Banks and geopolitics: power relations between money markets

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We do not intend here to simply talk of the relationship between banks and geopolitics, if by that we understand a positioning as regards the power relation issues in the domain of diplomacy, strategy or economic intelligence. Rather, as the geography of money flows has now become an essential part of economic and financial histories, we hope to deal with banks' position within the "geography of capital" or "capital space". We thus envisage a sort of "geo-history" of banks that have been open to the world for a quarter century in order to study the points of differentiation compared to the preceding eras. One could classify such an attempt as being part of a "history of the present time" compared to the long period of banking revolutions which proceeded in parallel with the industrial revolutions.

In the 1980s (which saw the revolution of the capital markets bank) and the 1990s (when the developing countries – China, the oil producing countries of the Middle East, India – began to flex their financial muscle) the financial professions too began a process of *globalization of* "open" economies and the implementation of a *globalized and integrated management*. This led the traditional hegemonic centers to take a closer look at themselves and revamp their banking strategies, consolidate their historic bases, detect opportunities offered by new business spaces and partially redraw their portfolio of strategic activities and services in keeping with the reconfiguration of their spatial bases. Till then, banks were mostly "national" bodies, either nationalized, co-operative, philanthropic (savings banks), or shuttered within national rules. They lacked true international mindsets and strategies apart from FOREX and trade banking, or as a legacy of imperial banking. The issue of geopolitics gathered momentum when the challenges of general globalisation opened the doors to an international scramble for new markets (East Europe, Asia) and the deregulations which began in the mid-1980s. A banking revolution took shape, relying on closely and technologically integrated market and cash flows, asset management, and on forms of market trading which led to an "always-open book" of operations (FOREX, derivatives, securities, etc.). Our chapter will therefore study this background, focus on the issue of becoming a "big player", while Darwinian selection will gauge strategies of global banking, committed to market banking, assets management, corporate and investment banking.

Any evaluation of the geo-financial mutations within this banking "geo-history" leads inescapably to geopolitical debates because the power of banking and financial centres constitutes a major factor in international power relations within the framework of what we call "economic patriotism". Henceforth, geo-history and geopolitics are intimately linked: we must determine whether these banking and financial trends towards internationalization and globalization have contributed to the creation of new power relations between countries already established or emerging as "money powers", between rival markets vying for operations, funds and investors, between "banking giants" – torchbearers for their country *en par* with industrial and service multinationals. We must specify clearly how banks and finance help project a country's power within the framework of hegemonic relations between economic nations.

Thus, we need to define globalization strategies, debate on banking firms' "trans-nationalization" strategies and the development of "multi-domestic" forms of corporate banking, wealth management and retail banking. Spatial issues will be scrutinised: the

scramble for Eastern Europe, Africa and the Middle East, the scrambles for Latin America and finally, for Asia. Beyond mere geo-economics, we have to consider the issue of renewed forms of "neo-liberal imperialism" in areas having tried to preserve nationalist/communist/third-world independence and facing the problem of opening their financial and banking markets. Finally, we must feed a debate on a banking and financial geopolitical system which constructs its own autonomy that extends beyond nation-states, markets and even regions of economic cooperation. In this case, we need to judge the validity of the polemic employed with acuity since the recent banking and financial crises – notably those of 1993/95, 2001, 1997/98 and 2007/2013 – regarding an eventual banking and financial system taking shape at the global scale over and beyond national or international political power, perhaps in a new myth of the "Masters of the Universe": geo-finance and geopolitics converge in any debate regarding the construction of the "new economic world order".

Geopolitics is central to any assessment of "international banking and finance centres", any study of "global banking" or investigation regarding the risks raised by such a move. The process of re-regulation will also be subjected to scrutiny through arguments regarding the geopolitics of ruling powers and national versus European or international (Basel) regulations. The issue of big firms' international competitiveness against national/continental demands for reserves as buffers against the effects of crises on the risk portfolios will have to be discussed along with the issue of the sharing of responsibility for countering systemic risks between national or internationally co-operative authorities.

1. A banking space built around history's legacies and cultural affinities

Despite the "modernity" of the present globalization, it cannot escape the weight of history and culture which continue to influence its march across international capital space. At the same time, this "dependence on the past" (what Anglo-Saxon experts call "*path dependency"*) has also sometimes been abrogated by the shocks of History when they have been strong enough to break the links with the past. Very recently though, we have seen some "elective affinities" help resurrect relations which had seemed erased between places and spaces of influence by recalling a common heritage or reviving not only spatial but also cultural and economic ties.

A. Banking geo-strategy and the legacy of History

We must first of all remember that the deployment of the present international strategies partly reflects the legacy of History and that a number of banks still depend upon the capital space which they, or their "ancestors", had carved out for themselves at a time when "Western imperialism" had also used money to develop their colonial empires. A historical geopolitics of banking still endures as the following examples amply reveal.

The two British banks, HSBC and *Standard Chartered* took root in South East Asia as part of the British Crown's imperial history in the region. In fact, *Hong Kong & Shanghai Banking Corporation* (1865) and *Chartered Bank of India, Australia and China* (1853) were important tools which helped in the penetration of the British armies, business houses and influence first into China and India and subsequently into the neighboring regions as well. Political changes did not efface their roots: HSBC continued to function from Hong Kong in communist China despite the loss of the Shanghai concession. Then, though it transferred its institutional Headquarters to London after the colony was handed back in 1997, it retained its Hong Kong bastion while setting up a robust entity in capitalist Shanghai. Meanwhile, in order to counter the growth of Indian establishments, the *Chartered* spread its commercial banking network all over South East Asia and, after its

merger with *Standard Bank of South Africa* (which had itself taken over *Bank of West Africa* in 1965) to form *Standard Chartered* in 1969, all across the Indian Ocean and in Subsaharan Africa. Both these houses have built themselves a massive portfolio of culture, relations, economic intelligence and clients in this vast region (and in Africa too for the latter).

