



SCIENTIFIC REPORT

ECONOMIC GEOGRAPHY AND EUROPEAN FINANCE

EUROPEAN SCIENCE FOUNDATION EXPLORATORY WORKSHOP

16-19 September 2004, Jesus College, Oxford

Convenors: Gordon L. Clark, School of Geography and the Environment, Oxford
Rob Bauer, ABP Investments and University of Maastricht
Dariusz Wójcik, Jesus College, Oxford

1. Executive summary

Financial integration contributes to the spatial reconfiguration of firms, industries, and regions within the emerging European economy in a major but complex way. The objective of the workshop was to further our understanding of the links between finance and space in the European context, through a cross-examination of ideas between the growing field of economic geography and the geographical perspectives applied in other social sciences including financial economics, political science, sociology as well as management and business studies. With this objective in mind the workshop was organised as a series of six sessions: European finance between globalisation and localisation, stock markets, corporate governance, venture capital, financial centres and banking. With the exception of the session on banking (with three papers), two papers were presented in each session, in most cases representing contrasting approaches to the same topic. This juxtaposition of papers was intended to maximise the exploratory character of the workshop. On the top of the six sessions two keynote speeches were given by leading experts whose scientific knowledge is combined with outstanding executive experience in global and European, both private and public financial sector.

Workshop papers demonstrated a rich variety of theoretical approaches and a wide empirical coverage. Session 1 enquired into the relationship between economic fundamentals and financial internationalisation, and used the liquidity preference theory to explain regional repercussions of growing capital mobility and liquidity. Session 2 discussed the forces of liquidity migration following a company's cross-listing, and applied New and Post-Keynesian theories to expose the spatial implications of capital market imperfections. Session 3 applied the concept of private benefits of control to build a framework of the relationship between corporate governance and cross-listing, as well as comparative political economy to shed light on the recent development of the stakeholder systems of corporate governance. Session 4 used Fama-French model to estimate style exposures of European venture capital and leveraged-buy-outs investments, and actor-network theory to analyse the dynamics of the innovation industry. Session 5 applied the concepts of financialisation, virtualisation, demutualisation, and integration, as well as the theories of cumulative causation and New Economic Geography to explain the development of primary and secondary financial centres. Session 6 reviewed the treatment of distance and borders in the financial-economic models of banking, alongside with postcolonial and other theories stressing the social nature and construction of finance. The last session also applied regional science models to explain the spatial and

institutional development of a banking system. Empirically, the papers ranged from cross-sectional analysis with a global or European scope, through comparison of two countries (Switzerland vs. UK, UK vs. Germany, and UK vs. US), to case studies of individual countries (UK and Hungary) and cities (Amsterdam and Frankfurt).

Both keynote speakers addressed the issue of the role of geography in finance. Wiesław Rożucki (the President of the Warsaw Stock Exchange) stressed liquidity as the key cost and revenue factor in stock trading. Since it is subject to strong economies of scale and scope, along with availability of advanced technology such as remote access, liquidity drives European stock trading towards consolidation. However, there are cost and revenue factors that are not subject to size economies and are country and context-specific, including such stock market activities as investor education, admissions to listing and surveillance of companies. It is the tension between liquidity and the place-specific functions, which makes the design and execution of an appropriate and successful integration strategy particularly difficult for European stock exchanges. The speech by Richard O'Brien (Founding Partner of Outsights) addressed the questions to whom and why geography matters in finance. According to the speaker, geography is most relevant for three groups of agents: spatially challenged regions, economic sectors, as well as small and medium size enterprises (SMEs), claiming to be disadvantaged in terms of access to finance; institutions with spatially based agenda, including governments, financial regulators and private institutions such as stock exchanges; investors and market players whose ideas of investment and risk are still focused on countries. In response to the second question, the speaker claimed that geographical barriers in finance are falling, and so geography understood in narrow terms of location and distance matters less and less. However, the significance of geography is upheld through its close relationship with other factors shaping the future of finance: identity, mobility, technological change, information, trust, power, and barriers. Thus, both keynote speeches in a critical way highlighted the significance of research on geography and finance.

The main contribution of the workshop, as assessed on the basis of participants' feedback was the cross-fertilisation between various disciplinary and theoretical approaches, as well as the exchange of ideas between both young and senior academics and finance practitioners from 11 countries. In particular, the participants stressed the complementarity between quantitative and qualitative research. Still little is known empirically about the spatial flows of capital and finance in Europe, due partly to the lack of comparative data. On the other hand, while we are witnessing a rebirth of geography in academic literature on finance, there are definite limits of modelling and quantitative methodology traditionally applied in financial economics. As the workshop has highlighted real-world space escapes any easy quantification, and has to be treated as a multi-dimensional concept incorporating distance, political borders, cultural proximity, as well as inclusion in and exclusion from specific social networks. Regarding the agenda for future research on economic geography and European finance, two particularly important and promising areas were identified. The first of them involves the relationship between financial integration and spatially based local, regional, national, and international production systems. At issue is the relationship between the financial sector and other economic sectors, in particular the impact of financial integration on employment and innovation. The second area where more research is desired involves the future of European financial centres. This is again a quintessentially interdisciplinary topic, requiring an understanding of urban geography, including agglomeration economies but also the social interactions within cities, urban policy-making, governance, as well as the role of technology. In fact, there are already conferences and workshops being planned by the workshop participants that will take up these challenges, cultivating and deepening the existing research network, extending it within Europe, and establishing contacts with relevant networks outside of Europe.

