

Miriam L. Campanella
University of Turin
Senior Fellow
ECIPE Brussels

The changing geography of finance
Shifting financial flows, and new financial Hubs:
Shanghai and Paris



Eurasia Takes Centerpiece

I will talk over a new generation of financial centers, which are developing from East to West, along the old paths of the Eurasia landmass

I will call your attention on three

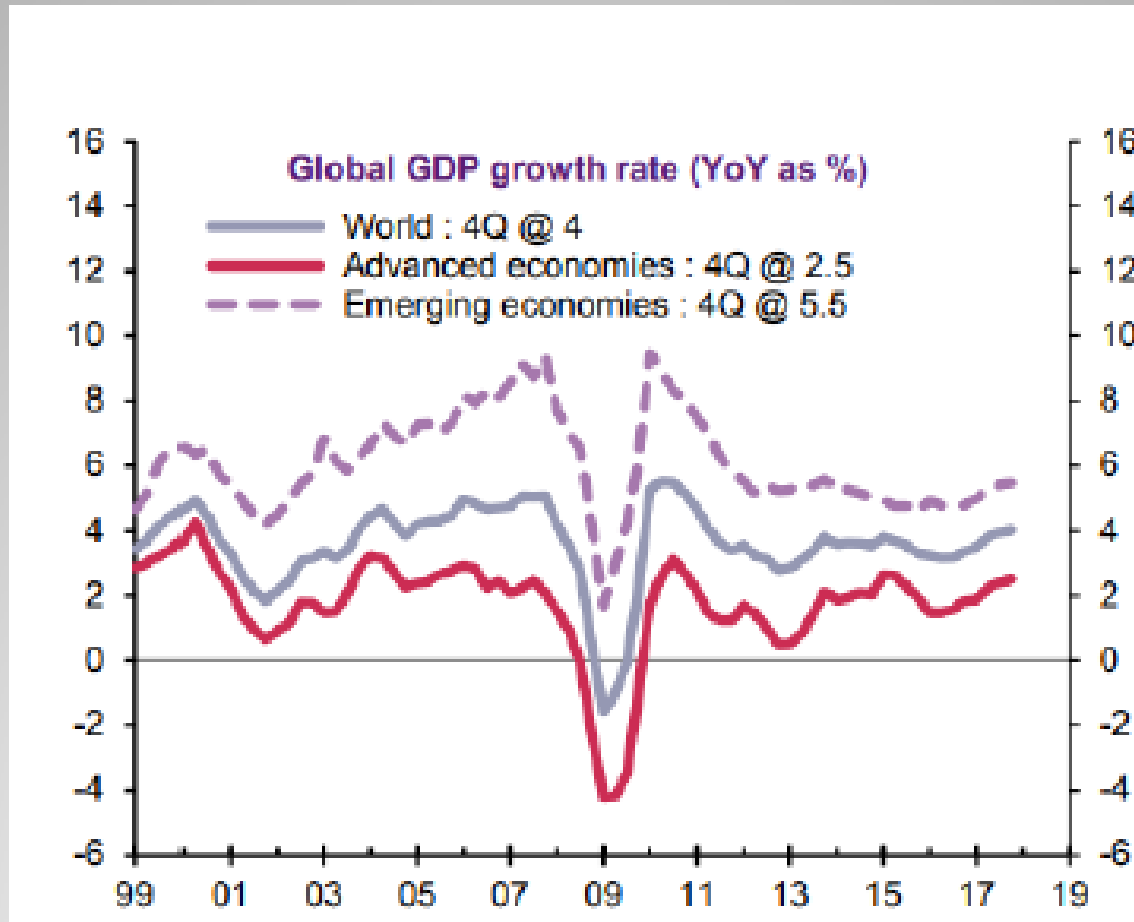
Key-points :

- 1. Shift of the Center of Economic Gravity to East**
- 2. Financial Deepening and Economic Growth**
- 3. Continent-size Jurisdictions and New Financial Hubs**

