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Financial Geography

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Abstract: Financial geography is concerned with the roles of finance, money, and markets in the restructuring of contemporary capitalism, and how these changes have uneven impacts across space. Studies focus on the ways in which space and place are mobilized in shaping financial decisions, allocation of capital, regulatory frameworks of global financial markets, and development of onshore and offshore financial centers. An early political economy approach to regulation of international financial markets is later complemented by more social and cultural explanations and network approaches for analyzing the persistence and increasing importance of international financial centers (IFCs) as strategic basing points for global capital. Scales of analyses range from global frameworks and national financial markets to industry processes and household behavior. While much of the financial geography literature has concentrated on Anglo-American economies, recent research highlights the increasing significance of emerging economies and financial networks such as sovereign wealth funds, Islamic finance, environmental finance and FinTech.

Keywords: business geography, corporate geography, economy, finance, globalization, producer services

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Financial geography is concerned with the roles of finance, money, and markets in the restructuring of contemporary capitalism. Research focuses on how such restructuring has uneven impacts across space, and also on the ways in which space and place are mobilized in the production of financial markets and processes. Some examples of the spatialities of finance include financial exclusion, regional inequalities due to financial activities, differential connectivity of global and local financial flows and networks, and the rise of new onshore and offshore financial centers. Rather than acting as a neutral lubricant in the economic system, financial markets, actors, and instruments shape the development and life chances of people and communities across regions and localities. While some have argued that globalization and new information and communication technologies (ICT) have rendered geography irrelevant, financial geographers contest that space and place remain crucial to the financial system in shaping financial decisions, allocation of capital, regulatory frameworks of global financial markets, and their unequal outcomes.

Economic geographers and regional scientists have long been preoccupied with industrial landscapes, especially in terms of industrial development and agglomeration. Little consideration has been given to the impact of money and finance on spatial processes and impacts. The late 1980s, however, saw a wave of studies on the spatial dimensions of money, establishing the theoretical and empirical importance of finance in shaping the economy, regional development, and place-making at different spatial scales. This partly reflected a broader research interest in service sectors in the 1980s and 1990s, following deindustrialization in many developed economies and increased attention to the role of finance and other advanced business services in driving economic growth in cities and regions. The impetus for financial geography also arose from a critical inquiry into how financial flows and structures shape and contribute to uneven development and instability, following the excesses of the high-rolling 1980s in the financial centers of London and New York.

Early scholarship focused on the regulation and governance of the international financial system and debates around the dynamic relationships between finance capital and nation-states. This political economy approach is complemented by more social and cultural explanations for analyzing the persistent and increasing importance of international financial centers (IFCs) as strategic basing points for global capital. The territorial embeddedness of specific localities in the production and reproduction of global finance is explained by particular social and cultural constructions of people and places. While initial studies analyzed individual cities, relational economic approaches became more important in explaining how and why such financial centers develop or maintain their roles and prominence in the form of IFC networks. More in-depth studies examined the workings of specific financial markets, the influence of global financial markets on corporate governance and national policies, and broader implications of financial logics for governing economic and social lives. Since the mid-2000s, financial geographers are paying more attention to emerging economies and financial networks as a critical response to the domination of Anglo-American economies in financial geography research. Following the 2007-2008 financial crisis, which was precipitated by the US subprime mortgage crisis, many geographers became deeply interested in the processes and impacts of financialization on housing and urban development. The burgeoning body of work financialization also include the financialization of non-financial firms, infrastructure, agriculture sectors, and households. More recently, the climate crisis and increasing digitization has prompted more research into environmental finance and the impacts of FinTech on financial intermediation.

