Proposed sessions on "International Financial Centres and Regional Development"

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Convenors: Sabine Dörry & Karen Lai

SESSION I (IFC impacts on regional development)

1) Quantitative Easing of an IFC: how London escaped from the financial crisis

Ian Gordon (London School of Economics)

London-based finance houses (and regulators) played a major role in the genesis of the 2007-8 international financial crisis. Despite this, and the city's record since the early 1980s as the most volatile part of the UK economy, London seems to have escaped the worst of the impacts of the ensuing economic depression (as might be true also of its US counterpart). Indeed, despite government aspirations for an economic re-balancing, the gulf in economic health /optimism between the London 'archipelago' and the rest of the UK economy now seems more conspicuous than ever. This paper addresses the question of why and how this has been achieved, in relation to the political economy of its role as both a national and international financial capital. It looks critically at the contention that London's economic 'resilience' in challenging times reflects an (almost) unique capacity to attract, enhance and deploy the key elements of competitive advantage in a globalised knowledge economy. And it examines how much of its durability is to be attributed instead to the series of massive supports (bailouts, implicit subsidy and Quantitative Easing) provided by the UK central government to/through banking activities concentrated in the international financial centre – with positive effects unevenly shared between *local* (London), plus *global* (emerging markets) beneficiaries and, less well served, *national* economic interests (UK investment/exports and 'the regions').

2) Wither (social) housing? Connecting local urban development to international financial centres

Thomas Wainwright (University of Southampton), Graham Manville (University of East Anglia)

Recent research in economic geography and the social sciences has begun to unpack the role of international financial centres (IFCs) in deepening the financial relationships between the spaces of investors, households, corporations and increasingly public sector institutions. These studies are consistent in highlighting how market participants are often exposed to higher financial risks through their connections to IFCs, often losing out to powerful financial institutions which seek to extract value through a financialized accumulation regime. Our paper seeks to build on this body of research further by turning to examine a previously neglected sector: social housing. We highlight how reduced state funding has led social housing providers to become more reliant on capital market intermediaries to meet increased demand for social housing. As such, we explore how locally orientated social housing associations have become embedded within wider financial networks, creating new opportunities and risks which need to be effectively balanced. While policy makers have viewed financial markets as a panacea to fund social housing developments in an age of austerity, tensions have emerged requiring localised social housing organisations to become more commercial in their activities, jeopardising their ability to protect vulnerable communities through social value creation. In particular, our study examines how London as an IFC has developed new elite capital market intermediaries to fund the growth of the social housing sector, introducing new financial risks to a charitable sector whose main aim is to generate social value.

3) Supporting an international financial centre: spatial restructuring of mid- and back-office services in Singapore

Karen P.Y. Lai (National University of Singapore)

Studies on the development of international financial centres (IFCs) have focused on the roles and contribution of specific sectors such as banks, capital markets, advanced business services sectors (e.g. accounting and law), and regulatory changes, and how these have led to the expansion and deepening of financial services and IFC capacities. However, there has been less attention paid to the role of mid- and back-office services such as data management and IT consultancy, which are crucial to the day-to-day functioning and strategies of both high finance and mainstream financial services. This paper examines how corporate restructuring and changing subcontracting relations have led to a spatial restructuring of financial and related services by analysing two interrelated urban and economic projects in Singapore: the Marina Bay Financial Centre (an expanded and upgraded central business district) and Changi Business Park (a suburban location for mid- and back-office financial and data service providers). While the offshoring of some business services (both voice based such as call centres and non-voice based such as claims handling and programming) have been documented in economic geography and business literatures, the emphasis on routinised services and remote access/servicing is less relevant to the finance sector in which client interaction, security and customised solutions are vital. The twin development of Marina Bay Financial Centre and Changi Business Park provide insights into how urban development and national economic policies are specifically targeted at the growing private wealth management sector and the often hidden but crucial data management sector, in order to support Singapore's growth as a premier IFC in a dynamic region.

