centers (IFCs) are important elements of the European economy. Located in megapolises of Europe, they impact substantially on economic development of their host cities and countries. The paper focuses on the role of IFCs as the channels for the foreign investment inflow to European megapolises and factors influencing the scope and features of this inflow.

The paper follows the methodology of the Global Financial Centres Index which measures the competitiveness of IFCs in five areas – business environment, human capital, infrastructure, financial sector development, and reputation (GFCI 2019: 4, 5). The paper argues that this competitiveness contributes to the foreign investment inflow to IFCs and depends itself at large on the host cities' competitiveness.

The choice of five European IFCs for the research is based on two factors: their ranking and location. In terms of ranking, it seems rational to distinguish between three

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types of IFCs – leading, traditional and emerging (or new) ones. The indisputably leading IFC in Europe is London which takes the second place in the recent world ranking (GFCI 2020: 4); to the traditional European IFCs one can attribute Frankfurt and Amsterdam with their long financial history (13th and 27th places, respectively), and from the emerging ones Dublin (30th in 2020 and 52th in 2015) and Warsaw (50th in 2020 and 64th in 2015) can be taken due to their dynamism (GFCI 2015: 4, 5, 2020: 4, 5).

With respect to location, London being an offshore IFC towards continental Europe as well as Dublin competing with London are good examples of non-continent European IFCs; Frankfurt and Amsterdam are good examples of continental IFCs; Warsaw is one of the East European leading IFCs.

Moscow is analyzed in comparison with these and other IFCs. Some prospects of the above IFCs are also researched. The conclusion contains principal results of the study presented in the paper.

Literature Review

The studies on the IFCs are rooted in the pioneering work by Charles P. Kindleberger (1974) who pointed out main factors contributing to a formation of an IFC (like New York, London, and Tokyo). These factors include economies of scale, clustering of key financial institutions, favorable regulating practices, *etc*. But at the same time, as Kindleberger mentioned, large IFCs tend to spring up and grow around gross trading centers, as it happened in Amsterdam. This idea makes a reference to the evolution of leading global IFCs and their succession in accordance with shifts in trade flows and migration of capital-owners. Historically, one may speak about main dominating IFCs, alternatively following each other (Church 2018). Likewise, Genoa, Amsterdam, London and New York replaced each other as leading global financial centers, which may correspond to the particular cycle of capital accumulation, as Giovanni Arrighi (1994) puts it. However, this explanation hardly seems overwhelming and universal. Some financial centers emerged by intent with a view to competing with front-runners (Arner 2009: 195). In this case, some other factors could play the key role in the development of a financial center, including government policies, regulatory environment and necessary infrastructure. Some other important variables influencing the IFCs' location and development are summarized by Joe Falzon (2001: 193–200).

The modern financial system is often described as dominated by financialization, which implies the extreme importance of financial capital in the current global economy (Arrighi 1994). In this situation, the interconnectedness and global financial dynamic could lead to rises and falls of new IFCs, if they are able to offer new ways to cut costs or new regulatory regimes (Palan 2015: 5). Thus, this idea leads to the emergence of different studies, which focus on the competition among IFCs (Arner 2009; Ringe 2016), ranking IFCs (Lascelles 2003; GFCI 2019) or possible ways to increase the global importance of a particular IFC (Zhao, Karagoz 2016; Elliot 2011 *etc*.). There exist different means to measure the importance of IFCs. The simplest methodology rests on the number of MNC headquarters hosted by a given IFC (Gehrig 1998). A more complex methodology may include different financial indicators such as banking assets, number of domestic credit institutions, forex turnover *etc*. (Batsaikhan, Kalcik, and Schoenmaker 2017: 3). Finally, the most elaborated and commonly accepted methodology is developed by GFCI.

