

Comparing London and Frankfurt as World Cities

A Relational Study of Contemporary Urban Change

Presentations in London and Frankfurt

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1 London and Frankfurt in the World City Network – the impact of the euro

1.1 Introduction – What is the Globalization and World Cities Research Group?

GaWC is a group of geographers based at Loughborough University with an international research network – our interests are concerned with world cities under conditions of contemporary globalization.

A brief reference to some recent theory on world cities will help to explain our perspective and what we do:

Friedmann has conceptualised cities as a global hierarchy in which London, together with New York and Tokyo, are ‘global financial articulations’ while Frankfurt (Miami, Los Angeles, Amsterdam and Singapore) is a ‘multinational articulation’ (Friedmann 1986, 1995).

Sassen sees the role of ‘global cities’ such as London and ‘sub-global cities’ such as Frankfurt (for banking), as a direct consequence of the spatial dispersion and internationalization of production leading to increasing centralization of the management and regulation of a new ‘space economy’ for major multinational companies but also for financial and business services and government. (Sassen 1991, 1994).

World city studies have focussed on the attributes of particular cities, for which data is readily available, as opposed to the relationships between cities. Yet, Castells has emphasised the crucial importance of the flows that pass between and through world cities. Informational and technological developments associated with a contemporary ‘network society’ connect cities through a ‘space of flows’. This suggests that cities are not islands but *processes* constituted by flow. World cities are control or command centres within the global networks of financial and business service (or ‘producer service’) firms (Castells 1996). GaWC research is specifically focused on the relationships between cities associated with the activities of business service firms (Table 1, Figure 1).

Table 1 Global service firms: the GaWC 100

ACCOUNTANCY

AGN International
 Arthur Andersen
 BDO International
 Ernst & Young
 Fiducial International
 Grant Thornton International
 HLB International
 Horwath International
 IGAF. International Group of
 Accounting Firms.
 KPMG
 MacIntyre Sträter International
 Moore Stephens International
 Moores Rowland International
 Nexia International
 PKF International
 PricewaterhouseCoopers
 RSM International
 Summit International + Baker
 Tilly

ADVERTISING

Asatsu DK
 BBDO Worldwide
 CMG. Carlson Marketing Group
 D'Arcy Masius Benton & Bowles
 Draft Worldwide
 Euro RSCG
 FCB
 Hakuhodo Inc.
 Impiric
 J Walter Thompson
 McCann-Erickson WorldGroup
 Ogilvy & Mather Worldwide Inc.
 Saatchi and Saatchi
 TMP Worldwide
 Young and Rubicam Inc.

BANKING/FINANCE

ABN-AMRO Holding NV
 Bank of Tokyo-Mitsubishi
 Barclays
 Bayerische HypoVereinsbank
 Bayerische Landesbank
 Girozentrale
 BNP Paribas
 Chase Hambrecht & Quist
 CitiGroup (Citibank +SSBCiti
 Asset Management)
 Commerzbank
 Credit Suisse First Boston
 Dai-Ichi Kangyo Bank
 Deutsche Bank
 Dresdner Bank
 Fuji Bank
 HSBC
 ING Bank
 J. P. Morgan
 Rabobank International
 Sanwa
 SDI (Sakura +Dellsher Bank)
 Sumitomo Bank
 UBS AG
 WestLB (Westdeutsche
 Landesbank Girozentrale)

INSURANCE

Allianz Group
 CGNU
 Chubb Group
 Fortis
 Liberty Mutual
 Lloyd's
 Prudential
 Reliance Group Holdings
 Royal and SunAlliance
 Skandia Group
 Winterthur

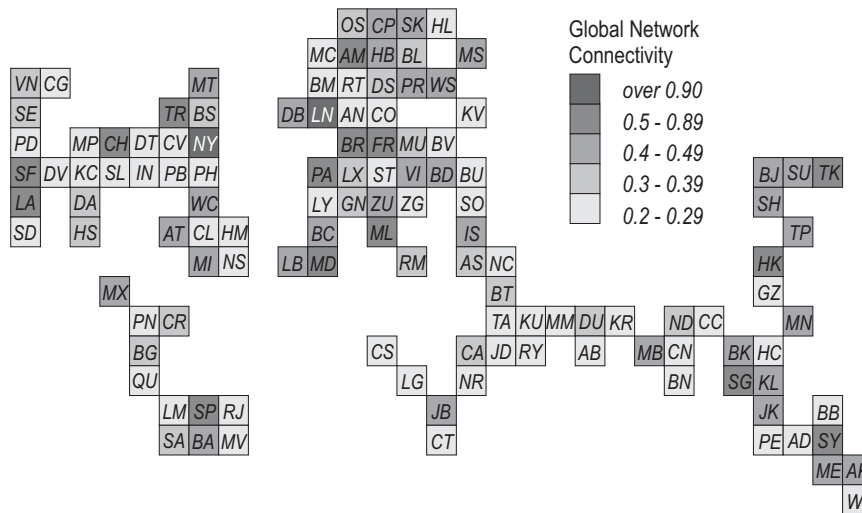
LAW

Allen and Overy
 Baker and McKenzie
 Cameron McKenna
 Clifford Chance
 Coudert Brothers
 Dorsey and Whitney
 Freshfields Bruckhaus Deringer
 Jones Day
 Latham and Watkins
 Linklaters - Alliance
 Lovells Boesebeck Droste
 Morgan Lewis
 Morrison and Foerster LLP
 Sidley and Austin
 Skadden, Arps, Slate, Meagher,
 and Flom LLP
 White and Case

**MANAGEMENT
 CONSULTANCY**

A.T. Kearney
 Andersen Consulting
 Bain & Company
 Booz, Allen & Hamilton
 Boston Consulting Group
 Cap Gemini Consulting
 Compass
 CSC
 Deloitte Touche Tohmatsu
 Hewitt Associates
 IBM
 Logica Consulting
 McKinsey & Company
 Mercer Management Consulting
 Sema Group
 Towers Perrin
 Watson Wyatt Worldwide

Figure 1 The GaWC archipelago



The codes for cities are: AB Abu Dhabi; AD Adelaide; AK Auckland; AM Amsterdam; AS Athens; AT Atlanta; AN Antwerp; BA Buenos Aires; BB Brisbane; BC Barcelona; BD Budapest; BG Bogota; BJ Beijing; BK Bangkok; BL Berlin; BM Birmingham; BN Bangalore; BR Brussels; BS Boston; BT Beirut; BU Bucharest; BV Bratislava; CA Cairo; CC Calcutta; CG Calgary; CH Chicago; CL Charlotte; CN Chennai; CO Cologne; CP Copenhagen; CR Caracas; CS Casablanca; CT Cape Town; CV Cleveland; DA Dallas; DB Dublin; DS Düsseldorf; DT Detroit; DU Dubai; DV Denver; FR Frankfurt; GN Geneva; GZ Guangzhou; HB Hamburg; HC Ho Chi Minh City; HK Hong Kong; HL Helsinki; HM Hamilton(Bermuda); HS Houston; IN Indianapolis; IS Istanbul; JB Johannesburg; JD Jeddah; JK Jakarta; KC Kansas City; KL Kuala Lumpur; KR Karachi; KU Kuwait; KV Kiev; LA Los Angeles; LB Lisbon; LG Lagos; LM Lima; LN London; LX Luxembourg; LY Lyons; MB Mumbai; MC Manchester; MD Madrid; ME Melbourne; MI Miami; ML Milan; MM Manama; MN Manila; MP Minneapolis; MS Moscow; MT Montreal; MU Munich; MV Montevideo; MX Mexico City; NC Nicosia; ND New Delhi; NR Nairobi; NS Nassau; NY New York; OS Oslo; PA Paris; PB Pittsburgh; PD Portland; PE Perth; PH Philadelphia; PN Panama City; PR Prague; QU Quito; RJ Rio de Janeiro; RM Rome; RT Rotterdam; RY Riyadh; SA Santiago; SD San Diego; SE Seattle; SF San Francisco; SG Singapore; SH Shanghai; SK Stockholm; SL St Louis; SO Sofia; SP Sao Paulo; ST Stuttgart; SU Seoul; SY Sydney; TA Tel Aviv; ; TK Tokyo; TP Taipei; TR Toronto; VI Vienna; VN Vancouver; WC Washington DC; WL Wellington; WS Warsaw; ZG Zagreb; ZU Zurich

Figure 1 shows the global network connectivity between world cities which are interlocked through the activities of firms. Tables 2 and 3 reveal the geometry of London-Frankfurt connections within a global network of cities.

Table 2 Top 20 cities for global network connectivity and banking network connectivity

GLOBAL NETWORK CONNECTIVITY			BANKING NETWORK CONNECTIVITY		
World City	Rank	Score	International Financial Centre	Rank	Score
London	1	1.000	London	1	1.000
New York	2	0.976	New York	2	0.984
Hong Kong	3	0.707	Tokyo	3	0.943
Paris	4	0.699	Hong Kong	4	0.854
Tokyo	5	0.691	Singapore	5	0.804
Singapore	6	0.645	Paris	6	0.789
Chicago	7	0.616	Frankfurt	7	0.698
Milan	8	0.604	Madrid	8	0.686
Los Angeles	9	0.600	Jakarta	9	0.662
Toronto	10	0.595	Chicago	10	0.650
Madrid	11	0.594	Milan	11	0.633
Amsterdam	12	0.590	Sydney	12	0.625
Sydney	13	0.578	Los Angeles	13	0.617
Frankfurt	14	0.567	Mumbai	14	0.616
Brussels	15	0.557	San Francisco	15	0.614
Sao Paulo	16	0.541	Sao Paulo	16	0.611
San Francisco	17	0.508	Taipei	17	0.600
Mexico City	18	0.486	Shanghai	18	0.592
Zurich	19	0.485	Brussels	19	0.586
Taipei	20	0.477	Seoul	20	0.579

Table 3 Top 5 cities for global network connectivity in the USA, Germany, the UK and the EU

USA			Germany			UK			EU		
City	R a n k	S c o r e	City	R a n k	S c o r e	City	R a n k	S c o r e	City	R a n k	S c o r e
New York	2	0.98	Frankfurt	14	0.57	London	1	1.00	London	1	1.00
Chicago	7	0.62	Hamburg	48	0.39	Manchester	101	0.22	Paris	4	0.70
Los Angeles	9	0.60	Munich	49	0.39	Birmingham	107	0.22	Milan	8	0.60
San Francisco	17	0.51	Düsseldorf	50	0.39	Bristol	135	0.18	Madrid	11	0.59
Miami	25	0.46	Berlin	51	0.36	Leeds	137	0.18	Amsterdam	12	0.59

The tables suggest that connections and cross-border flows between the two cities take precedence over nation-state borders. But, despite the establishment of the Single European Market, Economic and Monetary Union and the Schengen agreement (for the abolition of borders), the relationship between the cities has been represented as one of intense competition.

The location of the European Central Bank in Frankfurt, the success of Frankfurt's DTB (now Eurex) in eclipsing London's Liffe in the futures exchange market and the Deutsche Börse/London Stock Exchange merger debacle, were reported in the financial press in both cities in terms of a competition to become Europe's top financial centre. War-like language has been a feature of reporting, for example, in 1998 relations between the cities were described as a "bitter war for supremacy" and "battle between London and Frankfurt" (FT 10-7-98 and 7-7-98). The *Frankfurter Allgemeine Zeitung* commented on London's "threat" and Frankfurt's "powerplay" (FAZ 4-5-00 and 19-3-99).

This research set out to answer the questions 'How important are the relationships between London and Frankfurt in a global space of flows – in what ways does geography matter?' 'What is the power geometry (hierarchical? asymmetric? competitive?) of London-Frankfurt inter-city relations within a global network of cities?' 'What are the policy implications for the two cities?' First, we examine the impact of the euro on service business relations between London and Frankfurt. Second, we explore the complexity of London-Frankfurt relations using the concept of tensions that are negotiated in the day-to-day operation of firms' global office networks. Third, we consider inter-city flows beyond the level of the individual firm and identify four significant networks that constitute London-Frankfurt relations. Finally, we return to the research questions and raise some additional 'big questions' for London and Frankfurt.

1.2 The impact of the euro

During two census periods in 2000 and 2001, in-depth interviews were conducted with key decision makers at the grade of partner and/or vice-president and above, in 48 global service firms in both cities (many of those who participated in the research are present at this conference today). Most firms rank in the top ten of their respective service sectors (banking, accountancy, management consultancy, law and advertising).

In addition, face-to-face interviews were held with a selection of regulators, professional bodies and state agencies. The research set out not to add to existing city-based quantitative analyses but to reveal some of the ongoing processes involved in world city formation as seen through the eyes of key actors in London and Frankfurt.

With respect to potential effects of the euro, London's future as a financial centre relative to Frankfurt was characterized by respondents in the following way:

- *No effects from euro / currency is not an issue.*
- *Shifting business opportunities are critical*, however the euro may be affecting clients and this could have indirect effects for some professional services eventually.
- *UK exchange rate instability + isolationism outside EMU* could be problems in the longer term.
- *Frankfurt - London relationships are shifting a little - the changes are not as strong as expected.* Frankfurt is moving towards greater innovation, deregulation, liberalisation and integration of markets and is capturing some parts of the financial services market.