2. Scientific content of the event

The workshop was organised as a series of six sessions: European finance between globalisation and localisation, stock markets, corporate governance, venture capital, financial centres and banking. With the exception of the session on banking (with three papers), two papers were presented in each session, in most cases representing contrasting approaches to the same topic. This juxtaposition of papers was intended to maximise the exploratory character of the workshop. On the top of the six sessions two keynote speeches were given by leading experts whose deep scientific knowledge is combined with outstanding executive experience in global and European, both private and public financial sector.

European finance between globalisation and localisation

The opening paper presented by Sergio Schmukler, World Bank on “Stock market development and internationalisation: Do economic fundamentals spur both similarly?” (co-authored with Stijn Claessens, University of Amsterdam and Daniela Klingebiel, World Bank) used panel data to claim that economic fundamentals such as sound macroeconomic policy, efficient legal system, shareholder protection, and openness, contribute to the development of the domestic stock market and at the same time, and even more so, drive the internationalisation of stock markets. These findings are inconsistent with the hypothesis that firms internationalise to escape poor domestic environments (related to strong versions of bonding hypothesis), instead indicating that better country fundamentals permit firms to internationalise. The authors qualify their results saying that they do not implicate a benign and universally positive impact of internationalisation.

José Corpataux and Olivier Crevoisier, University of Neuchâtel, explored the issue of diverse implications of financial globalisation further in their paper entitled “Increased capital mobility/liquidity and its repercussions at regional level: some lessons from the experiences of Switzerland and the UK (1975-2000)”. In the two countries, being the champions of financial internationalisation, the latter came at a price, above all in terms of growing imbalances in regional development. The theoretical tools proposed by the authors to understand these imbalances are endogenous money theories, including liquidity preference theory, as well as literature on comparative economic systems and regulation. The paper also points out that the relative strength of the British pound and Swiss franc have favoured the internationalisation of large companies and the growth of financial centres in the two countries, at the expense of industrial and tourist regions as well as SMEs in general.

In the following discussion questions were raised about the robustness of a global cross-sectional analysis of the first paper. One problem is that the international activities of a single large company may bias the quantitative results for an otherwise poorly internationalised small national economy. With regard to the second paper an important issue is the extent to which multinational companies maintain linkages in the home economy. Comments on both papers stressed the impact of euro and the rise of institutional investors, including pension funds on the financial landscape both at the supranational and regional level.

Stock markets

The first paper in the session entitled “Where is the market? Evidence from cross-listings”, presented by Otto Randl, University of Vienna and ISK (co-authored by Michael Halling, University of Vienna, Marco Pagano, University of Naples Federico II, and Josef Zechner, University of Vienna) investigated the distribution of trading volume across different venues after a company lists abroad. The paper shows that while in most cases after an initial blip foreign trading declines rapidly and often to negligible levels, there is a considerable cross-

sectional variation in the persistence and magnitude of foreign trading. First, foreign trading is higher for firms cross-listing on markets with lower trading costs and better insider trading protection. Second, foreign trading is more pronounced for more export and high tech oriented and smaller firms. The finding on the higher significance of foreign trading for smaller cross-listing companies is particularly novel as it rejects the common assumption associating cross-listings with the largest corporations. Another implication of the paper is to highlight the reasons for cross-listing other than trading, a theme explored in further detail in the following session on corporate governance.

In contrast to a financial-economic treatment of geography of the preceding paper, Ron Martin, University of Cambridge and Britta Klage, University of Hamburg, presented a quintessentially economic-geographical approach in their paper “Decentralised versus centralised financial systems: Is there a case for local capital markets?” Drawing mainly on new-Keynesian and post-Keynesian theories, with the starting point being that a financial system is not neutral in relation to real economy, they made an argument for the existence of systematic spatial implications of capital market imperfections. Based on empirical evidence on the structure of the stock and venture capital markets in the UK and Germany as well as a review of policy interventions to stimulate regional capital markets in the two countries they arrive at three salient conclusions. First, the presence of a local critical mass of financial institutions and agents does enable both local institutions and SMEs to exploit the benefits of close spatial proximity. Second, the existence of regional capital markets specialising in local firms may help to retain capital within regions and hence support local economic development. Third, within a financial system integrated at the national level, a regionally decentralised structure can increase the efficiency of capital allocation between the centre and the regions.

Discussants have raised the issue of the impact of the introduction of Euro on the phenomena described in both papers. With regard to the first paper it was suggested that further analysis could look into the behaviour of trading volume around big events e.g. the disclosure of fraudulent accounting practices. It was also noted that distinction should be made between the place of trading and the place of investors demanding the trading. For example, a trading of shares in a German company may take place in London, but it may still be driven by German investors. With regard to the second paper, a comment was made that the scarcity of venture capital investment may indeed be driven by the problems in demand not supply, what purportedly is the case in Italy.

Corporate governance

Dariusz Wójcik, University of Oxford presented a paper on “Corporate governance and cross-listing: Evidence from European companies” (co-authored with Gordon L. Clark, University of Oxford, and Rob Bauer, ABP Investments and University of Maastricht). The paper investigates the theoretical and empirical relationship between corporate governance and cross-listing. The theoretical framework, embracing the concepts of private benefits of control, access to external finance, and non-financial motives for cross-listing, suggests that firms cross-listing in a stricter corporate governance regime than the domestic one can be expected to have more minority shareholder friendly corporate governance not only after they cross-list but even before they decide to cross-list. Empirical analysis based on corporate governance ratings of over 360 largest European corporations corroborates the paper’s hypothesis demonstrating that companies with a U.S. cross-listing, and particularly those listed on a U.S. stock exchange had higher corporate governance ratings than companies without a U.S. cross-listing. In contrast, cross-listing within Europe does not seem to bear any impact on a firm’s governance, implying a potential competitive disadvantage for the future of European stock markets.

