Chapter 2
International Financial Centres in Europe and Asia, 1900–2000

Youssef Cassis

Abstract This chapter is a first attempt at looking at international financial centres in Europe and Asia during the twentieth century. It has three main objectives. First, to identify the main financial centres in Europe and Asia based on their type of activities and degree of international influence. Second, to compare the changing nature of emerging and established financial centres during the twentieth century. And third, to consider the position of European and Asian financial centres within a global context, with reference, in particular, to the shifting centre of gravity of international finance. After providing some definitions of international financial centres, the chapter takes a snapshot of their position at two moments in the twentieth century: before 1914 and at the turn of the twentieth century in section three. It concludes with some broader reflections on the emergence, rise, decline and fall of international financial centres, suggesting that despite the shift in the balance of power towards the East, an increasingly multipolar financial world is likely to emerge in the medium term.

Keywords Globalization · International financial centres · Asia · Europe · Twentieth century

1 Introduction

This chapter is a first attempt at looking at international financial centres in Europe and Asia during the twentieth century. In 2016, 63 out of 87 leading global financial centres (in terms of competitiveness) and four of the top five (London, Singapore, Hong Kong and Tokyo, in addition to New York) were located in these two continents. The proportion was similar in 1913 (though not for the top four, which were all in Europe and North America), even though comparisons in time are difficult, not least because of different ranking criteria. The chapter has three main objectives. The first is to identify the main financial centres in Europe and Asia based on their type of activities and degree of international influence. The second is to compare the

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changing nature of emerging and established financial centres during the twentieth century. The third is to consider the position of European and Asian financial centres within a global context, with reference, in particular, to the shifting centre of gravity of international finance.

After providing, in the first section, some definitions of international financial centres, the chapter takes a snapshot of their position at two moments in the twentieth century: before 1914 in section two and at the turn of the twentieth century in section three. Some broader reflections on the emergence, rise, decline and fall of international financial centres in a global context are proposed in a fourth and concluding section.

2 Defining International Financial Centres

Financial centres can be defined as the grouping together, in a given urban space, of a certain number of financial services; or, in a more functional way, it can be defined as the place where intermediaries coordinate financial transactions and arrange for payments to be settled. In both cases, this concentration can chiefly be explained by external economies, in particular in terms of liquidity and efficiency of markets, diversity and complementarity of financial activities, workforce skills and high-quality information.

This concentration can be found at national, regional and international levels, depending on the extent of the geographical area served by one financial centre or another. There are thus major differences between financial centres. Economists have proposed various quantitative measures to assess these differences. They usually include the number of foreign banks attracted to the centre; the number of multinational banks based in a centre; and the relative amount of non-residents' banking deposits existing in a centre. For the later part of the twentieth century, data is available on most national and international banking and financial activities—money markets, foreign exchange, capital markets, derivatives, assets management and so on.

In a pioneering work, Howard Curtis Reed distinguished between four types of financial centres: host international financial centres, which basically collect non-residents' deposits; international financial centres, which primarily played a regional role; international financial centres of the first order; and supranational financial centres, which can themselves be divided into subgroups—in 1980; for example, eight centres (including Frankfurt, Hong Kong, Paris and Zurich) were classified as supranational financial centres of the second order, two (New York and Tokyo) as supranational centres of the first order and just one, London, as the supranational centre *par excellence*.[1]

Subsequent analyses have put forward a number of variations on this theme. Geoffrey Jones, for example, has slightly adjusted Reed's model and reduced the number

[1] Reed (1981).

of categories to three: sub-regional financial centres, whose relations with the other centres are essentially of a bilateral nature; regional financial centres that cater to the needs of one region of the world; and global financial centres, whose vocation is truly worldwide.[2] Richard Roberts has suggested a fairly similar subdivision, adding offshore centres to the three preceding categories.[3] Other classifications are more functional: Dufey and Giddy, for instance, distinguish between traditional financial centres, based in large capital exporting countries; financial entrepôts serving as hubs for international capital flows; and offshore centres that work on behalf of non-residents.[4] The list is not exhaustive. More recently, a biannual publication, the *Global Financial Centres Index*, has ranked centres according to five main criteria: competitiveness, measured in terms of business environment; human capital; taxation; reputation; and financial sector development.[5]