- *The German market is expanding and very important* with clients increasingly demanding cross-border professional services. Firms need to be close to the customer in continental Europe.
- *Frankfurt is strengthening its position relative to London but will always be in a 'second league' of world cities* held back by German de-centralization.
- *Increasing strength of Frankfurt is feeding into London, not draining away from it.* EMU is a symptom and facilitator of underlying change, not the cause.
- *Frankfurt is cheaper to do business than London and increasingly liberalised* but remains over-regulated with inflexible employment structures, an undeveloped skills base, high social costs and a dull living environment compared to London.
- *London and its institutions cannot be complacent.* London remains the top global centre in Europe - more liberal and 'open' to foreign investment than Frankfurt – a 'level playing field' with greater critical mass, depth of infrastructure, skills, creativity, employment flexibility and the international business language. However, it is increasingly congested and expensive with rising social costs.

Two key findings emerged from the interviews in both cities. First, the precedence of business environment over currency in determining business relationships between the cities. Second, the pre-eminence of London as a truly global city.

In the next section we will look in more detail at the contemporary service business environment and its impact on relations between the two cities.

2 Inter-city relations – business competition and tensions

2.1 Business drivers and complexity

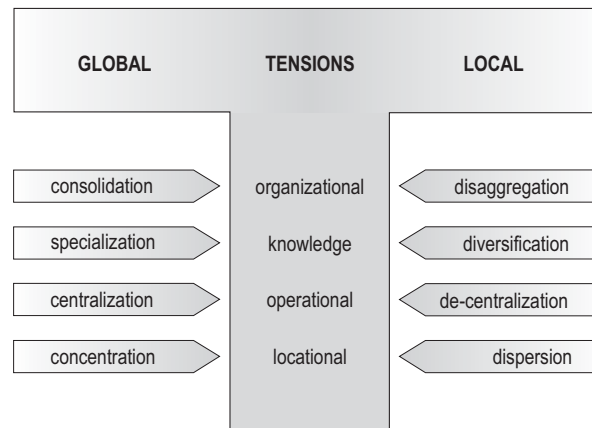
Interviews revealed that the drivers of business relations between the cities are complex. London-Frankfurt relations are being shaped through:

- Demand for *cross-border services* – the need to be *global*
- Development of *cross-border markets* – the need to be *local*
- The process of *globalization* – the need for *rationalization*
- Demand for *cost reduction* – the need for *consolidation*
- Need for *market differentiation* – the need for *specialization*
- Demand for *proximity* in the largest markets – the need for *decentralization*
- Demand for *economic competitiveness* – the need for *concentration*

Service firms are engaged in competition in world markets within their sectors for knowledge products. This competition is associated with highly complex issues in rapidly changing global markets. On the basis of the interview results we conceptualize this complexity as a series of tensions within the sector markets that each firm has to manage in order to operate successfully.

2.2 Business tensions and inter-city relations

Figure 2 Tensions in inter-firm competition



An overarching local-global tension was found to be interdependent with four specific tensions that play an active part in the production of business relations between London and Frankfurt.

2.2.1 Local-global tension

The fundamental tension facing firms in both London and Frankfurt was found to be negotiating trans-border (global) reach against local sensibilities. The increasing need to respond to processes of globalization was seen as the prerequisite to doing business successfully in the local contexts of London and Frankfurt. However, great diversity of global-local organizational and business relations was found to exist within and between the service sectors studied.

Banks varied most in the degree to which they had a globalized perspective. Only the very largest investment banks could be said to have truly global business strategies and market operations. Most of those interviewed in both cities were dominant players in a European or domestic market, although all spoke of some increasingly ‘international’ ambitions. The regionalization of financial markets in Europe was seen as a key driver for cross-border European market participation and organisational capacity, but also for an increasing need to be localized.

Business relations between London and Frankfurt consistently reflected the specialist role of London as a centre for ‘international’ financial business and Frankfurt as a ‘local’ base for European and German domestic business. Continental Europeans were said to have no alternative other than to run two big operations; however not all German banks are headquartered in Frankfurt. Non-German banks (UK and foreign) spoke of a much smaller presence in Frankfurt than in London that could be adjusted flexibly according to changing market requirements and of E-commerce as a key vehicle for development of cross-border ability.

Advertising respondents saw their services as a product that crosses borders more easily than those of other sectors, but localization (niche marketing) was seen as vital to appeal to different cultural sensitivities. While London is the European headquarters for most agencies and regarded as a global creative centre of excellence,

business in London and Frankfurt was perceived as localized activity within a global network.

Business success in both cities was seen as essential to overall network profitability. Regardless of differences in agency nationality, management styles and the degree to which the networks are locally integrated and embedded into local cultures, specific business relationships between the two cities were seen as an irrelevance. However, whereas London is clearly the major advertising centre for the UK market, Frankfurt was regarded as one of five main advertising centres in Germany (including Düsseldorf, Hamburg, Munich and Berlin).

While most *accountancy and management consulting* firms interviewed have a long tradition of international operations, markets were generally perceived as having remained predominantly local. However current and predicted growth of the European market was generally regarded as producing a shift of business relations between London and Europe with London-Frankfurt relations centring principally around the financial services market and the new economy. The importance of the German market and the latent demand for accounting and consulting services in Germany are increasing business interest in Frankfurt and business flows between London and Frankfurt.

Within the global network brands, national UK and German firms were generally seen as having remained important. There is a variety of organisational structures amongst the firms interviewed (e.g. partnerships, franchise). Some networks have recently introduced greater sharing of economics to deal more easily with cross-border business. The legacy of national differences in business and professional practices and regulations was emphasised in both cities. Business relations between the two were generally discussed in terms of a transfer of Anglo-Saxon practice and skills, through London, to continental Europe where these are now needed.

In *legal services* respondents saw the process of globalization as a client demand driven 'pull' process where increasing global reach is necessary to market survival; keeping up with competitors was seen as a 'push' factor. All major UK law firms were said to be increasingly required to engage in international work. Despite the dominance of English and American law globally, most London firms were currently highly focused on developing regional European business relations.

Relations between law firms in London and Frankfurt were seen as framed by first, a London need for local depth and strength within Germany to access the German market and service international cross-border clients and second, the need within Frankfurt for access to London-based international and English law expertise to meet the requirements of a changing legal market. In spite of national differences in legal professional and business service (systems of remuneration, decision-making and profitability) as revealed by recent mergers, cross-border (UK-German) relations were perceived to be important for business expansion in both countries. Unlike London, Frankfurt was regarded as one of several centres for legal services in Germany, albeit by far the most important for corporate legal work.

2.2.2 Organizational tension (consolidation vs. disaggregation)

In all sectors critical mass was seen as essential to operate on a global scale as client demand for seamless cross-border service and market competition require size to maintain profitability. A law respondent explained

“What is globalization? Globalization is all about resource ... [a] company merges with another one, because it wants economies of scale to be a global player ... [it's] about having the right resources to compete in the global marketplace”.

Yet, at the same time, flexibility, outsourcing and focus on core functions were identified as a counter trend, leading to the de-merging and vertical break up of organizational structures across business services. A foreign banker in London saw these developments as challenging

“the whole concept of what a firm, or a company is. What is it then? Is it purely a loose legal aggregation of individuals or is it something a bit more than that?”

2.2.3 Tension in knowledge production (specialization vs. diversification)

Similarly, a knowledge tension was identified between a perceived market demand for increasing specialization across business services and the need to diversify and differentiate services from competitors. Accountancy respondents told us

“Everybody's looking now for more and more specialism. For whatever it is – a tax specialist in Germany or whatever – it used to be enough to be an economist now you've got to be a specialist in banking in different countries or whatever or different parts of banking ... on these international projects' and that 'we're migrating skills [from London] to other European countries, particularly Frankfurt”.

Alongside the need for specialization, new alliances are being formed to achieve diversification. In management consulting we were told

“there is only one player in our sector – that's [us] ... [there are] a number of markets, a number of sectors, segments ... you're looking at different competitors in each of those segments ... we're in a segment of one'. Another respondent described a shift from management consulting to new forms of business through cross-industry international strategic partnerships ‘consulting doesn't describe what we do, nor will describe what we do ... we don't naturally fit anyone's segmentation ... Frankfurt will be an important part of that and London will”.

2.2.4 Operational tension (centralization vs. decentralization)

The demand for cross-border seamless service was seen as driving the need to centralize functions within service networks. For example for foreign banks based in London “centralization brings control and it's reinforcing the concept of identity and team” and “You have to have a big critical mass in each location to achieve focus on organisational goals ... significant hidden non-monetary costs ... turn into monetary costs in decentralizing ... operational risks limit how much division of labour you can have”.

At the same time, the need for operational decentralization and local interpretation was seen as a priority to build customer relationships and engage with local markets. In law we were told “what one discovered ... was that if you get to number one or two in the UK, you can't pretend to be a global firm if you're offering a no.8 operation in

Germany, or France, or Italy. You've got to be in the top three everywhere". A German banker in London commented

"There's so much business. You can't just sit here and expect everyone to come here ... increasingly you have to put your resources onto the ground because you want to be close to the customer ... because there's a lot of competition out there ... an international firm sitting in London wanting to do business and seeing that there's a lot of business in countries that have now scrapped their local currency and adopted the euro would need to get closer to it".

2.2.5 Locational tension (concentration vs. dispersion)

These competing needs impact on London-Frankfurt relations as locational tensions. The high costs of prime city offices and skilled workforce were seen as a continuing push factor towards locational dispersion supported by developments in ICT. A banker in London told us that

"We'll move all our operations out, everything over five years, move them to a cheaper environment, accountants everything ... we want to keep the intellectual capital close together at the moment until we can develop the technology that allows to share intellectual learning and capital with each other but do it with technology – that time's probably not very far away".

Yet, across the sectors the overwhelming emphasis was on the continuing need for locational proximity within the cities for corporate functions and knowledge transfer. The same banker went on to tell us "I see more concentration coming in here [London] all the time and less and less in other places ... I see less in New York and more taking place here ... So over time you could see a hell of a lot more trading taking place in this environment". Another banker believes "The need for human contact is incredible, it's still a very, very strong issue ... that's an overriding factor. Despite all the potential the internet offers, there will still be a very, very strong desire by management to keep everything co-located". A legal respondent commented "Sitting in London I've got both local and global" and in accountancy we were told "the issues about London and therefore whether face-to-face meeting/ conferencing are important, in my view that hasn't changed and will not change."

Attempts to resolve the tensions faced by service firms in providing cross-border financial and business services take many forms. In a world of dynamic change associated with globalization tensions are managed as opposed to 'solved' through intra-firm actions and inter-firm relations. In all cases inter-city relations are directly implicated through the cities' role as centres within global service networks. In section 3 we examine other forms of network that construct London-Frankfurt relations.

3 Inter-city networks and flows – cross-border connections and co-operation

3.1 Business networks in a space of flows

In the last section we saw that the complexity of doing business in a globalizing world has implications for relations between London and Frankfurt. This supports the idea of cities as *processes*, (hubs or nodes) constructed by flows in business networks (Castells 1996). But interviews revealed that these flows are interdependent with multiple social, cultural, economic and technological interactions. In this section, we

identify four important interweaving networks that were found to shape London-Frankfurt relations.

Figure 3 Networks within the world city network

N e t w o r k S o c i e t y	
W o r l d C i t y N e t w o r k	KNOWLEDGE NETWORKS
	CULTURAL NETWORKS
	POWER NETWORKS
	GOVERNANCE NETWORKS

3.1.1 Knowledge networks – knowledge and relationships in ‘people business’

‘Local’ flows of knowledge between London and Frankfurt are highly interconnected with wider inter-city network flows. As the product of service business, knowledge was discussed across the sectors as being made available anywhere through a network.

“You can do it from almost anywhere and its only some of the old regulatory structures and things like that that are almost keeping the physical’. Advertising (Frankfurt), ‘It is out of the network that ideas are being generated ... it doesn’t really matter whether this person is in Hamburg or Frankfurt because they take their network with them.” (Banking, London)

Knowledge is being transferred from London to Frankfurt. Inter-city co-operation within networks was regarded as essential to take full advantage of technological developments in knowledge transfer. Skills are moved anywhere around the world, “You have to ... bring the resources to wherever they’re needed” and people from London are being sent to Frankfurt to develop the skills of people there. Accountancy (London) “We are migrating skills to other European countries, particularly Frankfurt”.

ICT and E-commerce are opening new spatial relationships between firms and markets and were discussed in all sectors as a future key medium for engaging with local markets globally. In the banking retail sector, technology offers economies of scale for the “big swathe of customers” but also facilitates customer relationship management for expanding wealth management business through “a bifurcation” ... “an execution platform and a research platform that interfaces with customers with little human touch” and the use of technology to provide “the best customers with the most intimate service” (Banking, London).

Local market knowledge and client relationships were widely recognised to be increasingly essential in a competitive ‘people’ business. Advertising (Frankfurt) “one of the advantages of a network [is] if you have to do something in another country you can adapt it [but] you’ll have to have the people there who can smell and feel and

know that and who can then realise it” but European services headquarters and knowledge concentration remain focused in London.

Business flows to German and European markets originating in, or passing through, London could bypass Frankfurt. Future business strategies are likely to be flexible - British banks 1 “there has to be a real business reason ... there would have to be a real demand to operate a specific operation out of Frankfurt”; 2 “We kept our service functions there [Frankfurt] on the ground and invested in them”. Continental European bank “We have a presence in Frankfurt to reflect the current role of Frankfurt in the equity markets ... our options are open with regard to Frankfurt at the moment but the concentration of investment presently is elsewhere [London]”. We were told European owned banks with various brand names in Europe will use those for front shop representational purposes to collect business through a local, familiar relationship but the actual handling of the business, the actual transactions will for added value actually be brought back to London because that’s an efficient place to conduct business. Even German banks will not all require a substantial physical presence in Frankfurt.