Political Economy Approach

Early research in financial geography explores the changing spatial structures of the international financial system and the financial industry. The role of money and finance is given center stage in examining the circulation, accumulation, and regulation of capital and their spatial implications. While advancements in transportation and ICT technologies have reduced the relative distance between places, this “shrinking” of the world is also part of the general process of capitalist commodity production and capital accumulation, as capitalist producers are locked into a perpetual race to exploit new markets and to reduce the turnover time of capital (Harvey 1982). This time–space compression reshapes relationships between space and capital, and presents new regulatory challenges as the globalization of capital and ideas disrupted traditional forms of sovereignty and international regulation. While regulatory changes, technological innovations, and the globalization of markets and monetary flows are remapping the financial landscape towards increasing deterritorialization, states remain important arbiters in determining the shape and speed of such processes, both within their national space economy and on the international arena.

An important theme in this area of research is the notion of hegemonic stability – the idea that one powerful state will impose order on the international financial system such that it provides a platform upon which more general processes of capital accumulation follow. Studies on earlier systems of international regulation in the nineteenth and twentieth centuries largely focus on British financial capitalism and the pivotal role of the City of London in the construction of the gold standard in the nineteenth century, and the rise and fall of US financial hegemony during the postwar period. The construction and subsequent collapse of the US-led Bretton Woods system demonstrate the limits of national markets for accumulation strategies as economic activity becomes increasingly internationalized. The development of Eurodollar markets, for example, threatens the control that national governments exercised over national space-economies and symbolizes the emerging power and international mobility of private capital. This gives rise to the concept of posthegemony, whereby different state actors linked into different policy communities increasingly operate within transnational networks that comprise counterparts abroad as well as global financial institutions. Hegemonic power resides not with one territorial state but in a number of nodal points or flows. While this decentered hegemonic core is more spatially diffused than before, modes of regulation are still anchored by various actors, including supranational organizations such as the World Bank and the International Monetary Fund (IMF), large private capital, and particular communities (be they policy, finance, or other interest groups) located primarily in the United States, Europe, and Japan.

Another systemic concern is that of regulatory arbitrage. The spatially bounded nature of regulation (often organized according to political-territorial boundaries) makes it possible, particularly with the aid of advances in ICT, for economic agents to move between different "regulatory spaces" in order to circumvent constraints associated with a particular regulatory regime. Regulatory arbitrage and reregulation are key themes as scholars analyze changing power relations between states and markets and their implications for the global financial system. With this practice of spatial-regulatory arbitrage, national economic policies become increasingly sensitive to the power of international money and orientated to the pursuit of low inflation and relative price stability in the constant bid to retain such "hot money." State regulatory functions are further challenged by the inherent tendency of financial institutions for financial innovation, as new financial instruments open up new areas of financial activity and profits as yet unconstrained by regulatory control. The power of finance capital thus pressures national and local governments to accommodate global capital in ever more earnest ways through deregulation of financial markets and institutions. The winners of this process have been particular global cities that have become attuned to the rhythms of the global economy and adept at pinning down hypermobile capital through deregulation and specific forms of urban and economic development policies. A related strand of work explores the transformation of financial space through the growth of "offshore" financial centers (OFCs), where more permissive regulatory environments serve as havens from the restrictions that national governments place on financial activities. The linkages between onshore and offshore regulatory spaces are important in understanding the broader financial system, such as how large corporations and wealthy individuals make use of financial products and services in both onshore and offshore financial centres in order to minimize their tax obligations or avoid regulatory scrutiny.

In terms of the role of the state, it is clearly vital for creating and maintaining the physical infrastructure that is necessary for a city's high standing within the network of global cities, but national and local state agents are also highly implicated through their contributions to the institutional infrastructure of these cities. State regulation, in particular, is an important part of "institutional thickness" – a product of the interaction and collective strategies of institutions of all kinds, including firms, financial institutions, trade associations, non- or intergovernmental organizations, and economic development agencies, as well as state and local governments. The growing importance of supranational organizations and international forums of monetary and economic coordination, such as the G7 and G20 country groups or the IMF, is also noted. Conventional understandings of state power and economic boundaries are blurred and works on geographies of money and finance become more concerned with flux, fluidity, and the geography of flows.