As to the main types of modern IFCs, one might distinguish between IFCs as large cities attracting foreign capital in order to conduct those funds to other parts of a country (or region), and IFCs as offshore centers, which do not necessarily deal with home jurisdictions. For instance, Richard Roberts (1994) points out four types of IFCs, namely: global, regional, domestic, and offshore ones. However, such division seems to be insufficient given the current complicated character of global financial markets and seemingly deeper hierarchy within IFCs. The first issue of GFCI, for example, distinguishes five types of IFCs, including global, international, regional, niche, and national IFCs (GFCI 2007). The same idea runs through other issues of the rankings (GFCI 2019). Moreover, a more clear-cut distinction should be made between more and less offshore-oriented IFCs. According to the principle of interacting foreign and domestic investments, one may distinguish between offshore (no interaction between foreign and domestic investment markets), hybrid (conditional and limited access of foreign investors to a domestic market) and integrated (almost unlimited access of foreign investors to domestic markets) IFCs (Waris 2014: 2). A similar and a relatively simple typology based on the nationality of providers and consumers of financial services, is proposed by Wójcik *et al.* (2019). They distinguish between domestic, export, import, and platform activities, and their methodology rests on the fees received by banks that provide investment banking services (*Ibid.*: 688). Finally, a distinction could be made in compliance with motif-based principle. Generally, one might highlight IFCs that emerged by intent (*e.g.*, Frankfurt) or due to contingent causes (Arner 2009).

It is generally accepted that IFCs may attract foreign capital (Hines 2009). Factors contributing to this phenomenon are related to the general competitiveness of financial centers. First of all, IFCs provide a huge concentration of financial resources, institutions and services, which is a significant factor in attracting FDIs, given the overall asymmetry of the capital movements. The second most important factor could be described as highly developed infrastructure aimed at easing all procedures related to capital transactions (with a key importance of stock exchange). And the third factor concerns human capital. In sum, the general competitiveness factors of an IFC are elaborated by the City of London and could be described as follows: availability of skilled personnel, regulatory environment, access to international financial markets, availability of business infrastructure, access to customers, a fair and just business environment, government responsiveness, corporate tax regime, operational costs, access to suppliers of professional services, quality of life factors, culture and language, quality and quantity of commercial property, personal tax regime (Mainelli, Yeandle, and Berendt 2005).

London and Dublin

London produces 25 per cent of the UK GDP though its population is 8.5 million, that is 13.5 per cent of the UK total population (London and the UK… 2019: 16). Similar to Moscow (8.5 per cent of population of Russia and 21 per cent of gross regional product of the country),[2] London's leading role in national economy is explained by high concentration of research, education and financial resources.

Being one of the oldest IFCs, London takes the second place in IFC world rating following New York. This high rank is supported by good position of London in all areas of IFC competitiveness: the 2nd place in business environment and financial sector development, and the 3rd place in human capital, infrastructure, and reputation (GFCI

2019: 4, 10). According to the GFCI questionnaire, the most important aspect for IFCs is business environment and London ensures its competitiveness in this aspect by excellent indicators of rule of law and corruption (GFCI 2019: 11, 12). However, London experiences increasing competition from other European IFCs mainly due to Brexit uncertainty which may diminish London competitiveness in the continental part of Europe.

Like many other IFCs, London has its own profiles. First, it has enormous number of financial services firms – about 60 000 – which provide more than half of gross value added in financial services of the country. The combination of numerous financial firms with powerful banking sector provides London's profile as the leading center of international trade in financial services. This trade consists of international trade of financial derivatives (50 per cent of world volume in 2017), currency exchange (43 per cent of volume of cross-border currency deals), cross-border private loans (17 per cent) and non-resident bonds issuance (13 per cent). Financial firms and banks provide the leading position of London in the world trade in financial services and financial services FDI inflow (see Table 1).

Table 1

Some indicators of London as a leading center of international trade in financial services in comparison with some other leading IFSs, 2017

IFSs	Number of direct international destinations served	Net exports of financial services, £ bln	Financial services FDI investment, 2013-2017, £ bln
London	335	68	4,2
Dublin	108	7	1,1
Frankfurt	251	12	0,5
Luxembourg	39	15	0,5
Paris	269	1	1,0
New York	133	36	0,7
Hong Kong	155	11	3,4
Singapore	158	14	4,7
Tokyo	108	0	1,3

Source: Global Investment 2019: 19, 20.