3.1.2 Cultural networks – city people and city cultures

Location of workforce has become more important than location of customers. The people that constitute firms are individuals who live in places and have personal as well as corporate motivations emphasising the importance of cities as places of consumption. Advertising (London), “We need to be able to recruit good people. As far as our location in London’s concerned we can get good people”. Management consulting (London) “From the client service point of view, personally, I don’t think it’s important that we have an office in London at all ... but from a point of view of ... the team of consultants ... for emotional reasons, social reasons, they might not be so keen [to move]”.

The difficulty of recruiting people in Frankfurt was emphasised in both cities. Attitudes to Frankfurt as a place to live were generally negative across all services. Frankfurt is regarded as “boring”, “dead from seven or eight o’clock at night” ... Law (Frankfurt) “The quality of people I have recruited has become better, but it is arduous. If we can’t find people in Germany, we try it internationally but it involves higher costs to get people to move to Frankfurt and there is the language problem”. Advertising (Frankfurt) “It’s extremely difficult to attract German top advertising people to Frankfurt ... there is no inspiring environment here”. “The English, Americans or French are not very keen to come to Germany, that’s almost non-existent”.

City cultures - amenities, architectural heritage and cosmopolitanism matter. People are more lifestyle conscious.

“With modern technology ... it doesn’t matter whether [markets] are in Frankfurt or in London or even Timbuctoo ... people have to live somewhere ... you could imagine the relative importance of financial centres being dictated by quite different things from where’s the most liquid market, because the liquidity can flow from anywhere – where’s the most pleasant to live, theatres, restaurants and all sorts of secondary issues’. (management consultant, London)

The reflection of cultural difference and diversity within city-based networks is seen as essential to engagement with local markets. The most globally oriented firms' London offices are internationally staffed. Investment banks employ skilled multiple ethnicities from all over Europe and all over the world at senior levels in London to reflect diversity in an increasingly 'less defined' world. We were told "Part of the supporting infrastructure is ... the cosmopolitan nature of London as a city ... firms can access any language they need from all the different communities that are actually present in London 'it's about the ease of doing business.'"

Cultural difference and co-operation underpin 'glocalization'. Legal services revealed a range of views on how to achieve synergies in organisational integration. Law (Frankfurt) 1. "I'm not a friend of these mergers. I think we should find ways to actually get a kind of equality in the co-operation between London and German law firms and avoid the dominance of either side". 2. Mergers are preferable to alliances to provide 'a seamless service' ... "London has acted as a model for Frankfurt and Frankfurt has profited from looking to London".

3.1.3 Power networks – city influence and inter-city power geometry

More key staff are located in London than in Frankfurt with implications for decision-making and global influence. In most firms global leadership positions are located in at most eight to ten global cities. Frankfurt was described in both cities as a service centre for the local German/ European market held back by lack of skills, cultural differences and excessive regulation.

The fact that London is favoured by Americans (the world's dominant economy) and particularly US investment banks, was seen as "absolutely critical" to London's position. Institution (London) "The American banks are at the heart of it ... they have a lot less attachment to Frankfurt". English as the international business language, London's openness and heritage were important reasons together with critical mass of skills and knowledge. London was described as "an ever-shifting club ... a hub with all of those skills both local and cross-border all around me". "London is so easy as a global hub – it's a great advantage if you're trying to be a global financial city and you're actually in a global city ... there's genuinely global ownership of London".

London's dominance within the UK, compared with Frankfurt's position as one of a number of competing cities for business in Germany, was seen as a major advantage. Law (Frankfurt) 'big business is taken away from Frankfurt and is being done elsewhere' the decision centre for many things is London and not Frankfurt'. Institution (London) 1. for "European banks ... this is the village where they meet all their competitors and their financiers". 2. "I don't think I could point you to a case where anyone has said – ah we can do this in Frankfurt but we can't do it here ... I don't remember anyone who has said ... what we're going to do is beef up our Frankfurt operations and transfer staff from London to Frankfurt".

London has a pivotal global capital markets location that is helpful to business in Frankfurt. Institutional respondent (London) "London is in the space between New York and Europe – it doesn't prevent the euro area developing". To compete internationally German firms were seen as requiring London-based representation. London's concentration and proximity of financial service markets, skills and

experience in a single location were seen as a benefit to business in Frankfurt at the same time London was seen as gaining from Frankfurt's European business networks.

Shifting network power relations between London, Frankfurt and New York in London and the possibility of political isolation within Europe were a concern for some. Increasing German international relationships and working in English is opening Frankfurt to global connections and influence. However, power relations were also seen as constructed by the scale of existing infrastructure and resource investment. A newly elected European leader in one international firm will almost certainly move to London. Institutional respondent (London) "London is the European interface and so Frankfurt's strength is good for London".

The benefits of London's openness to foreign ownership outweigh the risks. London was seen as providing the infrastructure for business that wouldn't otherwise be present ('Wimbledonization') contributing to the City's scale and critical mass. The international financial and business services industry in London was seen as isolated from the UK economy. Law (London) very few companies "in the City of London are owned in this country, or capitalised in this country ... they're mainly American or European owned now [but] ... the decisions are still being made here." The volume and strength of business flows was seen as hard to dislodge. Institutional respondent (London) "You can never be sure ... there are some circumstances in which a single-minded strategy can backfire but it doesn't seem so at the moment".

3.1.4 Governance networks - regulation and public-private governance

Regulation through state and inter-state intervention is a key determinant of cross-border business flows. Balanced regulation is an important determinant of firms' locational decisions. Continuing progress towards a single European market was regarded as important to remove obstacles to cross-border business - there isn't a level playing field. However, some concerns were expressed in both cities about the weakening of UK and German national with the introduction of Europe-wide regulation and legislation. Ensuring that the UK has equal access to the Single Market if it remains outside EMU and that EU directives are consistently implemented in each member state were key concerns for London.

The changes were seen as being far greater for Germany as it is required to open up bringing the German business world more closely in line with international practices. German response was that it will be helpful from the German point of view if Europe pushes through regulatory change forcing reform.

Harmonisation of accounting standards will have future key effects on European and German markets and services. International accounting standards will be a key issue for the Barcelona summit and together with other regulatory reforms it was believed that these changes will have key effects for German business. It is widely believed that continental European PAYG social security systems are not economically sustainable. In Germany there are new kinds of investor including private pension funds as well as foreign pension funds (in particular US controlled). Growth in equity markets and the same accounting standards across Europe will create a more single

European market in equities. A deep liquid pool of capital, enlargement, labour markets freed up, corporate re-structuring, increasing demand for producer services and the impact of Anglo-Saxon capitalism will make a very powerful Germany and increase cross-border business flows.

Within London there was a strong emphasis on maintaining an open and level playing field while for Frankfurt there was a greater focus on internal growth. The predominant London view was that diversity and innovation are important strengths of London and if you start to try and make everyone think the same way you will take some of that flexibility out.

“The infrastructure of the market is all privately owned in one way or another .. is that a disadvantage or does that just reflect the nature of the market place these days ... London will do better ... if you're prepared to be open to new competitors ... we don't try to bias things in one direction or another”.
(Institution, London)

Institutional conflicts of interest are damaging to cross-border business suggesting a need for policy integration. In London the Treasury was cited by a number of institutional respondents as having a serious conflict of interest in its role as sponsor of the financial services industry and regulator/ taxpayer of the economy in relation to stamp duty. In Germany conflicting interests arise from the decentralised structure of public and private governance and the separation of Frankfurt as a financial centre from the political capital.

3.2 Conclusion - 'Network cities'

The research findings reveal that connections are redefining roles and changing traditional social and economic relationships across space producing an ever more complex networked society.

Questions were raised about the future of work – “What is a firm?” and even the nature of employment. Structured companies are increasingly dissolving into fluid networks of alliances, people increasingly interrelate with business networks not only as workers but as shareholders. Similarly the boundaries between public and private regulation and governance are becoming increasingly complex and blurred in what many believe to be an emerging shareholder society. Private and institutional shareowners primary interest is increase of shareholder value which will drive changing inter-city relations. A US banker told us

“What has caused this big push in the States, globalization etc? ... now it's people who have investments and equities in mutual funds, pension funds etc. ... investors can get together and remove a management ... we're just starting to see that here ... people in Europe will become very demanding ... the shareholder argument is what's going to change Europe faster than the cultural changes ... in terms of globalization, corporate re-structuring in Europe, the push is going to come from the shareholders”.

3.2.1 In what ways does geography matter?

Returning to key issues for the research first, 'in what ways does geography matter?'. Some comments illustrate the initial response of most respondents to this issue that *location matters less* in a globalized world of business relations.

“Frankfurt and London. What does it mean? Does it really matter? ... You ask me questions about how big is our office in Frankfurt and London. I've no idea, I don't know. It's as big as that today and it's smaller or larger [tomorrow]” (German bank, L)

“Firm-specific [knowledge] exchange ... makes you more or less independent of a specific location” (Accountancy, F)

“Where people sit doesn't matter ... they take their networks with them” (Accountancy, L)

“Actually which office people are based in matters not at all to us ... people just arrive at the airport ... I wouldn't actually know where they were sitting, I pick up the phone, I just ring the number” (Management Consultancy, L)

“There's a financial infrastructure but there's also a corporate world out there that we're ultimately here to service and a world out there that's full of people managing other people's money, which is clearly not so motivated by location at all” (German bank, L)

Yet, at the same time, there was also widespread agreement that in a more connected world, *proximity matters more*.

“In terms of how we work ... location in some ways doesn't matter. What does matter is the way you learn your skills from other people, so you can't learn your trade by just being stuck somewhere in Bangalore” (Accountancy, L)

“The question of location is determined by the question ‘where are the talents that I need?’” (Advertising, F)

“Intelligent people who create something new are concentrated in a few special places” (Foreign bank, F)

“In Europe, you have to be in Frankfurt and in London because that is where the main business is” (German law firm, F)

“You always need personal contacts ... you've got to see the man, you've got to know how he reacts” (Foreign bank, F)

“You have to look at the colour of people's eyes to get some real sense of what's going on” (UK bank, L)

“At this point in time and historically, proximity has been a big issue ... physical, mental, cultural ... where relationships matter, facilitation matters, interpretation matters ... we need proximity” (Management Consultancy, L)

Availability of front office staff, the need for empathy in people business, increasing complexity of transactions, economic and operational priorities for consolidation and concentration, economies of scale relating to IT power, security and staffing requirements were all discussed as driving the need for proximity. These findings strongly support the view that as places of concentration and mixing, the cities have a prime role in constructing and supporting networked flows of business, knowledge, culture, power and governance.

3.2.2 The geometry of London-Frankfurt relations

Second, “how does this affect the geometry of London-Frankfurt relations?”. All the evidence suggests that international business flows continue to be centralized on London. The comments of two foreign banks make the point:

“This idea of critical mass, almost fashion, the concept of, you have to be there, it’s the happening place ... its terribly, terribly important ... despite new technology effectively opening up a whole new range of possibilities regarding location ... its intellectual capital, its virtual product, you would think it’s the ideal test bed for the more disaggregated model of the firm but ... all the trends are going the other way. We’re trying to pack more and more people together onto the dealing floor so we’re all together. You try to pack all the operations in ... you downsize the satellites and you pump up the centre – your clients are doing the same thing – no wonder London’s thriving”.

“Trading could centralize in one global location, London” ... “It’s a great markets location, it’s a very capital markets location ... you need to know what’s going on in Japan and the West as it affects whatever you’re doing here and that’s the key, you get it all right here. I could see having centralized trading in one location in the world in ten years or five years ... why don’t we just have a 24 hour shop here? ... halfway between big financial centres just physically – geography’s helpful there”.

And, at the same time, Frankfurt is growing:

“Stock market activity in Frankfurt is going to grow compared with London ... the UK (domestic market) is a mature market ... stock market activity in continental Europe is going to grow at a very much faster pace ... total German GDP is a good deal higher than ours ... when German stock market capitalization to GDP is a comparable ratio to ours, domestic German market activity is going to far exceed ours’ ... ‘London will remain the centre for global, cross-border international market activity ... Frankfurt will grow hugely in terms of financial services on the back of an expanding German domestic market”. (Institution, London)

The research has demonstrated that inter-city connections benefit both London and Frankfurt. The comments of two institutional respondents in London sum up a widespread view:

“Increasing strength of Frankfurt is feeding into London ... greater volume coming out of Frankfurt actually just builds activity in London”.

“Does Frankfurt benefit from London or is London benefiting from Frankfurt, well yes if you like, we’re benefiting from each other”.

3.2.3 Competition and co-operation – policy implications

Third, what are the policy implications for London and Frankfurt? We have seen that, as far as the business networks are concerned, inter-city relations do not involve a zero-sum game, rather, connectedness produces mutually beneficial synergies. Yet, London’s growth as a world city has spawned a range of mega-problems with economic, social and environmental effects raising major policy questions.

Although, these issues were not specifically addressed in the research questions, physical problems in London - the transport system, terminal 5, deteriorating infrastructure and environmental conditions were raised consistently as serious concerns and as a major threat to London’s sustainability as a major global location for business:

“I think its on the edge of going from being the kind of thing people might moan about ... into being something quite serious.’ ‘If everyone used public transport the whole thing would collapse”.

