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Financial globalization and cross-border comovements of money and population: foreign bank offices in Los Angeles

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Abstract. Studies of migration and financial globalization focus on either the movement of money, with people staying put, or on the movement of people, with little attention to the impact of the money that moves with them. This paper uses in-depth interviews with executives at ethnic-Chinese foreign-bank offices in Los Angeles to consider the comovement of people and money. We find that understanding the causes and consequences of this comovement requires adding both ethnic and macrostructural layers to discussions of financial globalization. The forces that have led to the rise of a Chinese-American banking sector and to the opening of twenty-one Chinese foreign-bank offices in Los Angeles are intertwined: immigration from the Chinese diaspora to the USA, the growth trajectory and financial transformation of East Asia, and the financial and economic evolution of Los Angeles. Ethnic-Chinese foreign-bank offices in Los Angeles have dual roles: they function both as global outposts managing their headquarters' cross-border financial flows, and as localized institutions that are gradually becoming incorporated into Southern California's internal banking and financial markets. Foreign and domestic ethnic-Chinese banks play complementary roles in facilitating ethnic-Chinese economic development in Southern California. Framing these cross-border money – population flows and this cross-border institution building, respectively, are macrostructural constraints rooted in aggregate net financial flows and the changing strategies of global megabanks.

1 Introduction

Studies of migration and financial globalization usually focus either on the movement of money, with people staying put, or on the movement of people, without much attention to the impact of the money that moves with them. Within geography per se, global flows of financial capital have been a central concern in the geography of money and finance; however, few works have related these flows either to population flows or related them to the strategic behaviors of financial firms. Population geographers and demographers study transmigrants' global flows, but usually not the money flows that accompany them (exceptions include Li et al, 2001; Pollard, 2003; Sassen, 1990; Zhou and Tseng, 2001).

This paper examines the phenomenon of money – people comovement by focusing on the growing presence of ethnic-Chinese foreign-bank offices in Southern California. We find that understanding the causes and consequences of this comovement requires the addition of an ethnic and a macrostructural layer to discussions of financial globalization. The forces that have led to the rise of a Chinese-American banking sector and to the opening of twenty-one Chinese foreign-bank offices in Los Angeles are intertwined: immigration from the Chinese diaspora to the USA, the growth trajectory and financial transformation of East Asia, and the financial and economic evolution of Los Angeles. Ethnic-Chinese foreign-bank offices in Los Angeles have dual roles: they function both as global outposts managing their headquarters' cross-border financial flows, and as localized institutions that are gradually becoming incorporated into Southern California's internal banking and financial markets. Foreign and domestic ethnic-Chinese banks play complementary roles, compensating for one another's shortcomings, in facilitating economic development for Southern California's ethnic-Chinese population. Framing these money–population flows and this cross-border institution building are macrostructural constraints on net aggregate financial flows and the changing strategies of global megabanks, respectively.

Our previous work on ethnic banking has shown that ethnic control of money and the informational advantages associated with social bonds and business networks can lead to successful community development. This paper extends this previous work by locating it more explicitly in the context of the logic of cross-border financial flows. Our previous work involved interviews with local Chinese-American bankers; the core results in this paper are drawn from an extensive set of interviews with executives at Chinese foreign-bank offices (see appendix). The presence of these offices in Los Angeles constitutes something of a puzzle: they are not authorized to conduct full-fledged banking activities and Los Angeles is not a global financial center. We explain this puzzle by exploring the structure and underlying logic of cross-border comovements of population and money.

In section 2 we review the literature on contemporary cross-border financial flows, and argue that the case of cross-border financial flows corresponding to population flows deserves more attention than it has received. We go on to argue that understanding these flows requires the addition of an ethnic layer to the understanding of cross-border financial processes. We suggest a schema for classifying banks based on their access to ethnic assets and their access to capital. In section 3 we consider the development of banking structures in East Asia, the transformation of Los Angeles' role in global financial markets, and the emergence of ethnic-Chinese-American banks in Los Angeles. Sections 4–6 then draw on interviews with top executives at ethnic-Chinese foreign banks in both Los Angeles and Taipei to examine several interrelated questions: first, why ethnic-Chinese foreign banks decided to open offices in Los Angeles; second, the function of these offices as global outposts of their headquarters in Chinese diasporic countries; third, whether these offices are developing local banking business, contributing to community economic development, and becoming integrated into the domestic banking markets of Southern California. Section 7 locates the Chinese-American and ethnic-Chinese foreign banks in the context of the spatialized, macrostructural logic of international banking relations. Section 8 concludes.

2 Financial globalization and the comovement of money and ethnic populations

Financial globalization has been emerging since the fall of the Bretton Woods system in the early 1970s led to financial deregulation and the internationalization of financial markets. A neoliberal global order has emerged, whose very pervasiveness can generate the impression that financial globalization involves, in essence, a process of multinational homogenization that eradicates the local [captured in the expression 'there is no alternative' (TINA)].