My own approach has been different. Rather than drawing up a ranking and taxonomy of all the international financial centres over the last two centuries (an impossible task, if only because of the lack of documentation available prior to mid-nineteenth century), I have concentrated on the most important centres—those that truly make up *capitals of capital*. Their number has remained remarkably stable throughout the twentieth century: barely half a dozen in Europe (London and Paris; Berlin, followed by Frankfurt after the Second World War; then, to a lesser extent, Zurich, which can be combined with Geneva; Brussels, especially before 1914; Amsterdam, before 1800 and during the 1920s; and perhaps Luxembourg, as an offshore centre). At the world level, New York should be added from the end of the nineteenth century and, from the 1970s, Tokyo, Hong Kong and Singapore.[6]

This paper considers a broader range of international financial centres, combining quantitative and qualitative criteria. The transfer of capital can be considered as the main purpose of an international financial centre. Capital transfers have an origin, but also a destination. One question to be addressed, especially for the pre-1914 years, is to what extent international financial centres have been able to develop not only in capital exporting, but also in capital importing countries. A more common and more recent feature is the financial hub—a centre receiving capital on one hand and redistributing it on the other hand. Even though such a function is fulfilled by all international financial centres, some of them have tended to specialize in this role. International capital flows also require, at both ends, a set of financial institutions and markets, which have taken specific forms in each centre. The diversity of financial services and level of financial activity is another indicator of the importance of an international financial centre.

[2] Jones (1992).

[3] Roberts (1996).

[4] Dufey and Giddy (1978).

[5] *Global Financial Centres Index*, since 2007.

[6] Cassis (2006).

3 International Financial Centres in the Early Twentieth Century

3.1 Established and Emerging Financial Centres

On the eve of the First World War, the leading financial centres were all located in the world's largest capital exporting countries: Britain, with 42% of the total stock of foreign investment in 1913, followed by France, with 20%, and Germany, with 13%, to which must be added three smaller Western European economies, Belgium, the Netherlands and Switzerland, which together accounted for 12%.[7]

London was then not only the world's premier financial centre. It was also the first modern financial centre, where an unrivalled range of financial services was provided. As is well known, the bill on London constituted the main instrument for financing world trade; these bills of exchange lay at the heart of the huge London discount market, in which the banks of the entire world participated directly or indirectly; London was the main centre for the issue of foreign loans; the London Stock Exchange was by some measure the largest and most international in the world; the City hosted major commodity markets, such as the London Metal Exchange and the Baltic Exchange, and was the world's leading insurance market, in particular with Lloyd's of London; the City also provided specialized professional services, especially legal and accounting; and the Bank of England was the 'conductor' of the international monetary system, the gold standard.[8]

Paris's position at the Belle Époque has been accurately described by Alain Plessis as that of a 'brilliant second'. Its strength lay above all in its long-term capital market. The big banks were the main actors and were involved in all types of financial activities, in particular the placing of foreign loans. Though smaller than the London Stock Exchange, the Paris Bourse was hardly less internationalized; and the Banque de France played a key role in the international financial system, maintaining regulation and stability by allowing its gold to flow to London when the need arose.[9]

Berlin was a newcomer in the higher echelon of the international hierarchy, replacing Frankfurt as Germany's main financial centre, but becoming far more important than the Hessian city both at national and international levels. However, Berlin was more inward looking than London and Paris, as its growth coincided with Germany's rise as an industrial power, though the big German universal banks were major players in international, as well as industrial finance.[10]

Brussels, Amsterdam, and Zurich and Geneva could not compete on all fronts and specialized in certain niches where they had a competitive advantage. Finance companies, such as Sofina in Brussels and Elektrobank in Zurich, were the most important in that respect, especially in Brussels and the Swiss centres. They were set

[7]United Nations (1949).

[8]See Cassis (1987) *La City de Londres, 1870–1914*; Michie (1992); Kynaston (1995).

[9]Plessis (2005).

[10]See Pohl (Hg.) (2002).

up with foreign, especially German capital, to finance the worldwide development of the power industry.[11]

The financial centres of capital importing countries played a different role, though not all an identical one, in the international financial system. Although neither in Europe nor in Asia, New York deserves some attention, not least because of its position at the interface between the two types of centre. New York became a major international financial centre as an entry point for capital imports rather than exit point for capital exports. Financing for the large railways and industrial companies was mainly obtained through the New York's capital market, where domestic and foreign funds were raised in vast amounts. The investment banks—J.P. Morgan, Kuhn Loeb and others—played a key role in this context, not least through their links to foreign financial centres, above all the City of London. More importantly, New York had become the financial capital of the world's largest economy.[12]