“There is a huge degree of complacency ... There are very, very rarely mega changes, there are a series of changes which over a period of time build up and affect the marginal decision then that begins a ripple effect”.

And these were not the only policy issues raised by business and institutional respondents. Associated with problems of infrastructure are issues of investment also fiscal policy, taxation, including personal taxation and stamp duty, social, employment and regional policy were all found to be significant determinants of inter-city flows. As one respondent put it,

“In contradistinction to places like France and maybe Germany where it’s a lot easier for the Government to enter into partnership with the financial services industry in order to deliver something in the national interest because why the hell should Chase [for example] worry about the UK domestic economy? ... ‘Globalization ... has huge complications, not only obvious questions about location but also huge problems about control and regulation, taxation all those things and how you control them in a global market where these people know they can direct wealth into any nation – its extraordinarily difficult.”

Again, the Financial Times has reported on Government funded ESRC research which reveals a widening gap between economic performance in the critical mass of knowledge based industries in London, the South-East and East and other UK regions. The social, economic and environmental processes associated with globalization have significant implications for governance. How can the ‘mosaic space’ of functional and administrative public governance boundaries mirror co-operative trans-boundary network relationships?

Concluding Questions

London

We end with three big questions for London:

- **First, how can inter-city public-private relationships be strengthened for mutual benefit?**
- **Second, how can city-based networks contribute to sustainable development?**
- **Finally, what are the implications of our analysis and approach for networks and cities given current concern for the events of September 11th?**

Frankfurt

We end with a key question:

- **What is the meaning of all this for London and Frankfurt when the policy process is territorially bounded yet the key processes for success are inter-nodal?**

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Globalization and World Cities (GaWC) Study Group and Network:
<http://www.lboro.ac.uk/gawc/>

London Conference Questions and Discussion

Keith Dobson (Conference Chair and Director Anglo-German Foundation) – Any comments, questions or thoughts either on the overall conceptual framework which Peter [Taylor] set out at the beginning or on the specific Frankfurt-London points in relation to the Euro or, interestingly, the Euro appearing on the list as a non-event in that context?

Gerhard Mann (Bayerische Landesbank) – Have you been surprised by any of the findings? You yourself maybe had a different impression before the study than afterwards?

Peter Taylor (Co-Director GaWC Research Team) – No, we come from a theoretical tradition that leads us towards networks. When we started, right at the beginning of the project, we did a review of financial newspapers and other sources and looked at ‘what’s everybody else saying?’ and I think in that we were surprised by how much it was all about competition and zero-sum game and we were surprised about that and that set us back a little bit. We found about eighty per cent was about competition. I mean we haven’t done a big calculation on our literature search but about eighty per cent would be about competition, twenty per cent about co-operation. So you know everyone thinks they’re both fair but it’s a matter of balance between the two and I think that made us think twice about what we would probably find from this. But as soon as we got into talking to people about this, then the co-operation relations clearly outnumbered the competition. And the competition in this argument tends to be at the level of the political, so there might be local government competition, and they have lots of reasons to emphasise competition because they’re the leaders at the political level, but when you come to ‘what’s actually creating cities?’ and ‘what are the motives behind the cities?’, then the competition doesn’t seem to be there. At the level of co-operation it is about networking.

Michael McKee (British Bankers Association) – You mentioned an emphasis in the academic literature on competition between cities as against co-operation. I would have thought that in so far as competition is being engendered, or on the agenda, you would expect it to be more at the political level both nationally and at the local government level. (Perhaps also in media comment.) Is there any research or analysis that distinguishes between business connectivity and a more political element?

Peter Taylor – The short answer is no. I take your point, the people who were interviewed are the firms, they’re listed at the back of the report and then the institutions and obviously some of those are political but we didn’t explore the political dimensions on this. I still think that it was quite surprising, perhaps networks don’t make good stories? I don’t know, maybe co-operation, networks, don’t make good copy? Perhaps that’s it? I don’t know why that might be.

Simon Broadbent (NIESR) – In your methodology for quantifying financial relationships you score each firm as one, but there are differences in the scale of different operations. Big banks relationships with the rest of the world are a lot more important [than others]. It would obviously be more difficult to do so, but have you made any attempt to address the problem or considered whether weighting the relationships would be more interesting? Was it simply too difficult to do this?

Peter Taylor – No we haven't weighted. They are weighted in the sense that if a firm has more offices across the world then they make a bigger impact on the score. Basically weighting, the formula is exactly the same you just put weights on them. We haven't done that. The only way [is] we've broken this down into sectors ... I guess we came into that part of the project really looking for a gross measure, we wanted a gross measure and we finished up with a hundred firms and we have weighted them equally, we treated them equally. They contribute differentially to the index because of their relative sizes. Let me just say, all the firms that we deal with, we have a category we call global service firms and therefore for a firm to be in our hundred it has to be in at least fifteen different cities and at least one of those cities has to be in the USA, one in Western Europe and one in Pacific Asia. So they have to have a global strategy in their business in some sense. We didn't want obviously a firm in fifteen cities all in the USA, that's not what we'd be interested in. So these are all big firms, we go the top of the hierarchy, the ranking of firms in different sectors, we've gone down them to get the data from them. So they're the biggest firms in each of the sectors and banking is the most represented, in the hundred there are twenty three banking down to insurance which only has eleven.

Keith Dobson – I'd be interested to know how far those of you who are actually working the relationships between London and Frankfurt, how far you buy this network view? I mean we learnt that the colleagues came to this research from a theoretical background which you might argue predisposed them to find networks wherever they went. I mean these are network people and they've given us a report which speaks of networking relationships. Do you buy that or is this a case where you would say 'they would say that wouldn't they because that's where they come from?'. Does it strike good? Does it ring true?

Simon Broadbent – Can I put the question in a different way? One of the things that people are interested in is the effect of the introduction of the Euro. I think what I inferred from what everybody has said is that it's not a great big deal and that really it has not made the slightest bit of difference. Is that a correct interpretation or was this research not actually directed at that question?"

Kathryn Pain (Senior Research Associate, GaWC) – We did address the question very directly. It was actually the opening to all of the interviews and we were actually surprised. I think somebody asked earlier whether there was anything that surprised us and I think that we had set off thinking that the Euro would have more significance and actually it dawned us rather slowly as the interview results came in, that this was something that we were finding in Frankfurt as well as in London. We were finding it across sectors and it was coming across hot and strong as well. We actually had quotations that we started the interview with which we read out to people which particularly focused on the Euro and those people who were interviewed will remember this and it was almost that as the interviews started off people were thinking 'well what have they bothered to come and talk to us about this for because this is irrelevant?' and then we explained that actually our interests were about cities and they were about global connections and so on and that what wanted to find about was 'well, why doesn't it matter?'. 'What is it about the ways of your global working that makes this something that doesn't matter?'. I don't want to say that there were no comments at all because for example German banks were aware that the exchange

rate issue was something that could affect some of the companies that bank with them in London but these were really minor issues and currency was seen as something that is nothing like as important as business opportunities. I don't know whether anybody whose organisation was interviewed would like to comment on this?

Peter Charlton (Clifford Chance) – I think our reaction was yes, that the Euro isn't making much difference. It may be different when we see the Euro but as long as it's not on the political agenda most people think it's not important. But to respond to the original question about networks, I don't think this way of thinking about cities as networks is surprising to us, networks are increasingly important. There's also an element that they're a product of history and an element that they're the way business has developed. London is more of a world city than Frankfurt. London has a history of being a world city, it's a modern environment which has developed with technology and globalization.

Keith Dobson – I was very struck by the contradiction which emerged between ideas of the death of place which was very fashionable four or five years ago – people saying that electronic networks would make totally irrelevant where typically you concentrated your people. It seems to me that that is now very old hat indeed and that what we are seeing is that being physically close to the right kind of people is a critically important locational decision for the type of firms we've been talking to which is actually quite pleasingly old fashioned at a human level, it's quite nice to know that being physically close to the people you're doing business with still matters, I find that reassuring.

Peter Taylor – On the history point, I think one of the ways we came into this project was the contrast between, if you think of the three globalization arenas, then the major world city in the Americas is in the biggest economy in the Americas, the major world city in Pacific Asia is in the largest economy in Pacific Asia and the major world city in Western Europe is in the third or fourth biggest economy in Western Europe, that was one of the interesting things that led us to look at the contrast between them. Frankfurt hasn't got it's right position if you're comparing it with the other two but then Frankfurt isn't Berlin and a whole series of other things as well. So the historical thing is obviously right at the heart of where we are today in London's pre-eminence.

Bruce Petter (Management Consultancies Association) – I think there is a need for a common legal basis for trading world-wide. If so, which economy, national or otherwise, will lead the way in which firms do their networking? If English is the international language of business, this surely must have an impact. It is clear that there is a need for a legal framework and that this legal framework should be based upon one form of national law, (English, US, Roman). Whichever legal constitution is chosen would have a profound influence on the sort of networks that you are describing now. I wonder whether that is going to put pressure, outside the sort of comments and context you've been talking about, on the networks you've found?

Keith Dobson – As I understand it, you're arguing for a common legal standard based on or including London and an American legal system if you like?

Peter Taylor – Yes I think just on a separate project where we looked at some of these issues in Pacific Asia, which in a sense is a competitive arena for the different

influences, so we were looking for basically New York State law versus English law. I think [that] is basically what we were looking for and the obvious thing that came out of that is that more and more of the large firms are being competent in both and it looks like a sort of duopoly sort of situation that seems to have developed and therefore there might be differences in particular firms in how they related to an area where some firms just parachuted in with their clients and then went out and others have long term relationships and things like that and that had a difference. The British or the London firms tended to be more the latter and my reading of the situation is it's a duopoly situation. I'm not sure how that will come out, I mean the major firms are clearly competent in both.

Bruce Petter – I am wondering if in the globalization context people would be tempted to 'throw less rocks' in Seattle if there were a common global legal base on which all matters relating to competition were agreed. If there was a common legal framework for business would it have an affect on globalization generally or is this an issue underpinned by notions of cultural identity rather than economic domination?

Keith Dobson – Is it not the case that the issues in world trade are still at the political rather than legislative level? They're issues like what is fair competition? They're still politically fraught beyond the point at which they can be codified in the sort of framework to which everyone would sign up. I mean that's the whole point of WTO meetings and the difficulties they have. I'm struck too by the fact the owners of the international language are also, in the English case, the owners of the legal system which is least inclined to codify and that may also have some bearing.

Peter Taylor – I think just the whole issue of Seattle to Genoa and so on, clearly the groups that are there are as complex as the groups that we've been looking at today and it's a very complex situation and there's a very wide range of interests being represented there from traditional labour interests through to anarchists and so on, so it's very complicated. I think my way of starting this would be to ask the question 'what is the deficit in globalization that these people are being asked to address?'. And my view is that the deficit it's being asked to address is basically a democratic one, that this is a world that's getting out of hand and it's not clear how it's being brought back into hand. A single legal code may be a route towards that line but I think it has to be resolved in the political realm and I do think it's the democracy of states. Globalization is beyond states, that leaves democracy behind, where is it? And I think that's the main thrust, not necessarily at the moment in globalization revolts or whatever we want to call them, but I guess that's going to be the major debate in the next couple of decades on where this is going.

Hans-Peter Ickemeyer (London First Centre) – If we just have the slide on again, if you take the second ['Big question'] - How can city-based networks contribute to sustainable development? The organisation I represent does exactly that. We are a London organisation, we have 330 member companies, many of them are here today. We support London in its quest to attract more foreign direct investment and, yes, these networks will make a difference if they're being run properly, if they're being kept away as much as possible from convoluted interference. We are funded by sixty per cent of our funding coming from the private sector and only forty per cent from the public sector. Now many a time have I been to Frankfurt and talking to my colleagues in Frankfurt who try to do a similar thing – and they find it very difficult to

enthusie the private sector to the extent that we have been able to do over here and support them there and if they could just somehow magically achieve that in Frankfurt they feel that they would then have also a larger slice and a bigger opportunity to direct foreign direct investment. So in answer to the first one – how can public-private relations be strengthened for mutual benefit? I can only say that we continue to seek the dialogue with all those who ask us, ask me ‘how we do it?’ and ‘whether our system is comparable to others?’, we give as much help as we possibly can because trade is a two way thing and we do not think for one moment that we can depopulate vast tracts of Frankfurt and bring them over here to London, that is not our aim. So it depends, Frankfurt will try and do it but they find it very difficult. Interesting in this context is that, as we speak at the moment, Paris are trying to remodel their foreign direct investment machine on the lines on which we operate over here. Now whether this works in Paris I do not know because, as many of us will know, the Parisians are very fond of political games and, I said the minute someone throws a handful of sand in the gearbox of foreign direct investment, a political handful of sand, then the whole thing comes crunching to a standstill but they’re making a new start and I will be delighted to tell you if you give me a call in a few months time to see how they’re getting on.

Keith Dobson – Thank you all for coming and thank you colleagues for doing the research and for presenting it to us today, thank you.

Frankfurt Conference Questions and Discussion

Ray Cunningham (Conference Chair and Deputy Director Anglo-German Foundation) – Thank you very much. I'm looking forward to hearing who has come up with the answer to 'what does it all mean?'. I must admit it was a more banal question that occurred to me during the course of the presentations, 'if the City of London is the Wimbledon tennis tournament, then who in the German business scene is Boris Becker?'. Questions can be addressed to any or all of the speakers or left for the panel to pick up. Can I remind you to mention your name and organization. Who would like to go first?

