# Comparing London and Frankfurt as World Cities

# A Relational Study of Contemporary Urban Change

#### Presentations in London and Frankfurt

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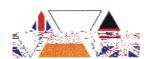
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Anglo-German Foundation for the Study of Industrial Society http://www.agf.org.uk/





## 1 London a

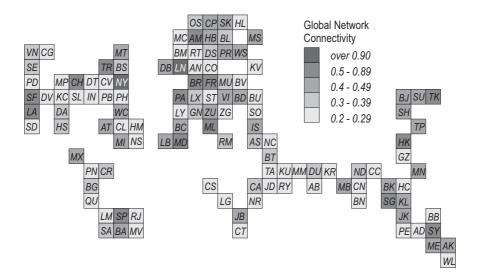
#### Table 1 Global service firms: the GaWC 100

#### **ACCOUNTANCY**

Pricewaterhou

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

Figure 1 The GaWC archipelago



The codes for cities are: AB Abu Dhabi; AD Adelaide; AK Auckland; AM Amsterdam; AS Athens; AT Atlanta; AN Antwerp; BA Buenos Aires; BB Brisbane; BC Barcelona; BD Budapest; BG Bogota; BJ Beijing; BK Bangkok; BL Berlin; BM Birmingham; BN Bangalore; BR Brussels; BS Boston; BT Beirut; BU Bucharest; BV Bratislava; CA Cairo; CC Calcutta; CG Calgary; CH Chicago; CL Charlotte; CN Chennai; CO Cologne; CP Copenhagen; CR Caracas; CS Casablanca; CT Cape Town; CV Cleveland; DA Dallas; DB Dublin; DS Düsseldorf; DT Detroit; DU Dubai; DV Denver; FR Frankfurt; GN Geneva; GZ Guangzhou; HB Hamburg; HC Ho Chi Minh City; HK Hong Kong; HL Helsinki; HM Hamilton(Bermuda); HS Houston; IN Indianapolis; IS Istanbul; JB JI

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

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

#### 1.2 The impact of the euro

During two census periods in 2000 and 2001, priTw 11.998 30dut939rlBDCn-durth0 11.9eup440.8555 56

The German market is expanding and very important with clients increasingly demanding cross-border professional services. Firms need to be close to the customer in continental Europe.

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

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

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

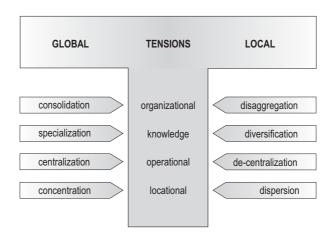
#### 2 Inter-city relations – business competition and tensions

#### 2.1 Business drivers and complexity

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

Demand for *cross-border services* – the need to be *global*Development of *cross-border markets* – the need to be *local*The process of *globalization* – the need for *rationalization*Demand for

Figure 2 Tensions in inter-firm competition



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

#### 2.2.1 Local-global tension

The fundamental tension facing firms in both London and Frankfurt was found to be negotiating trans-border (global) reach agai

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

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

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

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

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

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

#### 2.2.2 Organizational tension (consolidation vs. disaggregation)

In all sectors critical mass was seen as essential to operate on a global scale as client demand for seam

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

"There's so much business. You can't just sit here and expect everyone to come here ... increasingly you have to put your resources onto the ground because you want to be close to the customer ... because there's a lot of competition out there ... an international firm sitting in London wanting to do business and seeing that there's a lot of business in countri

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

Figure 3 Networks within the world city network

N e t v	work Society				
World	N o r l d KNOWLEDGE NETWORKS				
City	CULTURAL NETWORKS				
Network	POWER NETWORKS				
14 0 C W 0 T R	GOVERNANCE NETWORKS				