Likewise, in other regions, the legacy of the colonial empire remains, in several places, a specific advantage for certain banks. Though, in the vast majority of cases, the independences were accompanied by the nationalization of the banking system (Egypt, Algeria, Indonesia, etc.) and/or the advent of the public bank (India), English and French banks managed to retain their historical bastions in countries where third-world socialism respected the market economy and accepted European capitalism. The French houses of BNP Paribas, Société générale and *Crédit agricole* (CASA) benefited from a core network in Sub-Saharan Africa, Morocco, Tunisia and Lebanon when they decided to launch an offensive in the domain of retail and commercial banking in these countries in the 1980s. They also benefited from capital of relations and know-how which helped them anticipate the risks inherent in fragile and developing economies. This legacy not only served as an accelerator of recent history in these territories, but also functioned as a “school” for their deployment in other, similar countries now that the “learning curve” for risk management was better defined by a sort of osmosis (as from Tunisia and Morocco to Egypt, for BNP Paribas and *Société générale*).

B. The lever of affinities

Latin America and its developing nations turned into a strategic target for the spatial deployment of the big banks from rich countries. Two kinds of affinities were developed: cultural and economic. The two big Spanish banks Santander and BBVA became major actors in Latin America because of the cultural osmosis between the former colonial power and the *latin* countries. Through privatizations and expansions, the two Iberian establishments attained solid positions and created a transatlantic banking space in this rapidly developing niche. While BBVA acquired the Mexican Bancomer and its 1,700 branches (2001) – which today accounts for 30 per cent of its revenue – Santander bought over Banco Mexicano and Banco Serfin in Mexico and Banco Real in Brazil (2007), finishing with 4,300 branches spread over eleven Latin-American countries, and ranking the first bank in Chile and the third one in Mexico. “Santander is the euro zone’s largest lender by market value. But while it is based in Spain, Brazil last year became the biggest contributor to its bottom line.”[1]

Geographical distribution of Santander’s first half 2011 recurring attributable profit	
Historical basis	
Retail Spain	12 %
Portugal	2
Other retail Europe and global business Europe	9
European breakthrough	
United Kingdom	17
Germany	4
Retail Poland	2
American breakthrough	
Brazil	25
US	10
Mexico	9
Chile	6
Others Latin American	4
Source: Banco Santander	

[1] “Santander banks beyond Spain”, *The Wall Street Journal*, 30 septembre 2011, p. 20.

At the same time, this Spanish duo faced some stiff competition from some North American banks which enjoyed their own affinities: geographic proximity no doubt, but also close ties with countries supplying foodstuff and raw materials and acting as sub-contractors as part of the process of industrial relocation. Then there was also the power of American companies over these neighboring markets, and connections between North American and Latin American capitalisms. Anti-imperialist nationalizations had done away with the relationship of a "preserve" that had prevailed for so long. But the return of American multinational corporations shows that a number of these countries had reverted to being bastions of American banks. In the universal bank niche, Citicorp deployed its activity of "Regional Consumer Banking" in Latin America with the help of 2,400 branches and the purchase of the Mexican Banamex in 2001.

On the other side of the Atlantic, the British bank Barclays, which was very conversant with African customs because of its network of branches and subsidiaries in Sub-Saharan Africa in the years 1920-1980s, made the most of the African revival in the 2000s (despite a few reversals here and there caused by nationalist upsurges). A shared language and culture allowed it to take control of South Africa's ABSA in 2007 and establish a sort of informal banking "Commonwealth".

In a smaller way, Turkey's emergence as a banking and financial power in post-Communist Central Asia also shows the role of "affinities". In this case, they included geographic proximity, a common understanding of Islamic cultures and a shared desire to create a space which would more or less escape the hold of historical empires, like those of a rejuvenated Russia, the United States or even Iran or the oil producing countries of the Middle East. Greece also wanted to pursue a similar strategy by having its banks set up subsidiaries in the Balkan states – which the National Bank of Greece did do in the years 1990-2000. Unfortunately, the banking crisis which hit Central, Eastern and Balkan Europe and the very recent economic crisis in Greece put a stop to this policy.

C. The historic bridge between New York and London

One must also take into consideration the weight of History and the affinities between the two great Anglo Saxon banking and financial centers and recall the osmosis that has joined them since the mid-19th century (for the investment of shares issued by emerging North American companies in Europe, for the creation and maintenance of banking partnerships), during the two World Wars and the post-War periods. A sort of integration and solidarity had crystallized over the decades in the course of trans-Atlantic financial operations and the financing of business and maritime trade.

Still, this legacy of History came close to crumbling due to several reasons: the weakening of the pound sterling (through several crises in the 1930s and later, in 1940-1970), the collapse of the City's merchant banks in 1931/33 and, more subtly, in the years 1970-1980, when they were bought over by competitors, often from continental Europe, and finally, New York's emergence as a major international financial hub greatly whittled down History's heritage. For example, though both JP Morgan (universal bank) and Morgan Grenfell were established by the Morgan family, the former flourished to become a mighty American and global establishment while the latter found itself merged into the Deutsche Bank group in the second half of the 1980s.