Hans Hutter (vwd) – I have a question about the firms interviewed in London and Frankfurt in Appendix one and two. You interviewed Deutsche Bank London but not Deutsche Bank, Frankfurt. Why was this? Also in the questions to institutions in Appendix 4, you interviewed the British Bankers Association in London, you interviewed the Association of Foreign Banks in Frankfurt. Comparable to the British Bankers Association is the Bundesverband Deutscher Banken.

Michael Hoyler (GaWC Research Team) – We only interviewed institutions based in the two cities London and Frankfurt – obviously the German situation is different from the UK, where all institutions are based in London whereas in Germany we have them in Frankfurt, in Berlin, and in other cities as well, so that was one restriction in the research. With regard to the firms, I don't think you can get a totally representative sample in that sense [both offices of a firm in both cities] because you have to rely on being granted an interview within the time period allocated. This is obviously a problem in comparative research.

Peter Taylor (Co-Director GaWC Research Team) – I think the issue here is the representativeness of the people we have talked to, how representative are they? We try and make an appointment within our time period. There are census periods we are working to, we don't want the interviews strung out over a long period of time because events are changing. If we can't make an appointment within the time period then firms don't appear in this sample. In defence of what we have done I would say that the amount of interviews here is quite substantial. 48 different firms and 20-25 approximately institutions, that is a large amount of information. We are talking about 100 to 150 hours worth of interviews, all on these topics. That's a lot of information. It's representative in the sense of that size factor but it can't be completely representative because we can't compel somebody to talk to us or we can't arrange other people's diaries. We think this is a reasonable representation of opinions within Frankfurt and London as we presented them here.

Max Worcester (Deutsche Börse) – It does strike me what Hans Hutter says has a certain amount of truth in it, and that's the representation of the statistics. When I look at page two [of the report] practically all the sources other than Werner Seifert's source, which is just one of the figures which you quote there, come from either the London Stock Exchange, which has a vested interest in giving the 'right' statistics, and also Healey and Baker who also wrote a study on what a great place London is. What I'm simply trying to say is that it would maybe have been a lot better had one looked a bit further afield for statistics which would have given a truer picture of the

actual situation between the two cities. I would be interested in your comments on that.

Peter Taylor – Basically, in terms of statistics, the table you refer to is part of our introduction, these are size statistics. What we are interested in is relations between cities and there aren't statistics on that unless you look at airline travel or something like that. So that our interest is producing our own statistics and our own data. These are just illustrative, we don't think they are much more than that, they are illustrative as an introduction. The important statistics in these are the ones we have produced ourselves because they don't exist anywhere else. And they are not pro-London or pro-Frankfurt, they are just a hundred big firms that we have selected because we can get good data on them and it has nothing to do with whether they are in London or in New York or in Tokyo or whatever.

Inge Bauer (Financial Times Deutschland) – Despite your comprehensive presentation I still find it difficult to draw a borderline in terms of for instance the search for skills and the competitiveness London-Frankfurt. I would still think that London is the place to go to if you look for skills. As you said there is this vice-versa, reciprocal relationship, that if London grows Frankfurt will also grow on the back of that. I don't know, maybe it's just a comment; maybe you could also give more of your ideas in terms of where you really see the source and then the result or the consequence of that. I doubt that Frankfurt will develop into, for instance, a labour market, which can really compete with London, or can find a niche in order to attract banks or companies.

Kathryn Pain (Senior Research Associate, GaWC) – I think that what we have been told is that the relationships between the firms are about both cities being successful, and the evidence from the firms so far suggests that both cities are thriving in terms of the expectations within a particular business network. So, although in the introduction there is a certain amount of data about the relative status of London and Frankfurt - and obviously there is a lot of other data that's available on that - what we have really been looking at is what the firms are telling us about success of their particular offices within their network. If you are talking about the sort of relative balance, or if you want to think of it in terms of – it's not really an expression that we like but it's one that's used - this sort of 'power-geometry' idea, then I don't think that any of the responses that we got was suggesting that these positive flows between the cities would turn Frankfurt into another London. Because obviously history plays a large part in this and the fact is that London, at the moment, has its global interconnections and the interlocking that we've talked about through the firms, has particular implications for London because of its role within this world city network. So I don't think that we were being told that there was an expectation of Frankfurt turning into a London through these cooperative relations. But the firms don't see it that way, because they don't actually care about the cities and how they do in relation to each other. What they are thinking about is their own competitive relations in their market and so for them they are not interested actually in London against Frankfurt and which one is going to be ranking higher than the other. What they are concerned about is their own business that's conducted in that city and how successful that is. So we are probably talking about two different things there and I don't think we are seeing cooperation as something that is going to turn Frankfurt into London. The whole idea about the firms' networks and about cooperation is that it enables the firms to be

successful within cities and therefore in that sense cities are gaining employment, they are gaining knowledge, they are gaining skills, there is cultural flow between them. There are lots of positive things that are happening between London and Frankfurt because of these inter-city relationships but it's not particularly something that the firms are interested in, which of the cities is ultimately going to be the biggest, or have the highest concentration of financial flows or whatever.

Bernd Amann (Landeszentralbank in Hessen) – What in the end from your point of view are the most important policy recommendations for Frankfurt to improve its position in the network, or to make the network work in a better way, be it recommendations for local policy or for the federal state?

Peter Taylor – The way in which normal boosterism works is always to make a city more attractive, to attract things to that city, to that territory, and therefore it's basically a piling up of things to make it bigger, make it better, and that could be Frankfurt, it could be Singapore, it could be Buenos Aires. That's the standard policy, that seems to be what is available given the governmental structures where you get territories with boundaries round, and policy makers and elected politicians operating at that level. One implication of what we are saying here is that you need to attend to the linkages. Now there have been very successful cities that haven't had very much boosterism and London would be an example of that. London didn't have a government for most of the 1980s and 90s, nobody was directing it – that's anti-boosterism if you like. So what do you mean when you say attend to linkages? Well that's very difficult, obviously you can have infrastructural arguments and clearly they are important but they are very much what is expected. A big city should have these things, they should have a big airport, should have all these linkages. It doesn't give you an advantage but it gives you a big disadvantage if you don't have it. So you need to be like Singapore, you need to be an intelligent island. But that isn't enough, so you are attending to linkages. The way we have set it out here, most of those important linkages are not in the public sector, they are in the private sector. These are companies making profits and in order to make profits they have to be in Hong Kong, for example. Because we are thinking in network terms and not in territorial terms, there are not the institutions there in order to properly attend to these linkages, so the units would be dyads, or the units would be leagues of cities. There is another world here that doesn't exist but is suited for this sort of argument. So at the moment we have boosterism, pile it up high at this location and, if that's done properly, presumably it will improve flows, it will attract people but attending to linkages is beyond our imaginations here. Obviously, most local government authorities are in various organisations and meet together in different places as public authorities but they are not the important linkages as far as we can see here. This world city network is driven through this ability to service globally, that seems to be the crucial element here and that seems a long way away from the policy of boosterism. As I said, the best example of non-boosterism is probably London. London didn't even have a government and the whole time it was consolidating its position as the global centre in Europe. Another example would be Brussels which is becoming quite an important world city and, for various reasons within Belgium, Brussels has never really had good boosterism until about the last ten years and yet that didn't seem to make any difference, there were obviously other forces operating there. So our answer is – what are the most important policy recommendations? We'd love to know what they are from this perspective, many people would. Attend to linkages would be the glib

answer, but it's not quite clear what that is and how you would do it – this is the mystery of globalization.

Ray Cunningham – Well if there are no more pressing questions then I should just congratulate everyone and thank all our speakers and thank you all for attending and for the final word I'll pass you back to our host Dr Schlochtermeyer.

Dirk Schlochtermeyer (Finanzplatz e.V.) – Being the host I have the nice obligation to invite you to something which is not a mystery but rather concrete and precise and that's our lunch, which will be served next door, and we can do what we have been talking about this morning and this is networking, across sectors and across borders. Thank you very much for your contribution, your interest and your patience and have a nice day.

London and Frankfurt Conference Media Coverage

Financial Times, 20 November 2001

NATIONAL NEWS:

Frankfurt fails to steal London's crown as financial capital

By Vincent Boland/Capital Market Editor

London's position as Europe's pre-eminent financial centre is unchallenged, in spite of the introduction of the euro and the growth of Frankfurt as a eurozone financial marketplace, according to a *joint Anglo/German study* of the rival cities.

Although there was "overwhelming" belief in Germany that Frankfurt's position was strengthening because of the euro and the size of the German economy, the study found "that the changes are not as strong as expected, and that there is no threat whatsoever to London's financial hegemony at this point in time".

The study was published yesterday by the *Anglo-German Foundation for the Study of Industrial Society* and written by *academics from Loughborough and Heidelberg universities*. It offers a glimpse from both sides of the debate into the merits of London and Frankfurt as financial centres, and more broadly as "world cities".

One of the report's most striking conclusions is that the euro had not altered the two cities' standing, even though the European Central Bank is in Frankfurt, while the UK remains outside the eurozone.

"We had begun by assuming that the euro would have been more significant (in changing the dynamic of the relations between the two cities) but it came across very strongly from both London and Frankfurt that it was not an important issue at all," said Kathryn Pain, senior research associate at Loughborough University, one of the study's authors.

The City had retained its dominant position as Europe's leading centre for banking, capital markets, advertising, the law and management consultancy. London was the "most connected world city" through its global service firm offices, ahead of New York, with Frankfurt in 15th place. But London was the only UK city in the top 100 "world cities" whereas there were seven German cities on the list.

There had, if anything, been more co-operation than competition between London and Frankfurt in the past few years, the study suggested. This was the case especially in the legal profession, where a series of UK/ German mergers had allowed London's global firms access to a big and growing local market and given German firms access to global know-how.

London's congestion and the poor state of its transport network were the biggest threats to its competitiveness.

Frankfurt's biggest problem was the difficulty of recruiting people to work there because of its "dull" image.

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COMPANIES & FINANCE UK:

A touch of paranoia about one's place in the world:

Despite periodic hand-wringing about Continental competition, London's financial services industry is still pre-eminent in Europe by a long way

By Martin Dickson

Every so often the City of London suffers a bout of paranoia about its place in the world: is its position as Europe's pre-eminent financial centre under serious threat from continental rivals?

There was a bad attack of hand-wringing and nightsweats when the euro was launched, with the UK outside the currency zone. Another outbreak is possible over the next few weeks.

On December 1, the Financial Services Authority, the City policeman, will finally assume its full powers after five years of gestation. The Cassandras are warning that if it acts in a draconian fashion, business will move to friendlier centres. Well, yes, obviously, but at present it is hardly foaming and frothing at the mouth.

Two days later, Euronext, the Franco-Benelux exchange, is likely to seal its takeover of Liffe, the derivatives exchange, which accepted its bid over a rival one from the London Stock Exchange. Parliament's Treasury Select Committee, apparently concerned about the implications for the City, has taken the unusual step of calling hearings on the takeover.

Victory for the LSE would certainly have been good for it, giving it greatly added bulk and a broader product range as it fights for a leading place in Europe's bourse consolidation. But the LSE did not offer the most attractive solution to the Liffe board, and Sir Brian Williamson, chairman of the latter, can be expected to argue forcefully before the select committee that the Euronext takeover is actually very good news for London.

How so? First, the terms of the deal are a huge vote of confidence in Liffe and in Connect, a sophisticated computer system it had developed for trading the most complex derivatives. Euronext is to make London the hub for all its derivatives business, under Liffe's existing management and using the Connect system. The deal means the European derivatives industry has now consolidated into two strong competing forces, one based in Frankfurt (Eurex) and one in London, and both with global reach. In this field, Europe is far ahead of America's old-fashioned derivatives exchanges.

Second, the deal could strengthen the hand of the London Clearing House, which handles the clearance of Liffe's trades, in industry consolidation. For the time being, it and Clearnet, Euronext's clearer, will continue with their separate flows of business. But customers may eventually demand the ability to offset trades between the two, pushing them closer together.

Third, by showing itself willing to accept a continental offer over a domestic one, London has underlined its openness as a financial market. That sends an important message to the world and, by linking London directly with a eurozone bourse, may help reduce the misunderstanding of the City - if not downright distrust of it - that seems a feature of the Brussels bureaucracy.

Not that being outside the eurozone has hurt the City. *A report this week by the Anglo-German Foundation, based on interviews with leading figures in both London and Frankfurt, concludes that it has suffered no disadvantage. The euro is generally dismissed as a purely technical, back-office issue.*

Nor is Frankfurt seen as a serious contender to London as a global financial centre. It may be making some gains, thanks to the German economy, but it remains firmly in the second league, and few expect the situation to change substantially. If anything, the report suggests, there has been more co-operation than competition between the two centres in the past few years - particularly in the legal profession, where a series of UK-German mergers has allowed London's global firms access to the local German market and given German firms access to global know-how.

These broad trends can sometimes be obscured by the City's - and the media's - obsession with the fate of the Stock Exchange, which may be significant as a symbol of financial virility, but is far from being a pillar on which the fate of London depends.

A touch of paranoia can be useful in keeping people on their toes. "Only the paranoid survive," is the healthy mantra of Andy Grove, the co-founder of Intel. But too much can be destructive and the MPs poring over the sale of Liffe should reassure themselves that the City is in good, rude shape, at least for now.