Key-point 1

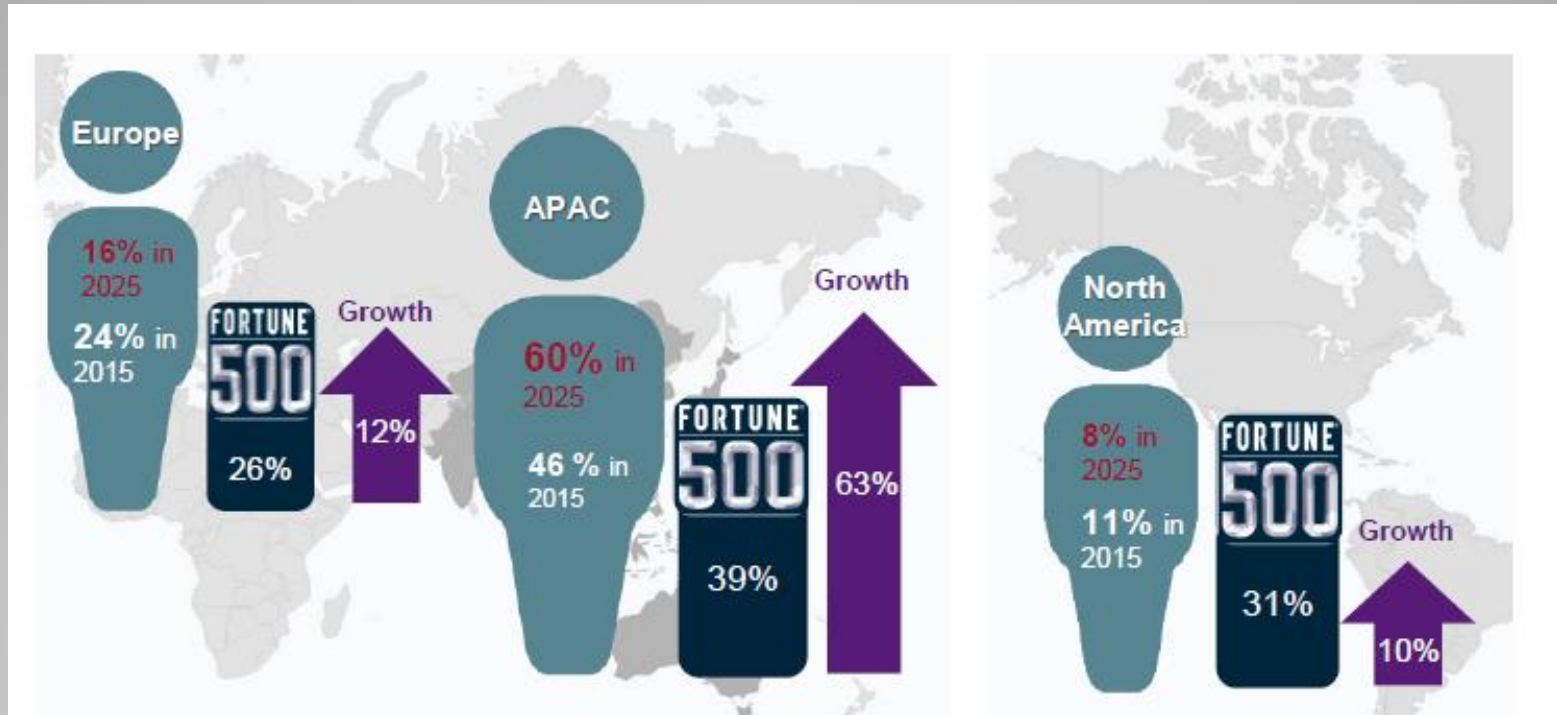
**Shift of the Center
of Economic Gravity to East**