Still, a number of activities have linked the two centers since the 1980s. Before looking at the material sided, we must first consider the cultural affinities. The way of thinking ("Anglo-Saxon", as it would be called in continental Europe...) is very much similar. In fact, it helped the free growth of neo-liberal capitalism and of its application to the banking

economy, promoting the “speculation” method (in the positive sense of the term, that is to say, gains from credit and market operations which are the reward of intelligent deal-making). It favored a culture of financial innovation (linked to speculative gains, but also to the will to control money hazards and thus to the need of “coverage”), with some variable regulation. Finally, despite a few recurring instances of “guilty conscience” it recognized the legitimacy of a rapid and substantial personal enrichment of banking and financial managers – compensated by philanthropies and patronages.

Apart from the obvious attractiveness of each of these centers, these affinities explain the re-creation and growth (*foreign exchange*/FOREX; management of monetary reserves in euro-dollars since the second half of the 1950s and growth of the financial market in euro-dollars) of a trans-Atlantic geo-strategy – as we shall elaborate on later. We saw during the crisis of 2007/2008 that it was the mini-crash in the London subsidiary of New York’s Lehman Brothers (investment bank) and the collapse of a part of the “toxic” investments that had been managed from London that led to the company’s collapse. Numerous “globalized” top managers and bank juniors of New York had thus become habituated to working in their London subsidiaries, thus transforming the osmosis of jobs into an osmosis of manpower as part of a business community that benefited from a double “rooting” on both sides of the Atlantic.

These three avenues of thought on banking geo-strategy allow us to appreciate the contribution made by the immaterial capital (helped by a relation of e*mbeddedness* or that of proximity) to a policy of deployment into specific markets via the means of geographic priorities (“*focus”*). At times, this tendency towards multi-localization was confronted by major differences between the approaches to business cultures. America’s example is revealing: numerous establishments thought they could easily enter the country as it was developed and the lifestyle seemed conducive to trans-Atlantic forays for capturing market share. Several big banks had their fingers burnt – as had industrial companies before them: they had not anticipated the intensity of the competition, the division into large regional blocks and the fragmentation of the business community culture. Paribas was quickly followed by Société générale in cutting their exposure within corporate banking partnerships (Warburg-Paribas, SG Cowen). *Crédit suisse First Boston*, a pioneering attempt at being a trans-Atlantic corporate bank, had to be taken over by its Swiss parent company in the 1990s, while *Deutsche Bank* found it very hard to integrate itself in Bankers Trust. All of them came to realize the American banker-financiers’ intense risk culture in a “frontier” land that favored “coups” and a pro-cyclic activity, that is to say, which amplified risks.

2. The development of the corporate bank’s geo-strategy

At the global or the globalized economy’s sub-regional scale, numerous “virgin territories” had been explored since the 1980s by banks which wanted to establish themselves as stakeholders in the international money markets and turn into “global players”. This trend towards a new stage of the geo-bank followed paths that were parallel to those of the corporate bank, the universal and retail commercial bank and the capital markets bank.

A. Building an international corporate banking job

By either making the most of their historic legacies or, more often, by continuously renewing and diversifying their client portfolios in a competitive economy, the big banks accompanied companies in their global expansion as and when economies were opened, trade integrated and the business community trans-nationalized. This development

concerned commercial banks endowed with a corporate banking arm and the merchant banks.

A. Globalized activities

The various activities of the corporate bank had to be deployed globally and simultaneously; they had to be introduced into countries where the centralized economy had collapsed, and adapted by boosting the number of salaried teams and the allocated resources. Traditionally, banks had strengthened their means for the financing of international trade (food, oil, raw materials), from the major centers or from Geneva and Chicago, cities that were strongly embedded in this niche. They further extended their usual, though essential, activities of "transactional services" like cash and liquidity management, e-banking, transfer of payment methods, foreign exchange, transfer risk coverage, currency and credit, documentary credit, economic intelligence for collecting information on the stakeholders in these activities. For example, an advertisement by the Scottish bank RBS, highlighted the group's unity at the service of the "transaction bank": "*At RBS, we build the future with our clients by using our international network to help them achieve their global ambitions. We provide access to Transaction Services expertise in over 60 countries. We help our clients optimise their working capital with market-leading services including cash and liquidity management, trade and supply chain finance and commercial cards.*"[2]

From the turn of the 1980s, key activities began to be deployed across globalized platforms. As the trend towards centralization had done away with intra-European and international boundaries, the teams specializing in mergers and acquisitions were necessarily placed at the heart of this "open economy". Generally speaking, "the advisory bank" further enlarged the movement begun in the 1960s for the issue of shares and bonds: upstream advice to the stakeholders in association with business law firms which were themselves multinationals, the constitution and management of large underwriting consortiums which could bring together hundreds of banks for the brokerage of the shares to be issued or re-graded. Corporate and merchant bankers innovated especially in the field of major project financing (vast construction sites for infrastructure and factories) as and when new spaces were integrated in the fields of technology transfer, engineering, public building and construction and public services (water, etc.). A geo-strategy of "grand projects", supported sometimes by diplomatic campaigns (with airplane "charters" by industrialists and engineers in the wake of visits by heads of state), grew dynamically. The relational capital too found itself multi-nationalized as part of this leap in the activities of the corporate bank, financing and consultancy: small teams of senior bankers with practical and globalized mentalities drove the wheels of multinational capitalism.

B. An economic model structured around globalization

To the diversification and amplification of the corporate bank's activities was added their globalization. Banks' geo-strategies thus consisted in the strategic expansion of the corporate bank into the various international banking centers. The national leaders had to completely overturn their "economic model" in order to play in the big league. Whether at the service of companies in their country which were moving towards multi-nationalization, or for the benefit of a globalized clientele from developed or developing countries, they set up sister banks, branches and offices in the banking platforms in the United States (sliding from the East to the West coast), in South East Asia (sliding from Hong Kong to Singapore, Shanghai, etc.), in the Middle East (Bahrain, Abu Dhabi, Dubai,

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[2] Ad published in *The Economist*, April 2012.

etc.), in the Far East (sliding from Tokyo to China), as well as in Central and Eastern Europe and in Russia.