In paper entitled “Negotiated shareholder value: The German version of an Anglo-American practice” Sigurt Vitols, Wissenschaftszentrum Berlin, addressed corporate governance from a comparative political economy perspective. The paper criticises the simplistic dichotomous distinction between the shareholder and stakeholder model, and claims that recent changes observed in Germany do not indicate a simple replacement of the German variant of stakeholder system with a shareholder system. Instead he proposes that German corporate governance has evolved in the direction of an augmented stakeholder system through the inclusion of institutional investors in the old stakeholder coalition of interests. The major practical implication of this new system is that shareholder value as a company objective must be negotiated within the augmented stakeholder coalition. Exemplary features of this new system include relatively low level of performance incentives for employees, continued role of work councils, and low level of use of stock options as a form of executive compensation. With regard to the second paper questions were asked about the relationship between ownership structure and performance in German companies, particularly in firms where large shareholdings by banks or families are mixed with stakes of institutional investors. Another issue discussed was the role of agency i.e. the questions on the identity and origin of institutions driving the change in the German model of corporate governance. The first paper aroused discussion on whether, given the power of management in the U.S. corporations, corporate governance standards in the U.S. can indeed be considered as more minority shareholder friendly than in Europe. Other debated issues involved the independence of directors, and whether the new regulations of the Sarbanes-Oxley Act of 2002 in the U.S. have not imposed excessive costs on companies by formalising corporate governance requirements.

Keynote speech by Wiesław Rozłucki, President of the Warsaw Stock Exchange

The presentation by Wiesław Rozłucki was focused on the fundamental factors likely to shape the future map of the European stock markets, and in particular the place of the Warsaw Stock Exchange on this map. The starting point of the analysis is the distinction between the functions of a stock exchange that benefit from integration and those that do not. Here, the foremost function to be considered is liquidity, the main source of an exchange’s revenues and the primary determinant of the trading costs through its impact on bid-ask spread. Another function of a stock market subject to strong economies of scale is clearing and settlement. However, there are important functions of a stock market that are not subject to economies of scale. The list starts with admission of companies, which due to differences in language, culture, and the significance of context, can probably be done most cheaply at the home exchange. A similar argument applies to the surveillance of companies, which requires access to both public and non-public sources of information, again requiring proximity to issuer companies. Moreover, education of investors is hardly possible for foreign institutions. Last but not least, in practice no European stock exchange is interested in trading SMEs from other countries.

Interestingly, despite the existence of forces working against the consolidation of exchanges, in the 1990s the common expectation of practitioners and researchers alike was that Europe would have a single stock exchange for blue-chip companies. In reality, we have witnessed signs of deconcentration. For example, the share of the Helsinki Stock Exchange in the trading volume of Nokia has increased from approx. 37% to 65% since 2000. The current institutional structure of European stock exchanges seems to consist of three tiers: European super-exchanges i.e. the London Stock Exchange, Euronext, Deutsche Boerse; second tier with Swiss Exchange (including Virt-ex) Milan, Madrid, and the alliance of Scandinavian exchanges; third tier with all other exchanges including the Warsaw Stock Exchange. The map of the European stock exchanges is not however set in stone. Quite on the contrary, the

tension between the economic and political forces of consolidation and deconcentration implies a dynamic environment, where every stock exchange is watching the moves of everybody else and making difficult strategic choices. Particularly acute strategic dilemmas are faced by the stock exchanges in recent EU accession countries.

Wiesław Rozlucki, who has been the President of the Warsaw Stock Exchange (WSE) since its re-inception in 1991, sees four possible strategies for the WSE. First, the WSE can retain its domestic orientation, which appears to be the path followed by the exchange in Prague. Second, the WSE could pursue integration within Central and Eastern Europe. Third is the option of joining a pan-European exchange group such as Euronext or Deutsche Börse. The disadvantage of this strategy is that it could adversely affect access to finance for SMEs, since a Pan-European group is unlikely to serve their needs. The final option is for the WSE to become a hub in the European network of exchanges. Within this strategy the WSE would remain a stand-alone institution but with plenty of Europe-oriented international linkages covering i.a. order-routing as well as clearing and settlement. For this strategy to work the WSE would have to continue to offer innovative financial products. In addition, the stand-alone hub strategy of the WSE would need to be combined with a strategy of Warsaw as one of the European financial centres. The success in trading derivative instruments including index futures, and the initiative of Agenda Warsaw City 2010 are therefore important factors affecting the future of the Polish stock market and its place in European integration.