High concentration of financial services and bank assets in London ensures its domination in financial services FDI inflow into the UK – in 2013–2017 about half of financial services FDI investment (£4.2 billion of £8.6 billion) was allocated in London (see Table 1). As to Moscow with its some 1,000 financial firms, the city is hardly able to provide a substantial volume of financial services exports (USD 1.8 billion in 2018).[3]

Second, being the location of great number of headquarters and offices of foreign MNCs (118 in London, which is much more than in New York – 62, Paris – 74, Brussels – 59) London is specializing on transit FDI investment, that is the city is a transshipment and stocking point for FDI from and to numerous countries, particularly the USA, the Netherlands and Luxembourg (Ward 2019: 9, 15). In the UK, about 47–48 per cent of FDI stock is the transit assets accumulated by headquarters of foreign MNC (Damgaard and Elkjaer 2017: 12). They play the role of treasuries in the web of global MNCs and most of them are located predominantly in London (see above). The similar situation is observed in Moscow which also specializes on round-tripping FDI investment; for example, Cyprus, the Netherlands and Luxembourg weigh 48 per cent of FDI stock accumulated in Moscow. Anyway, the difference between the two cities is that London is basically transferring foreign FDI while Moscow is specializing on round-tripping of FDI which are Russian by origin (Bulatov 2017: 77).

Third, MNCs spread their investment activity to other regions of the UK through London as a transfer point. In 2003–2015, it allocated 39 per cent of all FDI inflow to the UK (*cf.* Moscow – 45 per cent). The possible explanation of this difference between London and Moscow is the smaller regional distortions in the UK in comparison with Russia. For instance, median household income is basically the same in London and in the rest of the UK (London and the UK… 2019: 15, 19). As to Moscow, its population has average per capita money income twice more than Russia in average.[4]

The Brexit may somehow damage London IFC. About 70 per cent of London respondents are pessimistic about the short-term effect of Brexit and about 40 per cent are pessimistic on its long-term effect (GFCI 2019: 32). By wide spread opinion, some financial companies as well as MNC branches and subsidiaries located in London would move their location and assets into other IFCs, primarily traditional European IFCs – Frankfurt, Paris, Luxembourg and to a comparatively new IFC in Dublin.

Fast growing Dublin IFC ranks 30th in the latest issue of GFCI. The Irish statistics do not provide data on the regional distribution of inward FDI; however, 48 per cent of jobs created by FDI in the country were located in Dublin and vicinity (38 per cent in Dublin itself) (CSO 2019). Similar to London IFC, Dublin is the international hub for FDI and their headquarters, so more than 1/3 of accumulated inward FDI in Ireland were transit through Dublin IFC (Sibley 2020). The major flow of FDI comes from the US MNCs which use the Irish liberal tax regime – the corporate effective tax rate is 11.8 per cent here (*cf.* 19.0 per cent, 27.3 per cent, 23.0 per cent, 17.6 per cent and 37.5 per cent in the UK, Germany, the Netherlands and the USA, respectively) [5] – as well as Ireland's proximity to other European markets and its membership in the EU. The role of Dublin as a regional hub is not substantial and comes down to the transition of Dublin based MNCs' financial resources to the city's vicinity.

However, the gap between Dublin and London IFCs is great: the former provide 23 thousand jobs in financial services while the latter – 361 thousand; also their net trade balance in financial services is €5 billion and €61 billion, respectively; and banking assets are €0.5 trillion and €10.8 trillion respectively (Calo and Herzberg 2019: 12). Less but great gap is between London and other leading European IFCs (see Tables 1 and 2).

Nevertheless, two points appears important for the prospects of London and other European IFCs. First, the EU business environment gradually becomes regulated by more and more bureaucratic European Commission. Second, only one-fifth of the clients of London IFC are from the EU (Calo and Herzberg 2019: 3). Presumably, this may mitigate the pessimistic long-term effect of Brexit on London IFC (see above).

Frankfurt and Amsterdam

Both Frankfurt and Amsterdam may be described as global IFCs with a rather developed scale of financial sector but relatively small scope for exercising global influence compared to global leaders such as New York, London Hong or Kong.

Nowadays, Frankfurt ranks 13th among global IFC compared to the 10th place two years before while Amsterdam ranks 27th (while it occupied the 41st place in 2017)

(GFCI 2019: 4). Both IFCs continue to drop in international rankings (*cf.* the 6th place for Frankfurt and the 23rd place for Amsterdam in 2007 [GFCI 2007: 12]), which allows Engelen and Grote (2009) to call this process a 'decline' of those centers.