4) The Policy Relations of Financial Centre Development in Hong Kong, Singapore, and Shanghai

Jun Jie Woo (Singapore University of Technology and Design)

Hong Kong, Singapore and Shanghai have over the decades established themselves as Asia's leading international financial centres (IFC's). This paper examines the socio-political relations which have driven financial policymaking in the three IFC's through the lens of the policy subsystems approach. By delineating their unique financial policy subsystem configurations, this paper studies the 'policy relations' that underpin the division of policy roles among state, industry and other non-state actors in IFC development. Based on data collected over the course of field research, this paper finds three distinct models of 'policy relations' in Hong Kong, Singapore, and Shanghai. While Singapore features a 'co-creation' of financial policies by state and industry actors, the division of policy roles is more clearly-defined in Hong Kong's laissez faire approach to financial sector development. Lastly, financial policymaking is state-dominated in Shanghai, although this involves a differentiated mix of state agencies and state-owned enterprises. While the existing literature has amply documented the spatial, structural and economic factors that have contributed to the rise of these three IFC's, there remains an under-emphasis of the socio-political relations which have driven the development of the three IFC's. This paper attempts to contribute to the existing discourse on IFC's by delineating such 'policy relations' and situating them within the spatial-economic confines of the IFC.

5) Who needs the financial centre?

Adam D. Dixon (University of Bristol)

Financial centres emerge to fulfil a variety of economic functions, namely the pooling of large-scale capital resources and the allocation of those resources across space and time. Put simply, financial centres emerge to bring together dispersed savers with dispersed borrowers. These functions are fulfilled by diverse human capital resources in the form of the financial services industry and associated sectors (e.g. legal services), the diversity and scope of which is in part a function of financial centre size and its place in the hierarchy of financial centres. Financial centres thus exist to create markets and to exploit urban agglomeration economies. This produces, however, an asymmetric power relationship between those within (i.e., those agents with a greater capacity to exploit the scale of market making and the benefits of agglomeration) and those without (i.e., those dispersed savers and borrowers in need of the financial centre). This facilitates rent seeking behaviour that is not supportive of economic development. Although the continuing place and power of major international and regional financial centres in the allocation of capital from the local to the global is not in doubt, this paper considers the theoretical case for a parallel (if smaller) financial system wherein the financial centre is insignificant and there is greater alignment of interests between savers and borrowers. This is not, however, an argument about greater virtualisation or the 'end of geography'.

SESSION II (financial industries and evolution of IFCs)

1) Private wealth management and the International Financial Centre: on and offshore finance in London and Singapore

Sarah Hall (University of Nottingham), Jonathan V Beaverstock (University of Bristol)

London's private wealth management industry represents one of the most buoyant areas of international financial services activity in the wake of the global financial crisis. Developing out of historic private banking to include a range of advisory and investment functions, London's private wealth sector has a strong office network presence in a range of onshore and offshore financial centres. However, beyond documenting its presence in on- and offshore financial centres, the role of the private wealth global corporate network and agglomeration economies within IFCs have been comparatively neglected analyses of the competitive advantage of London as an IFC. In this paper, we respond to this oversight by combining earlier work on the geography of IFCs with practice-based research into the concentration of private wealth services in London, and one of its growing competitors, Singapore. Using this approach, we reveal how a focus on the practice of service delivery in private wealth management demonstrates the relational nature of London and Singapore as IFCs. Empirically, the paper will interrogate a number of secondary sources on the scale and scope of private wealth management in the global economy and OFCs. Data will be drawn from: official data sources on private wealth distribution (e.g. HMRC); industry-specific reports on the industry (e.g. Scorpio Partnership); professional service firms that offer expert intelligence on private wealth management to the industry itself (e.g. PwC); and a forensic analysis of the genesis of private wealth providers in London and Singapore. We conclude the paper with a strong evidence-based argument that positions private wealth management as one of the significant facets of London's and Singapore's vitality and sustainability as IFCs.

