

# TERRITORIAL POLITICS AFTER THE FINANCIAL CRISIS

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- 1. Introduction
- 2. Geography of the Financial Crisis
- 3. “Low” Geopolitics
- 4. World Cities versus State Territories
- 5. Devolution to Regional and Local Governments
- 6. Conclusion

# MAIN QUESTIONS

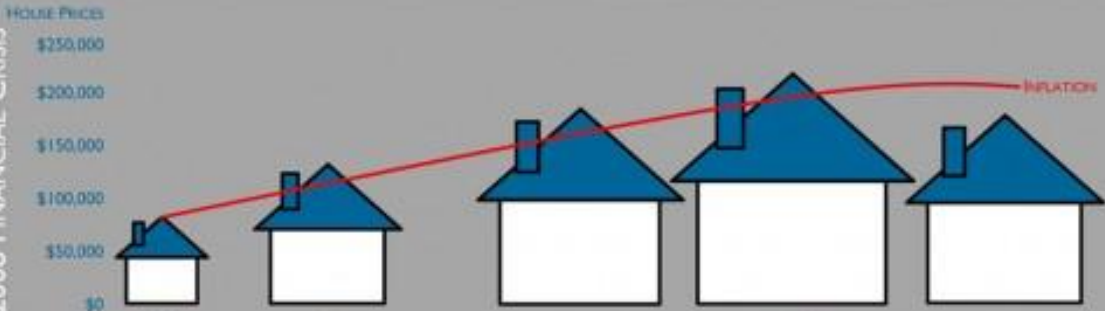
- “Inevitable return” of a state-based world?
- Decline in geopolitical and territorial tensions?

# Geography of the Financial Crisis

- Fallacy of country-by-country narrative
- Mismatch geographical range of financial actors and geographical scope of regulators
- Three elements to the argument:
  - 1. US originated sub-prime mortgages purchased worldwide and source of the crisis everywhere else
  - 2. Long-distance hierarchical contagion built into global financial system
  - 3. Governments purchasing bonds became prisoners to fortune within this system

\$€£¥!

# 2008 FINANCIAL CRISIS



ONE MILLION  
● PURE HOMEOWNERS  
● SUBPRIME HOMEOWNERS



## FORECLOSURES



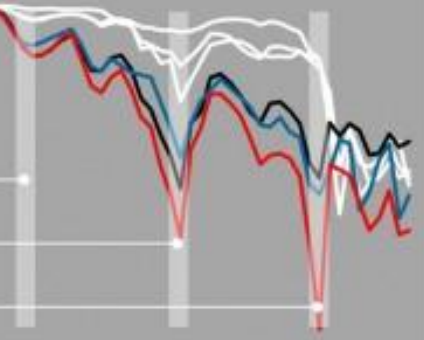
## CONFIDENCE IN BANKING SYSTEM (MEASURED BY CREDIT DEFAULT SWAPS)