#### 3.1.1 Knowledge networks – knowledge and relationships in 'people business'

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

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

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

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

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

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

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

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

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

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

#### 3.1.4 Governance networks - regulation and public-private governance

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

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

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

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

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

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

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

#### 3.2 Conclusion - 'Network cities'

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

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

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

#### 3.2.1 In what ways does geography matter?

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

- "Frankfurt and London. What does it mean? Does it really matter? ... You ask me questions about how big is our office in Frankfurt and London. I've no idea, I don't know. It's as big as that today and it's smaller or larger [tomorrow]" (German bank, L)
- "Firm-specific [knowledge] exchange ... makes you more or less independent of a specific location" (Accountancy, F)
- "Where people sit doesn't matter ... they take their networks with them" (Accountancy, L)
- "Actually which office people are based in matters not at all to us ... people just arrive at the airport ... I wouldn't actually know where they were sitting, I pick up the phone, I just ring the number" (Management Consultancy, L)
- "There's a financial infrastructure but there's also a corporate world out there that we're ultimately here to service and a world out there that's full of people managing other people's money, which is clearly not so motivated by location at all" (German bank, L)

"This id

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

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

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

#### **Concluding Questions**

#### London

We end with three big questions for London:

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

#### **Frankfurt**

We end with a key question:

Friedmann, J. (1986) 'The World City Hypothesis' in *Development and Change* 4, 12-50.

Friedmann, J. (1995) 'Where we Stand: A Decade of World City Research', in Knox, P.L. and Taylor, P.J. (eds.) *World Cities in a World-System*. Cambridge: Cambridge University Press 21-47.

Sassen, S. (1991) *The Global City: New York, London, Tokyo*. Princeton: Princeton University Press.

Sassen, S. (1994) Cities in a World Economy. London: Pine Forge Press.

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

Peter Taylor – No we haven't weighted. They are weighted in the sense that if a firm has more offices across the world then they make a bigger impact on the score. Basically weighting, the formula is exactly the same you just put weights on them. We haven't done that. The only way [is] we've broken this down into sectors ... I guess we came into that part of the project really looking for a gross measure, we wanted a gross measure and we finished up with a hundred firms and we have weighted them equally, we treated them equally. They contribute differentially to the index because of their relative sizes. Let me just say, all the firms that we deal with, we have a category we call global service firms and therefore for a firm to be in our

influences, so we were looking for basically New York State law versus English law. I think [that] is basically what we were looking for and the obvious thing that cam

# Frankfurt Conference Questions and Discussion

Ray Cunningham (Conference Chair and Deputy Director Anglo-German Foundation) – Thank you very much. I'm looking forward to hearing who has come up with the answer to 'what does it all mean?'. I must admit it was a m

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

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

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

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

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

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

Peter Taylor – The way in which normal boosterism works is always to make a city more attractive, to attract things to that city, to that territory, and therefore it's basically a piling up of things to make it bigger, make it better, and that could be Frankfurt, it could be Singapore, it could be Buenos Aires. That's the standard policy, that seems to be what is available given the governmental structures where you get territories with boundaries round, and policy makers and elected politicians operating at that level. One implication of what we are saying here is that you need to attend to the linkages. Now there have been very successful cities that haven't had very much boosterism and London would be an example of that. London didn't have a government for most of the 1980s and 90s, nobody was directing it - that's antiboosterism if you like. So what do you mean when you say attend to linkages? Well that's very difficult, obviously you can have infrastructural arguments and clearly they are important but they are very much what is expected. A big city should have these things, they should have a big airport, should have all these linkages. It doesn't give you an advantage but it gives you a big disadvantage if you don't have it. So you need to be like Singapore, you need to be an intelligent island. But that isn't enough, so you are attending to linkages. The way we have set it out here, most of those important linkages are not in the public sector, they are in the private sector. These are companies making profits and in order to make profits they have to be in Hong Kong, for example. Because we are thinking in network terms and not in territorial terms, there are not the institutions there in order to properly attend to these linkages, so the units would be dyads, or the units would be leagues of cities. There is another world here that doesn't ex