International Financial Centers and Networks

The persistence, and increasing importance, of particular localities (in the form of IFCs and OFCs) as strategic basing points for global capital features prominently in research on the geographical relationships, processes, and impacts of finance. The transformation of the world economy since the 1980s is connected to an economic shift towards services and finance, which has consolidated the importance of major cities as sites for certain types of activities and functions. These global cities, such as London, New York and Tokyo, are command and control centers in the organization and coordination of the world economy, as key locations, marketplaces, and major sites of production and innovation for finance and specialized services. Some of the work illustrating this adopt a cultural economy approach that has developed in a range of disciplines and sub-fields including sociology, anthropology, economic geography and management studies in treating money and finance as constituted through different networks of human practices. In order to explain why IFCs have not simply melted into a generalized and electronic "space of flows," research highlights the influence of a wide range of social and cultural factors that contribute to their success and survival. This departs from a more abstract political economic perspective by conceptualizing financial centers as active and dynamic ensembles of networks – of institutions, individuals, machines, texts, concepts, interpretations, and information.

Information is particularly important as the role of a financial center, which is to generate, capture, and interpret the vast amounts of monetary information that flows through every day. Rather than merely being physical locations of financial markets and institutions for the global finance industry, IFCs are centers of representation and chief points of surveillance, centers of expertise where product innovation and marketing are conducted, and centers of social interaction amongst finance workers in building trust relationships and knowledge networks. Stepping outside such networks and localities could be extremely costly in a financial world that has become increasingly complex and hypermobile. Studies of trust show how the business of finance still thrives on close interfirm and interpersonal relationships, such that physical proximity within an IFC is integral to the operation and reproduction of the financial system itself. Although formal institutions and mechanisms, such as credit rating agencies, exist to underwrite trust in finance, informal and personal relationships continue to be vital in shaping financial decisions and economic practices. As the financial system becomes increasingly complex, trust relationships have also become central strategies for reducing risk through the development and maintenance of interpersonal relationships, which are more easily performed in relatively circumscribed spaces such as IFCs.

Attention to such social and cultural constructions of IFCs has important implications for understanding urban and regional development. Active branding exercises conducted by state actors and institutions have become critical to the imaging of particular global cities as having the right credentials and expertise to claim the status of IFC. The City of London, for example, consciously plays to the role of cultural authority and expertise in global financial services through a rediscovery of tradition. Such branding exercises are more than symbolic reconstruction; they have material consequences for the reconfiguration of city centers to meet the demands of capital. The developments of the London Docklands, Battery Park City in New York, Shanghai Pudong New Area and Marina Bay Financial Centre in Singapore are the material expressions of a shift from organizing the city as an assortment of concrete production spaces towards visualizing it as a coherent space of financial processes, consumption, and political ideology. Studies in this vein range from the iconography of the City of London's built environment, to analyses of media representations of financial crises, and issues of gender and embodiment in understanding the practices and spatialities of finance.