- CHINA
- JAPAN
- RUSSIA
- EUROPEAN UNION
- UNITED STATES
- UNITED KINGDOM

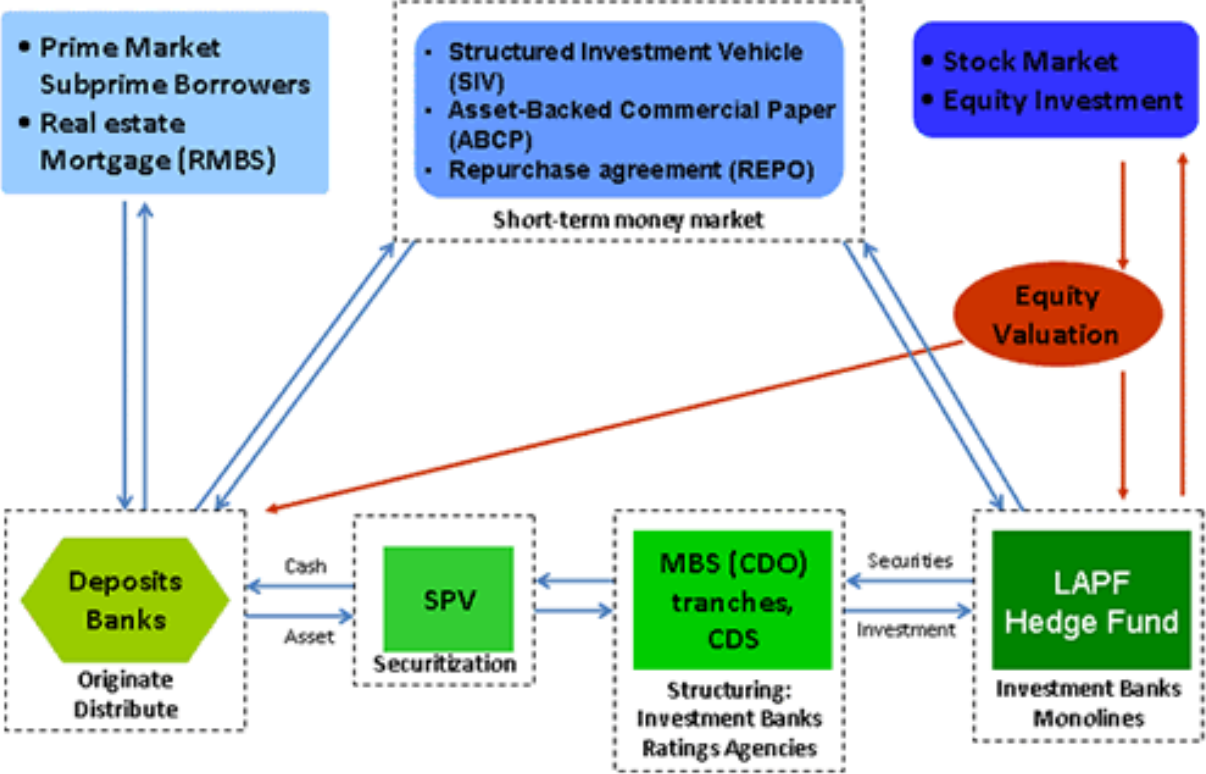
SUBPRIME MORTGAGE BACKED SECURITIES ARE DISCOVERED IN PORTFOLIOS OF BANKS WORLDWIDE AND AMERICAN HOME MORTGAGE INVESTMENT CORPORATION FILES FOR BANKRUPTCY

FEDERAL RESERVE BAILS OUT BEAR STEARNS

LEHMAN BROTHERS FILES FOR BANKRUPTCY



# Financial Contagion



# The Crisis and Territorial Politics

- 3 geographical dimensions of the mismatch:
- “Low” Geopolitics; Political Tensions between World Cities and Surrounding Hinterlands; Conflict over Devolution of Expenditures to Regions without Revenues and Regulation.

# “Low” Geopolitics

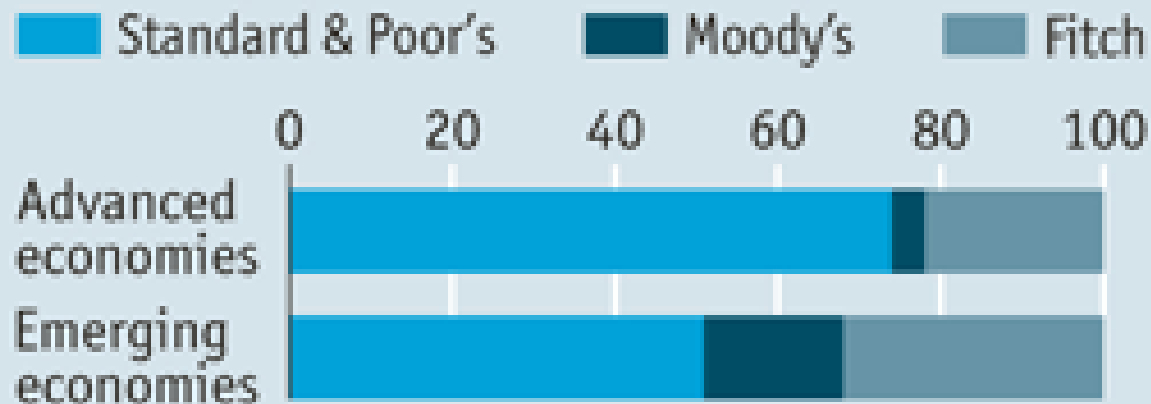
- 1. Rise of non-state actors and privatization of authority since the 1970s (e.g. credit-rating agencies)
- 2. States not single unified actors
- 3. Private/public and state/market increasingly hard to distinguish in practice
- 4. Expropriation of land and resources no longer the dominant motif in geopolitics but control over transactions