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vwd, 30 January 2002

Experten: Finanzplätze London und Frankfurt können sich ergänzen

Von Hans Hutter

Frankfurt (vwd) - Die Beziehung zwischen den Finanzplätzen London und Frankfurt ist sehr komplex, das Bild von zwei rivalisierenden "Platzhirschen" werde dem nicht gerecht. Zu diesem Urteil kommt ein *binationales Forschungsteam der Universitäten Loughborough und Heidelberg*, das am Mittwoch in Frankfurt bei der Finanzplatz e.V. ihre Studie "Comparing London and Frankfurt as world cities: A relational study of contemporary urban change", vorstellte mit der Empfehlung: "Miteinander statt gegeneinander".

Grundlage der Studie bilden zahlreiche Interviews, die in den Jahren 2000 und 2001 parallel in Frankfurt und London durch Michael Hoyler (Universität Heidelberg) und Kathryn Pain (Loughborough University) mit "hochrangigen Entscheidungsträgern" und "führenden Institutionen" durchgeführt wurden. Aufgezeigt wird, dass London und Frankfurt "wichtige Knotenpunkte" der Weltwirtschaft ("global cities") sind, London neben New York als "einer der beiden global am besten vernetzten Standorte"

und Frankfurt als "wichtigste deutsche 'global city'" im "oberen Rang unter den kontinentaleuropäischen Städten".

Die Studie kommt zu dem Ergebnis, dass der "Einführung des Euro von den befragten Unternehmen nur einen geringer Einfluss auf die Positionierung beider Finanzplätze zugeschrieben wird", wobei man zugibt, dass dies erst die ersten zwei Jahre Euro-Währungsunion betrifft. Der Euro und die Europäische Zentralbank stärkten sehr wohl das Image der Stadt Frankfurt, zeigten aber vorerst kaum praktische Relevanz. Die Stellung Londons als führender Welt-Finanzplatz sei aus heutiger Sicht durch das britische Festhalten am Pfund-Sterling nicht gefährdet.

Die herausragende Position des Finanzplatzes Londons gründet sich nach dieser Studie ganz entscheidend auf den verfügbaren Wissenspool und die institutionelle Dichte in der City. Im Gegensatz zu Informationen, die heute in Sekunden weltweit verbreitet werden können, seien Wissen, Kreativität, Erfahrungen und Qualifikation an Personen und Organisationen gebunden und somit räumlich stärker verwurzelt. Eine solche Konzentration von Wissen und hochspezialisierten Netzwerken könne nicht einfach von einem Standort auf einen anderen übertragen werden, hier sei der face-to-face-Kontakt immer noch sehr wichtig.

Das Forschungsteam kommt zur Überzeugung, dass das Verhältnis der Finanzplätze London und Frankfurt oft verkürzt unter dem Aspekt des Wettbewerbs gesehen wird. Die Stärkung eines Standortes müsse nicht zwangsweise auf Kosten des anderen erfolgen, sie sei kein Nullsummenspiel. London und Frankfurt ergänzten sich in vielen Bereichen, so die Botschaft der Studie. Der Erfolg Londons als Zentrum globaler Vernetzung komme Frankfurt zu Gute, die wachsende Bedeutung Frankfurts als "gateway" zum deutschen und europäischen Markt stärke auch London.

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Experts say London and Frankfurt can complement each other as financial centres

By Hans Hutter

Frankfurt (vwd) -- The relationship between the financial centres of London and Frankfurt is highly complex, and the picture of two rival "alpha males" does not do justice to it. This is the verdict reached by a *bi-national research team from the Universities of Loughborough and Heidelberg*, who at Finanzplatz e.V. in Frankfurt on Wednesday presented their study "Comparing London and Frankfurt as world cities: A relational study of contemporary urban change", with the recommendation: "With each other and not against each other".

The basis of the study is formed by a series of interviews held in parallel in Frankfurt and London in 2000 and 2001 by Michael Hoyler (Universität Heidelberg) and Kathryn Pain (Loughborough University) with "high-ranking decision-makers" and "leading institutions". They show that London and Frankfurt "are important nodes" in the world economy ("global cities"), place London alongside New York as "one of the two locations best networked globally" and rank Frankfurt as "the most important German 'global city'" in "the top position among Continental European cities".

The study comes to the conclusion that the "introduction of the euro was assigned only a minor influence by the companies interviewed on the positioning of both financial centres", with a rider that this only concerns the first two years of the European currency union. The euro and the European Central Bank definitely strengthened the image of Frankfurt as a city, but had very little practical relevance at present. The position of London as the world's leading financial centre was not threatened from current perspectives by the British inclination to hold onto the pound sterling.

The preeminent position of London as a financial centre is based in the view of this study very substantially on the available pool of knowledge and the density of institutions in the City. In contrast to information, which can be sent round the world in seconds, there is a strong association of knowledge, creativity, experience and qualifications with persons and organisations, anchoring these qualities much more strongly in a particular place. Such a concentration of knowledge and specialist networks cannot simply be transferred from one location to another; face-to-face contact remains very important in this field.

The research team came to the conclusion that the relationship between the financial centres of London and Frankfurt was often foreshortened into a competitive situation. The strengthening of one location need not take place at the expense of the other; this was not a zero-sum game. London and Frankfurt complemented each other in many respects, the study found. London's success as a centre of global networking was of benefit to Frankfurt, while the growing significance of Frankfurt as a "gateway" to the German and European markets in turn strengthened London.

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Finanzzentren

Weltstadt am Main

Von Jens Meyer

Gerne stellt sich Frankfurt als echte Weltmetropole dar, schließlich stehen hier die höchsten Bankentürme Europas, starten und landen am hässlichen Großflughafen so viele Flieger wie sonst nur noch in Paris oder London. Als seinerzeit der Zuschlag für die Europäische Zentralbank an den Main ging, gab es kein Halten im regionalen Größenwahn. Sogar die Vormacht von London als wichtigster europäischer Finanzplatz schien in Frage gestellt.

Doch seit einiger Zeit ist Ernüchterung eingetreten. Im Geschacher um die europäische Leitbörse der Zukunft ist die Deutsche Börse nach einigen Anfangserfolgen ein wenig ins Hintertreffen geraten und auch die Banken backen wieder kleinere Brötchen. Zwar ist Frankfurt zweifelsohne Deutschlands wichtigster Finanzplatz, doch im internationalen Vergleich kann es London einfach nicht das Wasser reichen. Wo die Musik wirklich spielt, ist in der Diskussion um die Zukunft der Deutschen Bank noch mal schmerzhaft deutlich geworden.

Frankfurt ist doch erste Liga

Just in diesen schwärzesten Stunden des angeknacksten Lokalpatriotismus legt ein deutsch-britisches Forschungsteam eine Studie vor, die wie Balsam für die geschundene Frankfurter Seele wirkt. Denn siehe da, so schlimm ist es um Frankfurt doch nicht bestellt. Immerhin auf den 14. Platz der weltweit am vernetztesten Städte haben die Forscher Frankfurt gehievt - damit gehört die Mainmetropole zur ersten Liga globalisierter Städte und darf sich in einem Atemzug mit Mailand, Tokio, Sydney oder Sao Paulo nennen. Unangefochtene Spitzenreiter und eine Klasse für sich sind freilich London und New York.

Ausgehend von einer Definition der „Weltstadt“ als Teil eines weltweiten Städte-Netzwerkes haben die Forscher um Professor Peter Taylor untersucht, wie präsent die eigentlichen Netzwerk-Schöpfer, die globalen Dienstleistungsunternehmen, in den einzelnen Städten sind. Während in London 99 der von den Forschern ausgemachten Top-100 Firmen aus den Branchen Banken, Versicherungen, Unternehmensberatung, Werbung und Wirtschaftsprüfung vertreten sind, haben immerhin 70 dieser Firmen ihre Büros am Main.

"Der Krieg ist vorbei"

Qualitative Grundlage der Studie bilden zahlreiche Interviews, die in den Jahren 2000 und 2001 parallel in Frankfurt und London mit hochrangigen Entscheidungsträgern dieser Unternehmen und weiteren Institutionen geführt wurden. Dabei kommt die Studie zu dem Ergebnis, dass aufgrund der Firmen-Netzwerke viel eher eine Kooperation als eine Konfrontation beider Städte besteht. „Gute Nachrichten - der Krieg ist vorbei“, brachte *Ray Cunningham von der Anglo-German Foundation, die die Studie in Auftrag gab*, die Erkenntnisse auf den Punkt.

Die Stärkung des einen Standortes müsse nicht zwangsweise auf Kosten des anderen erfolgen, es gebe hierbei kein Nullsummenspiel. „Was gut ist für London, ist auch gut für Frankfurt und umgekehrt“, plädierte Taylor für eine entspanntere Sicht der vermeintlichen Rivalität.

Wimbledonisierung Londons

Entgegen den Hoffnungen Frankfurts hat die Einführung des Euro den Wissenschaftlern zufolge nicht zu einem Bedeutungsverlust Londons geführt, die Stadt an der Themse bleibt unangefochten das wichtigste Finanzzentrum Europas. Und das obwohl Großbritannien zumindest im Bankenbereich kaum eigene, also britische „Global Player“ vorweisen kann. Das Phänomen, ohne eigene Star-Player Tummelplatz der Welt-Elite zu sein, bezeichnen die Forscher als „Wimbledonisierung“.

Wie sich London zum europaweit wichtigsten Finanzplatz und zur Weltstadt schlechthin gemausert hat, ist für sie Folge einer Reihe von günstigen Umständen. Dazu gehören Sprache, Geschichte und Kultur, die die Stadt an der Themse den nach Expansion dürstenden amerikanischen Investmentbanken als bevorzugten Ort für ihre Europa-Zentrale erscheinen lassen. Dazu gehört aber auch die Konzentration an hochspezialisiertem Wissen und Netzwerken, das für viele Firmen entscheidender ist, als die geographische Nähe zu Kunden.

Insofern ist es für Taylor nur folgerichtig, dass die Deutsche Bank ähnlich wie die anderen deutschen Banken einen immer größeren Teil ihres internationalen Geschäfts

nach London verlegt. Doch als kleinen Trost schickt er hinterher: „Letztlich profitiert davon auch wieder Frankfurt.“

Text: @mey

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Financial centres

World-class city on the river

By Jens Meyer

World-class city on the river Main By Jens Meyer Frankfurt likes to see itself as one of the world's great cities. After all, it has Europe's highest bank towers, and its hideous international airport has as many planes starting and landing as its only possible competitors, Paris and London. When the decision was taken to site the European Central Bank in Frankfurt, the region succumbed to megalomania. Even the commanding position of London as Europe's most important financial centre seemed to be placed in doubt.

But after a while, sanity returned. In the horse-trading that surrounds Europe's future leading stock exchange, the Deutsche Börse has fallen behind in the running after some early successes and the banks too have pulled in their horns. Frankfurt is still Germany's most important financial centre, there is no doubt of that, but on the international stage, it simply cannot stand comparison with London. Where the action is really at has become painfully clear in the discussion about the future of Deutsche Bank.

Frankfurt is still in the premier league

In the very hour when regional pride is most deeply wounded, an Anglo-German research team has published a study which is balm for the weary Frankfurt soul. Things don't look as bad for Frankfurt after all. The researchers have elevated the city to 14th place in a table of the world's most networked cities, putting it in the first division of globalised cities and in the same class as Milan, Tokyo, Sydney or Sao Paulo. Outright leaders in a class of their own, admittedly, are London and New York. Starting from a definition of a "world city" as part of a worldwide city network, the researchers led by Professor Peter Taylor have examined how much of a presence the actual network creators, the global service companies, have in the various cities. Whereas in London 99 of the top 100 companies identified by the researchers came from the banking, insurance, corporate counselling, advertising and accounting sectors, it is still the case that 70 of these firms have offices of their own in Frankfurt.

"The war is over"

The qualitative basis of the study is provided by a corpus of interviews held in parallel in Frankfurt and London in 2000 and 2001 with high-ranking decision-makers of these companies and other institutions. The study comes to the conclusion that corporate networks are far more likely to promote cooperation than confrontation between the two cities. "Good news -- the war is over," observed *Ray Cunningham of the Anglo-German Foundation, which commissioned the study.*

The strengthening of the one location need not necessarily be at the expense of the other; this was not a zero-sum game. "What is good for London is also good for Frankfurt and vice versa," argued Taylor in defence of a more relaxed view of the supposed rivalry.

Wimbledonisation of London

Contrary to the hopes of Frankfurt, the introduction of the euro has not in the researchers' view led to a loss of significance for London, which remains indisputably Europe's most important financial centre -- even though Great Britain, in the banking sector at least, has hardly any global players of its own to show. The phenomenon of being a meeting-place for the world's elite without star players of one's own is described by the researchers as "Wimbledonisation".

They see the rise of London to be Europe's most important financial centre and one of the undisputed great cities of the world as due to a succession of favourable circumstances. These include language, history and culture, making the city on the Thames seem an ideal place for the European headquarters of expansion-hungry American investment banks. Then there is the high concentration of specialist knowledge and networks, more decisive for many companies than the geographical proximity to their customers.

From that point of view Taylor sees it as only logical that Deutsche Bank, like other German banks, should increasingly concentrate its international business in London. He offers a parting crumb of comfort: "In the end Frankfurt will benefit too."

Text: @mey

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London bleibt Nummer eins Finanzplatz Frankfurt nur Pforte zum deutschen Markt

Von Detlev Fechtner

Im Urteil von Entscheidungsträgern aus Großbanken, Wirtschaftskanzleien und Werbeagenturen kann der Finanzplatz Frankfurt der Londoner City nicht das Wasser reichen. So jedenfalls lautet das Ergebnis einer gemeinsamen Studie der Universitäten Heidelberg und Loughborough.