Even as particular cities (such as London and New York) are seen as top-ranking global cities and preeminent IFCs far ahead of other competing centers, global cities must inevitably engage one another in fulfilling their functions of economic coordination and control, as their very success is sustained by their roles within a network of cities. Earlier studies divide cities into different tiers of importance according to their degree of integration into the global economy, and their roles as basing points in the spatial articulation of global production, finance, and consumption. IFCs are ranked according to variables such as number of financial headquarters and branches or volumes of financial transactions. The roles of advanced business services in supporting IFC growth are also noted, whereby particular cities function as sites of production for services and financial products that coordinate global economic activities. Since the early 2000s, geographers have highlighted the value of a network approach. Studies of IFCs and financial services explore more complementary forms of relations and alliances alongside the notion of hierarchy and competition between global cities. The theorization of a network of global cities inspired geographers to analyze intercity networks based upon flows and connections with the establishment of the Globalization and World Cities (GaWC) research network based at Loughborough University in the United Kingdom. These relational approaches highlight how the networked qualities of IFCs are vital in sustaining the overall global financial architecture, such as Frankfurt's growth as a complementary financial center to London, the IFC network of Hong Kong, Shanghai and Beijing in Greater China, and the consistent flows of capital, labor, and knowledge that have sustained both New York and London as pre-eminent global centers (often referred to as the NY-LON connection). In recent years, the increasing global network connectivity of key cities from emerging Asian economies (especially China) has led to suggestions of a discernible shift of global control and decision-making functions from West to East. The growing importance of Asia in global financial networks has become more pronounced after the 2007-2008 global financial crisis, as seen, for example, in the growth of Japanese and Chinese investment banks amidst overall shrinkage of investment banking activities. With growing economies and increasing demand for finance and advanced business services in Asia, financial geographers are paying more attention to processes and outcomes outside of Anglo-American contexts. These studies examine the ways in which finance matters in shaping socioeconomic and spatial transformations in different parts of the world and are important in explaining the increasingly globalised and networked nature of finance.

An IFC network approach has further developed in recent years through connecting developments between IFCs and OFCs. This problematizes the divide between what is seen as legitimate onshore financial activities in major financial centers (located within global cities) and less regulated and slightly shady transactions handled by offshore jurisdictions (often depicted as small island economies). A small but growing body of work has emerged over the past decade especially following the Panama Papers leak showing how wealthy and powerful corporations and individuals use tax havens to get around the law. Reasons for opening offshore accounts are varied, such as estate planning, minimizing tax obligations, raising foreign capital or money laundering. Some of these purposes are legal but ethically questionable. Research has highlighted how such offshore jurisdictions are more important to global economic transformations and regional development than previously recognized; they have become a vital component of business and financial practice for firms, individuals, and other institutions (Coe, Lai, and Wójcik 2014). Concomitantly, offshore functions in the interest of regulatory arbitrage are also widely practiced in many established IFCs, with the rise of so-called midshore financial centers that have both onshore traits (sophisticated financial markets, strong legal and regulatory systems) and offshore features (low taxes and secrecy), such as Singapore and Hong Kong, and even small cities in Switzerland and the USA. The significant role of OFCs in channeling global financial flows have highlighted another set of key financial actors – that of advanced business services. Studies examine the ways in which these firms, especially in law and accounting, mobilise various legal and financial vehicles that enable their clients to avoid the control of governmental or intergovernmental organizations through the use of OFCs. The work of law firms, accounting firms and consultancy firms are therefore just as, if not even more, important than that of banks and financial institutions in shaping corporate strategies, directing global flows of capital and their deployment in different markets around the world.

Financial Markets and Financialization

The workings of specific financial markets, the influence of global financial markets on corporate governance and national policies, and the broader implications of financial logics for governing economic and social lives have become more important in the past decade. With the scaling back of state welfare functions in Anglo-American economies, the privatization of pension funds, growth of unit trusts and other investment vehicles, and their management and investments have become significant topics of research into how these institutional investors impact financial markets, national development, and firm strategies. This is related to the spatialities of stock markets and how different national market structures and regulatory systems (such as in the United Sates, the United Kingdom, France, and Germany) have evolved in response to global financial imperatives. These strands of research highlight the increased importance of global financial markets for corporate governance, as accounting strategies have changed in response to the interests of global portfolio managers, leading, in turn, to the transformation of European corporate governance. The rise of stock markets and the changing relationship between bank financing and capital markets financing also have an important influence on corporate governance, regional development, and global production networks. As financial decision-making and the allocation of capital remain concentrated in major IFCs, regions and locations that lack such centers are disadvantaged in terms of access to finance, especially in terms of venture capital. The risky nature of the sector, and the trust-based and relational nature of venture capital investment results in clustering of funding to firms and individuals located near to IFCs, which could account for spatial variations in the levels of success shown by innovative enterprises.