# The “Big Three” Credit-Rating Agencies

## Quick on the draw

First credit-rating agency to take a negative rating action, %\*



Sources: Fitch; Moody's;  
Standard & Poor's;  
IMF staff estimates

\*Out of a total of 66  
negative rating actions,  
Jan 2005-Jul 2010

# How Do They Do It?



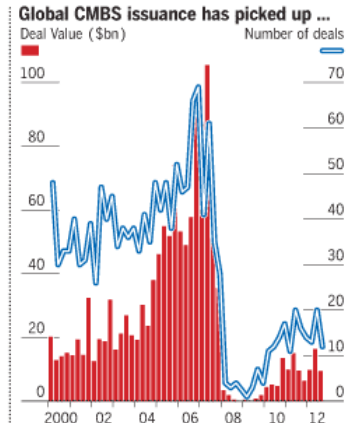
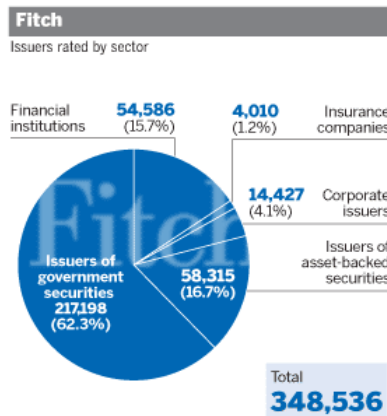
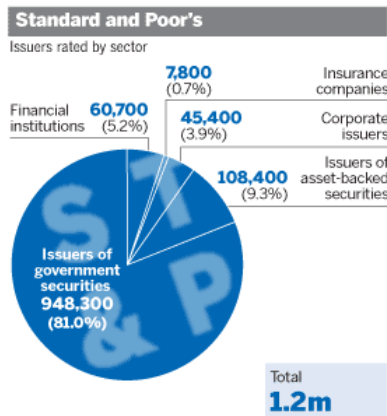
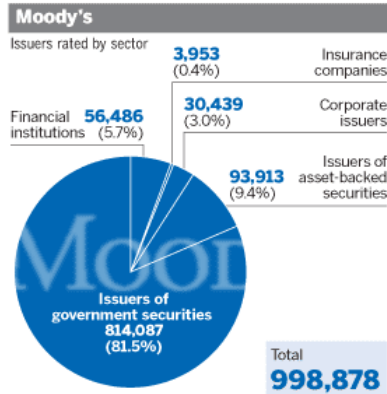
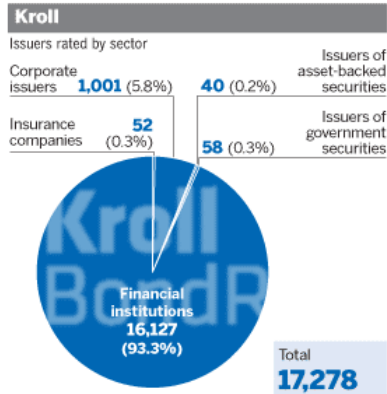
BANX