FRANKFURT. Wenn in den Chefetagen von den weltweit wichtigsten Finanzzentren die Rede ist, dann wird London in einem Atemzug mit New York genannt. Die herausragende Position in Europa "gründet sich ganz entscheidend auf den verfügbaren Wissenspool und die institutionelle Dichte in der City", erläutern die Leiter des wirtschaftsgeographischen Forschungsprojekts, Michael Hoyer und Kathryn Paine. Da in London nicht nur die Banken und Broker residieren, sondern auch die Regierung und die Verbände, laufen an der Themse alle Fäden zusammen - anders als in Deutschland.

Zudem sei die britische Hauptstadt stärker in weltweite Netzwerke eingebunden. Frankfurt attestieren die Manager hingegen eine "eher europäische Ausrichtung" und die Rolle als Pforte für den deutschen Markt.

Nicht einmal die Einführung des Euro bringe die Rangordnung ins Wanken, meinen die Forscher unter Berufung auf die Interviews mit Vorständen und Geschäftsführern. Der Sitz der Europäischen Zentralbank am Main sei gut fürs Image Frankfurts, habe aber "für die überwiegende Zahl der Unternehmen kaum praktische Relevanz". Die Stellung Londons werde durch das bisherige Festhalten der Briten am Pfund "nicht gefährdet".

Gleichzeitig warnen die Wissenschaftler davor, den Wettbewerb der Finanzplätze als Nullsummenspiel zu begreifen. "Die Stärkung eines Standortes muss nicht zwangsweise auf Kosten des anderen erfolgen", betont Hoyler.

Grenzübergreifende Schulterschlüsse etwa großer Anwaltskanzleien können nach Einschätzung der Studie durchaus die Heimatbasis stärken: "Das Forschungsprojekt zeigt, dass sich das häufig als Rivalität charakterisierte Verhältnis zwischen Frankfurt und London nicht auf den Aspekt des Wettbewerbs reduzieren lässt."

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London remains Number One Financial centre Frankfurt only the gateway to the German market

By Detlev Fechtner

In the view of decision-makers from major banks, accounting firms and advertising agencies, Frankfurt cannot compete with the City of London as a financial centre. This at least is the conclusion of a joint study by the Universities of Heidelberg and Loughborough.

FRANKFURT. When there is boardroom talk of the world's most important financial centres, London is mentioned in the same breath as New York. Its preeminent position in Europe "is very substantially based on the available pool of knowledge and the density of institutions in the City", explain the directors of the research project in economic geography, Michael Hoyler and Kathryn Paine. Given that London is home not only to the banks and brokers but also to the government and professional associations, the City of London represents something of a hub -- unmatched in Germany.

The British capital is also more strongly tied in to worldwide networks. Frankfurt is seen as having more of a "European orientation" by the managers interviewed and as being a gateway to the German market.

Not even the introduction of the euro had any effect on relative rankings, the researchers conclude from their interviews with board members and MDs. The location of the European Central Bank in Frankfurt am Main was good for Frankfurt's image but "for the vast majority of companies had little or no practical relevance". London's position was "not threatened" by Britain's continuing commitment to the pound.

At the same time, the researchers warn against understanding the competition between the two financial centres as a zero-sum game. "The strengthening of one location need not necessarily be at the expense of the other", emphasises Hoyler.

Cross-border cooperation between major law offices and the like may well strengthen the home base: "The research project shows that the relationship commonly characterised as rivalry between Frankfurt and London cannot be reduced to a matter of competition."

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London und Frankfurt profitieren voneinander

Der Euro und die Zentralbank stärken die Stadt am Main / Eine neue Studie

Von Rolf Ackermann

FRANKFURT, 31. Januar. Der große internationale Finanzplatz London wird weiter wachsen, der kontinentaleuropäische Finanzplatz Frankfurt in dessen Fahrwasser aber auch. Mit dieser Feststellung rückt eine *neue Studie* der „*Deutsch-Britischen Stiftung für das Studium der Industriegesellschaft*“ in London (www.agf.org.uk) die aufgeregte öffentliche Debatte über das Konkurrenzverhältnis der beiden Finanzplätze zurecht. Die Studie kommt zu dem Ergebnis, daß die Beziehung der beiden Städte kein Nullsummenspiel ist. Vielmehr profitierten beide Plätze voneinander. So werde zwar Frankfurt, wo die Deutsche Bundesbank sitzt, durch den Euro und als Standort der Europäischen Zentralbank weiter gestärkt – aber nicht auf Kosten Londons. Die beiden Städte sind, wie es in der Studie heißt, in einem „komplexen, auf verschiedensten Ebenen kooperierenden Städtenetzwerk“ miteinander verbunden.

Für Peter Taylor, einen der Autoren der Studie, ist es darüber hinaus auch nicht entscheidend, wo die Zentrale eines Geldinstituts ihren Sitz hat – unabhängig von der Symbolik einer möglichen Verlegung der Zentrale der Deutschen Bank. London sei für diese These das beste Beispiel, sagt Taylor. Es werde häufig übersehen, daß gar nicht viele britische Banken ihre Zentrale in London hätten. Die Stadt an der Themse sei keine Stadt der Bankzentralen, sondern der globalen Finanzaktivitäten. Taylor spricht daher lieber von der „Wimbledonisierung“ Londons: Dort profitierten aber auch andere europäische Standorte wie Frankfurt. Denn den Frankfurter Unternehmen helfe die relative Nähe zu London, international zu konkurrieren.

Trotzdem gibt es auch Argumente, die die Sorge in Frankfurt über eine möglicherweise abnehmende Bedeutung des Finanzplatzes untermauern könnten. Sie ergeben sich aus der Antwort auf die Frage, warum Finanzzentren immer größer werden – trotz verstopfter Straßen wie in London und exorbitant hoher Mieten, die manche Steuervorteile relativieren. Die Antwort lautet, daß es für die Akteure an den Finanzplätzen aus verschiedenen Gründen von Vorteil ist, da zu sein, wo alle anderen sind, und daß dieser Vorteil die offensichtlichen Nachteile überkompensiert. Denn da, wo alle sind, sind qualifizierte Arbeitskräfte und hochspezialisierte Dienstleister. Vor allem aber kursieren alle möglichen Informationen an einem Finanzplatz – und von diesem Informationsfluß abgeschnitten zu sein, kann sich kein Teilnehmer leisten. „Wenn man jemanden treffen will, dann sitzt er hier irgendwo, und deswegen sitzen wir hier“, zitiert die Studie einen Londoner Manager. Finanzplätze werden also immer

größer, weil alle dorthin gehen, wo alle sind. Wissenschaftler nennen solche Agglomerationsprozesse „selbstverstärkend“. Das Problem für diejenigen Finanzzentren, die nicht Nummer eins sind: Auch der umgekehrte Prozess kann unter Umständen selbstverstärkend sein. Es könnte sein, daß alle weggehen, weil alle weggehen.

Zusammenfassend ergibt die Studie, daß die Beziehungen zwischen den Finanzplätzen Frankfurt und London beides enthalten – sie sind sowohl Rivalen als auch Partner. Das bedeutet in bezug auf die Zukunft der beiden Standorte, daß sie ungewiß ist. Denn in einem sind sich die Wissenschaftler einig: Die Sache ist äußerst komplex und wird in der öffentlichen Diskussion heillos vereinfacht.

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London and Frankfurt benefit from one another

The euro and the European Central Bank strengthen the city on the river Main / A new study

By Rolf Ackermann

FRANKFURT, 31 January. London will continue to grow as a major international financial centre, and so will the Continental European financial centre of Frankfurt in its wake. This is the conclusion reached in a new study by the *London-based Anglo-German Foundation for the Study of Industrial Society* (www.agf.org.uk), straightening the record in the heated public debate about the competitive relationship between the financial centres. The study comes to the conclusion that the relationship between the two cities is not a zero-sum game. On the contrary, both cities benefit from one another. Frankfurt, home of the German Bundesbank, gains extra strength from the euro and as the location of the European Central Bank -- but not at the expense of London. As the study says, the two cities are linked with each other in a "complex city network cooperating on many levels".

For Peter Taylor, one of the authors of the study, it is also of secondary importance where the head office of a financial institution is located -- apart from the symbolic effect of a possible relocation of the Deutsche Bank head office. London offers the best example of this thesis, says Taylor. People often forget that not very many British banks have their head offices in London. The British capital is not a base for bank head offices but a centre for global finance activities. For this reason, Taylor prefers to talk about the "Wimbledonisation" of London, an effect which also benefits other European locations such as Frankfurt, because the relative closeness to London helps Frankfurt companies stay internationally competitive.

All the same, there are other arguments which tend to support the concerns in Frankfurt about a possible decline in its importance as a financial centre. They arise from the answer to the question of why financial centres keep growing -- despite traffic congestion as in London and exorbitant rents which may largely cancel out tax advantages. The answer is that the players in financial centres see various advantages in being where all the others are, and this net advantage more than compensates for the obvious disadvantages. Once you have joined all the others, you will also find qualified staff and specialist services. Above all, however, there is a maximum

information flow in a financial centre -- and being cut off from this flow of information is something no participant in the market can afford. "When I want to meet someone, he must be sitting here somewhere, and that is why we are here," the study quotes a London manager as saying. Financial centres will keep growing, in other words, because everyone follows the rest. The academic term for such snowball effects is "self-reinforcing". The problem for the financial centres that are not Number 1 is that the reverse process may also be self-reinforcing. In other words, everyone leaves because everyone has left.

The study summarises its findings by concluding that the relationships between the financial centres of Frankfurt and London contain both elements -- they are both rivals and partners. That means that each centre has an uncertain future, because if there is one thing the researchers agree on, it is that the issue is highly complex and hopelessly oversimplified in public discussion.

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Die Woche, 8 February 2002

WIRTSCHAFT

Und der Verlierer ist: Frankfurt a. M.

High Potentials machen Karriere in London, München gewinnt an Bedeutung: "Mainhattan" gleitet ab in die zweite Liga

Von Sonia Shinde

...

Frankfurts Weg an die Weltspitze schien nichts mehr im Wege zu stehen. Die New Economy generierte Aktienmillionäre, der Neue Markt war das größte Wachstumssegment an Europas Börsen. "Damals gab es jede Woche mindestens ein großes Event", erinnert sich Nader Maleki, Präsident des International Bankers Forum. Büfetts mit 50 verschiedenen Gerichten, Einladungen nur auf feinstem Büttchen - wer etwas auf sich hielt, mietete gleich ganze Museen für seine Veranstaltungen. "Die Devise hieß: immer weiter, immer höher; es war wie in einem Rausch", erinnert sich Maleki.

Heute ist der Neue Markt ein Synonym für "Geld verbrennen", hat die Wirtschaftskrise auch die Banken erreicht, stehen auf den Büfetts höchstens drei Gerichte zur Auswahl, und eingeladen wird auf simplem weißen Karton, höchstens einmal im Monat. Und Maleki hat seine Veranstaltungsagentur "jetzt breiter aufgestellt". Statt sich wie bisher auf Frankfurt zu konzentrieren, organisiert er jetzt auch Kongresse in München, der neuen heimlichen deutschen Finanzhauptstadt.

...

Auch für Finanzmarktexpertin Sofia Harrschar, deren Studie "Finanzplatzstrukturen in Europa" in den nächsten Wochen erscheint, ist London klarer Favorit. "Das liegt zum einen an der schieren Größe", sagt sie. Fast die Hälfte aller ausländischen Aktien wird in London gehandelt, Umsatz: rund 4021 Milliarden Dollar. In Deutschland ist es gerade einmal ein Achtel. Auch institutionelle Anleger bevorzugen die City. Nach einem Report von Thomson Financial ist das in London verwaltete Aktienvermögen mehr als siebenmal so groß wie in Frankfurt.

Zum Zweiten spielen auch Steuervorteile eine Rolle: Unternehmen müssen in England keine Gewerbesteuer zahlen, die Körperschaftsteuer ist viel niedriger und ausländische Kapitalerträge sind steuerfrei. Drittens sei der britische Arbeitsmarkt flexibler: "Dort ist es wesentlich einfacher, Mitarbeiter kurzfristig anzuheuern und zu entlassen." Und obendrein bietet London als europäischer Meltingpot gerade den heiß begehrten High Potentials viele Chancen: "In den Banken haben flache Hierarchien Einzug gehalten. Nur Wechsel bringen deshalb schnelle Karrieremöglichkeiten", so die Expertin. Und da hat London mit seinen 481 ausländischen Geldinstituten, 87 Fondsgesellschaften und 165 Investmentbanken die besseren Karten. Zum Vergleich: Frankfurt beheimatet gerade mal 13 Investmentbanken, neun Fondsgesellschaften und 243 ausländische Geldinstitute. Mehr als 600 000 Menschen arbeiten in der Londoner City im Finanzgewerbe, in Frankfurt gerade einmal ein Zehntel. "Wer an die Spitze will im Finanzgeschäft, geht nach London", sagt Sofia Harschar.

...

Auch psychologisch hat die Themse-Stadt die Nase vorn: Lemminge-Effekt, nennt die Deutsch-Britische Stiftung für das Studium der Industriegesellschaft die Sogwirkung Londons. Finanzdienstleister bräuchten die Nähe zueinander, das Getuschel, das entscheide über Top oder Flop. Die Folge: "Alle wollen da sein, wo die anderen auch schon sind." Heißt im Umkehrschluss: Alle gehen dort weg, wo die anderen auch nicht mehr sein wollen. "London war immer die Nummer eins im internationalen Finanzgeschäft und wird es auch immer bleiben", sagt Commerzbank-Sprecher Peter Pietsch. "Bei Entlassungen wurde bei uns in London nie abgebaut", sagt er.

