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New geographies of European financial competition? Frankfurt, Paris and the political economy of Brexit

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ABSTRACT

The UK's exit from the EU is unlikely to challenge the City of London's position as Europe's leading international financial centre (IFC). However, Brexit does create opportunities for alternative financial centres located inside the remaining EU member states. In this article, we assess the strategic positioning of private and public actors within two European IFCs - Frankfurt and Paris - in the period following the Brexit vote. Agents within these centres are seeking to differentially benefit from Brexit in two distinct ways: by mobilising to attract 'low hanging fruit' – vulnerable financial sub-sectors – away from the City and by utilising Brexit as a 'bargaining chip' to leverage domestic and European regulatory reforms. In light of these findings we argue that existing approaches to financial centre relations - in particular 'Globalisation and World Cities' research - should engage with the ways in which political actors shape European financial relations. Whilst private actors inside financial 'networks' may agitate for continued 'cooperation' and regulatory convergence after Brexit, new competitive orientations are also in evidence as political actors seek to privilege their territories relative to rival spaces.

1. Introduction

Brexit is likely to produce a marked reconfiguration in relations between the City of London and the EU (Dhingra et al., 2016; Moloney, 2016). Whilst the City's loss of 'passporting' rights will restrict its access to the European Single Market, alternative international financial centres (IFCs) within EU member states are potentially well-positioned to benefit from Brexit. By May 2017, a quarter of financial services firms in the UK – including international banks such as HSBC, Standard Chartered and JP Morgan – were in the process of moving thousands of workers out of the City and into EU member states (EY, 2017a). In contrast, voices from within Frankfurt, Paris and Dublin positioned themselves as 'natural beneficiaries' of Brexit, actively seeking to attract large international banks and asset management firms (Lavery et al., 2017). A reconfiguration of European financial centre relations is taking place in the aftermath of the Brexit vote.

Within economic geography, the principal attempt to conceptualise and empirically 'map' financial centre relations has come from scholars working within the 'Globalisation and World Cities' (GaWC) research network. GaWC researchers argue that globalisation generates new forms of connectivity, complementarity and collaboration between IFCs (Beaverstock et al., 2000; Taylor et al., 2002; Taylor, 2000, 2004). In the 2000s, a number of GaWC researchers applied this framework in order to analyse relations between the City of London and Frankfurt under the new European single currency (Beaverstock et al., 2001, 2005; Faulconbridge, 2004). Their central argument was that relations between Frankfurt and the City could not be reduced to a 'zero sum' game. Functional specialisation and intra-firm coordination generated a complementarity between Frankfurt and the City of London. *Co-operative* rather than *competitive* relations prevailed.

There is much to commend in GaWC research. It has outlined in extensive empirical detail how cities, firms and IFCs become increasingly co-dependent under conditions of globalisation. That said, we argue that GaWC research is also marked by three blind spots which lead it to understate the *competitive* relations which exist between European IFCs. These include its *firm-centric* methodological approach and its consequent neglect of political agency; its tendency to conceive of *regulatory harmonisation* as a functional-economic as opposed to inherently political process; and its empirical focus on relations between the City of London and European IFCs rather than on the relations *between continental European financial centres* themselves.

The article makes two principal contributions to the existing literature. Empirically, we advance an analysis of the strategic positioning of private and public sector agents within two leading European IFCs -

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Frankfurt and Paris - in the aftermath of the Brexit vote. Drawing on research where we translated, coded and analysed over 300 French and German language policy documents, we argue that private and public agents within Frankfurt and Paris are seeking to 'capitalise' on Brexit in two key respects. First, they are seeking to capture 'low hanging fruit' – vulnerable financial sub-sectors – away from the City of London and into their own respective jurisdictions. Second, some financial and political agents are seeking to deploy Brexit as a 'bargaining chip', leveraging Brexit in order to secure pro-business regulatory reform at both the national and European levels. Conceptually, we argue that Brexit and the emerging geographies of competition between European IFCs calls for a re-assessment of GaWC research and its focus on 'cooperative' relations. Brexit involves a 'decoupling' of the UK from the Single Market which generates new regulatory barriers. A renewed focus on the ways in which political actors within European IFCs seek to 'capitalise' on this disruption should form a central component of future empirical enquiry.

The article is structured as follows. The following section argues that whilst GaWC research generated numerous valuable insights into financial centre relations and globalisation, it is also limited by three blind spots. The third section outlines how Brexit unsettles the regulatory status quo and problematises GaWC's emphasis on 'cooperation' over 'competition'. The fourth and fifth sections then review the strategic positioning of private and public actors within Frankfurt and Paris since the Brexit vote, emphasising how political agents within these centres have sought to secure 'low hanging fruit' from the City and have attempted to deploy Brexit as a 'bargaining chip' in order to secure domestic and European regulatory reform. The final section outlines the implications of the analysis for the broader economic geography literature on financial centre relations, globalisation and the political economy of European finance in the post-crisis conjuncture.