Were similar mechanisms at work in other capital importing countries? The dynamism of the American economy obviously set New York apart. The USA might have been the top destination for overseas investment, with 16% of the total, but foreign investment only made a limited contribution to the country's huge accumulation of capital (less than 5% between 1799 and 1900).[13] By 1913, it had also become the fourth largest exporter of capital, behind Britain, France and Germany, and an increasing number of foreign issues were being floated in New York from 1900 onwards. By the turn of twentieth century, New York had started to move from the position of an emerging international financial centre to that of an established one. Behind the USA, major capital importing countries included Canada and Russia (with 8% of the total), Argentina (7%), Brazil, Mexico, India, Australia, China, South Africa, Spain and the Austro-Hungarian empires (all with 4% to 6%)—four of them in Europe and Asia (Russia, India, Spain and Austria-Hungary).

3.2 Banking

One way of assessing the weight of international financial centres is to look at the number of *foreign* banks represented in these centres and *multinational* banks based in these centres. I have called *transnational banks* these two groups of banks taken together (Table 1). The method has its limitations, as international banking operations can be undertaken through other means, not least the use of correspondent banks. But it is a useful broad indicator.

The position of London at the apex of international banking is clearly apparent. Nearly two out of three of the world's transnational banks had either their head office (25) or a branch or agency (37) in London—62 in total. Paris, with 31 transnational banks (12 head offices and 19 branches), played a similar role, but on a smaller

[11] See Paquier (1998).

[12] See Myers (1931); Carosso (1970); Fraser (2005).

[13] Davis and Cull (1994).

Table 1 Transnational banks in international financial centres, 1913 (European and Asian centres in bold)

	Foreign banks represented in centre	Multinational banks based in centre	Total
London	37	25	62
Paris	18	13	31
New York	15	5	20
Shanghai	11	1	12
Hong Kong	10	1	11
Cairo	11	0	11
Constantinople	9	2	11
Bombay	11	0	11
Calcutta	11	0	11
Brussels	7	3	10
Hamburg	9	1	10
Alexandria	10	0	10
Rio de Janeiro	9	1	10
Sydney	7	3	10
Melbourne	7	3	10
Berlin	5	4	9
Amsterdam	3	5	8
Peking	8	0	8
Yokohama	6	1	7
Buenos Aires	5	2	7
St. Petersburg	2	4	6

Source Banking Almanac (1914)

scale—Paris had fewer overseas banks than Britain and fewer banks opted to open an office in Paris than in London—though eight of them were represented in the two cities.

Behind the world's two leading international financial centres, emerging centres were the most likely to host transnational banks: fourteen of the 21 centres with six transnational banks or more were located in capital importing countries, eight of them in Europe and Asia. They included New York (20), Shanghai (12), Hong Kong, Bombay, Calcutta, Constantinople and Cairo (11 each), Alexandria, Rio de Janeiro, Sydney and Melbourne (10 each), Peking (8) and Yokohama and Buenos Aires (7).

St. Petersburg was just behind (with 6). Amongst the established centres, all in Europe, Brussels (10), Berlin (9) and Amsterdam (8) were just about on a par with the leading emerging centres. On the other hand, European centres such as Vienna, Milan, Madrid, Zurich, Stockholm, Antwerp or Rotterdam hardly featured at all, with two or three transnational banks at most.

The status of Brussels as a leading international financial centre is clearly underlined by the strong presence of transnational banks, not only with the head office of three Belgian overseas banks, including the powerful Banque belge pour l'étranger (a subsidiary of the Société Générale de Belgique), but also with the branches of seven foreign banks, not least the leading French and German banks. Amsterdam, by contrast, was far less attractive to foreign banks. In Germany, German multinational banks were mostly based in Berlin, while foreign banks were more likely to open in branch in Hamburg.

Significantly, emerging centres tended to attract foreign banks rather than host the head office of multinational banks—a sign of their attractiveness, but also of their position within the world economy. In China, India and the Middle East, virtually all multinational banks were foreign. The exception was Japan, with the Yokohama Specie Bank, and St. Petersburg, where multinational banks outnumbered foreign banks by three to two. The same phenomenon can be observed in Latin American and Australasian centres, as well as in New York, with fifteen (out of twenty) foreign banks.

It is not surprising to find so many branches of foreign banks in emerging centres. These overseas banks were founded, first in Britain and then in other European countries, in order to finance trade and provide financial services in regions lacking in banking infrastructure.[14] The corollary of this strong presence of foreign banks was the weakness of their domestic banking institutions. Quantitative comparisons with established centres are difficult. The size of the domestic banks based in a centre, however imperfect a measure, gives some indication of the weight of the centre, the more so as domestic and international banking tend to complement each other.