Center of Gravity to East



1) EMEs World GDP Best Performers

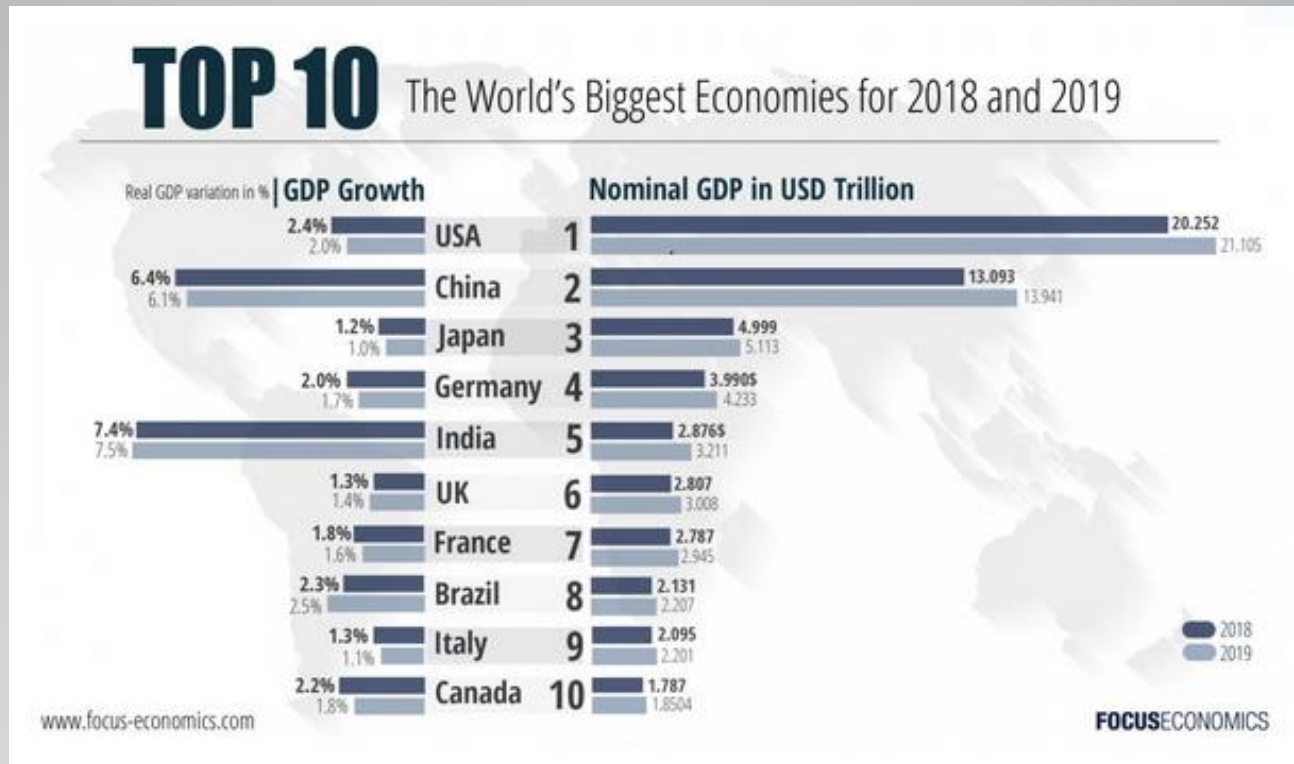
Center of Gravity to East



2) Asia Pacific overcomes Europe, and North America for GDP, Size of the Middle Class, and Corporations