Venture capital

The session was the combination of a paper focused on purely financial risk-return characteristics of venture capital and private equity and a paper analysing venture capital as a socio-economic phenomenon involving networks of people and their spatial structures. Rob Bauer (ABP Investments and University of Maastricht) presented a paper entitled “Risk, returns, and style exposures of venture capital and leveraged buyouts investments”. The paper, using state of the art methodology on processing data on private equity, demonstrates that both in Europe and in the U.S. private equity yields an annual excess return of 3% to 5%, representing compensation for higher risk, lower liquidity, and higher leverage. Simultaneously however, the performance of private equity over time is tied very strongly to the performance of publicly listed equity. The second part of the paper reports an analysis of the regression coefficients of private equity returns on Fama-French factors such as market risk, size, book-to-market, and momentum factor. The results show that venture capital resembles small/growth listed firms, while leveraged buyouts resemble small/value listed firms. Implications made by the author are provocative, suggesting that risk-return characteristics of investment in private equity are more similar to investment in publicly traded equity than often assumed.

The paper of Terry Babcock-Lumish (University of Oxford) on “The dynamics of innovation investment communities: the spatial structure of networks and relationships” examines the role of relationships in structuring and sustaining entrepreneurial networks in both American and British innovation communities. The paper, using a combination of an extensive series of interviews, and software for mapping complex social networks, demonstrates that the identity and experience are the most prominent factors affecting an actor’s place and role in the network. The author indicates significant differences between the Boston and South-East England innovation communities, with the latter being more homogeneous, conservative and less open to the outside world. Nevertheless trust and shared experience as a proxy of trust are highly important in both the UK and the U.S.

In the following discussion Rob Bauer, who heads research at ABP Investments, was asked about policies employed by ABP in private equity investment, and in particular their methods to overcome the barriers of access to private information, crucial for this investment class.

With regard to the second paper the issue was raised about the distinction between location-specific and institutional ties within investment communities. Large part of discussion was devoted to the EU policy trying to stimulate the development of a venture capital cluster or clusters in Europe. Discussants identified a clash between the EU approach and the OECD recommending decentralisation of the risk capital policy in Europe.

Financial centres

The session consisted of a paper on Amsterdam as a secondary European financial centre, and a paper on Frankfurt am Main, a primary European financial centre. Ewald Engelen (University of Amsterdam) in his paper entitled “‘Amsterdamned’? The uncertain future of a secondary financial centre” presents the long-term evolution of the financial industry in Amsterdam, starting with its golden age in the 17th century but focusing on the changes of the last 20 years. The paper covers both the changes in the urban landscape, including the premises of financial institutions, as well as the less visible but salient forces of financialisation, virtualisation, demutualisation and integration. Using both qualitative and quantitative evidence the paper claims that the spatial consequences of these developments do not imply the ‘end of geography’ or the ‘death of distance’. It argues however, that what we observe is a shift of financial transactions to higher spatial scales with a growing part of financial flows going to the largest financial centres where transactions are cheapest due to the hegemony of liquidity. The author expects further financial innovation to only reinforce this trend at the expense of the secondary financial centres such as Amsterdam.

Michael Grote (J.W. Goethe University, Frankfurt am Main), in his paper entitled “The rise (and fall?) of the financial centre Frankfurt – locations of foreign banks in Germany 1949-2003” analyses the development of the Frankfurt financial centre after World War II with emphasis on its attractiveness for foreign banks. Based on a review of both microeconomic and macroeconomic, static and dynamic theories of financial centres the author puts forward four hypotheses. First, the development of financial centres is influenced by cumulative causation; second historical accidents can determine the development of financial centres in the long-run; third the concentration of financial institutions over time follows a U-shaped pattern suggested by the New Economic Geography, starting from dispersion, going to concentration, and returning to dispersion; fourth the development of financial centres is influenced by processes that yield different results at different scales. The paper claims that all four claims can be defended with an empirical analysis of foreign banking presence in Germany. First, a major attraction for foreign banks to locate in Frankfurt, was that other foreign banks had already established themselves in Frankfurt. Second, the initial advantage of Frankfurt over other German financial centres was affected by the location of Deutsche Bundesbank in Frankfurt after WWII. Third, the concentration of foreign banks in Frankfurt had increased after the WWII but only until approximately 1980, and from then on has been decreasing. Fourth, the observed dispersion of financial activities in Germany is accompanied by an on-going concentration in London at the European level.

Discussants emphasised the very timely and policy-relevant character of research on the future of European financial centres. Comments were raised about the deficiencies of the New Economic Geography models as focusing on transportation and manufacturing costs, and neglecting the impacts of innovation, as well as structural, and institutional change. Regarding the Amsterdam financial centre, its position is affected by the emphasis of the Dutch government on the Netherlands as a logistic hub of Europe; the shift of Dutch pension funds from domestic to international investment, and the changing microstructure of the stock market. With regard to Frankfurt questions were raised about the role of flagship institutions such as the Deutsche Bank, following a global and proprietary investment driven strategy perhaps at the expense of lending activities and the German footing; and Deutsche Börse also

shifting away from its German identity. In general, many commentators suggested that future research focuses more on financial products than on issues of nationality or place.

Banking

The first paper on “The impact of technology and regulation on the geographical scope of banking” was presented by Hans Degryse (Catholic University Leuven; co-authored by Steven Ongena, Tilburg University). First, the paper reviews the literature on the impact of physical distance and borders on bank lending conditions (loan pricing and credit availability) and market presence (branching and servicing). Next, it discusses how technological advances and changes in regulation may have altered this impact. On the one hand technology definitely reduces “distance-related diseconomies”, on the other hand progress in communication technology does not translate unambiguously into more exchange of information. Loan officers have interest in maintaining monopoly over credit assessment, instead of sharing all information inside the banks; firms are concerned with confidentiality when sharing information with banks; finally, information sharing between banks involves the issue of free-riding. In this context it is interesting to see that the tendency of banks to de-branch, so pervasive in the 1990s has to a large extent been reversed at the start of the new millennium. With regard to the state of banking in the European Union, the paper asserts that even though most regulatory borders are removed, there are still formidable barriers to integration in the form of both exogenous (language, culture, corporate governance systems) and endogenous (related mostly to information asymmetries) borders. The paper concludes with a call for an open European take-over market and tighter collaboration between national bank regulators.