2. World cities, globalisation and European financial centres: cooperative or competitive relations?

Contrary to the expectations of 'hyper-globalisation' theorists (Ohmae, 1999), increased transnational integration from the 1980s onwards did not facilitate an equitable diffusion of economic activity across advanced capitalist societies. Instead, globalisation generated new patterns of spatial concentration and geographical unevenness. 'World cities' emerged as key nodal points within this liberalising global order (Friedmann, 1986; Sassen, 2011). International banks and specialised corporate legal and accounting services firms clustered within and drove the expansion of urban centres within the advanced capitalist world (Bassens and Van Meeteren, 2015, p. 757; Sassen, 2011). Crucially, the rapid expansion of this 'advanced producer service complex' provoked the question of whether globalisation was producing a reconfiguration of power relations between urban centres (Allen, 2010; Friedmann, 1986). For early 'world cities' research, associated in particular with John Friedmann and Saskia Sassen, global cities embedded within the 'core' of the world economy embodied 'command and control' centres within a hierarchy of urban spaces (Smith, 2014, p. 102). 'Dominant' world cities enjoyed access to important resources which could be deployed in order to entrench their own advantage and to restrict the economic capabilities of rival urban spaces (Allen, 2010).

In contrast, GaWC research – associated with Peter Taylor, the GaWC research centre at Loughborough University and a range of affiliated scholars working with a 'relational' conception of global cities – argued that this early focus on 'dominance' and 'competition' between global cities and IFCs was misplaced (Derudder, 2008; GaWC, 2017; Parnreiter, 2014; Taylor, 2004). GaWC research instead emphasised the connections and flows *between* world cities and the ways in which these sustained transnational urban 'networks' of collaboration between private sector agents (Taylor, 2004). Endorsing an emphasis on transnational 'network' formation, following in particular the work of Manuel Castells (Castells, 1996; see, for example: Taylor et al., 2002a, p. 2377; Taylor et al., 2014, p. 281), GaWC research mapped in extensive empirical detail the emergent geography of financial centre complementarity and cohesion in an era of globalisation.

Between 2000 and 2005, a group of GaWC researchers assessed the emerging relation between the City of London and Frankfurt after the creation of the European Economic and Monetary Union (EMU) (Beaverstock et al., 2000; Beaverstock et al., 2001; Beaverstock et al., 2005; Faulconbridge, 2004; Taylor et al., 2003). There had in this period been a widespread expectation that the introduction of the euro would strengthen the position of Frankfurt relative to London, insofar as the former enjoyed close proximity to the newly formed European Central Bank (ECB) and was embedded within a powerful eurozone state (Cassis, 2006, p. 271). However, the creation of the euro did not lead to the 'rise' of Frankfurt and the relative 'decline' of the City within the circuits of European financial capitalism. Instead, as GaWC scholars demonstrated, relations between these two European financial centres exemplified the *cooperative* rather than *competitive* character of relations between IFCs (Beaverstock et al., 2001; Faulconbridge, 2004).

A number of mechanisms underpinned these intra-European complementarities and co-dependencies. Despite the UK sitting outside the single currency, the City developed extensive trading systems in euros (Faulconbridge, 2004). This meant that the City could benefit from the emergence of the monetary union whilst providing liquidity to 'complementary' European financial centres such as Frankfurt. The City's global 'connectivity' and its position as a site of specialised financial knowledge production also meant that it continued to draw in highly skilled international workers and global capital flows despite its position outside the euro bloc. The 'internationalised' nature of the City allowed Frankfurt to import services and capital from the City whilst simultaneously acting as a pivotal European link for UK-based financial services, producing a 'mutual dependence' between the two IFCs (Beaverstock et al., 2001, p. 32). This deepened a functional differentiation between the City and Frankfurt, with the former specialising in 'international' financial activities such as foreign exchange and bond trading and the latter focussing on supplying credit to localised and regional European markets (Faulconbridge, 2004, p. 242; see also: Wójcik, 2013). In addition, the UK's membership of the EU meant that the City had "access to the political networks of the EU and [could] thus ensure the euro trading regulations [were] moulded in a way that does not disadvantage the City" (Faulconbridge, 2004, p. 241; see also: Buller and Lindstrom, 2013; Quaglia, 2016). As a result of these complementarities, GaWC scholars concluded that the euro had had "no wholesale effects on changing business relations between the two cities, [that] Frankfurt's position in Europe is strengthening, but not at the expense of London" (Beaverstock et al., 2001).

In the end, GaWC research on Frankfurt-London relations after the establishment of EMU robustly countered the idea that these financial centres were involved in a remorseless, zero-sum competition with one another. Functional specialisation and organisational coordination within firms gave rise to complex cooperative 'networks' between agents within these IFCs. These case studies were also emblematic of the paradigm shift which GaWC research sought to advance. This was that 'global cities' should not be understood purely in terms of their 'attributes' or 'size', but rather should be thought of in *relational* terms; that is in terms of the connectivity which cities enjoy relative to other urban spaces.

The GaWC literature has, of course, grown considerably since this earlier period (Derudder and Parnreiter, 2014; Taylor et al., 2014; Bassens and Van Meeteren, 2015; Pan et al., 2016; Hanssens et al., 2013; Wójcik, 2013; Coe et al., 2014). However – and despite its achievements in advancing a relational account of world cities – GaWC research exhibited then and in our view continues to exhibit today a number of blind spots which limit its explanatory potential.[1]

[1] We recognise, moreover, that the study of world cities in the GaWC research network