OF BREXIT AND FINANCIAL CENTRES

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ORIGINS AND OBJECTIVES OF THE BOOK

• **International Financial Centres ten years after the collapse of Lehman Brothers**
  - Joint venture between financial history and financial geography
  - Meeting with Dariusz Wojcik in Florence on 22 June 2016

• **Results of Referendum on Brexit 23 June 2016**
  - Decision to integrate the anticipated effects of Brexit to our investigation
  - ‘History of the future’

• **Book launch on 17 September 2018**
CONTENTS

• **Introduction: A Global Overview from a Historical Perspective** (Youssef Cassis)
• **New York** (Richard Sylla, New York University)
• **London** (Richard Roberts, King’s College London)
• **Frankfurt** (Eike W. Schamp, Goethe University Frankfurt)
• **Paris** (Laure Quennouëlle-Corre, CNRS Paris)
• **Zurich and Geneva** (Tobias Straumann, University of Zurich)
• **Hong Kong, Shanghai, and Beijing** (David Meyer, Washington University St Louis)
• **Singapore** (Karen P.Y. Lai, National University of Singapore)
• **Tokyo** (Sayuri Shirai, Keio University Tokyo)
• **Conclusion: A Global Overview from a Geographical Perspective** (Dariusz Wójcik and Theodor F. Cojoianu, University of Oxford)
OBJECTIVE OF THIS LECTURE

• Long-term perspective
  - Rise and decline of financial hubs, 1780-2015

• What this can this tell us about:
  - Effects of financial crises
  - Possible consequences of Brexit
  - Future development of international financial centres
FINANCIAL CENTRES

• Definitions
  - Grouping together, in an urban space, of a certain number of financial services
  - Places where intermediaries coordinate financial transactions and arrange for payments to be settled.
  - External economies

• Rankings
  - Influence
    - Domestic
    - Regional
    - International
  - Volume of business
    - Banking, insurance, assets management, capital market, derivatives, etc.
    - Foreign banks
  - Peers’ view and other qualitative criteria
GLOBAL FINANCIAL CENTRES INDEX

- Published twice a year (March and October) since 2007
  - Z/Yen Group (first for City of London, then for Qatar Financial Authority)
- Established itself as the reference on the matter
- Ranking based on competitiveness
  - Human Resources, environment, access to external markets
- Not a reliable guide of the centres that really matter
  - Competitiveness and international influence do not always go together
  - No argument about top four (London, New York, Hong Kong, Singapore)
  - Position of Paris and Frankfurt more problematic
    - Paris: 37th in March 2015 (behind Tel Aviv, Munich, Vienna and Stockholm)
    - Frankfurt: from 6th in 2007 to 23rd in 2017 (behind Osaka, Vancouver and Geneva)
  - Volatility
    - Shanghai: 35th in 2009, 5th in 2011, 24th in 2013
INTERNATIONAL FINANCIAL CENTRES, 1780

- **World’s financial centres**
  - Amsterdam
- **Major financial centres**
  - London
  - Paris
- **Secondary centres**
  - Frankfurt, Hamburg, Antwerp, Geneva
INTERNATIONAL FINANCIAL CENTRES, 1860

• Major Centres
  - London
  - Paris

• Secondary Centres
  - Frankfurt, Hamburg, Amsterdam, Brussels, Geneva
INTERNATIONAL FINANCIAL CENTRES, 1900

• Financial centre of the world
  - London

• Major centres
  - Paris
  - Berlin
  - New York

• Niches
  - Brussels
  - Zurich/Geneva
  - Amsterdam

• Emerging centres
  - St Petersburg, Vienna, Shanghai, Hong Kong, Yokohama, Bombay
INTERNATIONAL FINANCIAL CENTRES, 1930

- **Major centres**
  - London
  - New York
  - Paris

- **Secondary centres**
  - Berlin
  - Amsterdam
  - Zurich/Geneva

- **Emerging centres**
  - Shanghai, Hong Kong, Tokyo, Singapore
INTERNATIONAL FINANCIAL CENTRES, 1960

• **Financial centre of the world**
  - New York

• **Major centres**
  - London
  - Zurich/Geneva

• **Secondary centres**
  - Paris
  - Frankfurt
  - Amsterdam, Brussels

• **Emerging centres**
  - Tokyo, Hong Kong, Singapore
INTERNATIONAL FINANCIAL CENTRES, 2000

• **Global centres**
  - New York
  - London

• **Major centres**
  - Tokyo
  - Frankfurt
  - Paris
  - Hong Kong
  - Zurich/Geneva
  - Singapore

• **Emerging centres**
  - Shanghai, Dubai, Mumbai, Kuala Lumpur
RISE AND DECLINE

• Stability
  - At the top: Amsterdam, London, New York
  - Amongst the leaders: Paris, Berlin-Frankfurt, Zurich
  - Only a few newcomers: Tokyo, Hong Kong, Singapore, Shanghai