Jane Pollard (University of Newcastle) in paper entitled “European financial integration through diverse economic practices? The growth of minority ethnic banks in the UK” undertook the under-researched topic of financial practices of ethnic minorities in the European context, focusing on ethno-banks in the UK. This is an important topic not only because ethnic minorities constitute a growing part of population in European countries, but also because ethnic minorities can subscribe to understandings of money and finance which are different from the dominant views of the white majorities. In addition they are ethnic minorities, which often face problems accessing finance and become subject of financial exclusion. Of particular interest for this research is the relationship between access and use of financial resources and familial, religious, and other social networks. On a theoretical level, the paper proposes three groups of literature that should help our understanding of ethnic minority banks, starting with the ‘new economic geographies’ of money and finance which insist on the social nature and construction of the economic and financial processes. Second, there are literatures that seek to locate diverse understandings of money and finance more centrally in the analyses of urban and regional development. Third, postcolonial literatures are useful here as they question the central position and power of economic discourses in the way they shape debates about poverty and wealth.

Zoltán Gál (Hungarian Academy of Sciences) presented the last paper of the session entitled “Spatial structure and the expanding European integration of the Hungarian banking system”. The paper reviews the institutional and spatial aspects of the development of the Hungarian banking system. In the conditions of domestic capital shortages, this development has relied heavily on foreign direct investment, with over 90% of bank assets concentrated in foreign-controlled institutions. The author argues that the corollary of this process has been a very high level of spatial concentration of banking services, and centralisation of financial and economic decision-making in the capital of the country, thus posing a threat to a balanced development of the Hungarian economy across regions and sectors. As the author claims the majority of banks do not provide finance to agricultural investments, SMEs or projects related

to regional development. The context of European integration is of paramount significance to understand the parallel processes of internationalisation, concentration and centralisation. First, all these phenomena are enhanced by Budapest competing for the position of a supra-national financial centre of Central and Eastern Europe. Second, referring to the theory of optimum currency areas, the author suggests that the future introduction of Euro in Hungary may deepen the gap between Budapest and the rest of the country, since the capital region is more in tune with the economic structure and cycle of the Eurozone.

In the following discussion, a question was raised with respect to the first paper, whether in order to model bank lending activities in space it is not necessary to account for the other side of bank balance sheets, and namely deposit-taking. With regard to the second paper, discussants stressed the need to research informal financial networks of ethnic minorities, both at the local and international scale. It is also important to find out whether successful ethnic minority firms stay with ethno-banks or move their accounts to mainstream banks. In response to the third paper, comments were made that the model of banking sector development prevailing in Hungary has many parallels in Central and Eastern Europe but is by no means the only model followed by transition economies in the region. Slovenia for example has so far protected its financial sector against a high level foreign control. In this light, it is intriguing to see no policy debate in Hungary on potential negative effects of financial internationalisation.

Keynote speech by Richard O'Brien, Outsights, the author of "Global Financial Integration: The End of Geography"

In the closing speech of the Workshop, Richard O'Brien focused on two questions:

- To whom does geography of finance matter?
- How does geography matter in finance?

The speaker identified three groups of agents and institutions for which geography of finance matters most. First, geography matters to the spatially challenged regions, economic sectors, as well as SMEs, claiming to be disadvantaged in terms of access to finance. Here one of the issues is that money is not necessarily a panacea for their revival. Second, geography matters for institutions with spatially based agenda, including governments, financial regulators as well as private institutions such as stock exchanges. Third, geography matters for investors and market players whose ideas of investment and risk are still focused around countries.

Next, the speaker discussed seven major phenomena that matter for the future of finance, and emphasised how each of them is related to geography. First, is the quintessentially geographical issue of identity starting with the simple distinction between home and abroad. The second issue is mobility, which involves the flows of both outputs and factors of production in space. Here, the speaker stressed that geography matters most with regard to people as by far the least mobile factor of production. The third issue is technological change, the very objective of which is to overcome the barrier of distance. The next issue is information, which involves turning expanding volumes of data into knowledge. Here, the speaker claims that thanks to technological progress the analysis of data could be performed anywhere, if it was not because of trust. The need to trust the source of information is a major factor that makes proximity important, particularly in the context of information networks. The penultimate phenomenon, which matters to finance is power or politics both at the level of nations and corporations, with power always having a geographical location. The consideration of power leads to the last issue - barriers in the form of borders, distance, language or culture in general. The speaker emphasised the issue of barriers being erected and defended in order to gain or retain power.

The second part of the speech was devoted to comments on individual papers, followed by two main conclusions. First, geographical barriers in finance are indeed falling, and so

geography understood in narrow terms of location and distance does matter less and less. However, geography is closely related to other factors shaping the future of finance. In this sense, the keynote speech stressed the need for future interdisciplinary research on geography of finance.