In the context of growing power of financial markets, research on "financialization" has grown over the past decade since the 2007-2008 global financial crisis. Financialization refers to the increasing importance of financial logics and practice across various aspects of economic, political, and social life. This diverse and rapidly expanding literature ranges from regulation theory and critical social accountancy approaches to more sociocultural perspectives. Studies range from the growing and systemic nature of finance and financial engineering and their impacts on global governance, through national and firm level analyses that examine patterns of accumulation through financial channels rather than through trade or commodity production, to more individual and household level analyses of the transformation of everyday habits of savings and borrowing. Financial geographers have focused mainly on analyses of the processes and impacts of financialization on firms and regions, and have been particularly influential with respect to culturally inflected sociological research on how finance shapes everyday life within contemporary capitalist societies. Individuals are being conditioned to take on greater financial responsibilities and risks as Keynesian-style state social support is replaced by private sector variants such as personal pensions, private insurance, and investments. The transformation of everyday practices of borrowing and saving is also seen in the rise of credit card and other debts, and savings being channeled into various forms of investment products rather than conventional bank deposits. While some view this as a democratization of finance and investment to a broader public, others see it as the creation and extension of new risks with spatially uneven impacts. Instead of an abstract and monolithic entity, the financial system is reframed as a coalition of smaller constitutive ecologies, such that distinctive groupings of financial knowledge, practices, and subjectivities emerge in different places with uneven connectivity and material outcomes. This financial ecologies approach shows how households and individuals are changing their savings/investment practices and are being drawn into different financial relationships delineated by distinctive sociocultural demographics, and with unequal outcomes.

With the focus on financialization and households, a significant cluster of work has developed around social and care dimensions of financialization. Studies examine the ways in which everyday relationships and relational spaces – family, friendship and intimate relations – shape financial practices and everyday life under regimes of austerity or neoliberal financial governance. Much of this work intersects with feminist geography approaches in highlighting how gendered labour and familial relations and responsibilities shape the lived realities of financialization. Another strand of work focuses on the emergence of a set of markets called social finance, referring to the financial enclosure of previously-public or non-market welfare provision as poor people and disinvested localities are converted into investment opportunities with profit reframed as a force for social good. Proponents include investment banks, governments, philanthropic foundations and the World Bank. Operating at the intersections of neoliberalization and financialization, social finance raises conceptual questions about how poverty is monitored, and supervised (especially the role of the state therein), how poverty and inequality are rationalized within capitalism, and how finance is influencing these processes when poverty alleviation becomes profit-driven.

Relating to the financialization of the lived environment, another strand of work focuses on financialization of housing, real estate and the urban lived environment. Studies of residential and commercial real estate examine how fixed assets of the built environment have been transformed into liquid financial assets through regulatory and socio-technical changes. The financialization of real estate include rise in household debt, mortgage securitization and international investment in office markets. Rental housing is another sector that has received particular attention as private equity, hedge funds and real estate investment trusts (REITs) buy up large portfolios of social and private rented housing, while housing associations use derivatives and other financial instruments to manage debt and cash flow, creating new risks to communities and household. Studies on municipal finance and the use of financial products by the local state and (semi-)public sector also point to the importance of state actors in financialization. Reasons for such entanglement of state and finance are varied, ranging from the use of finance to legitimize state policies, regulations and funding in order to prioritize the interests of selected private investors and financial actors, to using financial instruments in the hopes of 'riding out' periods of urban austerity and fiscal crises. Despite these differences, research findings clearly point to the state as both object and agent of financialization, often in highly purposeful and strategic ways rather than just providing the context for financialization processes to unfold.

The overall impact of financialization is a decisive shift in the way that financial futures and risks are conceptualized and managed by firms, households and individuals. As global finance becomes increasingly influential in driving state policies, firm practices, and individual actions, money is being made not just from efficient allocation of funds to profitable ventures in the "real economy" but by buying and selling of financial instruments. Such trends increase the vulnerability of the wider economy to financial crises, and also raise questions about conceptualization of "real" and virtual/fictitious/financial economies.