However, both IFCs are still described by GFCI as global diversified IFCs, implying that these centers have rather broad areas of competitiveness and a reach business environment, although they could not be designated as global leaders. Frankfurt is also mentioned in the report as one of the leaders in business environment, human capital and financial sector development (GFCI 2019: 10). Some other studies classify Amsterdam and Frankfurt as global (or supranational) but second-order (Reed 1983) or second-tier financial centers (Engelen and Grote 2009). According to Wójcik *et al.* (2019: 694), Frankfurt occupies the 7th place as an investment banking center (its global share stands at 3.3 per cent) and Amsterdam holds the 13th position (its global share amounts 1.0 per cent). However, the ongoing Brexit processes and its eventual consequences provide some opportunities for Frankfurt and Amsterdam.

Amsterdam witnessed a long and colorful history as an IFC. To some extent, the emergence, decline and further development of Amsterdam as a financial center could be explained by 'historical' reasons (the rise and fall of the Dutch trade empire, the need for German banks to hide their 'nationality' after WWI *etc*.). By contrast, Frankfurt emerged as an IFC only after the Second World War and to a great extent was a product of a political decision. As Michael Grote (2008) puts it, Frankfurt witnessed huge competition with other large German cities until a 'historical decision' was taken to locate the German Central Bank in Frankfurt. Thus, Frankfurt's experience shows that an IFC may be created purposefully through establishing some important institutions.

The Netherlands is one of the leading European economies in terms of inward FDI stock, which amounts to almost USD 1.7 trillion. That is more than any European country (except the UK) might count on. The 2018 inflows of FDI to the country jumped to about USD 70 billion dollars from 58 billion in 2017 (UNCTAD 2019). Nowadays, Amsterdam – Rotterdam metropolitan area is the third area in the world in relation to number of inward international FDI projects (according to Dencik and Spee 2019: 8) (Frankfurt ranks 10th). This particularly happened due to improved provision of business and ICT services. Some other relevant attractive factors are 'a less saturated digital landscape and better value office space' (Davies 2017). Amsterdam is also very attractive in terms of opening companies and starting business. For instance, 153 brand-new international companies opened their offices in Amsterdam metropolitan area in 2018, with 28 companies doing it because of Brexit (Iamsterdam 2019). Overall, Amsterdam is the 13th IFC in the world in attracting greenfield FDI (KPMG 2018: 9). The city also ranks third after Vilnius and London according to Tech Start-up FDI Attraction Index with 0.802 projects per 1 000 inhabitants (Irwin-Hunt 2019). In sum, the main attracting factors include accessibility of a city (the Schiphol airport and railway connections with other large IFCs in Europe), digital infrastructure (with 94 per cent of individuals using high-speed Internet), development of a highly diversified financial services sector, represented by the Dutch (ING, ABN Amro, Rabobank *etc*.) and international financial institutions. [6] The limiting factors include a relatively small size of the city, as well as a relatively limited scope of financial sector development (see Table 2).

The key factor of Amsterdam's attractiveness as a destination point for international FDI is that it hosts many so-called special financial institutions (*Dutch*: bijzondere financiële instellingen), as they are defined by the Netherlands Central Bank.[7] They include holding companies of (mainly) foreign companies, finance companies that typically extend loans to foreign group companies and are themselves financed mainly from abroad, royalty companies, film and music rights companies that receive royalties mainly from abroad, re-invoicing companies that are mainly invoiced by foreign entities and invoice other foreign entities (DNB 2017). About 75 per cent of those companies are registered in Amsterdam (Baarsma, Kerste, and Weda 2014: 35). However, although they attract about 80 per cent of incoming FDI to the country, which are transmitted through those firms to other jurisdictions (CBS 2018), they account for only 0.9 per cent of total tax revenues and 0.1 per cent of job vacancies in the Netherlands (DNB 2018).

Thus, in relation to the FDI inflows, the Netherlands (manly due to Amsterdam IFC) has a distinctive conduit-orientation. For instance, in 2017, 80 per cent of all FDIs to the Netherlands did not stay in the country and were directly transmitted to other jurisdictions (CBS 2018). It is interesting to mention that major partners of the Netherlands also represent other international investment hubs (Hers *et al.* 2018). The key role of Amsterdam as an IFC is also quite evident in this case because the main providers of such 'transit' capital are special financial institutions registered in the capital city.

At the same time, one should not overestimate the role of Amsterdam in attracting FDIs to the Netherlands. The attractiveness of the city is also partly explained by the overall favorable investment climate and tax regime in the country (as well as by a broad set of bilateral tax treaties). In general, the metropolitan area of Amsterdam accounts for about 40 per cent of total FDI inflows to the Netherlands (Economische Verkenningen … 2014: 87), which is about two times larger than the area's share in national GDP (Economische Verkenningen … 2019). In 2001–2009, this share varied from 30 to 40 per cent (Economische Verkenningen … 2011: 125). In 2018, this share stood at about 45 per cent amid falling number of investment projects in the Netherlands (Pieters 2018).