3. Assessment of the results, contribution to the future direction of the field, outcome

In simple terms the main contribution of the workshop was the cross-fertilisation between various disciplinary and theoretical approaches, as well as an exchange of ideas between young and senior academics and finance practitioners from 11 countries. At the end of the workshop each participant was asked two questions:

-What did you find surprising during the workshop?

-What have you learnt from the workshop?

In their answers the participants expressed how surprised they were by the variety of approaches to the topic of European finance represented at the workshop, and more importantly stressed the value of this diversity being performed at a common forum.

Participants' answers also emphasised the potential for cross-fertilisation between different disciplinary approaches to European finance, including economic geography and financial economics. In particular, the workshop highlighted the complementarity between and necessity for quantitative and qualitative research. On the one hand, more quantitative research is needed. As the paper by Ron Martin and Britta Klagge concluded, still little is known empirically about the spatial flows of capital and finance. Their concern has been highlighted by other participants speaking about the scarcity of research and deficiencies of European data on venture capital, cross-listings within Europe or even employment in the financial sector. On the other hand, while we are witnessing a rebirth of geography in academic literature on finance, there are definite limits of modelling and quantitative methodology traditionally applied in financial economics. As the workshop has highlighted real-world space escapes any easy quantification, and has to be treated as a multi-dimensional concept incorporating distance, political borders, cultural proximity, as well as inclusion in and exclusion from specific social networks.

In their feedback the participants stressed that the workshop have opened more questions than it has answered. Regarding the future research on economic geography and European finance, two particularly important and promising areas were identified. The first of them involves the relationship between financial integration and spatially based local, regional, national, and international production systems. In other words at issue is the relationship between the financial sector and other economic sectors, in particular the impact of financial integration on employment and innovation. The second area where more research is desired involves the future of European financial centres. This is again a quintessentially interdisciplinary topic, requiring an understanding of urban geography, and agglomeration economies but also the social interactions within cities, urban policy-making, governance, as well as the role of technology. With the national macroeconomic borders being more and more blurred with the ensuing integration cities become more prominent on the financial map of Europe. In addition to competition and collaboration between cities within Europe there is also an urgent need to understand their dynamic position within the global networks of finance. As Richard O'Brien suggested in his speech, "the future of markets should take a hard look at the future of cities to learn their geography lessons".

In addition to the formulation of topics for future research agenda, the workshop will bring fruit in the form of follow-up meetings. Gordon L. Clark, Dariusz Wójcik (Oxford University), and Michael Grote (Goethe University, Frankfurt) are in the process of

organising an series of sessions entitled “Geographies of financial globalisation: theory and practice” as a part of the Annual Meeting of the Association of American Geographers, held in Denver in April 2005. Gordon L. Clark and Dariusz Wójcik are also planning sessions on European financial centres within the Annual Conference of the Royal Geographical Society – Institute of British Geographers, held in London in September 2005. Both of these initiatives involve many of the workshop participants, and many researchers who did not take part in it, thus extending the network created by the workshop. The intention of these initiatives is also to establish contacts with relevant research networks outside of Europe. Other participants have also expressed intentions to organise workshops or conferences devoted to the issues of European finance and economic geography. Rob Bauer has expressed an intention to organise a follow-up workshop focused on the issue how an economic-geographical understanding of European finance can contribute to the formulation and conduct of investment strategies. Olivier Crevoisier considers organising a workshop with emphasis on the relationship between finance and production systems. Regarding a more basic, however very practical outcome of the workshop, a workshop website has been created which contains a complete set of papers and speeches. This website will remain online linked through the website of the School of Geography and the Environment, University of Oxford, University of Maastricht as well as some departmental and personal websites of the attendees. The organisers have also considered the publication of the scientific report from the workshop on the website of the expanding and already extremely popular social science research network (www.ssrn.com).

4. Final programme

Friday 17 September

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| 8:15-9:00 | Breakfast in the Dining Hall |
| 10:00–10:30 | Registration, tea and coffee in the Junior Common Room |
| 10:30–10:45 | Welcome: overview of the meeting format and objectives |
| 10:45–11:00 | <i>Patrice Fontaine</i> : Presentation of the European Science Foundation |
| | Session 1: European finance between globalisation and localisation |
| | Chair: Gordon L. Clark |
| 11:00–11:30 | <i>Sergio Schmukler, World Bank</i>
Stock Market Development and Internationalization: Do Economic Fundamentals Spur Both Similarly? |
| 11:30–12:00 | <i>José Corpataux and Olivier Crevoisier, IRES, University of Neuchâtel, Switzerland</i>
Increased capital mobility/liquidity and its repercussions at regional level: some lessons from the experiences of Switzerland and United Kingdom (1975-2000) |
| 12:00–12:30 | Questions and answers |
| 12:30–13:30 | Lunch in the Dining Hall |
| 13:30–14:00 | Tea and coffee in the Junior Common Room |
| | Session 2: Stock markets |
| | Chair: Dariusz Wójcik |
| 14:00–14:30 | <i>Otto Randl, University of Vienna</i>
Where is the Market? Evidence from Cross-Listings |
| 14:30-15:00 | <i>Ron Martin, University of Cambridge, UK and Britta Klagge, University of Hamburg, Germany</i>
Decentralised versus Centralised Financial Systems: Is there a Case for Local Capital Markets? |
| 15:00-15:30 | Questions and answers |
| 15:30-16:00 | Tea and coffee in the Junior Common Room |