...

Düstere Aussichten also? Nicht ganz. Denn immer noch werden rund 85 Prozent der Umsätze aller deutschen Wertpapierbörsen am Main gemacht, nur 3 Prozent in München. "Zudem hat Frankfurt mit Xetra die derzeit beste elektronische Handelsplattform, die es gibt, da kann selbst London nicht mithalten", sagt Wolfgang Gerke, Professor für Bank- und Börsenwesen an der Universität Erlangen-Nürnberg. Auch die Europäische Zentralbank trage nicht unerheblich dazu bei, dass Frankfurt immer noch "gute Aussichten habe, ganz nah an London heranzukommen", genauso wie der Neue Markt. Und die Kurseinbrüche und die etwa 50 abgesagten Neuemissionen im vergangenen Jahr? "Es kommen auch wieder andere Zeiten", sagt er. Die Hoffnung stirbt eben immer zuletzt.

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Die Woche, 8 February 2002

BUSINESS

And the loser is: Frankfurt am Main

High flyers make their careers in London, Munich is gaining ground: "Mainhattan" slips into the second division.

By Sonia Shinde

...

London is fast, dynamic and determined, is the expert assessment, in a word more American; things move more slowly in Germany. And London is very good at promoting itself. Scarcely had rumours of a Deutsche Bank move begun circulating than marketing experts in the City were agreeing a common strategy to attract the potential new corporate citizen. "There was nothing forthcoming from the City of Frankfurt," says Edgar Klein, banking expert at the Deloitte Consulting agency. Psychologically, too, the British capital is out in front: the Anglo-German Foundation

for the Study of Industrial Society calls this magnetism the "lemming effect". Financial services companies need to huddle together, they need the gossip, that is what decides thumbs up or thumbs down. The result is: "Everyone wants to be with the others." Or to put it the other way round: everyone leaves the places where others have already pulled out. "London was always Number 1 in the international finance business and it always will be," says Commerzbank spokesman Peter Pietsch. "When there are staff reductions, we never lose anyone here in London," he adds.

...

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Die Zeit, 14 February 2002

Kopflös glücklich

Führende Bankmanager verlassen Frankfurt am Main. Trotzdem wächst das Finanzgeschäft in der Stadt

Von Marc Brost, Robert von Heusinger, John F. Jungclaussen und Marcus Rohwetter

... Die Angst, der Finanzplatz Frankfurt trockne aus, ist lediglich die Angst vor Prestigeverlust - die Sorge, dass zukünftig immer seltener große strategische Entscheidungen in Frankfurt getroffen werden. Das ist verständlich angesichts der Veränderungen bei den drei Großbanken, dem ehemals stolzen Symbol der Frankfurter Hochfinanz. Die Dresdner gehört der Allianz und wird von München aus regiert. Auf dem Weg zum internationalen Geldkonzern hat die Deutsche Bank die Verantwortung für das Investmentgeschäft schon vor sechs Jahren nach London und New York verlegt. Die Commerzbank letztlich gilt als zu klein, um auf Dauer allein überleben zu können. Dem Renommee als Finanzplatz schadet das nicht - ihn kennzeichnen Umfang und Art des täglichen Geschäfts, nicht die Anzahl der Hauptquartiere. Die meisten großen Investmentbanken haben ihre Zentrale schließlich auch nicht in London. Und Washington ist nicht der Nabel der Geldwelt - obwohl die mächtige US-Notenbank Federal Reserve dort ihren Sitz hat.

Ohnehin gibt es keinen echten Konkurrenzkampf zwischen den beiden Städten Frankfurt und London. Eher kooperieren sie. Das bestätigt ein Forscherteam von Wirtschaftsgeografen um Professor Peter Taylor von der britischen Loughborough University. Schon längst spielt die Lage des Hauptquartiers keine große Rolle mehr für internationale Unternehmen. Viel wichtiger ist es, Niederlassungen in verschiedenen Ländern und Städten zu einem globalen Netzwerk zu verknüpfen. Je besser das Netz funktioniert, desto einfacher können sich die Büros gegenseitig Aufträge zuschanzen.

Daran hapert es in Frankfurt noch etwas. Die Forscher haben untersucht, wie sehr die Büros von Banken in einzelnen Städten miteinander vernetzt sind. Nach einer komplizierten Rechnung stand fest: Unternehmen in London sind am besten vernetzt. Dann kommt New York. Frankfurt steht - als beste deutsche Stadt - auf Platz sieben.

Im globalen Finanznetz werden Kompetenzen hin- und hergeschoben. Davon profitiert mal die eine, mal die andere Stadt. Die Investmentbanken JP Morgan und Salomon Smith Barney hatten ihre Handelsabteilungen für Europa nach Einführung der Gemeinschaftswährung komplett nach London verlegt, sind aber zum Teil wieder nach Frankfurt zurückgekehrt. Goldman Sachs beobachtet die Volkswirtschaften der

Euro-Mitgliedsländer vom Frankfurter Messeturm aus, Morgan Stanley hingegen aus der Londoner City. Die Deutsche Bank wiederum hat ihre Aktienanalysten auf beide Städte verteilt.

Frankfurt ist unter den Finanzplätzen der Welt nur einer von vielen. Wie er sich entwickelt, hängt von den Menschen und ihren Ideen ab. Dass auch ein kleiner Standort Achtungserfolge erlangen kann, zeigt das Beispiel Stuttgart. Dort hat Börsenmakler Peter Bruker Ende der achtziger Jahre die wachsende Bedeutung von Optionsscheinen erkannt. Zusammen mit der Citibank hat er die kleine Regionalbörse zum deutschlandweit größten Handelsplatz für Optionsscheine gemacht. Weit vor Frankfurt übrigens, von wo aus die Citibank den schwäbischen Börsenplatz geprägt hat. Und das zeigt auch, dass die Zentralen der Banken nicht - wie gern behauptet wird - immer vor Ort sein müssen, um einen Finanzplatz stark zu machen.

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Blissfully happy

Leading bank managers leave Frankfurt am Main. All the same, the city's finance sector keeps growing

By Marc Brost, Robert von Heusinger, John F. Jungclaussen und Marcus Rohwetter

... the fear that Frankfurt is drying up as a financial centre is simply the fear of losing status -- the anxiety that in future even fewer major strategic decisions will be made in Frankfurt. That is understandable given the changes in the three big banks that used to be the proud symbol of Frankfurt high finance. Dresdner Bank belongs to Allianz and is run from Munich. In the process of development into an international finance house, Deutsche Bank transferred responsibility for investment business to London and New York six years ago. Finally, Commerzbank is considered too small to survive on its own for long. This does not hurt Frankfurt's reputation as a financial centre -- that is determined by the volume and nature of daily business, not the number of head offices. Most of the major investment banks still have their main offices somewhere else than London, after all. And Washington is not the centre of the money universe -- even if the mighty US Federal Reserve Bank is located there.

In any case, there is no true competition between Frankfurt and London. They tend to cooperate. This is confirmed by a research team of economic geographers led by Professor Peter Taylor of Loughborough University. The location of a company's head office has long since ceased to have much significance at the international level. It is far more important to link branches in various countries and cities into a global network. The better the network is functioning, the easier it is for offices to feed one another contracts.

There's still rather a shortage of that in Frankfurt. The researchers looked at how closely bank offices are linked to one another in different cities. Complicated calculations yielded the following conclusion: London companies are the best networked. Then comes New York. Frankfurt -- as the top German city -- is at No. 7.

Skills are shifted this way and that in the global finance network, to the benefit of one city today, another city tomorrow. The investment banks JP Morgan and Salomon

Smith Barney had moved their entire trading departments for Europe to London after the single European currency was first introduced, but since then have moved some operations back to Frankfurt. Goldman Sachs contemplates the economies of the Euro member states from the Messeturm in Frankfurt, Morgan Stanley from the City of London. Deutsche Bank, for its part, has distributed its stocks analysts between the two cities.

Frankfurt is only one of the world's many financial centres. The way it develops depends on people and their ideas. A small centre can succeed on its own terms too. Take Stuttgart, where stockbroker Peter Bruker recognised the growing importance of warrants at the end of the 1980s. Together with Citibank, he turned the small regional stock exchange into Germany's biggest marketplace for stock purchase warrants -- long before Frankfurt, by the way, from where Citibank had influenced the stock market in Stuttgart. Which also shows that bank head offices need not be on the spot - as people like to insist -- in order to strengthen a financial centre.

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FRANKFURT AS A FINANCIAL CENTRE:

A tale of two complementary cities

London and Frankfurt are no longer vying for the top spot in Europe - they work better as complements to each other's business

By Tony Barber

Almost four years ago, at the dawn of European monetary union, scarcely a day passed in Frankfurt without a local banker, politician or commentator musing about the city's chances of challenging London as Europe's pre-eminent financial centre.

The choice of Frankfurt as the European Central Bank's headquarters and the UK's decision to remain outside the eurozone, were seen as potentially big advantages for the German city.

So, too, was the impression that Germany's financial markets - with Frankfurt at their centre - were about to benefit from a new era of reform and restructuring in the German economy and the eurozone as a whole.

These days, even among Frankfurt's staunchest supporters, a more measured assessment prevails. "I am not as confident as I was two or three years ago that we will get into the super-league of world financial centres," said Rolf Breuer just before he retired in May as Deutsche Bank's chairman.

Moreover, the experience of Frankfurt and London since the euro's launch in January 1999 has been that the cities complement each other as financial centres as much as they are in competition.

Whereas German banks, insurers and legal firms see London as a platform for global operations, London-based companies use Frankfurt as a centre for business concentrated more specifically on Germany.

This point was illustrated in a comparison of the two cities published this year by the Anglo-German Foundation for the Study of Industrial Society.

Drawing on interviews with bankers, management consultants, accountants, lawyers and others in London and Frankfurt, the study concluded that many senior executives viewed London as a "global city" ranked next to New York rather than to Frankfurt.

London's role as Europe's leading financial centre owed much to the presence of US institutions, especially investment banks.

Although some respondents accepted that London's capital markets might benefit from British adoption of the euro, there was no sense that the UK's self-exclusion from the eurozone had so far damaged London's standing.

Finally, although a city such as Edinburgh has started to flourish as a centre for asset management, London still dwarfs the rest of the UK in most areas of financial business.

By contrast, while market liberalisation has improved perceptions of Frankfurt, the city's ambitions are limited by the decentralised political and economic structures set up in Germany after the second world war.

Frankfurt is unquestionably the leader in Germany's financial services sector. Cities such as Hamburg, Munich and Stuttgart have local bourses, but Deutsche Börse, Frankfurt's recently-floated stock exchange operator, accounts for about 84 per cent of German share trading.

However, two of Europe's most powerful private sector financial institutions - Allianz, the insurer, and Munich Re, the reinsurer - are based in Munich. So is HVB Group, the country's second biggest bank.

Allianz has taken over Dresdner Bank, once one of Frankfurt's three main commercial banks. Frankfurt ranks behind Hamburg and Düsseldorf in advertising and behind Düsseldorf and Munich in management consultancy. Berlin, Germany's new capital, is seen as a future rival to Frankfurt in legal services and, perhaps one day, in banking.

"If I were Frankfurt, I would be more worried about Berlin than about London," says an executive at one London-based institution, recalling that Berlin was Germany's banking capital before 1945.

For the biggest financial institutions, the critical issue is long-term strategy. Since taking over Bankers Trust of the US in 1999, Deutsche Bank, Frankfurt's premier financial institution, has evolved into an investment bank-led group whose nerve centres are as much in London and New York as in Germany.

Frankfurt's low profile as an investment banking hub recently caused the city's leading newspaper, the Frankfurter Allgemeine Zeitung, to ask if Frankfurt was in danger of turning into a "glorified sales operation, with the big decisions being made abroad".

In only one financial activity - international bond issuance - does Frankfurt, with an 18.4 per cent share of the world market, have the edge over London, with 9.5 per cent.

London has an overwhelming supremacy in foreign equities turnover, capturing 58.5 per cent of the market compared with 5 per cent for Frankfurt. About one-third of global foreign exchange dealing takes place in London, against 7 per cent in Frankfurt.

Overall, about 600,000 people work in London's financial sector, roughly 10 times as many as in Frankfurt.

Behind these figures lies a suspicion that Germany's tax rates deter many financial institutions and talented employees from setting up offices or relocating to Frankfurt.

According to a study conducted by accountants Ernst & Young for Metzler, a Frankfurt private bank, an unmarried, childless investment banker earning €500,000 a year would receive €307,000 after taxes in London but only €241,000 in Frankfurt.

Dieter Posch, economics minister in the state of Hesse, which includes Frankfurt, says high taxes make it cheaper for a German company to transfer its operations to London and send staff to Germany three times a week than to be based in Frankfurt.

Certainly, international recruitment agencies often bemoan the difficulties they find in enticing job-seekers to Frankfurt. Language, culture and "quality of life" are often cited as issues, though Frankfurt business life is probably the most Anglo-American in spirit of any German city.

Moreover, Frankfurt's tax-funded public services, especially transport, rarely drive residents to distraction in the way that London's do. But it is not every investment banker or other high-flier who sees such factors as a worthwhile trade-off for paying higher taxes.

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