The situation might change amid ongoing processes related to Brexit. The Dutch media are persistently signaling that the role of Amsterdam may increase because of Brexit. This would primarily happen due to relocation of companies' offices to Amsterdam. For instance, the European Medicines Agency (EMA) has already left London for Amsterdam (EMA 2019). The AFM predicts that about 150 companies will settle down in the capital city, including CBOE, LSE Turquoise and Bloomberg (AFM 2019: 15). But at the same time, Brexit could hurt many financial institutions in the Netherlands because of eventual restrictions concerning Dutch (or other European) institutions accessing financial market after Britain leaves the EU. However, the overall importance of the Dutch trading platforms (*e.g.*, Euronext) may also increase due to those restrictions (AFM 2019: 11–12).

Germany attracts huge amounts of FDIs, though its contemporary annual levels are lower than those of the Netherlands. In 2018, incoming FDI to the country amounted to about USD 26 billion (UNCTAD 2019), though OECD data speak for only 12 billion.[8] However, the aggregate amount of inward FDI stock to the country is rather impressive and stands at about USD 940 billion.

Frankfurt is the leading city in the state of Hessen and amounts for about 70 per cent of inward FDI to this bundesland (Mullan 2018). As to Invest-to-Hessen web site, the FDI stocks to this state stand at 69 billion euro, which is equivalent to 15 per cent of the FDI to the country. Thus, the share of Frankfurt would be around 10 per cent of all FDIs to Germany. However, in 2018, the FDI inflows to Frankfurt amounted to about 4.5 billion dollars (Stahl 2019), which is equivalent to about 40 per cent of total incoming FDI to Germany during that year (OECD 2019). Overall, Frankfurt is a top-city in the country to attract FDIs. But in contrast to Amsterdam, it faces more competition from such national business and financial centers like Berlin, Hamburg and Munich.

The main competitive advantage of Frankfurt lies in the fact that many most important European financial institutions locate their headquarters here. The European Central Bank is the key one of them. Besides, there are many other influential bodies that have their offices in Frankfurt, including Single Supervisory Mechanism (SSM), European Insurance and Occupational Pensions Authority (EIOPA) and important national institutions like Bundesbank, Deutsche Bank, *etc*. This fact is of particular importance for the IFC's status since networking and constant accessibility of principal stakeholders and decision bodies may become crucial for selection of an appropriate IFC.

Similar competitive advantages of Frankfurt as an IFC consist in the concentration of lobbying groups, local political authorities and important financial institutions, especially global banks (Lavery and Schmid 2018: 5). Respondents note, that local authorities are taking huge efforts to promote the city as a financial center, although federal government was only present during the discussion concerning relocation of European Banking Authority (which was finally moved to Paris).

Another competitive advantage of Frankfurt is related to Germany itself, because, according to opinion surveys, political stability of the country contributes to the overall attractiveness of Frankfurt and investors' confidence (Lavery and Schmid 2018: 3). Indeed, Germany is one of the most attractive places for capital allocation (3rd place according to [A.T. Kearney FDI Confidence Index 2018]), with Berlin, Frankfurt and Munich being among the most favorable European cities (3rd, 4th and 6th places correspondingly), while Amsterdam being the 5th most popular city (Baldwin, Bax, and Lhermitte 2019).

Given all those competitive advantages of the city, many predict that Frankfurt will be the major beneficiary of Brexit since the latter caused companies' reallocation. While Amsterdam is projected to host up to three major financial institutions (Credit Suisse, Mitsubishi UFJ Financial Group, and Royal Bank of Scotland), Frankfurt has announced to welcome about 25 financial institutions (including such large groups as J.P. Morgan, Lloyds Banking Group and VTB) (Financial Center of Frankfurt 2018).

At the same time, one also should not overestimate the importance of Frankfurt (and other continental European financial centers) concerning their chances to become a single globally significant IFC. Respondents note that fragmentation of economic activities by large multinational financial institutions between major IFCs of the EU (Amsterdam, Dublin, Paris, Frankfurt, and Luxemburg *etc*.) limits the freedom of maneuver in promoting any given IFC (Lavery and Schmid 2018: 8). And the contest between leading European IFCs in their struggle for 'British Succession' is only gaining pace (SPERI 2017).