The accelerating inter-bank concentration at the major hubs may be explained by the constraints imposed by the hunt for a competitivity which could meet the demands and requirements of present and prospective clients. Either banks merged (in Paris: BNP and Paribas in 2000; the branches of *Crédit lyonnais*' and *Crédit agricole*'s corporate banks in Calyon in 2000) or they bought over sister concerns and integrated them in their global system like *Deutsche Bank*, which successively acquired Morgan Grenfell in London (1990) and Bankers Trust in New York (1998). And the recent crisis has in fact accelerated this process, with Bank of America buying out Merrill Lynch in 2008 and extending is reach as an international investment and corporate bank.

By imposing a reallocation of capital resources and constricting inter-bank refinancing, the recent crisis has brought about a policy of withdrawal, a pruning of the portfolio of strategic activities (for example, financing aircraft manufacturing and shipbuilding companies in dollars), the multiplication of risk coverage, the securitization of major credits (on sound bases). Nevertheless, the corporate bank's geo-strategy could not but stay on the course set in the years 1980-1990 as the main outlets were shared between the source economies and the booming new markets (China, Central Asia, Middle East, Brazil, Australia, etc. – while awaiting India's opening). The latter were no longer private preserves and multinational banks fought over them tooth and nail by honing their portfolio of skills and improving their relational capital.

C. The issue of managing a globalized geo-strategy

A major issue at the heart of the debates on geo-strategy concerns the management of the division of the globalized or pan-continental corporate bank and, more specifically, the relation between the parent company and its subsidiaries and branches. Each of the latter constitutes a multi-activity platform which needs to be well embedded in its region in order to benefit maximally from the local business community. At the same time, it forms part of an information, refinancing and securitization circuit with the managerial osmosis needed to federate an integrated company. Moreover, teams of senior managers accompanied the financial directives of multinational companies from one platform to another. Many banks continue to constantly remodel their internal structure as they find too many lacunae in this integration, too many failures in risk control, too much autonomy given to the "leaders", too much crystallization at every major center to the detriment of the multifaceted response capability needed for meeting client requirements.

Thus, many corporate and investment banking branches of big establishments lived through frequent re-adjustments and mini-crises of adaptation as well as the departure of leaders who were either unhappy at having their wings clipped or victims of the divisions-mergers of various departments. The example of the aforementioned *Crédit suisse First Boston* and *Crédit suisse*, is a case in point as the point of equilibrium between the *de facto* independence of a rootless subsidiary (being active at the trans-Atlantic scale) and its links with its parent company was reached only after a decade and a half. Barclays's avatars in this domain have been similar: after the absorption of diverse investment banks and asset management companies, it found itself endowed with a large but inefficient subsidiary which necessitated a drastic pruning and a refocusing around *Barclays Capital*.

Now stabilized and steady, it could resume its assault on the international hubs and buy out Lehman Brothers' American assets in 2008. The building of vast multinational structures by American investment banks (historically the result of the Glass-Steagall law

of 1933) is also symbolic of these changes: the Europeanization of Goldman Sachs, Merrill Lynch and Morgan Stanley in the years 1980-2000 changed their culture by adding London, Paris and Frankfurt to their corporate and financial banking platforms. And the very recent entry of the Japanese investment bank Nomura, which took over Lehman Brothers' European assets, establishes the investment banks' tendency towards globalization, to first develop the activities of a corporate and financial bank.

Questions also hung over companies that had structured themselves around managing partners and top managers. The house of Lazard fought all through the years 1990-2000 before it gave up on its decades-long heritage of strong personalities and clans, and federate a real tripolar force of action (New York, London, Paris, with some recent outgrowths in other places). Similarly, it needed a new generation and a cultural *aggiornamento* within the owning and managing families for the house of Rothschild to become a true Anglo-French bank at the turn of the 21st century. In order to lay the foundations of its multi-national status, the investment bank Goldman Sachs had to change its status of partnership into that of a limited company quoted on the Stock Market and thus of a "global corporation" in 1999.

In this domain of the corporate and financial bank, the very trendy notion of "glocal" has become a key issue: every bank needs to define its geopolitical seat. On one hand, we have the "local", its historical location, national genes, its cultural and intangible "heritage", or that of each of its major subsidiary or branch abroad. On the other hand is the "global", the result of an osmosis between each international center and each multi-nationalized entity.

3. The upheaval in the retail bank's geo-strategy

Retail bank managers thought it would be relatively easy and less expensive to transpose their portfolio of skills in the management of savings and deposit banks abroad. The risk seemed low compared to that of corporate or of wholesale banks due to the division of accounts. It only required implementing a "*spillover*" strategy by transferring prospection and sales promotion techniques and the management of "small client" portfolios (private, professional, SME). Every bank's geo-strategy aimed at using a tried and tested economic model that was thought to be "universal": they believed in the "oneness" of the living standard in developing countries, at the cost of the living standard in the communist or third-world countries and in favor of individual and family savings, housing and consumable loans, small and medium enterprises, wealth and asset management, due to a decentralized accumulation of family or entrepreneurial capital.