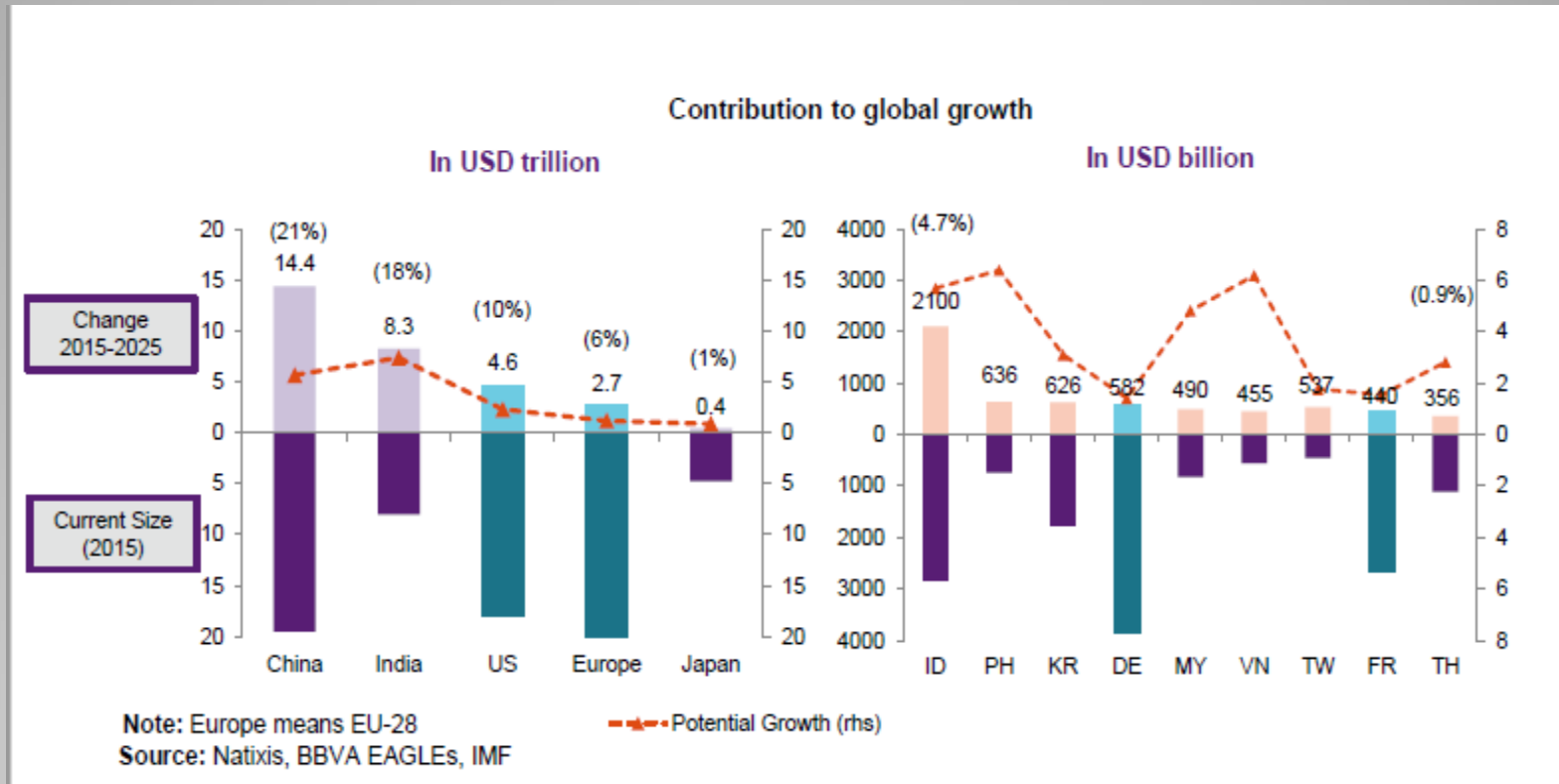
Center of Gravity to East

Top Ten Biggest National Economies



3) Consensus forecast: China, India in the top 10 league

Shift of the Center of Gravity to Asia