The world's largest banks, measured by total assets, (Table 2) were concentrated in London, Paris and Berlin—18 of the top 30 banks in 1913—ten in London, four in Paris and four in Berlin—and nine of the top ten—four in London (Midland, Lloyds, Westminster and National Provincial), three in Paris (Crédit lyonnais, Société Générale and Comptoir d'Escompte) and two in Berlin (Deutsche and Dresdner). Smaller centres obviously had smaller banks, though Brussels could claim the 11th largest with Société Générale de Belgique—ahead of Barclays and Disconto-Gesellschaft—and Vienna the 19th with the Creditanstalt. Dutch and Swiss banks were smaller—£26 million for the Netherlands Trading Company and £23 million for the Swiss Bank Corporation, which put them out of the top 30.

In the USA, the expansion of large banks was limited as they were legally banned from establishing branches in another state. In 1913, only two of the world's top 30 banks were registered in New York: National City Bank, in 16th place, and Guaranty Trust Co. of New York, in 23rd. On the other hand, three of the world's 30 largest banks and one of the top ten (the Banque russo-asiatique) were registered in St. Petersburg. However, by the eve of the war, the leading Russian banks were increasingly controlled by foreign groups—they had been severely weakened since the early twentieth century by economic crisis, the Russo-Japanese war and revolution and had been reorganized with foreign, especially French capital.[15] Elsewhere, large

[14]See Jones (ed.) (1990).

[15]Girault (1973).

Table 2 The world's 30 largest commercial banks, 1913 (Total assets, £ million)

1	Crédit lyonnais (Paris)	113
2	Deutsche Bank (Berlin)	112
3	Midland Bank (London)	109
4	Lloyds Bank (London)	107
5	Westminster Bank (London)	104
6	Société Générale (Paris)	95
7	Banque russo-asiatique (St. Petersburg)	78
8	Comptoir National d'Escompte de Paris (Paris)	75
9	National Provincial Bank (London)	74
10	Dresdner Bank (Berlin)	72
11	Société Générale de Belgique (Brussels)	72
12	Bayerische Hypotheken und Wechsel Bank (Munich)	67
13	Barclays Bank (London)	66
14	Russian Bank for foreign trade (St. Petersburg)	61
15	Disconto-Gesellschaft (Berlin)	58
16	National City Bank (New York)	57
17	Parr's Bank (London)	52
18	Bank of Montreal (Montreal)	50
19	Creditanstalt (Vienna)	50
20	Union of London and Smiths Bank (London)	49
21	Bank of New South Wales (Sydney)	48
22	Banque de l'Algérie (Paris)	47
23	Guaranty Trust Co. of New York (New York)	47
24	Russian Commercial and Industrial Bank (St. Petersburg)	45
25	Bank für Handel und Industrie (Berlin)	44
26	Capital and Counties Bank (London)	43
27	London Joint Stock Bank (London)	41
28	Yokohama Specie Bank (Yokohama)	40
29	Hong Kong and Shanghai Banking Corporation (Hong Kong)	39
30	London and River Plate Bank (London)	39

Source Banking Almanac (1914)

banks were a rarity—one of the top 30 was based in Montreal, another in Sydney and another one, ranked 28th, in Yokohama. The Hong Kong and Shanghai Banking Corporation, registered in Hong Kong, came just behind, at 29th, but was controlled by British interests. The total assets of the largest banks registered in other Asian centres were in the £10–15 million range—the Mitsui Bank, in Japan, or the Bank of Bengal, the largest of the three Presidency banks, in India.

3.3 Financial Markets

The development of financial markets confirms the trends observed in domestic banking, with significant differences between emerging and established international financial centres. London, once again, was well ahead of the rest. The nominal value of securities listed on the London Stock Exchange reached £11.3 billion 1913, in other words nearly twice the Paris Bourse (£6.2 billion) and the New York Stock Exchange (£5.3 billion). The Berlin Börse was close behind (£5.2 billion), though speculative transactions were limited by the law of 1896 and tended to move outside Germany—to Amsterdam and London in particular.