It was thus that a "race for office counters" began in the 1980s. As mentioned earlier, Spanish and North American banks slid into Latin America. French banks boosted their historic bastions in Sub-Saharan Africa and the Maghreb while also establishing themselves in Egypt. The English bank Barclays acquired the South African ABSA and its network in southern and eastern Africa in 2007. Banks from the European North-West began the conquest of Southern Europe, in Italy (*Crédit agricole*, ABN-AMRO, *Crédit lyonnais*, *Deutsche Bank*), in Spain and Greece (*Crédit agricole*, Société générale). A major offensive was unleashed in Central and Eastern Europe, where several establishments (Citigroup, *Société générale*, Unicredit-Italy, National Bank of Greece-NBG, KBC-Belgium, *Raiffeisen*-Austria, etc.) bought over local private banks and turned them into subsidiaries often endowed with an extensive network. Some even implanted themselves solidly in Russia (*Société générale*).

This rapid globalization in an atmosphere of competitive emulation and herd mentality raises several questions. While merging with a multinational group could, on one hand,

procure financial strength and thus attract more clients, on the other, it became difficult to retain a corporate identity and brand image, as it raised troubling questions regarding the "national" embeddedness of a bank controlled from a far-off place. The imposition of strict management criteria, the rejection of influence peddling and the sometime massive pruning of manpower disconcerted a clientele already shaken from its habits. Taking account of local relational practices was hard: the implementation of a "glocal" form of management, which would respect local embeddedness and the parent company's global talent pool proved to be more difficult than anticipated. Here and there, the intensifying competition put the brakes on growth and cost recovery. Ultimately, turning "global" proved too costly as it required too many resources in the form of permanent funds or the refinancing of subsidiaries to help them face ever-increasing outstanding loans.

Universalizing the universal bank, that is to say, spreading the parent company's diversified "economic model" over numerous continental sub-regions proved utopian: the integration of many outstanding loans and asset and funding requirements ended up by weighing too heavily on the "balance sheet liabilities". Becoming "strong" in too many sub-regions turned out to be a dangerous geo-strategy. Meanwhile, local (Nigeria, Argentina) and general (Central and Eastern Europe from 2008) crises multiplied the pockets of bad debts. This geo-strategy came up against the old "risk of execution" which threatened the implementation of projects which had seemed sensible ex ante. Could the big banks become leaders in several globalized "sub-regions" at once? Was it not rather giving in to some sort of geo-strategic hubris? It was in fact neglecting the extent of the resources potentially available for such a deployment or overestimating the capacity for amortization and auto-financing of this forced-march growth. It was also to turn a blind eye to a management hub's actual capacity of implementing a risk monitoring system in each of its sub-regions. Local scale is important: "As a rule of thumb, both HSBC and Santander reckon that to operate effectively they need at least 5-10% of the market. Standard Chartered provides a full range of services in markets where it is strong and a pared-down version in countries where it has only a small share of the market. 'We recognised early on that we could not build a full-scale Standard Chartered everywhere, so we focused on how we would compete rather than doing one size fits all,' says Steve Bertamini, the head of its consumer bank."[3]

Finally and especially, it was the neglecting of the "differentiation" of the lifestyle, of mentalities, the modes of compliance with financial commitments in each country or zone: it was a question of the relationship of trust between the debtor and his creditor. The system of the "personal bankruptcy", in the US especially, troubled many European banks during the crisis of 2007-2010. HBSC, which had just acquired a giant in the field of credit card payment had to strike off the value of this purchase from its balance sheet (amounting to some tens of billions of dollars) when its loan portfolio was found to be irrecoverable. Elsewhere, in several countries, doubts arose regarding the government's willingness to force debtors (individual, SMES, local bodies) into reimbursing loans taken from the subsidiaries of foreign banks which were thought to be "rich" enough to absorb such losses – as we have seen in Russia and Latin America at the end of the 1990s and in some Central and Eastern European countries and Greece, leading to defaults, rescheduling or debt cancellations.

Regardless of the principles proclaimed in the annual reports from progressive periods, the time of downturns had arrived. At first, we saw how both *Société générale* and French *Crédit agricole* ceded their subsidiary in Argentina, while the Dutch ABN-AMRO beat a

[3] "Winners and losers. World, here we come. The biggest beneficiaries from the retail renaissance will be large international banks", *The Economist*, 19 May 2012.

retreat from the United States after having built, via buyouts, a big retail bank in the North-East. Then, BNP-Paribas gave up its networks in Hong Kong, Spain and Russia, *Société générale* quit Nigeria, Citigroup withdrew from Germany, etc. This "glocal" expansion was abandoned in favor or a geographic and sectoral "refocusing". It was an illusion to expect becoming a retail banking giant everywhere... Bank of America chose to confine its retail banking activities to its country of origin, which accounted for 90 % of its turnover. A period of consolidation around strong points set in, benefitting some American and Spanish banks in Latin American and some Central and Eastern European countries that were prioritized by the key players in this sub-region. Everywhere banks began to successfully implement this geo-strategy, each with its own "strong points". From the beginning of this century, every big bank set up its own "multi-domestic strategy" as part of its refocusing: *Société générale* in Russia and in some Central European countries (Romania, Czechoslovakia), BNP-Paribas in Belgium (with the purchase of Fortis, the leading bank for individuals with a thousand of branches, under the aegis of the division « Belux Retail Banking ») and in Italy, Santander in the United Kingdom (purchase of Abbey), etc.

The myth of the "all-purpose bank" that had spread so easily, was busted in a decade and a half. Every establishment "tightened its belt". On the other hand, more technical activities than those of a simple commercial deposit bank could be adapted by a targeted strategy of expansion regarding "specialized loans" (consumable and housing loans) and wealth management or private banking, with a strict assessment of the refinancing needs and evaluation grids to judge clients' repayment or saving capacity.