Session 3: Corporate governance

Chair: Rob Bauer

- 16:00-16:30 *Dariusz Wójcik, University of Oxford, UK*
Corporate governance and cross-listing: evidence from European companies
- 16:30-17:00 *Sigurt Vitols, Social Science Research Centre, Berlin, Germany*
Negotiated shareholder value: the German version of an Anglo-American practice
- 17:00-17:30 Questions and answers
- 17:30-19:00 Break
- 19:00-20:15 Dinner in Mansell Room (Staircase V)
- 20:15-20:45 Keynote speaker: *Wiesław Rożucki, The President of the Warsaw Stock Exchange*
- 20:45-21:15 Questions and answers

Saturday 18 September

- 8:15-8:45 Breakfast in the Dining Hall

Session 4: Venture capital

Chair: Dariusz Wójcik

- 9:00-9:30 *Rob Bauer, University of Maastricht, ABP Investments, Netherlands*
Risk-return characteristics of venture capital and private equity
- 9:30-10:00 *Terry Babcock-Lumish, University of Oxford, UK*
The dynamics of innovation investment communities: the spatial structure of networks and relationships
- 10:00-10:30 Questions and answers
- 10:30-11:00 Tea and coffee in the Junior Common Room

Session 5: Financial centres

Chair: Rob Bauer

- 11:00-11:30 *Ewald Engelen, University of Amsterdam, Netherlands*
'Amsterdamm'd? The Uncertain Future of a Secondary Financial Center
- 11:30-12:00 *Michael Grote, J. W. Goethe-University Frankfurt, Germany*
The rise (and fall?) of the financial centre Frankfurt – locations of foreign banks in Germany 1949-2003
- 12:00-12:30 Questions and answers
- 12:30-13:30 Lunch in the Dining Hall
- 13:30-14:00 Tea and coffee in the Junior Common Room

Session 6: Banking

Chair: Gordon L. Clark

- 14:00-14:30 *Hans Degryse, Catholic University Leuven, Belgium*
The impact of technology and regulation on the geographical scope of banking
- 14:30-15:00 *Jane Pollard, University of Newcastle upon Tyne, UK*
European financial integration through diverse economic practices? The growth of minority ethnic banks in the UK
- 15:00-15:30 *Zoltán Gál, Hungarian Academy of Sciences, Hungary*
Challenges of the EU & EMU: expanding European integration of the Hungarian banking system in the light of the accession
- 15:30-16:15 Questions and answers
- 16:15-16:45 Summary and conclusions
- 16:45-17:15 Tea and coffee in the Junior Common Room
- 17:15-19:00 Break
- 19:00-20:30 Dinner in the Dining Hall
- 20:30-21:00 Keynote speaker: *Richard O'Brien, Outsights, London*
Does geography matter?
- 21:00-21:30 Questions and answers

5. Final list of participants (including full title, address, telephone, fax, email)

<u>Name</u>		<u>Postal address</u>	<u>Telephone, fax, email</u>
Pietro	Alessandrini	Dipartimento di Economia Universita' di Ancona Piazza Martelli, 60121 – Ancona ITALY	T 0039 71 2207083 F 0039 71 2207102 alepiero@dea.unian.it
Terry	Babcock- Lumish	Rothermere American Institute 1A South Parks Road Oxford, OX1 3TG, UK	T 07748 962 744 F 0044 (0)1865 282 720 terry.babcock-lumish@ouce.ox.ac.uk
Rob	Bauer	P.O. Box 2889 6401 DJ Heerlen Oude Lindestraat 70 6411 EJ Heerlen, THE NETHERLANDS	T 0031 (0)45 579 15 80 F 0031 (0)45 579 19 73 r.bauer@abp.nl
Gordon L.	Clark	School of Geography and the Environment Oxford University, Mansfield Road OX1 3TB, Oxford, UK	T 0044 (0)1865 271 922 F 0044 (0)1865 271 923 gordon.clark@ouce.ox.ac.uk
José	Corpataux	Institut de recherches économiques et régionales (IRER) Université de Neuchâtel Pierre-à-Mazel 7 CH-2000 Neuchâtel SWITZERLAND	T 0041 32 718 14 04 F 0041 32 718 14 01 jose.corpataux@unine.ch
Olivier	Crevoisier	Institut de recherches économiques et régionales (IRER) Université de Neuchâtel Pierre-à-Mazel 7 CH-2000 Neuchâtel SWITZERLAND	T 0041 32 718 14 16 F 0041 32 718 14 01 olivier.crevoisier@unine.ch
Hans	Degryse	Catholic University Leuven Naamsestraat 69 B 3000 Leuven BELGIUM	T 0032 16 326 856 F 0032 16 326 796 hans.degryse@econ.kuleuven.ac.be
Ewald	Engelen	Wetenschappelijke Raad voor het Regeringsbeleid (WRR) Plein 1816 nr.2, P.O.Box 20004 2500 EA The Hague THE NETHERLANDS	T 0031 70 356 4679 F 0031 70 356 4685 e.r.engelen@uva.nl/engelen@wrr.nl
Patrice	Fontaine	Centre National de la Recherche Scientifique (CNRS) Département des Sciences de l'Homme et de la Société (SHS) 3 rue Michel Ange 75794 Paris Cedex 16 FRANCE	T 0033 1 44 96 42 89 F 0033 1 44 96 47 99 patrice.fontaine@cnrs-dir.fr
Zoltán	Gál	Centre for Regional Studies Hungarian Academy of Sciences, University of Kaposvár Papnövelde u. 22 HUNGARY-7621 Pécs	T 0036 72 212 755 F 0036 72 233 704 Galz@rkk.hu