**'I had a bad dream about  
the UK's credit rating'**

# Rise of Government Bonds as the Primary Business of the Raters

## Jostling for supremacy

Outstanding ratings by sector Dec 31 2011

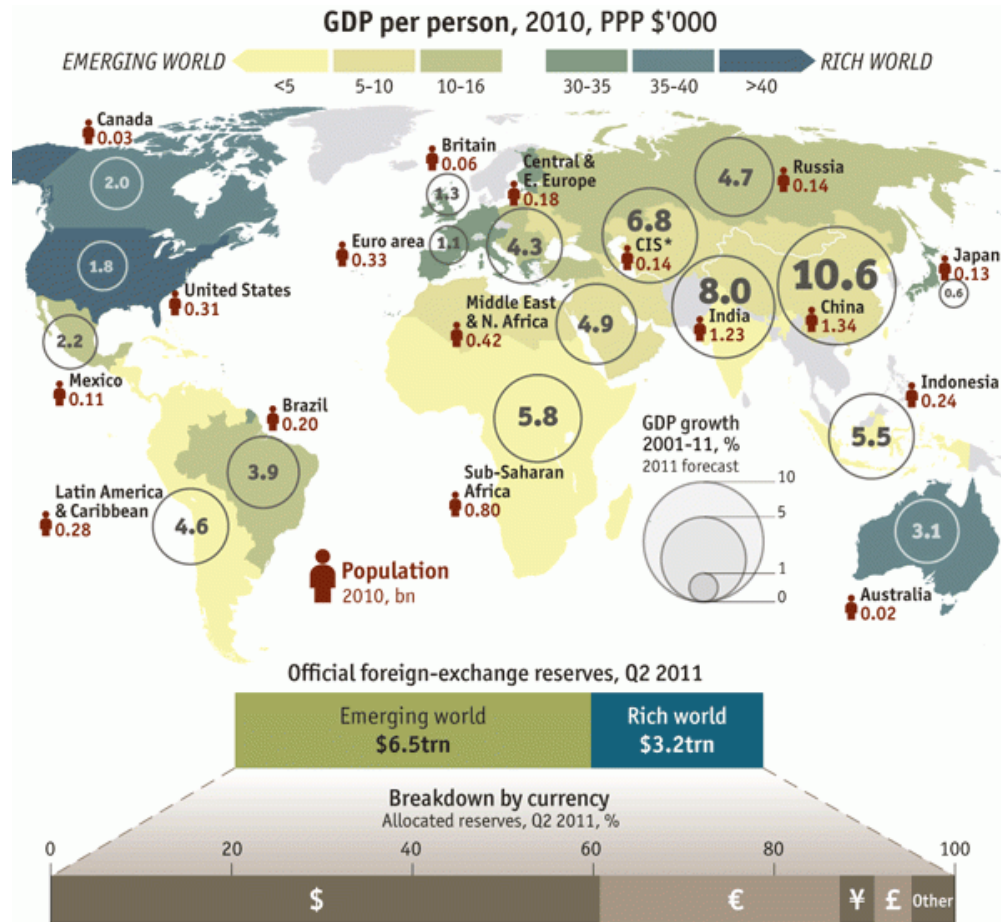


Sources: FT research; Barclays; Dealogic

# Confusion All Around about the Locus of Territorial Economic Power



# It's Complicated



Sources: IMF; UN; *The Economist*

\*Commonwealth of Independent States