4) Asia Contribution to Global Growth

Shift of the Center of Gravity to East



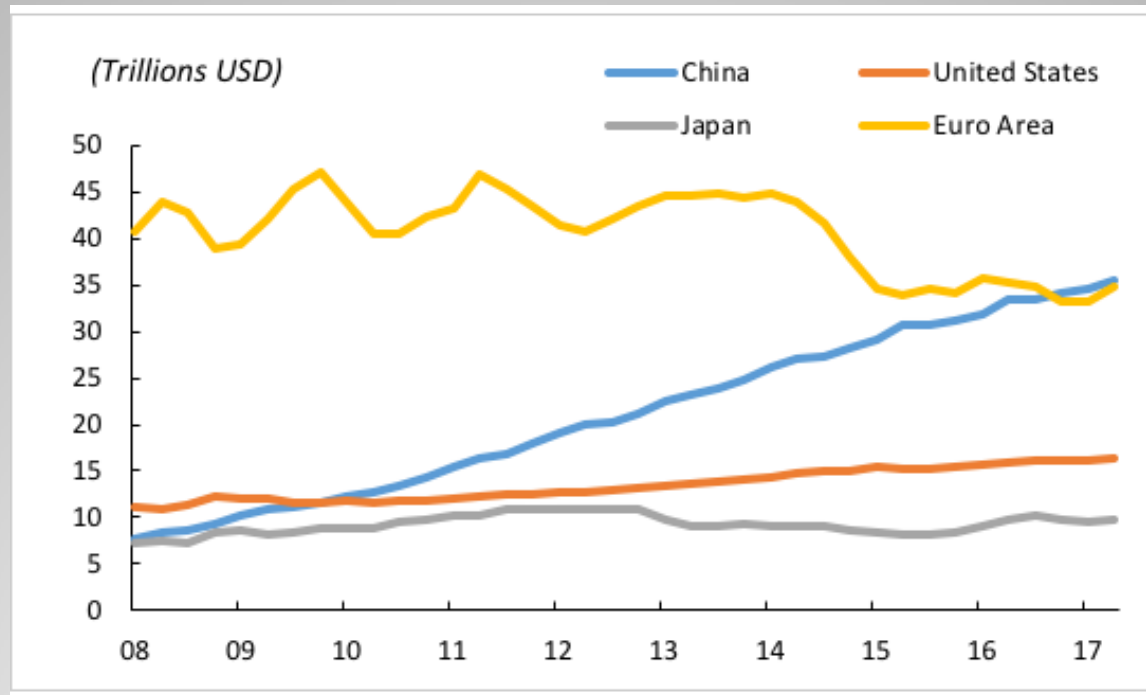
In the next three years USD 6.5 tn will be added to 75 tn Global Economy