2) A geography of financial distress: bank failures and rescues in California, 1980-2013

Nicholas Kreston (University of Oxford)

The Great Recession beginning in 2007 was the second since the Great Depression of the 1930s that many hundreds of financial institutions failed across the United States. The rescue of the financial system staged by the federal government, however, was unprecedented in scale and in practice, involving a congressional authorization of $700 billion disbursed through the Treasury as opposed to the Federal Deposit Insurance Corporation. There is, as yet, no geography of these bank failures and rescues even though data for the location of both types are publicly available. This paper explores the spatial distribution of distress, first, through a comparative analysis of crises over time and, second, between two major regional and international financial centers, Los Angeles and San Francisco, and their financial establishments. In doing so, we hope to advance beyond existing analyses of the distribution of benefits and burdens of the crisis towards an understanding of how interaction between political and financial interests affects the viability of a city as an international financial center and the composition of its advanced business services sector.

3) Offshore finance: a state of its own?
Reijer Hendrikse (University of Amsterdam)
Only recently have geographers laid bare the startling overlap between the global cities and offshore finance literatures. One connecting thread is the focus on advanced business services (ABS), which individually and jointly exert command and control functions over global capital flows. Today around eighty jurisdictions are categorized as offshore. Established through unilateral rulemaking and bilateral treaties set in a larger multilateral framework of capital mobility, each jurisdiction has commercialized a piece of unregulated, investor friendly or fiscally attractive sovereignty for, de jure, foreign capital. Variegated assemblages of actor-networks maintain these sovereign bundles. Although de jure it can be maintained that government executives enact offshore regulation, de facto ABS firms dominate law-making in many offshore jurisdictions. Similar to the networked nature of international financial centres (IFCs), the offshore world comprises an integrated space. Where each jurisdiction is seeing like a state aiming to attract its share of foreign capital, this paper hypothesizes that leading ABS firms, as a networked complex couched in IFCs, are equally seeing like a state, managing the scattered tissue of offshore sovereignty as a single set of capabilities. Indeed, the offshore world is perhaps better viewed as a unified territory if not a sovereign power of its own. This draft conceptualizes the offshore world as a shadow state, with global ABS firms increasingly acting as a shadow sovereign throughout the global political economy. Paradoxically, the networked power of ABS firms - couched in the shadow state, exerted as shadow sovereign - has deepened since the financial crisis.

4) Luxembourg's rise in the expanding securities industry: an evolutionary approach
Sabine Dörry (University of Oxford)
Overly complex financial services operating in opaque markets outside the regular banking system – or: shadow banking – were at the very heart of the global financial crisis in 2008/09. This paper ties in with that notion and focuses specifically on the global securities industry. It aims at carving out patterns and corresponding impacts of interactions between financial centres (based on the concept of national jurisdictions) and the integrated globalised securities markets with no clear national assignment. The recent financial crisis has had comparably little impact on the financial economy of the international financial centre (IFC) Luxembourg. Because it has specialised in the investment funds' administration, an important reason for Luxembourg's observable endurance is the disproportionate growth of the global securities industry in the past decades. As such, important players of the securities industry have been exploiting Luxembourg's advantages as a recognised OECD mid-shore jurisdiction. There, the longstanding experience of highly specialised financial and finance-related firms involved in the investment funds' administration process aid the asset management industry's global performance. The paper traces the co-evolution of the securities industry and Luxembourg's development as a crucial node in the global financial system. In so doing, it historically outlines Luxembourg's development as a financial centre as well as its specific policy agendas. It further analyses Luxembourg's strategic positioning in relation to Dublin and London, both being important IFCs for the operation of the securities industry.