Despite these setbacks, the movement begun by the commercial deposit and retail banks' geo-strategy, shook many establishments. They turned, in fact, "multi-national" in several continental sub-regions. The Spanish giants BBVA and Santander had no more than a quarter of their assets in Spain. Société générale counts 60,000 employees in its "Retail bank outside Metropolitan France" division in 2012, compared to 3,000 in 1992. BNP-Paribas, number two in France, is Belgium's biggest. In 2007, the Austrian *Raiffeisen* group boasted 2,300 branches in Austria and around 3,000 counters (with 66,000 employees) in the rest of Central and Eastern Europe. Within a quarter century, this "multi-domestic" geo-strategy finally infused a "glocal" culture within the corporate culture of some two dozen big commercial retail banks. It also helped in the transfer of banking management techniques, risk analyses and digital technologies.

4. The globalized bank and finance

The 1980s saw a veritable revolution unfold: sure, the FOREX hall has been modernized by the fax then computers and currency swaps, and manage $4,000 trillions daily in 2012. But they were complemented by "trading rooms": supported by teams of expert analysts, these vast platforms applied digital tools to evaluate trends, showing trades and stocks in time-scales approaching the "instantaneous". They henceforth served as levers for integrating products by the means of futures speculation on all kinds of stock (currency, stock-exchange security, stocks representing a basket of stock-exchange securities or by the means of securitization, loans, etc.) with the help of procedures based on quantitative rationalization techniques (derivatives, futures, etc.). But their efficiency depended mainly on their ability to function from one international center to another, from Japan to San Francisco, thanks to what we have called the "always open book": the area of speculation has unified and the circulation of information, of securities, of prepayments happens practically immediately. These quantitative methods have revolutionized traders' brokerage techniques because access to the client is now both permanent and

instantaneous: the geography of money was revolutionized by the unification of the world of capital.

At the same time, the job of assets management acquired greater autonomy and amplitude. Massive amounts in available funds were added to banks and companies cash reserves, to insurance companies' financial reserves and to the pension funds of countries having funded retirement schemes. Among the main stake-holders of globalised finance come first the "sovereign funds" of oil producing countries (Middle East, Russia, Norway, etc.) and of those with large trade surpluses (Japan, China, etc.), which disposed of $5 trillions in 2011 – like the *China Investment Corporation*, set up in 2007, with about $500 milliards in the summer 2012. Huge sums are also tackled by mutual funds (for collective investment of transferable securities), by hedge funds, or by giant asset management companies (such as Blackrock or Franklin-Templeton, each with hundreds of billions of dollars).

Banks which wanted "to play in the big league" were faced by the challenge of deploying on such markets, using acute techniques to serve such multinational clients. In general, it was their "investment bank" and "wholesale bank" divisions that performed these "speculative" operations within what has come to be commonly called "*investment banking"*, mis-translated in French as "*banque d'investissement*", though it is more to do with what we, along with some other establishments, would call the "capital markets banking". All commercial banks, the traditional investment banks as well as American and Japanese brokerage banks (Goldman Sachs, Merrill Lynch, Lehman) assumed this portfolio of activities and technical tools and made their presence felt in every major international financial center – otherwise they risked losing market share.

This "geo-strategy" transformed the big European, American and Japanese banks into "globalized" entities where their capital market banking tools were integrated into the globalized financial system, as part of the "financialization" of the market economies. This led to their "denationalization": they were generally managed from New York, London, Singapore and Hong Kong (and recently, Shanghai) by multinational teams (at the managerial level of a capital markets bank: traders, brokers, sales managers) and economic or quantitative analysts, with no immediate material link with the bank' headquarters.

These changes in the financial geography of the capital markets bank raise a geopolitical issue. First of all, the corpus of operating rules and mentalities (speculation, lack of transparency and monitoring, etc.) grew at the global scale, beyond the domain of national markets, because each one set up its own globalized space, relocated financially or fully disconnected from the country in a quasi-juxtaposition of "*off shore*" markets – paving the way to what is used to be called "*shadow banking"*. These "capitals of capital" were like so many bastions of "international finance", in an unlimited extension of the "prehistory" that was the eurodollar market in the years 1950-1970, or even that of the petrodollar in the years 1970-1980, as they handled trillions of dollars in assets of all maturities.

This geographic financial globalization culminated in the *global marketplace*: the boundaries between capital markets crumbled. Computer tools (relays of digital connections, giant management and rescue databases, trading rooms) united market players and software providers. Tax-free regions attained dizzying heights: in 2007, tax havens attracted about 1,170 billion dollars from hedge funds, double of what they invested in *on-shore centers* [*Hedge Fund Research*, 2007].

The liberalization of financial markets in almost every country – the "Big Bang" in the UK on 27 October 1986 – was crowned with two parallel movements: the creation of securities management tools by banks and investments funds without going through brokerage

companies (stockbrokers) in order to reduce costs, which led to a system which had its own method of functioning at the global scale. Meanwhile, the stock-brokerage companies themselves conducted cross-border mergers, as was the case with, for example, Euronext (Paris, Amsterdam, Brussels), then Nyse-Euronext between New York and Europe, completed by a futures market subsidiary in London, the LIFFE. Banks, fund managers, securities intermediaries, analysts, wealth managers: all of them played a part in building, within a span of three decades, a capital and speculation space (in the "material" sense of the term, that is, playing on the differences of the future value) which disrupted the functioning of markets and the market economy at the continental and global scales. A very minority of big so-called "international places" asserted themselves as "services clusters", where are active practitioners of "one-stop financial shops", bodies gathering the whole range of banking and financial activities; and the City of London[4] epitomized this trend, with a workforce of about 300,000 and 4 per cent of the GDP in 2007 (9 per cent for the British finance industry as a whole).

