Twelve

‘MAKING THE WORLD GO ROUND’: ADVANCED BUSINESS SERVICES – ESPECIALLY FINANCE

Summary

Chapter 12 focuses on advanced business services, arguably the most globalized of all the industries, and the complexity of their operation. The impact of deregulation on the 2008 financial crisis is discussed, as is the complex relationship of financial institutions to geography and the information-focused nature of the industry. Banking, legal services and headhunting are considered as examples of ABS.

Key concepts

Advanced business services; ‘casino capitalism’; global 24-hour trading; ‘headhunting’.

Concepts to review from previous chapters

Information and communications technologies; knowledge networks; global cities; state–TNC relationships; regulation and deregulation.

Main notes

ABS: definition and structure

Definitions

• Financial services are circulation services, and also commodities and products
• Banks: basic function is intermediation
- Economic activity needs financing; no financial system, no globalization
- ‘Casino capitalism’ metaphor for present financial system
- Only a very small percentage of financial transactions relate to international trade and production, the rest are speculative dealings

**Current trends**

- Trend towards concentration and consolidation, and diversification
- Provision of ABS depends on geographical proximity
- ABS firms become increasingly transnational

**Drivers behind ABS**

- Demand for advanced business services (ABS) is driven by rising complexity and specialization of functions in global production networks
- Four processes have been important to finance:
  - Market saturation
  - Disintermediation
  - Deregulation of financial markets
  - Internationalization of financial markets

The book considers three in-depth examples: banking, legal services and headhunting.

**ABS and information**

Information is both the product and process of ABS; money is a form of information governed by rules. The speed and extent of financial transactions are crucial.

**Information and ABS**

- Electronic communications lead to bypassing of commercial banks and the securitization of the financial services
- Define securitization and derivatives, explain rise of derivatives market
- Risk becomes delocalized and outsourced

**Impact of IT on ABS**

- Global 24-hour trading is perfectly feasible from a technical standpoint; but from an organizational standpoint the infrastructure isn’t there
- Global integration means rapid and direct transactions, but also means shocks in one market spread worldwide
- Collapse of space and time, instantaneous financial transactions worldwide
- Most ABS depend on having a direct presence within their markets
Regulation, deregulation and their impact

Deregulation

- Trend of past 60 years is to increasing deregulation until 2008 crisis
- To facilitate internationalization, deregulation is necessary
- Increasing deregulation has been a key component of major regional blocs
- Deregulatory pressures: come mainly from the ability of transnational firms to take advantage of holes in the regulatory system

Regulation

- Historically has been the most tightly regulated industry
- Regulations are of two types:
  - Governing the relationship between different financial activities
  - Governing entry of firms, foreign and domestic, into the financial sector
- Reintervention of the state post-2008
- Credit is essential for an economy to operate
- In the long run, a new financial architecture is needed

Geographies of ABS

Deterritorialization of ABS?

- ABS are not tied to raw material locations
- However it also makes geography more, not less important
- Services become more and more concentrated geographically

Role of the global city

- Ecologies of ABS form within global cities
- Attractions of international financial centres:
  - Diversity of markets
  - Large amounts of information
  - Dynamic external economies of scale
- The potential for other cities to develop as financial centres is limited

Decentralization of ABS

- ‘Back-office’ functions are being decentralized, dispersed
- ABS firms have also been increasingly offshoring their functions
- Offshore financial centres: low tax levels and light regulation
- Attract companies wanting to operate outside national regulations
Conclusions

- Role of ABS in driving and supporting global networks
- Define role of deregulation in 2008 financial crisis, and impact on ABS
- Information-based nature of industry
- Complex relationship of ABS to geography

Concepts to explore further

Bretton Woods agreement; ecologies of business; offshoring; value creation.

Further reading


Media content


Questions and exercises

Outline the reasons why, despite the deterritorialized nature of ABS, the global city is still particularly crucial to the industry.

In light of the 2008 financial crisis, construct an argument for or against financial regulation.

What differentiates money from other types of information? Discuss the implications of your argument for the financial services.

Compare and contrast banking, the legal services and headhunting in terms of their globalizing activities, use of information and relationship to the state.