5) Offshore financial centers and the subprime crisis: Culprits or bystanders?
Daniel Haberly (University of Sussex), Dariusz Wójcik (University of Oxford)
While disagreement reigns regarding the underlying causes of the 2007/2008 subprime crisis, there is general agreement that the crisis itself took the form of a bank run, or an inability of

lenders to rollover short-term liabilities used to fund long-term loans. However, whereas a classic bank run takes the form of deposit flight, the 2007/2008 run entailed an inability of off-balance sheet vehicles within the so-called "shadow banking" system to rollover short-term debt securities. It has been noted that the vehicles issuing the most toxic securities were predominantly incorporated and often listed in offshore financial centers—primarily Delaware, the Cayman Islands, Jersey, and Ireland—known for relatively lax financial oversight and reporting standards. Despite this understanding that the financial crisis was to a large extent generated in offshore centers, however, there has been no systematic examination of the extent to which it can be said to have been generated by offshore centers. Here we use a mixture of archival and interview research to adjudicate between three possible explanations of the role of offshore centers in the crisis: 1) a null-hypothesis, that the offshore location of shadow-banking vehicles had purely tax as opposed to regulatory implications, 2) a regulatory arbitrage hypothesis, holding that their offshore location directly undermined financial regulation and transparency, and 3) a "Minskian" hypothesis that offshore centers indirectly helped to destabilize the global financial system by accelerating the pace and reducing the cost of financial innovation generally.

SESSION III (IFC networks, dynamics and actors)

1) International Financial Centres before and after the world economic crisis of 2008/9: Towards a new geography of coreness?

Christof Parnreiter (University of Hamburg)

The paper explores the global geographies of IFCs before and after the world economic crisis of 2008/9. Analyzing data on gross value added, employment and productivity of the financial and business service sectors in 120 cities around the world, the paper examines the impacts of the recent global financial crisis on IFC development. After having mapped identifies winners and losers among the IFCs, the paper analyses whether the discernible changes in the spatial structures of the global financial system constitute a specific IFC-pattern or whether they just mirror a broader restructuring of the world economy. Put differently: Is the development of IFCs during the crisis related to urban and national economic trajectories, or is there evidence for a 'decoupling' of a city's financial sector from the urban as well as from the national economy? Departing from the notion that economic coreness results from a clustering of (relatively) monopolized and therefore highly profitable inputs in global commodity chains (Brown et al .2010), the paper thirdly addresses the question whether the geographical restructuring of the global financial system during the crisis can be read as part of a fundamental reshuffling of core-periphery relations at a global scale which is posited by a number of authors (e.g. Arrighi 1994, 2007).

2) Translation, Mediation or something more? The role of Chinese IFCs in global financial practices

Andrew Jones (City University London)

A developing body of work in economic geography, management studies and other social science disciplines has begun to focus on the intersection between sociological accounts of globalized managerial practices and the nature and significance of international financial centres (IFCs) in the global informational economy. Whilst the former literature has established that an analytical focus on the practices of managers and other key employees in transnational financial firms is a fruitful way of better understanding the development of transnational economic activity, this engagement has thus far has limited engagement with the wider world city network literature. This paper argues that not only do these approaches need to be much better integrated in economic geographical accounts of the global economy, but that existing theories of economic practice and urban system development can be significantly advanced by bringing insights to bear from the relatively discreet literatures. It contends in particular that IFCs act as complex sites of innovative and dynamic practice production that exceeds current accounts of their role as sites of simpler concepts of translation or mediation. Whilst the latter concepts have great utility, the paper explores how global financial practices are produced through multiple and complex place-based interactions. It uses empirical research into investment practices by foreign managers in three key Chinese cities (Beijing, Hong Kong and Shanghai) to elaborate these arguments.