Key-Point 2

Asia's Financial Deepening

Shift of the Center of Gravity to Asia

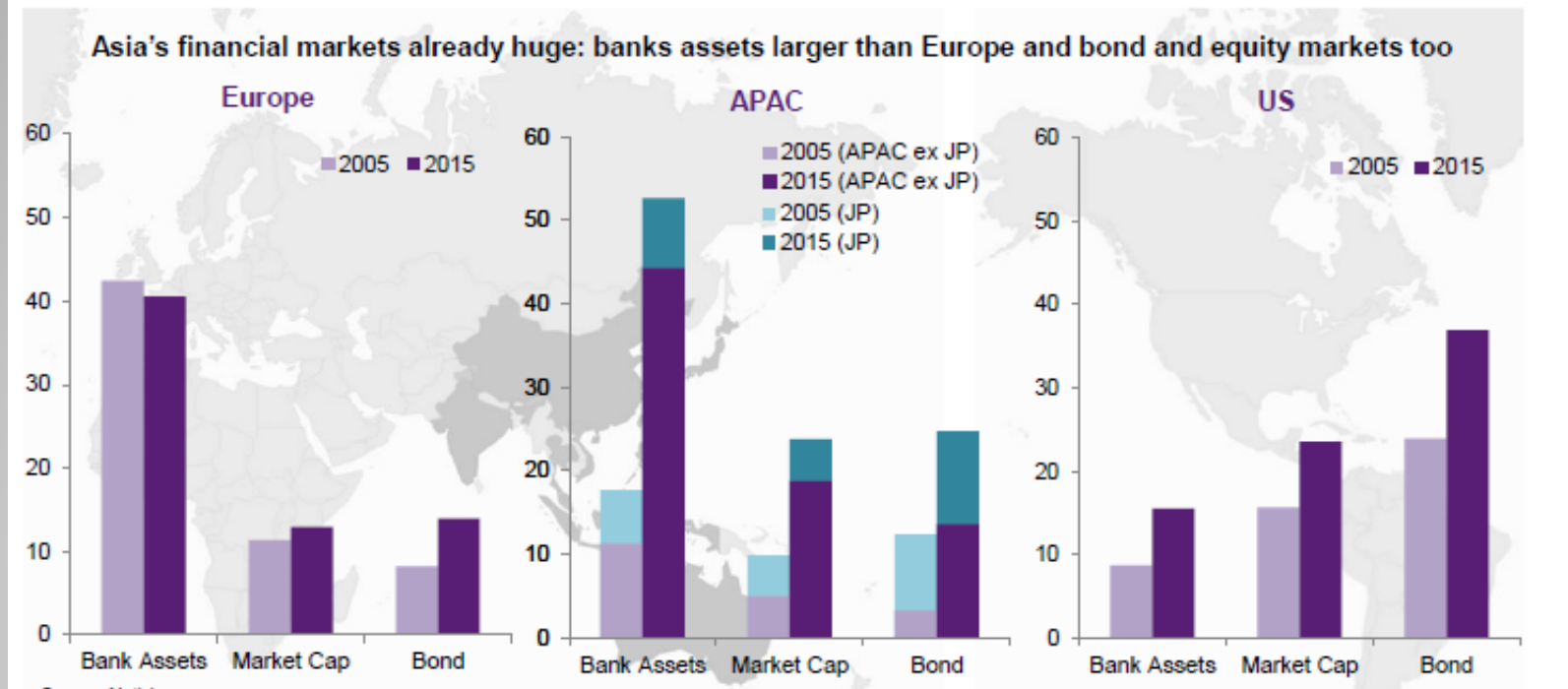
Banking and Finance



Total bank assets for selected countries

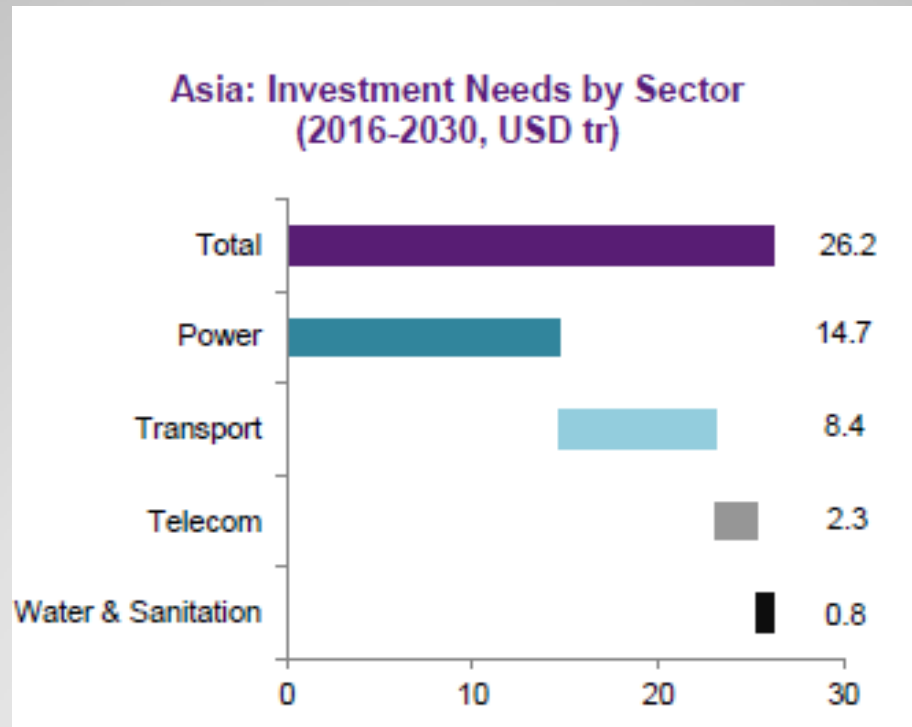
Chinese bank assets hit \$33tn at the end of 2016, versus \$31tn for the eurozone, \$16tn for the US and \$7tn for Japan

Shift of the Center of Gravity to Asia *Banking Assets*



6) Asia-Pacific financial markets: bank assets larger than Europe, and bond and equity markets too.