Thus, powerful, autonomous, globalized entities sprang up within the big banks and proved highly profitable in periods of economic boom. The "giants" who managed to establish themselves at the global scale were precisely those banks which knew how to diversify sufficiently early and intensely towards the capital markets bank, whether it be at the intercontinental scale (Goldman Sachs, JP Morgan, Morgan Stanley, Bank of America, Citicorp, etc. among others) or, from the key centers within their continent, as leaders in each country (Deutsche Bank, BNP Paribas, Société générale, etc.). The recent crisis of 2007-2009 has shown that some banks had been able to structure their corporate organization with sufficient rigor (risk anticipation, internal monitoring, accountability) to avoid too many slip-ups at the time of a cycle reversal, but others were less prepared (Lehman, Société générale, etc.) and especially that, almost all the firms that had diversified too recently on these capital markets niche (French mutual banks, German regional banks, etc.) failed in their endeavor: venturing out of their domestic centers to become global proved fatal for them or, at the least, led to enormous losses.

5. Debates surrounding banking geo-politics

This crisis could not but raise heated debates on "banking geo-politics". The contradictions of this financial geo-strategy were revealed over the course of the years.

A. The issue of "national champions"

For decades within the so-called industrialized nations, the big banks had been called to mobilize their talent as corporate banks to help "national champions" in their quest to conquer foreign markets, purchase competitors and establish subsidiaries abroad. After the globalization of the economy, these same banks assumed a double function: they continued to support the national companies in their foreign deployment and they helped in "*project financing"* major operations, mergers and acquisitions (by the means of teams of "merchant/investment banks"). A country's economic power was often based on the power of its banks: the deployment of American banks in London in the years 1960-1970 reflect the global financial clout shared by the New York and London hubs, and the Japanese banks' ascent to the first rank globally in the 1980s (by balance sheet value if not capitalization) marked the apex of the Japanese economic model and strength of its multinationals.

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[4] "London as a financial centre. Banged about", *The Economist*, 29 October 2011, pp. 35-36.

Every country in Europe maintained its own policy of "national champions" with the help of mergers (as in France, after the merger of the two banks to form BNP in 1966, the merger of Crédit agricole and Crédit lyonnais in 2003, BNP and Paribas in 2000, the savings banks and People's banks in 2009; in the Netherlands with ABN-AMRO; in Italy around Unicredit and BCI-Intesa; in Switzerland around UBS; in Spain, with the mergers with Santander and BBVA; in the United Kingdom with the merger of Halifax and the Bank of Scotland in 2001, etc.) and relaxed regulations regarding cooperative banks (Crédit agricole in France, etc.). On the other hand, the foreign takeover of major establishments was seen as a national "humiliation", as in Belgium: the takeover of Société générale de Belgique by Suez in 1988, Fortis by BNP Paribas in 2010 and, even more, in the Netherlands when a battle was fought against Barclays and a consortium (RBS, Fortis, Santander) around ABN-AMRO in 2006. And the collapse of the "giants" during the crisis destabilized several countries as their markets seemed to be swept away by a tsunami (Netherlands: fall of ING and ABN-AMRO; United Kingdom: fall of RBS, Lloyd's takeover of HBOS in 2008). Thus, we see that the notion of relative "power", one of the geopolitical levers, concerned banks as much as oil companies or industrial giants.

B. The issue of the "denationalization" of banks

These geopolitical debates grew to include the question of the national character of the big banks. In the course of their working in the international financial centers, they began to be less and less "embedded" in their country of origin, especially when it involved investment banking, capital banking and wealth and asset management, and the fact that that irrespective of the bank, these activities now bear internationalized English names: thus, CACIB, a unit of the *Crédit agricole société anonyme* (CASA, a common subsidiary of regional mutual funds), stands for *Crédit Agricole Commercial & Investment Banking*. Though HSBC remains strong in Hong Kong and has returned to prominence in Shanghai, its Headquarters have been in London, in the Docklands, since the colony's return to China and it conducts major business in the United States; still, a part of its general management was relocated from London to Hong Kong in 2011 in order to deal directly with Asian economic boom. While Goldman Sachs, Bank of America, JP Morgan and Citicorp are clearly American, the major part of their turnover comes from their subsidiaries outside the US. It is the same with the two Spanish giants, whose domestic share of the turnover amounts to no more than a quarter of the total. The Société générale employs more people (60,000) in its retail banking sector outside France than within France itself (35,000).

We must therefore tackle two key issues, that of national employment and taxation, that is the very "nationality" of transnational banks versus the phenomenon of "off shore" management. The issue of human resources management has to be considered first, as geopolitics also implies the building a globalised layer of "banking elites", cross-border cohorts of managers, grappling with the variety of corporate cultures alongside the international deployment of their banking firms. Transnational banks oversee the circulation of their internal elites on an international level versus national flows, and the same for the mutualized platforms based on technological tools (IT, execution of payments, call centers, software engineering, etc.) between outsourced and national centers.

A second issue is that of tax avoidance, of the balance between full compliance with national tax requisites, legal off-shore bindings (Bermudas, Panama, etc.) and tax-shelters (Netherlands, Luxembourg, Delaware, etc.), and that of the breakdown of revenues and tax payments between the various stakeholders (authorities of native country, shareholders favouring off-balance sheet operations and thicker profits, etc.). The Swiss government and banks had to fight against the governments of other countries to retain the famous

Swiss “banking secret” benefitting individual and institutional investors. The United Kingdom tried to maintain its “pockets” of *off-shore finance* which, via the legislation regarding tax on investments or specific investment funds (*trusts*), hindered revenue transparency. What may be called geopolitical battles have increased since the beginning of the 21st century between some countries (United States and Germany against Switzerland), or between some financial centers regarding taxation, conformity to common international laws (*compliance standards*) and compliance with bank commitments, notably about the fight against money laundering, for example that caused by the management of the assets of drugs traders (“narconomics”).