The difference is striking with emerging centres, where financial markets tended to be under-developed. The major exceptions were St. Petersburg and Vienna. In 1900, the market capitalization of the St. Petersburg Stock Exchange was nearly as high as that of the Berlin Börse ($1.56 billion and $1.58 billion, respectively), while the Vienna Börse ranked in the top ten, above Brussels and Amsterdam. The St. Petersburg Stock Exchange contributed significantly to the financing of Russian industries. Russian securities were quoted abroad, mainly on the Paris and Brussels Bourses, but foreign securities were forbidden from being quoted and traded in St. Petersburg. In Japan, the Tokyo Stock Exchange was an important source of finance for the domestic economy, though with fewer international links as Japan was far less reliant on foreign capital. However, in terms of market capitalization, the Tokyo Stock Exchange was a minnow before the First World War.[16]

Stock exchanges developed early in Bombay and Calcutta and played an increasing role in the financing of Indian owned businesses after 1900. Similarly, the Cairo Stock Exchange offered an active market for a growing number of Egyptian joint stock companies. But all these markets remained fairly small. As Ranald Michie has clearly shown, stock exchanges in emerging centres had become integrated to the global securities market by the early twentieth century, but they only rose to international prominence in the wake of a boom in the commodity in which they specialized—Malaysian rubber companies in Shanghai, for example, but especially gold and mining companies in Johannesburg, making it, arguably, the most important emerging stock market of the pre-1914 era. In rich non-European countries such as Canada and Australia, government bonds and the securities of the largest businesses, above all railway companies, were mostly held and traded in Britain, thus confining the stock exchanges in Montreal, Toronto, Melbourne and Sydney to dealings in local joint stock companies. The same applies to Buenos Aires and even more to the other Latin American centres.[17]

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[16]Michie (2006).

[17]Michie (2006).

3.4 Trade Finance

Trade finance remained one of the major activities of international financial centres before 1914, especially in the world's leading centre, the City of London. In many respects, the pre-war City was as much a trade as a financial centre. Even from a financial perspective, the City's supremacy rested, alongside the issue of foreign loans, on the financing of international trade.[18] London's lead was actually greater in acceptances than in foreign issues and the importance of international acceptances as an essential component of a leading international financial centre was widely acknowledged in, as witnessed by the attempts at establishing a market for them in New York and Paris during and after the First World War.[19]

With the exception of London, which combined the two, capital outflows were the dominant feature of established financial centres, trade finance of emerging ones, especially in Asia. Hong Kong, Shanghai, Singapore, Bombay, Calcutta and a few lesser centres in India and China were primarily trading centres, with banking as an ancillary activity. The presence of powerful merchant houses, mostly but not only British, contributed to that role. The prime purpose of the overseas banks established in these centres was the financing of foreign trade. A similar pattern is observable, to a certain extent, in Latin America, especially Buenos Aires, less so in emerging centres where other factors played a more significant role, for example, the local economy (in Canada and Australia), or international politics (in Russia or the Middle East).

3.5 Some Conclusions on the Pre-1914 Globalization

Ranking international financial centres on the eve of the First World War is at once a difficult and an easy exercise, a purposeful and a meaningless one. It is difficult because of lack of data on international banking transactions. However, a number of other indicators, related to international capital flows, international banking, financial markets and trade finance help getting a clearer picture.

Established international financial centres were located in capital exporting countries, and their ranking is self-evident—London, Paris, New York, Berlin, Brussels, Amsterdam, and Zurich and Geneva. They were the 'capitals of capital', the financial centres of the seven countries providing 95% of the stock of foreign investment in 1913. They displayed a sophisticated banking architecture, combining domestic and international finance, and (with the exception of New York) highly internationalized stock exchanges.

There was a great diversity between emerging centres, in terms of political status, degree of international openness and level of economic development. Capital inflows led to the development of major international financial centres in the USA, with New York becoming an established centre in the two decades preceding the First World

[18] Michie (1992).

[19] Cassis (2006).

War, and to a lesser extent in Russia, with St. Petersburg displaying many features of an established centre. Vienna could possibly be added to this list. On the other hand, trade finance led to the emergence of very dynamic international financial centres in Asia, especially Hong Kong, Shanghai, Yokohama, Bombay and Calcutta. Some of them started to play a regional role, especially Shanghai in South East Asia, and developed in the process domestically owned and controlled financial institutions—though more so after the First World War. Finally, international financial centres were far less developed in major capital importing countries outside Europe and Asia, such as Canada, Australia, Argentina or Brazil.