# When China Catches a Cold ...?

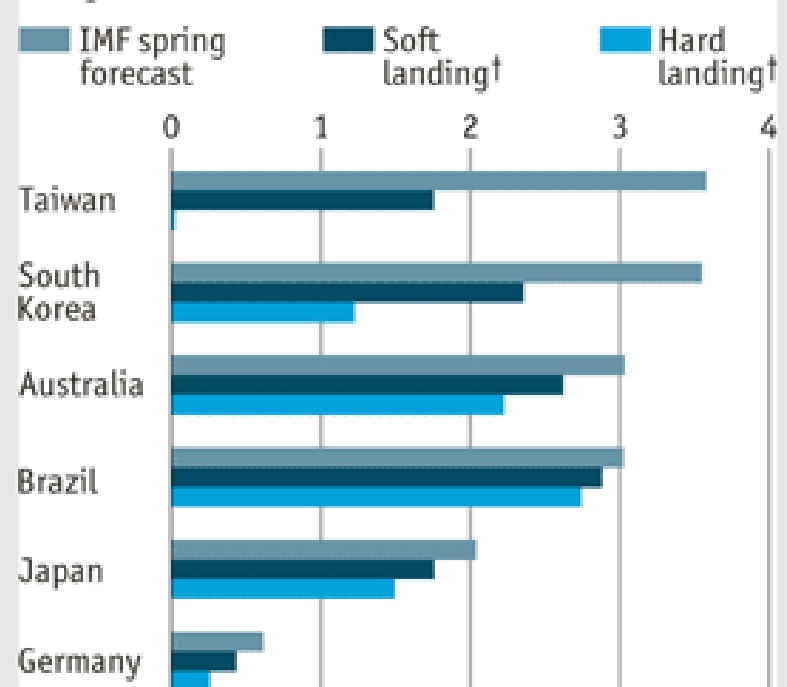
## Sinodependency

Stockmarket performance  
January 1st 2009=100



Sources: Bloomberg; Thomson Reuters; IMF; *The Economist*

GDP growth, 2012, %



\*Based on 135 S&P 500 firms weighted by China revenues

†Impact from a Chinese investment slowdown

# The Increased Importance of the Yuan

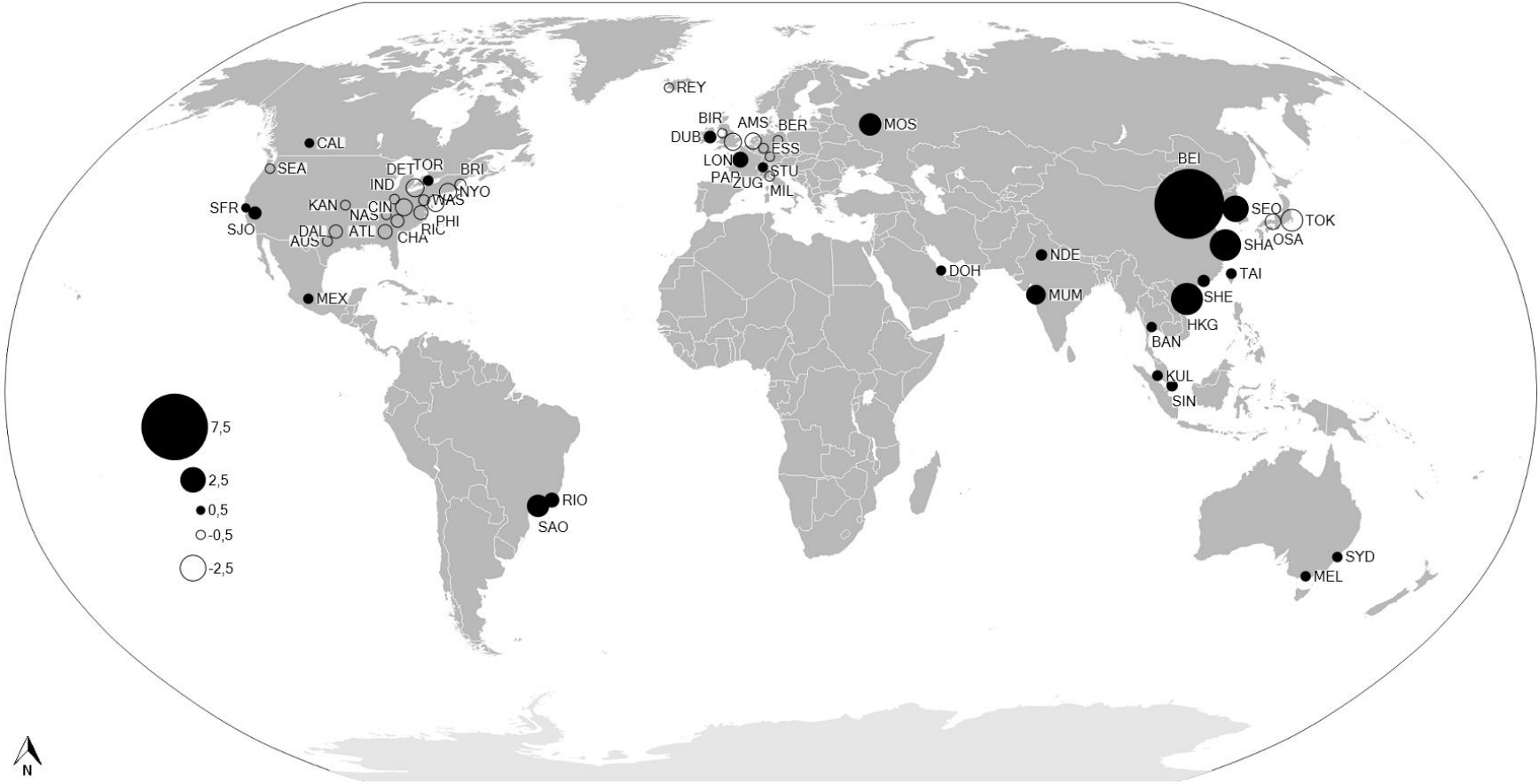