Asia's Financial Deepening *Finance Gap and Infrastructures Investements Needs*



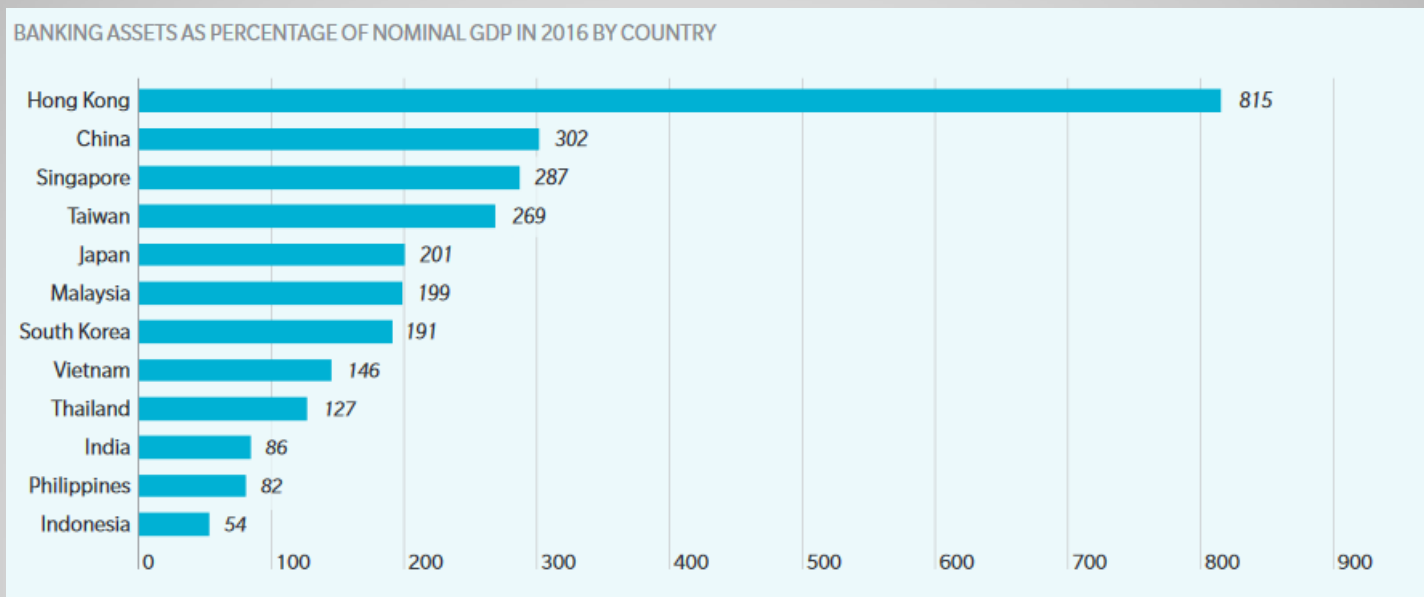
8) Asia Investment Needs by Sector

Financial Deepening

Banking

**Asian banking industry assets breaches \$50 tn barrier
(top 30 banks)**

Banking system very large vis-à-vis financial sector



9) Asia Banking assets to nominal GDP by country

Financial Deepening

TOP 10 WORLD BANKS 2017

Rank (prev)	Bank	Country	Tier 1 capital (\$m)
1 (1)	ICBC	China	281,262
2 (2)	China Construction Bank	China	225,838
3 (3)	JP Morgan	US	208,112
4 (4)	Bank of China	China	199,189
5 (6)	Bank of Amerca	US	190,315
6 (5)	Agricultural Bank of China	China	188,624
7 (7)	Citigroup	US	178,387
8 (8)	Wells Fargo	US	171,364
9 (9)	HSBC	UK	138,022
10 (10)	Mitsubishi UFJ Financial Group	Japan	135,944

Source: www.thebankerdatabase.com

10) Top Ten World Banks 2017 (Source: The Banker, July 2018)

Asia and the West: less dependent, sensitive, but not vulnerable

**Financial linkages still relevant via “Dollar financial cycle”,
are weaker than in the past**

- **Fed’s Quantitative Tightening: flows to Asia cut by \$55bn over 2ys (plus \$15 bn fall if short-term interest rates rise)**
- **US 10-y Bond at 3%: risks of capital outflows from EMs. EMs central banks to increase rates (liquidity tightening)**
- **US tax cuts: American companies to repatriate foreign earnings, tightening global liquidity (including in the EMs)**
- **Emerging Asia holding largest share of forex reserves (USD 7tn), sufficient to cope with Fed’s tightening**

Key-point 3

Continent-size jurisdiction and the New Financial Centers

Continent-size jurisdiction and the New Financial Centers

In Finance, does size matter?

