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The “End of Geography” in Financial Services? Local Embeddedness and Territorialization in the Interest Rate Swaps Industry

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Abstract

This paper provides evidence that the globalization of financial services has not undermined the importance of local embeddedness in world financial centers, among global banks. Using qualitative data from interviews with senior bankers in the interest rate swaps (derivatives) industry in Australia, in this paper I demonstrate the importance of spatial relationships and processes of local embeddedness in the production of swaps. Local embeddedness is attributable to the rapid exchange of financial information in formal dealing networks that serve as central information sources, enabling dealers to formulate a “market feel” that influences their dealing strategies. Information interpretation and decision making in dealing processes and specialist financial labor provide the foundations for the product-based learning

orientation of swaps dealing. Dealing networks are underpinned by social relationships, requiring face-to-face interaction that is facilitated by spatial proximity. Although the global swaps industry is dominated by multinational banks, the centrality of these embedded networks impedes globalization in interest rate swaps dealing. The global swaps industry comprises an international network of highly localized but interconnected operations based in world financial centers.

financial services

globalization

territorialization

production systems

OTC derivatives

Notes

* I am thankful for helpful comments by John Langdale, Maritta Driguez and interviewees at several Australian banks on an earlier draft. The comments of one reviewer in particular were exceptional in substantially improving the quality of the paper. Thanks also to Judy Davis for assistance with the figures.

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