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

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

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

# **London and Frankfurt Conference Media Coverage**

## Financial Times, 20 November 2001

**NATIONAL NEWS:** 

Frankfurt fails to steal London's crown as financial capital

By Vincent Boland/Capital Market Editor

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

Although there was "overwhelm

#### Financial Times, 24 November 2001

#### **COMPANIES & FINANCE UK:**

A touch of paranoia about one's place in the world: Despite periodic hand-wringing about Continental competition, London's financial services industry is still pre-eminent in Europe by a long way By Martin Dickson

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

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

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

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

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

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

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

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

Die Studie kommt zu dem Ergebnis, dass der "Einführung des Euro von den befragten Unternehmen nur einen geringer Einfluss auf die Positioni

Just in diesen schwärzesten Stunden des angeknacksten Lokalpatriotismus legt ein deutsch-britisches Forschungsteam eine Studie vor, die wie Balsam für die geschundene Frankfurter Seele wirkt. Denn si

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

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

#### **Wimbledonisation of London**

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

They see the rise of London to be Europe's most important financial centre and one of the undisputed great cities of the world as due to a succession of favourable circumstances. These include language, history and culture, making the city on the Thames seem an ideal p

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

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

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

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# <u>Frankfurter Rundschau online, 31 January 2002</u> - ENGLISH TRANSLATION

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

By Detlev Fechtner

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

FRANKFURT. When there is boardroom talk of the world's most important financial centres, London is mesaoardroom

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

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

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#### Frankfurter Allgemeine Zeitung, 1 February 2002

London und Frankfurt profitieren voneinander Der Euro und die Zentralbank stärken die Stadt am Main / Eine neue Studie Von Rolf Ackermann

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

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

größer, weil alle dorthin gehen, wo alle sind. Wissenschaftler nennen solche Agglomerationsprozesse "selbstverstärkend". Das Problem für diejenigen

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

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

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#### Die Woche, 8 February 2002

#### WIRTSCHAFT

Und der Verlierer ist: Frankfurt a. M. High Potentials machen Karriere in London, München gewinnt an Bedeutung: "Mainhattan" gleitet ab in die zweite Liga Von Sonia Shinde

Frankfurts Weg an die Weltspitze schien nichts mehr im Wege zu stehen. Die New Economy generierte Aktienmillionäre, der Neue Markt war das größte 383.9001 414.0319 Tm(a)Tj11.99

Zum Zweiten spielen auch Steuervor

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

...

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#### Die Zeit, 14 February 2002

#### Kopflos glücklich

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

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

... Die Angst, der Finanzplatz Frankfurt trockne aus, ist lediglich die Angst vor Prestigeverlust - die Sorge, dass zukünftig immer seltener große strategische Entscheidungen in Frankfurt getroffen werden. Das ist verständlich angesichts der Veränderungen bei den drei Großbanken, dem ehemals stolzen Symbol der Frankfurter Hochfinanz. Die Dresdner gehört der Allianz und wird von München aus regiert. Auf dem W

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

Frankfurt ist unter den Finanzplätzen der Welt nur einer von vielen. Wie er sich entwickelt, hängt von den Menschen und ihren Ideen ab. Dass auch ein kleiner Standort Achtungserfolge erlangen kann, zeigt das Beispiel Stuttgart. Dort hat Börsenmakler Peter Bruker Ende der achtziger Jahre die wachsende Bedeutung von Optionsscheinen erkannt. Zusammen mit der Citibank hat er die kleine Regionalbörse zum deutschlandweit größten Handelsplatz für Optionsscheine gemacht. Weit vor Frankfurt übrigens, von wo aus die Citibank den schwäbischen Börsenplatz geprägt hat. Und das zeigt auch, dass die Zentralen der Banken nicht - wie gern behauptet wird - immer vor Ort sein müssen, um einen Finanzplatz stark zu machen. © 2002 Die Zeit

#### Die Zeit, 14 February 2002 - ENGLISH TRANSLATION

#### Blissfully happy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Frankfurt's low profile as an investment banking hub recently caused the city's leading newspaper, the Frankfurter Allgemeine Zeitung, to ask if Frankfur