- **GFC has enhanced crisis management within and across jurisdictions**
- **Evidence-led regulatory reforms have boosted the role of policymakers in home/continental jurisdictions (less room to global regulatory entities)**
- **These developments are propping up large, continent-size jurisdictions at the expense of smaller, nation-state entities**

Featuring the New Financial Centers

- **International Financial Centers in large economies, continent-sized jurisdiction, and international currencies, better equipped:**
 - a) **to balance global reach and scope and the hinterland's real economy;**
 - b) **to get timely oversight over financial stability, and regulatory management.**
- **They set the tone for financial regulations, and regulatory arbitrage**
- **New York rather than London most appropriate role model for New Financial Centers: Shanghai, Paris, Frankfurt (and others).**

About Europe: European Investment Banking (top 20 banks - mid-2016)

Rank	Bank	Country of origin	Fees (US \$ million)	Market share (%)
1	JP Morgan	US	549	6.1%
2	Goldman Sachs and Co	US	483	5.4%
3	Morgan Stanley	US	462	5.1%
4	Barclays	UK	432	4.8%
5	BNP Paribas SA	Euro area	400	4.4%
6	Deutsche Bank	Euro area	373	4.1%
7	Citi	US	358	4.0%
8	Bank of America Merrill Lynch	US	338	3.7%
9	HSBC Holdings PLC	UK	329	3.7%
10	Rothschild	UK	246	2.7%
11	Société Générale	Euro area	212	2.4%
12	Crédit Agricole CIB	Euro area	209	2.3%
13	UBS	Switzerland	194	2.2%
14	Lazard	US	192	2.1%
15	UniCredit	Euro area	184	2.0%
16	Credit Suisse	Switzerland	151	1.7%
17	ING	Euro area	137	1.5%
18	Evercore Partners	US	129	1.4%
19	Santander	Euro area	116	1.3%
20	Natixis	Euro area	112	1.2%

Source: Bruegel based on Thomson Reuters (2016), Investment Banking League Tables.

About Europe: geographic split and wholesale versus retail split

(top 13 systematically important banks in the euro area - end-2015)

	Geographic split					Wholesale and retail banking split				
	Assets (€bns)	Home	Other euro area	EU non-euro area	Non-EU	Corporate & global	Asset management	Retail	Other	Reporting
BNP Paribas	1,994	25%	36%	11%	28%	54.4%	0.9%	30.1%	14.6%	Total assets
Crédit Agricole	1,699	81%	8%	2%	8%	51.1%	5.3%	13.3%	30.4%	Total assets
Deutsche Bank	1,629	26%	19%	9%	46%	76.4%	5.5%	15.8%	2.3%	Total assets
Santander	1,340	28%	11%	31%	29%	11.6%	0.0%	88.4%	0.0%	Operating income
Société Générale	1,334	72%	8%	10%	11%	56.6%	9.8%	24.6%	9.0%	Total assets
BPCE	1,167	91%	2%	1%	6%	40.3%	0.0%	59.2%	0.5%	Total assets
UniCredit	860	40%	35%	22%	3%	15.8%	6.2%	77.6%	0.4%	Operating income
ING	842	36%	38%	9%	17%	33.3%	0.0%	66.7%	0.0%	Operating income
BBVA	750	39%	10%	4%	47%	8.7%	0.0%	91.3%	0.0%	Loans
Crédit Mutuel	707	89%	8%	1%	3%	9.1%	2.1%	71.4%	17.4%	Operating income
Intesa Sanpaolo	676	85%	5%	6%	5%	17.3%	13.5%	63.1%	6.1%	Total assets
Rabobank	670	74%	5%	2%	20%	33.2%	31.2%	21.0%	14.6%	Total assets
Commerzbank	533	52%	19%	16%	13%					

(Source: Bruegel based on SNL financials and annual reports of banks)

Three takeaways:

- **The shift of the center of economic gravity to Asia is solid, and is there to stay.**
- **In Asia, financial deepening is occurring at a pace faster than expected.**
- **In Europe, new engines – EU Banking Union and Capital Markets Union – will benefit new European Financial Centers**

A final question:

- **Is the synchronized emergence of the New Financial Hubs in Asia and Europe the picture of the «multipolar global economy» the World Bank predicted in 2011 ?**