Alternative and Emerging Financial Networks

While research approaches and topics in financial geography have diversified over the past few decades, the geographical focus has been largely dominated by Anglo-American economies, with some attempts at incorporating certain financial markets in Europe and Japan. The scrutiny of financial markets and activities in US and UK financial centers is perhaps unsurprising given the importance of service sectors (and advanced business services in particular) in those economies, following deindustrialization since the 1970s. However, as relational approaches to urbanization and capital accumulation become popular in studies of global city networks and IFC development, the geographical scope of financial geography begins to incorporate new nodes and networks in the global economy beyond the premier centers of London, New York, and Tokyo. With cycles of economic crises and recovery, financial markets and regions that used to be deemed unsuitable for investments are reframed as investment alternatives, offering opportunities for higher returns or as strategic assets for risk management. Such studies of “emerging markets” critically examine their discursive construction and mobilization by fund managers, analysts, rating agencies, and even nation-states as they seek ever higher returns on capital, especially when faced with recessionary pressures or slow growth environments in developed markets. The growing significance of IFCs and financial markets in Asia, the Middle East, and Eastern Europe has important implications for understanding the geographical scope of global finance, the entanglement of different types of financial markets and financial centers in strategies of capital accumulation, and how dominant discourses about the world economy have real impact on capital flows and their uneven distribution across countries and regions.

There is increasing attention to sovereign wealth funds (SWFs) for understanding the complex entanglement of nation-states, geopolitics, development, and global finance. While their motives, intentions, and operations may vary, wealthy economies in East Asia and the Gulf states using SWFs share common goals of managing rates of return on accumulated financial assets through investment in a broad range of asset classes and regions around the world. Research explores how these SWFs act as strategic instruments of states in maintaining legitimacy and furthering geopolitical interests, which combine both domestic concerns and international relations. As a result of these global investment footprints, even small countries with large and globally oriented SWFs can wield significant influence in the global political economy.

Analyses of the constructions and practices of financial logics based on Islamic religious principles and ethical guidelines have also been incorporated in order to better understand so-called mainstream finance. They reveal the use of different types of economic theories beyond the orthodox financial economics that dominate “Western” economic systems and a suite of different financial centers and networks previously unaccounted for. The growth of Islamic banking and finance in Muslim-dominated countries in the Middle East, Southeast Asia, and parts of Africa, as well as in non-Muslim countries (with London being an important global center for Islamic financial products), also points to the entangled nature of “alternative” and “Western” financial systems.

In recent years, concepts of ‘sustainable finance’ and ‘green finance’ have entered mainstream financial discourse in response to the United Nations Sustainable Development Goal and the Paris Climate Agreement. Geographical literature has often been critical of the financialization of environmental conservation and climate change solutions, for being tools used for the purpose of enhancing financial or political gains with limited benefits to addressing climate change and environmental issues. Some studies have focused on the ‘greenwashing’ behind highly performative behaviour in projects labelled as green finance, how environmental and climate risks are not effectively priced in green bonds with inadequate disclosure, monitoring and certification requirements, and how markets function as an ideology and an institution of governance through carbon trading markets.

Such developments are particularly significant as even conventional financial institutions are now looking to “alternative” financial products and markets in the incessant search for returns on capital, be they emerging markets, Islamic finance, or green bonds. Nascent research is also focusing on the rise of FinTech and how the intersection of the financial and technology sectors are creating new platforms, products, and services that could be reconfiguring inter-firm relationships, financial center development, financial consumption and practices, and regulatory attitudes towards technology firms, with digital forms of financialization and new modes of accumulation. All these underscore the importance of engaging in more intensive research on financial geographies beyond established financial centers and mainstream financial flows, in ways that are sensitive to geographically variegated systems and practices, as well as on the ways in which different circuits of financial knowledge and practices are entangled and mutually constituted along uneven power geometries.

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