# World Cities and their States

- 1. “Low” geopolitics (operates through world cities) versus states
- 2. Agglomeration economies and the current world economy
- 3. *Lex mercatoria* (transnational legal system)
- 4. Competition between “havens” around the world



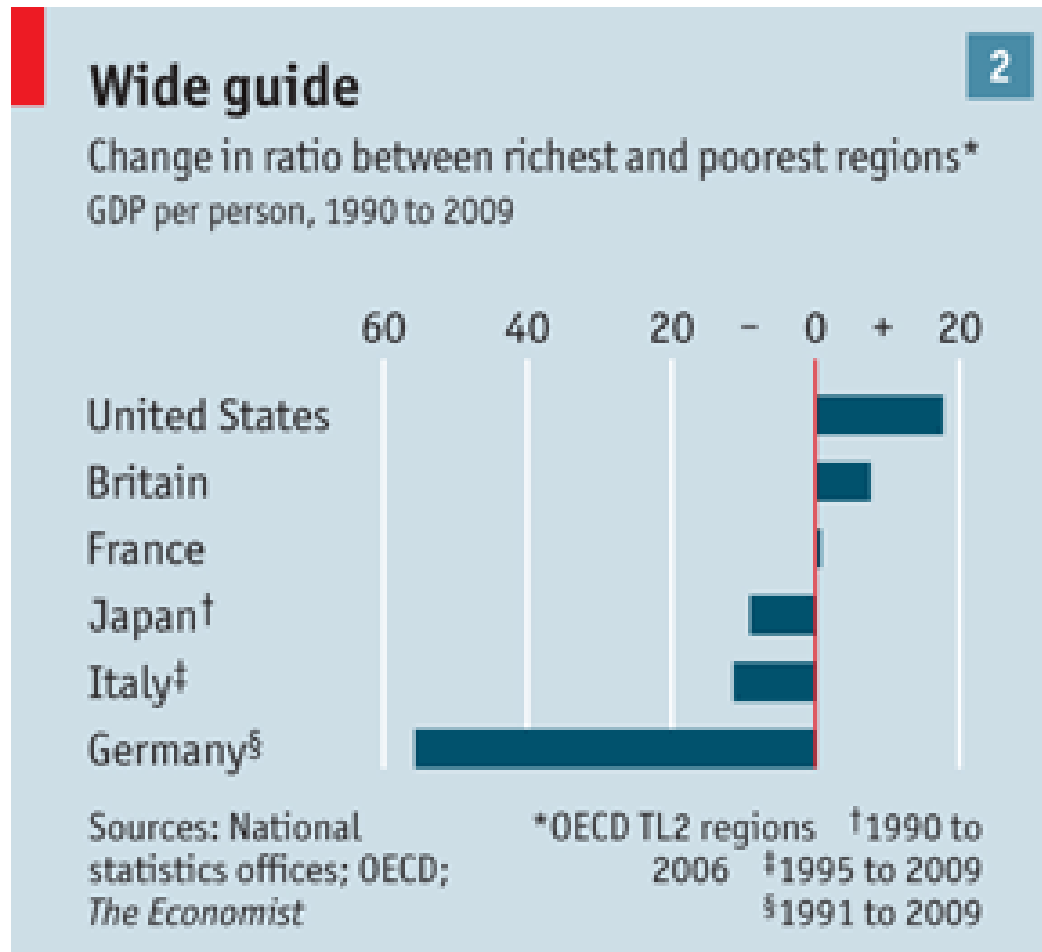
# Gain and Loss of Corporate HQs (2006-2011)



# Devolution and Regional Separatism

- 1. Fashion for federalism
- 2. Increased regional inequality
- 3. Fiscal sharing
- 4. Separatism redux?