4) Proximity matters: Hong Kong institutional investors as drivers of Equity Market Development in Mainland China

Laura-Marie Töpfer (University of Oxford, Brasenose College)

This paper analyses the role of Hong Kong institutional investors in the development of Mainland China's equity markets. Given their large size, low risk appetite and long-term approach to shareholding, institutional investors are considered to be model investors for market stability and development. Based on this rationale, Chinese regulators launched the Qualified Foreign Institutional Investor (QFII) and Renminbi QFII (RQFII) schemes, which marked a U-turn in China's strict capital controls. Despite the continuous expansion of both schemes, little is known about foreign institutional investors operating in China's securities markets. This study is the first to trace the spatial organisation of these investors and the way in which their characteristics have shaped current market structures in China's equity markets. Based on cross-disciplinary insights from political economy, economic geography and regional studies, this paper presents a new theoretical framework that identifies economic power, knowledge supply and proximity as 'power resources'. These are hypothesised to be decisive determinants of investor influence over conditions of market access granted under the QFII and RQFII schemes. The theoretical framework is empirically evaluated, by comparing Hong Kong investors with other institutional investors. The empirical findings show that Hong Kong investors enjoy a 'home advantage.' Their superior power resources enable these investors to gain 'dual market access' under both schemes. These results suggest that Hong Kong as an offshore financial centre is crucial for the development of equity markets in Mainland China and that institutional investors serve as an important causal mechanism in this process.

4) Insertion into global financial networks and the rise of Zhongguancun high-tech cluster: the role of global venture capitalists and overseas listings

Fenghua Pan (Beijing Normal University)

Effective financing is of particular importance for the growth of firms and clusters. However, firms and clusters in developing countries have suffered fund-gap a lot due to the dysfunctional domestic capital market and financial system. Financial globalization has enabled firms and clusters in emerging economies to overcome such drawbacks by inserting into global financial networks (GFN) and especially connecting with international financial centers (IFCs). Active investors including global venture capitalists, financial intermediaries and other advanced producer services (APS) have played key roles in the process. Zhongguancun in Beijing is an illustrative example to show how firms in this particular area have connected with IFCs. More than 40 Chinese high-tech firms have got listed on Nasdaq and NYSE since the early 2000, through which those firms raised a large amount of capital. In addition, most of the firms were supported by venture capital from the US and other countries before their initial public offerings. The international investment banks, law and accounting firms from the US and other developed economies have provided services for these Chinese firms during process of overseas listings. The off-shore financial centers are also critical as all the firms have been registered in these places, such as Cayman Islands. Global venture capitalists and stock exchanges located in the IFCs, and other APS have contributed a lot to the growing of the firms within the cluster by providing efficient financial supports and other value-added services. Furthermore, personal relationships and social networks have also played key roles in the insertion of the firms into GFN.

5) A negative-sum game: The Eurozone crisis and European financial centres

Dariusz Wójcik and Duncan MacDonald-Korthm (University of Oxford)

In this paper we analyse the impact of the Eurozone crisis on Europe's urban economies, by focusing on cities as centres of financial firms, employment, and expertise. Within the financial sector, we pay particular attention to investment banking, which can be seen as the elite subsector of finance, and arguably one of the sources of the global financial crisis, as well as an industry most directly affected by the crisis. With such focus the paper investigates how the contraction and transformation of investment banking resulting from the crisis has influenced the landscape of European financial centres. Can we observe radical changes or is the level of inertia high? Who are the winners and losers? At the global level it is expected that while European financial centres have suffered from declining global market shares of European banks, particularly in relation to their US competitors, due to a much faster resolution of the banking crisis in the USA, London remains the global hub of investment banking, central to the operations of US and other global institutions. At the European level, it is expected that financial centres in the European 'core', with London and Frankfurt in the lead have strengthened their position in relation to financial centres in the debt-stricken 'periphery'. At the national level, we expect growing concentration of employment and power in leading financial centres as a result of industry consolidation. Put together the results may suggest that the landscape of financial centres emerging from the Eurozone crisis is more uneven in spatial terms than the pre-crisis landscape, with potential negative implications for future access to capital, and financial stability.