Michael	Grote	J. W. Goethe-University Frankfurt School of Economics Postfach 11 19 32 60054 Frankfurt am Main, GERMANY	T 0049 (0) 69/798-23566 F 0049 (0) 69/798-28121 grote@em.uni-frankfurt.de
Anke	Hassel	International University Bremen School of Humanities and Social Sciences, Campus Ring 1 28759 Bremen, GERMANY	T 49 (0)421 - 200-3492 a.hassel@iu-bremen.de
Tessa	Hebb	School of Geography and the Environment Oxford University, Mansfield Road OX1 3TB, Oxford, UK	T 0044 (0)1865 271919 F 0044 (0)1865 271929 tessa.hebb@ouce.ox.ac.uk
Gregory	Jackson	Research Institute of Economy, Trade and Industry 1-3-1 Kasumigaseki, Chiyoda-ku Tokyo 100-8901 JAPAN	T 81-3-3501-8313 F 81-3-3501-8416 gregory-jackson@rieti.go.jp
Britta	Klagge	Universität Hamburg Institut für Geographie Bundesstraße 55 20146 Hamburg, GERMANY	T 0049 40 42838 4968 F 0049 40 42838 4981s britta@klagge.de klagge@geowiss.uni-hamburg.de
Vivien	Lo	Fraunhofer ISI Institute for Systems und Innovation Research Breslauerstr. 48 D-76139 Karlsruhe, GERMANY	T 0049 721 6809 181 F 0049 721 6809 176 V.Lo@isi.fraunhofer.de
Ron	Martin	Department of Geography University of Cambridge Downing Place Cambridge CB2 3EN, UK	T 0044 01223 338 316 F 0044 01223 338 340 rlm1@cam.ac.uk
Linda	McDowell	School of Geography and the Environment Oxford University, Mansfield Road OX1 3TB, Oxford, UK	T 0044 (0)1865 271919 F 0044 (0)1865 271929 lmcdow@ouce.ox.ac.uk
Richard	O'Brien	Outsights 209 Business Design Centre 52 Upper Street London N1 0QH, UK	T 0044 (0)207 226 2280 F 0044 (0)207 226 2330 richard@outsights.co.uk
Jane	Pollard	Centre for Urban and Regional Development Studies (CURDS) University of Newcastle upon Tyne NE1 7RU, UK	T 0044 (0)191 222 5876 F 0044 (0)191 232 9259 J.S.Pollard@ncl.ac.uk
Otto	Randl	Institut für Strategische Kapitalmarktforschung – ISK Coburgbastei 4/1 A - 1010 Wien, AUSTRIA	T 0043 (1) 518 18 - 970 F 0043 (1) 518 18 - 920 otto.randl@iskwien.at
Wiesław	Rozłucki	Wiesław Rozłucki Prezes Zarządu Giełda Papierów Wartościowych w Warszawie	T 0048 22 537 70 93 F 0048 22 625 77 05 Beata.Dembska@gpw.com.pl (PA)

Książęca 4, 00-498 Warszawa
POLAND

James	Salo	School of Geography and the Environment Oxford University, Mansfield Road OX1 3TB, Oxford, UK	T 0044 (0)1865 271919 F 0044 (0)1865 271929 James.salo@ouce.ox.ac.uk
Andrea	Schertler	Kiel Institute for World Economics Düsternbrooker Weg 120 24105 Kiel, GERMANY	T 0049 (0) 431/8814-496 F 0049 (0) 431/8814-500 a.schertler@ifw.uni-kiel.de
Sergio	Schmukler	Development Research Group World Bank	T (202) 458-4167 F (202) 522-3518 Sschmukler@worldbank.org
Kendra	Strauss	School of Geography and the Environment Oxford University, Mansfield Road OX1 3TB, Oxford, UK	T 0044 (0)1865 271919 F 0044 (0)1865 271929 kendra.strauss@ouce.ox.ac.uk
Morag	Torrance	School of Geography and the Environment Oxford University, Mansfield Road OX1 3TB, Oxford, UK	T 0044 (0)1865 271919 F 0044 (0)1865 271929 morag.torrance@ouce.ox.ac.uk
Sigurt	Vitols	Social Science Research Center Berlin Reichpietschufer 50 D-10785 Berlin, GERMANY	T 0049 30 25491 103 F 0049 30 25491 480 vitols@wz-berlin.de
Dariusz	Wójcik	Jesus College OX1 3DW, Oxford UK	T 0044 (0)1865 279 742 F 0044 (0)1865 279 687 dariusz.wojcik@jesus.ox.ac.uk
Neil	Wrigley	School of Geography University of Southampton Highfield, Southampton SO17 1BJ, UK	T 0044 (0)2380593762 F 0044 (0)2380593295 N.Wrigley@soton.ac.uk

6. Statistical information on participants (age bracket, countries of origin, etc.)

Approximate age structure		Country of origin (according to workplace)	
Under 30	10%	Austria	1
30 – 40	50%	Belgium	1
40 – 50	20%	France	1
50 – 60	20%	Germany	6
		Hungary	1
Academic discipline		Italy	1
		Netherlands	2
Economics	6	Poland	1
Finance	4	Switzerland	2
Geography	14	United Kingdom	13
Political Science	2	U.S.A.	1
Regional Science	3		
Sociology	1		
		Total	30