C. Playing against your own team?

One could even claim that in order to remain competitive, the big banks themselves had to offer their services to foreign firms which had also turned multinational. It could thus happen that, in certain cases, they ended up helping corporations win contracts or acquire companies in foreign countries in the face of competition put up by companies from their own country: in such cases, they acted well and truly at the global scale and in contradiction to the “economic patriotism” so vaunted by their respective governments. Thus, two geopolitical trends opposed each other: to serve the interests of the economy of one’s origins, or function at the global scale. This dichotomy though must be seen in the context of the large number of big subsidiaries set up by national corporations abroad which themselves solicit loans from banks of all nationalities.

Bankers could even advise foreign firms when they wished to takeover, in a negotiated or hostile manner, national corporations – we have here, even more clearly, the role they played against the interests of “national patriotism”. For example, the Société générale was one of the consultant banks to the Anglo-Indian Mittal group when it made a bid for the Franco-European steel manufacturer Arcelor in 2000. A sort of “neutrality” prevailed over the investment banking business and the concept of the “national” bank, catering solely to the interests of the companies belonging to the motherland, found itself challenged: the geo-strategy culminated in a re-balancing of every bank’s geopolitical life.

D. Geopolitical debates regarding international hubs and banks

Many banks pleaded for freedom of enterprise, innovation and circulation of capital. The directors of the major international financial centers tried to retain their autonomy in the face of new national and international regulations (*Basle I, II, II* $^{1/2}$*, III)* and judicial authorities, within the framework of the processes for the recuperation of the funds compromised by banks in the process of liquidation or restructuring. These demands for flexible, if not permissive legislation were supported by influential banking communities and also by the financial interest group *Institute of International Finance* (created in 1983). They were claimed by the centers which built their appeal and wealth on their *convenience attractiveness*, such as Luxembourg, Hong Kong and Singapore.

But they only succeeded in arousing political reactions against “international finance” and “the bank” in several countries and multinational institutions (European Union, Euro Zone, etc.) – harking back to the debates of the early 20th century regarding the “cosmopolitism” of money powers. We are now very much at the heart of geopolitical debates if we think that it is the independence of States and communities which is at stake: “My only enemy is international finance” said the future French President during his electoral campaign in the spring of 2012. There arose the specter of a new “Anglo-Saxon imperialism”, built around globalized finance and, as such, the directors of the *investment bank* Goldman Sachs were “demonized” because they were thought to have gone over to

the "dark side" of speculation and financialization instead of siding with a "good" or the "realistic" economy", having been carried away by too strong a capital "velocity". "Central to [such] arguments has been Folkman [*et alii*, 2007]'s claim that the rise of capital market intermediaries has both eroded traditional managerial power, and constitutes a powerful interest grouping with a distinct agenda that as a vested interest in permanent corporate restructuring and redistribution away from traditional stakeholders in the firms, and, ultimately, shareholders as well."[5]

On the other side, proponents of banking freedom talk of the value addition, the income, job creation and the technological spin-offs which would result from the development of major centers with, for example, London accounting for a full tenth of the country's GDP in 2008. In general, the financial balance of power goes hand in hand with the economic balance of power, and New York (also Chicago, Charlotte and San Francisco), London, Frankfurt, Paris, Singapore and Tokyo may be thought of as the "lungs" of the service economy which characterised the third industrial revolution, wherein the geopolitical issues of international power.

Conclusion

The reconfiguration of the financial hubs and money flows since the 1980s has mapped out a new financial geography. Managed around multi-national platforms, activities and subsidiaries have integrated themselves into a globalized economy. At the same time, other activities were deployed at the scale of globalized sub-regions, like for the corporate, retail and wealth management banks. Whatever had been their prior routes, every bank resolved to "play in the big league", avoid falling victim to the process of Darwinian selection between "national champions" and financial multinationals and mould its strategy along a course of action which we could characterize as banking "geo-finance" and "geo-strategy". Even cooperative and mutual banks (Rabobank, Crédit agricole, Crédit mutuel, Raiffeisen) joined the bandwagon.

This has led to intense "geopolitical" debates: the advent of such multinational firms, endowed with a globalized management structure and with access to "international financial centers", gave rise to heated discussions on the extent of banks' "nationality", of their embeddedness within the system of "economic patriotism". Ultimately, it is the relations between every country (or economic community) having such banks and this globalized economy which are questioned: should it play this game of globalization at the risk of seeing its banking system lose it national embeddedness? How to design regulations which retain a balance between, on one hand, the needs of competitivity and banking and financial attractiveness and, on the other, the will, if not the necessity, of ensuring accountability, transparency and compliance with corporate "ethics"?

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[5] Geoffrey Woods and Mike Wright, "Wayward agents, dominant elite, or reflection of internal diversity? A critique of Folkman, Froud, Johal and Williams on financialisation and financial intermediaries", *Business History*, volume 52, n°7, December 2010, pp. 1048-1067; here: p. 1049. See: P. Folkman, J. Froud, S. Johal and K. Williams, "Working for themselves: Financial intermediaries and present day capitalism", *Business History*, 2007, volume 49, n°4, pp. 552-572. Also consider: William Lazonick and Mary O'Sullivan, "Maximizing shareholder value: A new agenda for corporate governance", *Economy and Society*, 2000, volume 29, n°1, pp. 13-35.

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