• Factors of change
  - Over the long-term: economic power of the host country
  - In the short-term: major military cataclysms
  - Wars accelerate processes already under way
    - Rivalry between London and Paris (1871)
    - Rivalry between London and New York (1914-1945)
ECONOMIC POWER OF THE HOME COUNTRY

- Amsterdam in late 17th century
- London and Paris in the late 18th and early 19th century
- Berlin and New York in the second half of the 19th century
- Frankfurt, Tokyo and Hong Kong in the second half of the 20th century
- Shanghai in the early 21st century
- Exceptions: Zurich/Geneva and Singapore
- Time lag between economic and financial predominance
MILITARY CATACLYSMS

• **Rise**
  - London: French Wars
  - New York: First and Second World Wars
  - Amsterdam: First World War
  - Zurich/Geneva: Second World War

• **Decline**
  - Amsterdam: French wars
  - London: First and Second World Wars
  - Paris: Defeat in the Franco-Prussian War, 1871; First and Second World Wars
  - Berlin: Defeat in Second World War; East Germany
  - Brussels: First World War
  - Shanghai: Japanese occupation, Communist Revolution
FINANCIAL CRISES

• Very few since the late 19th century
  - Seven in advanced economies (in my book *Crises and Opportunities*)
    o Baring Crisis, 1890
    o American Panic, 1907
    o Financial Crisis of July-August 1914
    o Banking Crises of the Great Depression, 1931-1933
    o Financial Instability of the 1970s – and ensuing bank failure
    o International Debt Crisis of 1982
    o Japanese Banking Crisis of 1997-98
    o Financial Debacle of 2008

• No significant change in international hierarchy
  - Great Depression: New York weakened
  - Japanese Banking Crisis: Tokyo weakened

• Global Financial Crisis was unlikely to bring about major changes
GLOBAL FINANCIAL CRISIS

• **Leading financial centres *before* the Global Financial Crisis**
  - New York, London
  - Tokyo
  - Frankfurt, Paris
  - Hong Kong, Singapore
  - Zurich/Geneva

• **Leading financial centres *after* the Global Financial Crisis**
  - New York, London
  - Tokyo
  - Hong Kong, Singapore
  - Shanghai/Beijing
  - Frankfurt, Paris
  - Zurich/Geneva
MAIN CHANGES SINCE 2008

• **Regulatory tightening**
  - Basel III, Dodd Frank, Vickers Report, Banking Union
  - Regulatory ‘tsunami’?
    - Complaints of regulatory overkill (New York, London, Switzerland)

• **FinTech**
  - New challenges
    - Way of providing financial services, and firms providing these financial services
    - Increased price competition (consumer banking, payments, funds transfers)
    - Competition from start-ups, technology companies, social media and internet platforms
  - Leading financial centres and FinTech
    - ‘Silicon Alley’ in New York; ‘Silicon Roundabout’ in London;
    - ‘Finance innovation’ in Paris; Berlin and Munich in Germany (decentralised)
    - Crypto Valley in Zug; ‘FinTech and Innovation Group’ in Singapore
    - China: 90 per cent of Asia-Pacific’s investment in FinTech – Beijing in the lead
A NEW INTERNATIONAL FINANCIAL ORDER?

• **International financial hierarchy**
  - Few changes likely in the medium-term
  - New York should retain world leadership
  - Main challenger: Shanghai – or nexus Shanghai/Hong Kong/Beijing
    - Not yet ready (openness, renminbi convertibility, GDP/capita
    - Precedents of New York and Tokyo

• **European financial centres**
  - Will Brexit change the current state of things?
    - London: global centre and financial capital of the world’s leading economic power
    - Frankfurt and Paris: major centres but somewhat marginalised (Boston or San Francisco in the U.S.)
BREXIT: A LONG-TERM HISTORICAL PERSPECTIVE

• Hardly any historical precedent
  - For the first time in history
    o Decoupling of the world’s largest economic area from its financial capital
  - Remote parallels:
    o Vienna after the First World War?
    o Montreal and Quebec nationalism?

• Uncertainty about Brexit

• Historical dynamics
  - Leading financial centres have always been the financial capitals of the main economic powers
  - Main financial powers have always hosted a leading financial centre
    o European Union: no exception
BREXIT: A LONG-TERM HISTORICAL PERSPECTIVE

• Prospects for London
  - No longer Europe’s financial centre after Brexit
    o No longer the financial capital of a major economic power
  - Should remain a global centre
    o Historical heritage, staying power, slow changes
    o Position more akin to Singapore or possibly Hong Kong than New York

• Prospects for the European Union’s financial centres
  - Emergence of a financial capital comparable to New York, Shanghai or Tokyo
  - Questions: which one and within which time frame
    - Short-term: individual gains, collective loss?

• Prospects at a global level
  - New York: main beneficiary?
  - Asian financial centres: status quo