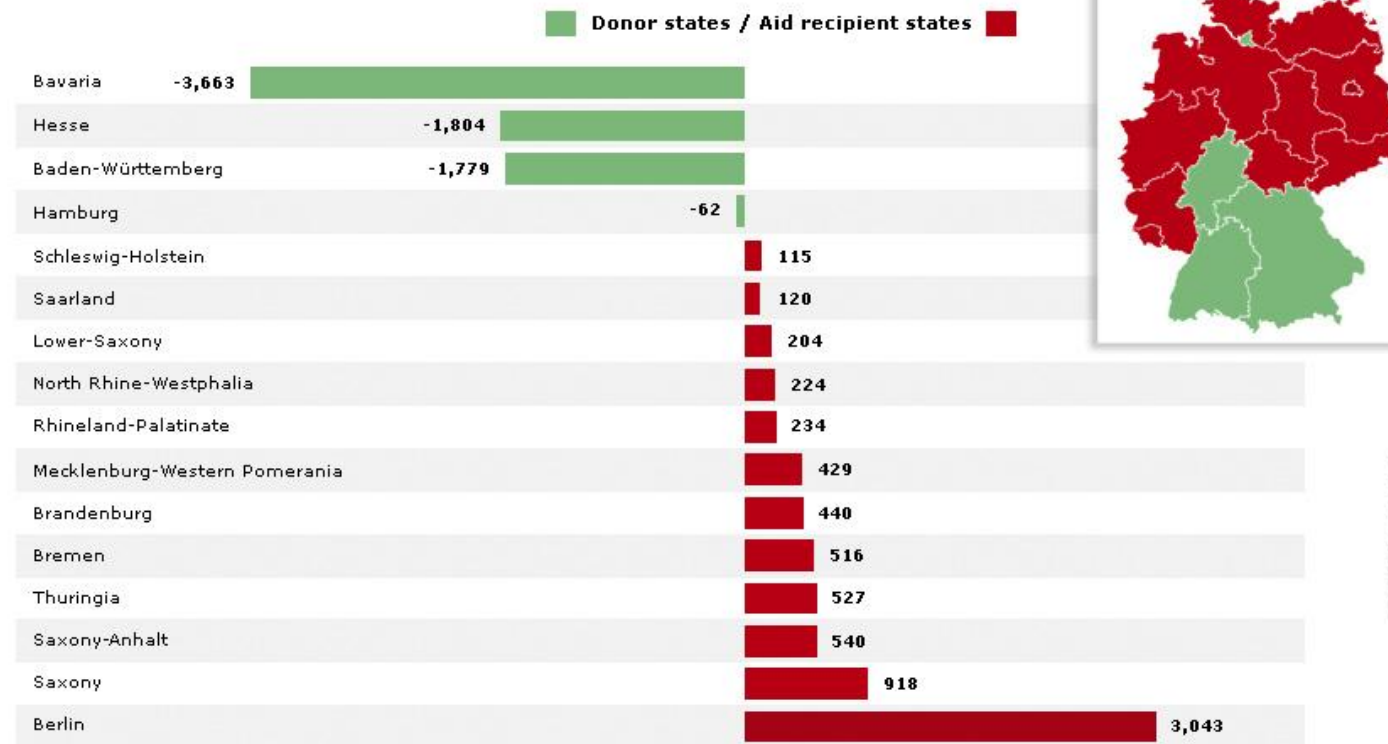
# The Anglos and the Others



# German Resentments

## Germany's Transfer Union

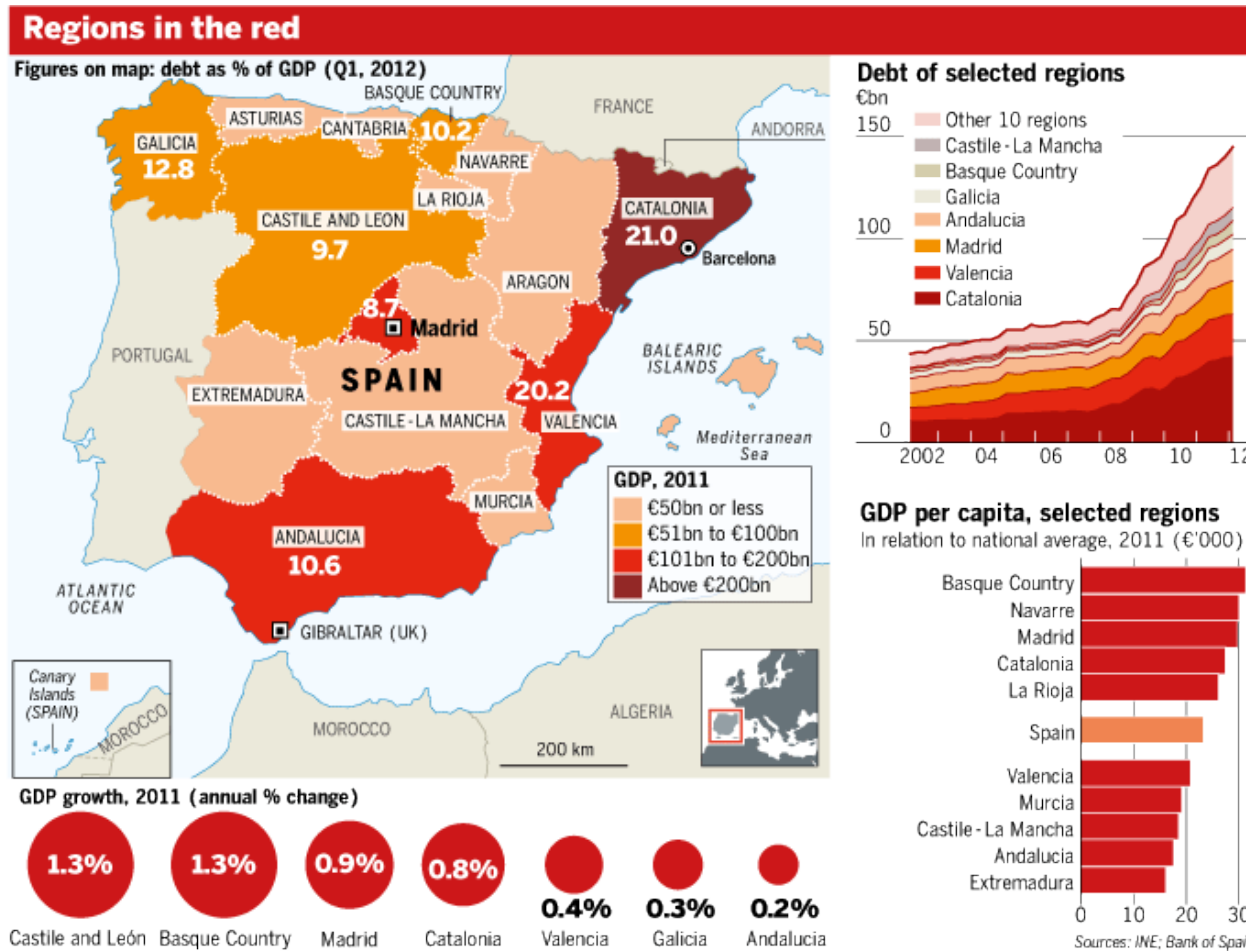
Fiscal equalization among the 16 German federal states in 2011, in euro millions



SPIEGEL ONLINE

Source: German Finance Ministry

# Spanish Cleavages



# CONCLUSIONS

- Financial crisis will not lead to a “return” of the state
- Devolution will become increasingly important and contentious
- Government policies that privilege large cities over the wider national territory will become increasingly resented
- “Low” geopolitics is challenging “high” geopolitics because of the increased economic/financial linkages across the world

MOST LIKELY TO SUCCEED

I'd love to come over and hang out, but now that we're competing in a global economy I can't.



n. chis