When speaking about the importance of a given IFC, one can hardly ignore the role of stock exchange. In 2018, the overall capitalization of Deutsche Börse amounts to about USD 1.8 trillion and that of Euronext Amsterdam amounts to USD 3.7 trillion (in 2017, this indicator stood at 2.1and 4.1 trillion respectively). In comparison, the capitalization of London Stock Exchange Group was equal to USD 3.7 trillion in 2018 and USD 4.2 trillion in 2017. Though the difference between Amsterdam and London does not seem to be significant, London really stands out with respect to the number of listed companies (2,479 compared to 1,208 in Euronext) and investments measured as new IPOs (119 in LSE compared to 20 (Euronext) and 14 (DB)).[9]

As Engelen and Grote (2009) note, stock exchanges in Amsterdam and Frankfurt have lost their relative importance due to different factors. Amsterdam as an IFC has become too closely connected to the London financial markets (due to continuing digitalization of financial transactions), which impeded its development as a highly independent and leading IFC. By contrast, Frankfurt has lost its importance because of 'regionalization' (when foreign banks move to other cities) which leads to decreasing employment in financial sector and a kind of 'decline' of this IFC.

Table 2 summarizes the main financial indicators which also show that Frankfurt and Amsterdam are still second-order IFCs compared to London. They might increase their importance due to ongoing Brexit, but this increase seems to be limited and poses also some risks and new challenges.

Table 2

Some parameters describing the financial depth of selected European IFCs

	London	**Amsterdam**	**Frankfurt**	**Warsaw**
Population, mln	8.5	0.8	0.7	1.7
Square	1 572 km^2	219 km^2	248 km^2	517 km^2
Latest GFCI ranking	2	37	15	64
A.T. Kearney Global cities ranking	2	20		55
Quality of living city index	41	11	7	116
Over-the-counter foreign exchange turnover, USD bn (1)	3,576	64	124	9
Over-the-counter foreign exchange turnover, share (1)	43.1	0.8	1.5	0.1
Financial sector as % of city GDP		≈14%		≈16
Employment in financial sector, thousands (2)	361	76	54	
Employment in financial sector, % of total city employment	7.5	≈12	≈13	
Share in national FDI inflows, %	≈39	≈40	≈15	≈46
Number of banks	264	53	182	
Bank assets, bn euro (2)	10,223	6,955	2,528	
Headquarters of Global Fortune 500 companies, number	11	2	3	0

Source: authors' compilation and calculations

(1) – data for countries, BIS Triennial Survey, 2019.

(2) Batsaikhan, Kalcik, Schoenmaker, 2017.

Warsaw

In the recent Global Financial Centres Index Warsaw secures one of the medium positions (ranking the 50th) though it is the leading IFCs after Prague among Central European countries. According to the Association of Business Service Leaders, Warsaw ranks second in Central and Eastern Europe in terms of number of employed persons in business services sector. In accordance with Financial Times rating 'European Cities and Regions of the Future 2018/19 – Cities,' Warsaw occupies the third place after London and Dublin in the category of the most business-friendly European cities. Ernst and Young and Oxford Economics experts claim that the Polish capital is the most favourable place for running business in Central Europe. Economist Intelligence Unit, which publishes Global Liveability Index annual report, placed Warsaw in the seventh dozen (65th) of the world's most livable cities.

The core of Warsaw as an IFC is its stock exchange. However, in spite of bright assessment from the international agencies, the role of the Warsaw Stock Exchange (WSE) itself is not quite significant due to the mid-level of economic development of the country and comparatively short history of WSE.

As a result, foreign capital is mainly channeled to Warsaw via FDI from MNCs, Poland's banking system, assets from the EU structural funds, and cash transfers from Polish migrant workers. From 1991 to 2018, the FDI inflow to Poland rose from USD 0.4 billion to 11.5 billion (UNCTAD 2019). Among the Visegrád Group members, Poland is the main FDI recipient country, accounting for approximately 40 per cent of the total FDI inflows. Companies from the Netherlands are the main foreign investors in Poland. The second and third major groups of investors consist of German and French companies. In 2017, Mazovian Voivodeship, especially Warsaw, took a steady lead in the amount of FDI stock – 46 per cent (Narodowy Bank Polski 2018: 12, 16).