4 International financial centres at the turn of the twenty-first century

Fast forward 80–90 years, to the turn of the twenty-first century, in a world economy once again globalized. According to estimates by Maurice Obstfeld and Alan Taylor, foreign assets represented 92% of world GDP in 2000, up from 25% in 1980 and barely 6% in 1960—but from a probably underestimated 55% in 1900.[20] Looking at international financial centres, one is struck by a sense of great continuity, combined with some significant changes. The continuity is observable in the persistence of the leading international financial centres. The main changes were, on one hand, the rise of a few newcomers to the top echelons of the international hierarchy; and on the other hand, the economic context within which international financial centres were operating.

4.1 Established Centres

As before 1914, the leading international financial centres were located in the major capital exporting economies. In 2000, two-third of the stock of foreign investment was held by the USA, Great Britain, Japan, Germany and France.[21] The top two centres were New York and London. They had alternated at the top since the 1920s, New York on account of its position as the financial centre of the world's dominant economy, London on account of its financial traditions and high level of internationalization.

Here again, New York cannot be left out of the picture, if only on account of the dominant position of the USA in the world economy. New York came first in overall size, even if London had the edge in direct international activities. Even if New York had become far more international since the 1950s, the weight of the American economy still dominated the way that its financial institutions operated, as well as the activity and turnover of its markets, which thus effortlessly outperformed the

[20] Obstfeld and Taylor (2004).

[21] Obstfeld and Taylor (2004).

City. Of the four main indicators most often used to gauge the importance of international financial markets (international banking transactions, asset management, capital market and other markets, including the foreign exchange market), New York came top, but with a large lead, in only one of them: the capital market. In 2001, the capitalization of the New York Stock Exchange was more than five times higher than that of the next ones, whether London or Tokyo.[22] But it was New York which set the tone in international banking and financial business, not least because of the American multinational banks, mostly based in New York, and on which a great deal of London's international influence depends.

London, for its part, came top in the three other indicators (international banking, asset management and foreign exchange), and it has always been the centre attracting the highest number of foreign banks (481, as against 287 in New York). The policy of opening up to the world, instigated by the City and backed up by the British authorities when the Euromarkets were established in the late 1950s, has been kept up relentlessly and has borne fruit, at the cost, however, of a certain eclipse of British financial institutions and the City's dependence on foreign banks—what has sometimes been called the 'Wimbledon effect'.[23]

The major newcomer of the post-war era was Tokyo. As a result of Japan's rise to the rank of economic superpower, Tokyo established itself as a major international centre during the seventies, going in twenty years from being a regional financial centre to a centre of world dimensions. And the possibility that Tokyo might overtake New York and become the world's leading financial centre did not seem entirely far-fetched at the end of the eighties. However, such judgements were too hasty, as the American economy, far from declining, enjoyed spectacular growth in the 1990s whereas the Japanese economy went into a long slump, which had severe repercussions for Tokyo's international position. Nevertheless, as the financial capital of the world's second economic power, Tokyo continued to play a far from insignificant role in international financial relations, though as a centre greatly dependent on the domestic economy.

Frankfurt cannot be really considered as a newcomer amongst leading international financial centres. Not only did it have a glorious past, in the late 18th and early 19th century, but more importantly, it actually replaced Berlin as West Germany's financial centre after 1945. Its rise as a leading financial centre was at first mainly dependent on the domestic economy. It was only in the late 1980s that Frankfurt overtook Zurich and Paris to become Continental Europe's leading financial centre. The decision in 1992 to establish the headquarters of the new European central bank in Frankfurt gave it a further boost, raising hopes that it might eventually overtake London, but this appeared highly unlikely a decade later.[24]

Paris was the main loser amongst the established centres. Its position after 1945 was a mere shadow of what it had been only some 30 years earlier, and it did not improve during the 1950s. Much more than in Britain, the state's grip ended up stifling

[22] Roberts (1998).

[23] Roberts and Kynaston (2001).

[24] See Holtfrerich (1999).

the Parisian capital market, not only when it came to foreign loans, but also issues of French companies. However, the French capital regained much ground from the 1988 onwards, without, however, really finding its role. Paris did not dominate any of the main fields of international financial activity, but held some aces, especially in asset management (in second place in Europe after London), as well as in the bond market and derivatives, while the foundation of Euronext in 2000 offered some strategic prospects within the potential groupings of stock exchanges.[25]

Switzerland, by contrast, was the main winner and the only small European country to host a major international financial centre, Amsterdam, and even more so Brussels having slipped down the world rankings. Neutrality during the Second World War was a decisive help. Following the war, Zurich and Geneva quickly developed their role for accommodating and investing foreign capital, through bond issues and wealth management. In the 1960s, Switzerland probably ranked third, behind New York and London, in the international hierarchy. It had somewhat regressed by the turn of the twenty-first century, as restrictions on capital flows were eased, inflation fell, and the growing stability of the main European currencies, culminating in the introduction of the euro, made the Swiss franc lose one of its traditional attractions. Nevertheless, Switzerland continued to figure amongst the leading centres. It increasingly specialized in wealth management, with the Swiss financial centres managing 35% of the world's private offshore wealth (Britain 21%, USA 12%).

