

Proposed title of the session

Competition and Complementarity of International Financial Centres: International Banking and Historical Perspective

Abstract

Historically, international financial centres have existed within a pecking order. This session explores the reasons for and implications of the phenomenon. Our approach is functional; it focuses on the services and benefits international financial centres have provided to market participants, such as borrowers and financial institutions. It has two implications. First, globally, after the Lehman shock, international financial markets were blamed for the global recession, and even fundamental changes to their structure were expected. However, for good and bad, few changes occurred (Cassis, *Capitals of Capital*). In pursuing a policy of structural change, an understanding of which aspects of international financial markets will be retained and which will not is essential. The functional approach is an effective way to tackle this matter. Second, regionally, in Asia, the relationship of financial centres such as Tokyo, Hong Kong, Singapore, and Shanghai is changing. Although it is natural to focus on competition between centres, historical evidence reveals that complementarity between centres is even more important.

The time period we study begins with the international gold standard era and ends around the 1970s. With this long-term perspective, the activities of commercial banks, exchange banks, and investment banks in money, foreign exchange, and capital markets are examined, using archival materials. Individual topics include the following: the foreign exchange business in London and New York from the early twentieth century to the 1920s; foreign exchange markets in China and London in the 1920s and 1930s; capital markets in London, Paris, and New York from the gold standard era to the 1920s; and Eurocurrency and Eurobond markets in London and European Continent, and New York markets in the 1960s and 1970s. Although the literature and present-day observers of Asian financial centres share a focus on competition between financial centres, we pay more attention to complementarity because of our functional approach. The benefits of complementarity of international financial centres includes securing larger funds for borrowers such as issuing bonds on the centres under the international gold standard and on the Eurobond markets, and facilitating smoother liquidity accommodation for exchange banks.

Theoretically, our research relies on and critiques Krugman's two-places model, from his *Geography and Trade*. In this model, when an economic resource is not distributed equally, the place with more resources becomes the single manufacturing 'centre'. However, in reality and in global financial history, financial centres have co-existed in a pecking order and it is rare for an established financial centre to disappear. The gap between Krugman's theory and the reality spurs new hypotheses to improve the theory and our understanding of history. For example, we can present a working hypothesis that after the 1960s, there has been a single international financial centre—a combination of London and New York—and that other financial centres should not be considered as "international" (based on Schenk's 'International Financial Centres: 1958-1971: Competitiveness and Complementarity'). Suggesting and examining such hypotheses with historical evidence, we can enrich our understanding of the history of international financial centres and that will contribute to reform them.

I. Corresponding Session Organiser

Prof. Ayumu Sugawara (Tohoku University [Japan])

II. Co-Organiser(s)

1. Corresponding Organiser.
2. Prof. Daisuke Koga (Yamaguchi University [Japan])
3. Mr. Edoardo Altamura (University of Geneva [Switzerland])

III. Expected Participant(s)

1. same as correspondent.
2. Edoardo Altamura (University of Geneva [Switzerland])
3. Masashi Kitabayashi (Sapporo Gakuin University [Japan])
4. Daisuke Koga (Yamaguchi University [Japan])
5. Catherine R. Schenk (University of Glasgow [United Kingdom of Great Britain and Northern Ireland])
6. Man-han Siu (Osaka University of Economics [Japan])
7. Toshio Suzuki (Teikyo University [Japan])
8. Gail D. Triner (Rutgers University [United States of America])
9. Kazuhiko Yago (Waseda University [Japan])