By the end of 2018, the WSE was trading shares of only 465 companies, including 51 foreign firms (WSE 2019), mostly from nearby states of Central and Eastern Europe. Nevertheless, the WSE is the largest stock market in the region by the volume of capitalization which exceeded €262.6 billion. The advantage of the WSE is the size of the Polish economy in the region and its geopolitical location. In 2010, the WSE was privatized and the Polish government managed to avoid the mistakes made by the Hungarian and the Czech financial authorities. The purpose of privatization was to prevent the WSE from marginalizing in Europe and to build a financial hub for Central Europe in Warsaw. The problem is to realize this mission in the country and region.

The landmark event of 2019 took place at the Krynica XXIX Economic Forum in Poland. The heads of seven key Central European stock exchanges announced the establishment of a new stock index for the corresponding Central European states. Companies whose equities are currently listed on stock exchanges in Warsaw, Bratislava, Budapest, Bucharest, Ljubljana, Prague and Zagreb will be merged under the new CEE plus index. Being the largest stock exchange in the region, the WSE was proclaimed to be the one to calculate the value of the index on a daily basis and display it in the local currencies of the participating stock exchanges, as well as in euros and U.S. dollars. The new index is to extend the interaction between bourses in the region and make access to East European markets easier for foreign and domestic investors. The CEE plus index would contain more than 100 shares with at least €90,000 daily turnover (Budapest Business Journal 2019). The principal aim of launching the CEE plus index is to facilitate the unification of the most liquid companies from the seven countries, to put 'the best companies of Central Europe' in one place, which will greatly ease the life of foreign investors.

Central Europe is not a homogeneous region either economically, politically or socially, and what is more, international investors do not treat it as such. It could be explained by the lack in Central Europe, particularly in Poland, of sufficiently strong national and foreign companies, well-managed and competitive, which dynamically expand their activity in other countries of the region, and thus require an actively developing financial sector. As to Poland, it is hardly a country with highly favorable conditions (especially in terms of law and taxes) for the large national and multinational companies to move actively their headquarters and branches to Warsaw and other Polish megapolises.

It is worth also mentioning that in general Central Europe plays a subservient role to Western Europe and its MNCs. For instance, the main trading partners for Central European countries are not the states of this geographical region, but the countries of Western Europe. What is more, West European banks and companies are the main owners of bank and industrial assets in the region. Mergers and acquisitions between national enterprises from Central Europe have rarely taken place over the past thirty years in contrast with the scale of acquisitions of local companies by Western MNCs.

Thus, at present Central Europe is not an economic area capable to develop such a regional financial center that could be compared with leading West European IFCs. Becoming the largest stock exchange in the region does not make Warsaw one of the leading European stock exchange and world scale IFC. However, if in the coming years the WSE increases its advantage over its competitors in the region it would be able to move further in the process of founding more developed regional IFC.

Conclusion

European cities play an important role as channels for foreign capital inflow to European countries. The share of studied cities in FDI inflow to their national economies is from 15 per cent (Frankfurt) to about 40 per cent (London and Warsaw), that is larger than their share in national GDPs. The same situation is observed in Moscow whose share in FDI stock accumulated in Russia is 45 per cent, yet the city yields only 21 per cent of the country's gross regional product.

Partially, this is the result of the activity of IFCs in these megapolises. The more developed an IFC the more its positive impact on FDI inflow to a city and country. In turn, the developmental level of an IFC depends on business environment, financial sector, human capital, infrastructure, reputation of a city and country. As a result, the most developed countries of Europe gradually managed to create world class IFCs in their megapolises while less developed states, like Poland, are only starting this process. One can assume that the establishing of an IFC in Moscow will take much time.

Naturally, the space for using European IFCs' experience in Moscow is very limited due to diverse socio-economic, macroeconomic and institutional parameters. However, some universal lessons can be drawn which may be applied in Moscow. First of all, as the case of Dublin and Frankfurt shows, an IFC may be created and developed purposefully. In order to advance such an IFC, there should be introduced certain important institutional changes and setups (like the re-establishment of the central bank as it was in Frankfurt), which could potentially attract financial institutions, mediators, lobbying groups, *etc*. Thus, the existence of such important financial stakeholders (like the Central Bank of Russia and Moscow Stock Exchange) is essential for Moscow and should be possibly coupled with the establishment of other international and domestic, private or state institutions, which would be able to create a effective network for cooperation and co-ordination.