4.2 Emerging Centres

The number of so-called emerging or rather aspiring international financial centres increased significantly in the 1990s. Several cities, especially in emerging economies, were actively promoted with the aim of their gaining the status of regional or even global international financial centre. Most of them were in Asia: Dubai, Qatar and Bahrain in the Middle East, Mumbai in India and Shanghai in China.

Some of them were already part of the international financial system before 1914. However, their situation was different from that prevailing earlier in the century in two main respects. First, they were no longer located in capital importing countries. By the late twentieth century, foreign investments were mainly directed towards advanced rather than developing economies, with North America, Western Europe, Japan and Australia and New Zealand attracting more than 80% of the total. And second, they were no longer linked to other financial centres through the branches of the old overseas banks, mostly British and French, as well as German before the First World War. From the 1960s, with the growth of Euromarkets, multinational banks shifted their attention from developing countries to the world's main financial centres. American banks started their formidable expansion abroad, while British overseas banks had to undertake a profound restructuring. Emerging international

[25] Straus (2005).

financial centres had to become attractive in different ways, by being more akin to established centres.

Within this group, two centres were able to successfully manage the transition from emerging to established and from regional to global financial centres: Singapore and Hong Kong. Both were already emerging centres before 1914 and significant regional centres until the 1970s. This early integration into world finance is usually considered as having positively contributed to their reaching global status. Their solid banking institutions, inherited from the British overseas banks, especially the Hong Kong and Shanghai Bank and the Chartered Bank, were also a help, as was their advantageous geographical location and good connections with the rest of the world. In addition, their political regimes were stable, despite the troubles that plagued Hong Kong during the Chinese Cultural Revolution at the end of the 1960s and the uncertainties relating to its return to its big neighbour in 1997. In a nutshell, Hong Kong and Singapore appear to have met the most important requirements for the rise of an international centre, unlike the financial capitals of most emerging economies.[26]

In spite of these favourable conditions, there was nothing spontaneous in Singapore's development. On the contrary, it was the result of a systematic effort made on the part of the authorities, immediately upon the country's independence in 1965, to turn it into an international financial centre. The first step was taken in 1968, when they authorized Bank of America to collect deposits and grant loans in dollars to Asian clients: the Asian dollar market was born and, like the eurodollar market in London, found its home in Singapore. The government also intervened directly to encourage the emergence of a bond market, with the first issue of Asia dollar bonds taking place in 1971—$10 million on behalf of the Development Bank of Singapore. Singapore's financial markets really took off in the 1980s, especially the Asia dollar market, which increased fourfold between 1982 and 1990 (from $86 to more than $350 million). The foreign exchange market grew in its wake, to reach the fourth position in 1998, behind London, New York and Tokyo; and derivatives started being traded in 1984 with the foundation of SIMEX. As a result, an increasing number of foreign banks set up there, reaching 260 in 1995, including 75 merchant banks.[27]

While Singapore was making a name for itself as the main centre in Asia for the Eurodollar and Eurobond markets, syndicated Eurocredits found a home in Hong Kong, with operations on behalf of enterprises and governments in the region's main economies—Japan, Taiwan, South Korea, Australia and New Zealand, later joined by Thailand, the Philippines and, above all, China. In the space of about ten years, Hong Kong established itself as the world's third centre for Eurocredits, behind London and New York. Unlike Singapore, Hong Kong does not owe its rise to deliberate government policy. On the contrary, the authorities adopted a non-interventionist stance, at the same time creating conditions conducive to developing financial activities, notably a favourable tax system and modern infrastructure. On top of this, there was an absence of exchange control, a robust legal system, the existence of the rule of law and, above all, its position as the door for a China

[26] Park (1982).

[27] See Bryant (1989); Lessard (1994).

that began to open up to the world at the end of the 1970s.[28] At the close of the twentieth century, Hong Kong strength lay in international banking, where it was in fifth position, the gold market (fourth position), and its financial market, with the second market capitalization in Asia behind Tokyo. Its international status was mirrored in the presence of foreign banks, numbering 357 in 1995, that is to say more than any financial centre except for London.