Second, one should mention universal attracting factors (reputation, traditions and language, financial depth and development of financial services, business and digital infrastructure *etc*.), which are key in promoting any IFC. Although Moscow is lacking the experience of being a strong 'capitalist' financial center, it used to have a solid reputation of being the financial center of the Socialist system. Naturally, the English language is not so widespread in Moscow, but it is still more at use than in most CIS capital cities. Further on, digital infrastructure is relatively developed in Moscow (as well as the quality of personnel and labor force), although the missing point is lower living conditions (than, *e.g*., in smaller Amsterdam or Frankfurt or Dublin). The main impediment towards advancing an IFC in Moscow in this case is the development of financial sector, which is systematically undercapitalized: the banking assets are still relatively low, the stock market is constantly underperforming due to shareholders' reluctance to issue new shares, the policies of the central bank are rather strict, impeding acceleration of financial markets *etc*.

However, Moscow definitively possesses every basic factor to become at least a regional financial center, although its position is challenged by Almaty and Nur-Sultan, Baku, Riga and Vilnius (GFCI 2020: 4, 5). Moreover, the experience of Frankfurt and Amsterdam demonstrates that it may be unnecessary to possess or develop all those factors at once, though the development of financial sector seems to be crucial for FDI attraction. The strategy of specialization in one or several capital magnetizing activities (like developed stock exchange and deep forex market, financial intermediation and supply of financial services, providing place for holding activities and so on) might be rather efficient in advancing an IFC in Moscow.

At the same time, one should not forget about the general economic environment. The cases of London and Dublin, Frankfurt and Amsterdam undoubtedly show that country-specific characteristics (*e.g*., investors' confidence in the economies of the UK, Ireland, the Netherlands and Germany or regulatory and tax regimes of these countries) play a significant role in channeling FDIs in these particular cities. So, the overall macroeconomic development of the whole country, the investment climate and regulatory environment form an important basis, which is essential for promoting an IFC. Thus, Russia's competitive advantages as well as a probable more rapid economic development could and should contribute to 'popularity' of Moscow as a leading international IFC.

Finally, one should not ignore the competition between IFCs. Although the competition within one state might not ruin the overall attractiveness of a country and could contribute to its credit due to differentiating financial activities in various cities (*e.g*., competition between Frankfurt, Berlin and Munich in Germany), the competition between IFCs of different countries might impede the development of a particular IFC due to the absence of idiosyncratic scale economies. The situation of fragmenting economic activities of leading MNCs between various IFCs in continental Europe is a very colorful example of such processes. Thus, the emergence of an alternative IFC in Almaty and Nur-Sultan poses a real threat for Moscow and for its role as a regional IFC, because Moscow's position and influence would be constantly challenged. The existence of a competing IFC will naturally limit the use of potential scale economies in Moscow as a unique IFC in the region. In this situation, searching for potential specialization niches becomes crucial for Moscow IFC. Given the contemporary factor endowments of Moscow IFC, one should arguably focus on development and accumulation of large and influential financial institutions, promoting Moscow as a city of highly-qualified labor force and its image as an exclusive major IFC in the region. However, there are still many impeding factors, with the underdevelopment of financial sector and sluggish economic growth in the Russian economy being the most crucial of them.

NOTES

[1] The study has been supported by the Russian Scientific Fund (project No. 19-18-00251).

[2] Russian Statistical Yearbook. M.: Federal State Statistics Service, 2018, pp. 87, 92, 272.

[3] Bank of Russia. External Sector Statistics. URL: http://www.cbr.ru/eng/statistics/macro_itm/svs/.

[4] Russian Statistical Yearbook. M.: Federal State Statistics Service, 2018, p. 143.

[5] OECD. Stat. Available at: //https://stats.oecd.org/.

[6] Data from Amsterdam Financial Center, 2016.

[7] Sometimes they are also called 'brievenbusmaatschappijen,' which could be literally translated as 'letterbox companies, implying that firms are only registered in the Netherlands.

[8] OECD (2019), FDI flows (indicator). doi: 10.1787/99f6e393-en (accessed on 21 November 2019) (accessed on 02 December 2019).

[9] Data by Federation of Stock Exchanges.

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