5 Conclusions

Contemporary economic and financial literature has identified conditions that are necessary for the development of international financial centres. The most important and most frequently debated include stability of political institutions; strength of the currency; sufficient savings that can readily be invested abroad; powerful financial institutions; firm, but not intrusive state supervision; light tax burden; highly skilled workforce; efficient means of communication; and plentiful, reliable and widely accessible information. Can these conditions explain the rise and decline of international financial centres in Europe and Asia in the twentieth century? Yes and no: while necessary, with some variation over time, they do not provide sufficient explanation.

The rise of a major international financial centre is in fact closely linked to the economic power of the country that hosts it. This may seem an obvious thing, but it is often overlooked. Each of the three cities successively ranked first in the world since the eighteenth century (Amsterdam, London and New York) has at the same time been the financial centre of the dominant national economy of the day. The same goes for Berlin's emergence in the last third of the nineteenth century, as well as for Tokyo's and Frankfurt's a hundred years later, as Germany and Japan in turn acquired an economic standing that gave their respective financial centres an international dimension. Hong Kong owed, indirectly at least, its more recent rise to the growing weight of a China that was opening up to the world economy. There are, as usual, exceptions, such as Switzerland, especially from the 1950s to the 1980s, thanks to exceptional circumstances arising from its neutrality during the war, capital inflows and the role of refuge currency played by the Swiss franc; or Singapore, who was able to take advantage of the emerging Asian market from the late 1960s and the absence of a major financial centre in South East Asia.

Once established, international financial centres tend to display a remarkable longevity. This can be explained by the persisting economic power of the host countries, including declining powers such as Britain, France and even Germany. It can also be explained by path dependency: staying power through changes in the world economy as well as the traditions of the cities of finance has played a role here. Another factor is that the decline or fall of a major international financial centre is usually triggered off by a military cataclysm, irrespective of the outcome, victory or defeat: Amsterdam during the French Wars, Berlin and to a far lesser extent Paris

[28] See Jao (1983); Schenk (2001).

after the Second World War. In a less dramatic way, London's replacement by New York was accelerated by the First and then precipitated by the Second World War. Conversely, no financial crisis, however devastating, has led to such upheavals.

Can these reflections on the long-term history of international financial centres tell us anything about future developments? Looking first at Europe and Asia, an obvious conclusion is the shift in the balance of power towards the east. Admittedly, Tokyo was weakened by the burst of stock market and property bubbles in 1990 and the ensuing 'lost decade'; and New York and London retained their leading positions after the financial crisis of 2008. Nevertheless, the balance of power is no longer clearly in favour of Europe. London might remain the world's leading global financial centre, but the other European centres (Frankfurt, Paris, Zurich, Luxemburg) are falling behind their Asian counterparts (Tokyo, Singapore, Hong Kong, Beijing). The phenomenon might well be aggravated by Brexit, which could result in London losing its world predominance with no other European centre ready to take up the mantle, at any rate in the short term.

At world level, this should reinforce New York's position, whose top position is unlikely to be overtaken in the short to medium term by the most likely challenger whether in Europe or Asia, namely Shanghai. The USA remains, by a long distance, the world's leading financial power, and China is in no position to challenge it. Some historical parallels are revealing. When the USA started challenging Britain before 1914, its GDP was already two-and-half times as large, and its GDP per head 20% higher—and it took thirty years, including two world wars, for the transition to be finally completed. In 1989, at the height of Japan's apparently unstoppable rise, its GDP was 40% that of the USA and its GDP per head 80%—and the challenge soon petered out. In 2015, China's GDP was less than two-third that of the USA, and its GDP per head less than a 15%. So bar a military cataclysm, a radical change in the hierarchy of international centres is likely to take a long time.

In the meantime, the growing weight of a number of emerging economies, above all China, but also the other members of the so-called BRICs (Brazil, Russia, and India) will enable them to be part of an increasingly multipolar financial world and, in particular, to host a financial centre of world significance—as did Germany with Berlin and the USA with New York in the nineteenth century, and Japan with Tokyo in the twentieth. So Shanghai, Mumbai, Moscow and Sao Paolo should in due course, though not necessarily at the same time, rank alongside New York, London, Tokyo, Hong Kong, Singapore, Frankfurt and Paris in the international financial hierarchy.

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