The evidence in this paper contributes to a stream of other findings which suggest that the globalization of financial flows involves continued structural differentiation, not homogenization. O'Brien's (1992) "end of geography" and Cairncross's (1997) "death of distance" argue that, because of technological shifts, the impact of time and space has been eviscerated. But this does not mean that social and cultural distance—instantiations of temporal and spatial difference—has been rendered useless in economic transactions. To claim distance is dead is equivalent to claiming that all financial markets are increasingly approximating efficient financial markets, with no remaining informational or other barriers. Technological advance is undeniable; but this claim is too strong. Financial globalization is itself structured in ways that reflect national economic power and the stability of global economic and financial outcomes. Information technology may have obliterated space, but it has not undermined the significance of place (Laulajainen, 1998; Martin, 1994; 1999; Thrift, 1994). Indeed, place may be even more significant: Thrift (1994, page 352) argues that "international financial centers will continue because they satisfy essential communicative/interpretive needs that cannot be met through electronic communication. There will be no 'end to geography'."

Some authors have argued that the continuing significance of financial centers counters any notion of the "death of distance" (Corbridge et al, 1994; Hudson, 1999; Martin, 1999; Roberts, 1994). A financial center can be defined as a metropolis whose financial exchanges and institutions provide the entire range of financing services required by sophisticated nonfinancial firms; examples are New York and London. Even in an era of rapid technological advance, long-established global-financial centers continue to dominate because of their concentrations of expertise and sophisticated systems. So globalization reconfigures the geographic financial order, but does not eviscerate it.

2.1 Cross-border comovements of population and wealth

In any event, financial flows do not simply move to financial centers. Increasingly, cross-border money flows accompany cross-border human flows. The literature on ethnic enclaves anticipates that the immigrants constituting these enclaves are people largely without money, who might at most create informal financial mechanisms as a way of sharing their existing financial resources and taking advantage of their cultural linkages. When immigrants have larger sums of money, this literature assumes that they will simply hold their funds in existing financial institutions. However, our earlier work on ethnic banking (Li et al, 2001; 2002) shows that, when migrants have substantial wealth and sufficient numbers, they may gain advantages from creating larger scale, formal financial institutions that can capture and recirculate their funds.

This possibility gives new meaning to Miles and Satzewich's (1990, pages 335–336) remark that "the export of capital involves not only the movement of money but also the 'agents' of capital, understood to refer to both those who own and control capital directly and those who manage in various ways the use of capital." This is hardly surprising in light of national immigration policies. Throughout the 20th century, national immigration policies screened out immigrants on the basis of race or ethnicity, nationality, and class characteristics. Today, many Western immigration policies explicitly recruit potential capitalists and highly educated and skilled 'mental laborers' who can enhance a nation's relative position in the global economy. These high-end immigrants bring with them financial capital, often in large amounts. This has become a significant component of overall financial flows among nations—its significance is one factor that brings the nation-state back in as a determinant of these global flows.

When the multiple financial-center framework is expanded to include cross-border financial-flow–population shifts, an alternative to the 'end-of-geography' perspective on financial globalization emerges. In this 'centripetal/centrifugal' perspective, both regional and global financial centers, on the one hand, and regional and global immigration centers, on the other, are magnets for global savings. The character of the financial circuits generated by these savings depends on the behaviors and strategies of the financial intermediaries capturing them, a topic taken up briefly below and discussed by Dymski (2002a). The key point for our purpose is that flows of global finance are not uniform across space–time, but are path dependent and lumpy.

Although the literature on middle-class and wealthy transmigrants and their global connections has grown in recent years, these agents' institutionalized money flows have received little attention. Most of this literature has focused on two issues: first, the impact of business migrant programs on destination countries [for example, Froschauer (1998), Ley (2000), Smart (1994), Wong and Netting (1992), Woo (1998) on business immigrants in Canada; Ip et al (1998) on Taiwanese immigrants in Australia; and Ho and Bedford (1998) on entrepreneur immigrants in New Zealand]; second, cultural clashes, racialization, and (re)emerging nativist attitudes against this immigration (see Hiebert and Ley, 2001; Ley, 1995; Ley and Tutchener, 2001; Li P, 1994; Li W, 1999; Miles and Satzewich, 1990; Mitchell, 1999). A few works have touched on the impact of transmigrants' financial flows: Lin (1998) and Smith (1995) discuss the impact of transnational and local Asian banks on local neighborhoods in New York City; Zhou (1998) compares Chinese immigrant and ethnic businesses in Los Angeles and New York; Fong (1994) documents the financial resources of wealthy Chinese immigrants; Li et al (2001; 2002) examine the relationship between Chinese-American banks and community development in Los Angeles; and Hutton (1998) and Edgington et al (2003) reveal the activities of Hong Kong Shanghai Banking Corporation (HSBC) in Vancouver.

2.2 Adding an ethnic layer

Because the home and host societies often have different cultural and racial compositions, cross-border comovements of population and wealth frequently entail an ethnic or racial dimension. As Thrift has suggested, "social networks which are often class, gender and ethnically specific ... do make economic differences and ... are becoming rather more important" in the global frame (1994, page 332).

Although little attention has been paid to this ethnic layer of cross-border flows within the geography of money and finance, the role of culture and ethnicity in business institutions and operations, especially among ethnic-Chinese businesses, has been explored extensively by anthropologists, cultural geographers, and sociologists. Two contrasting views of overseas Chinese businesses have developed: one views them as remaining 'Chinese' even as they develop global links (Redding 2000); the other regards these businesses as being adaptable and flexible, and hence providing an alternative to the Western-centric business model (Hamilton, 2000). This body of work—which includes Smart and Smart (1998; 2000) and the essays in Ong and Nonini (1997)—uses ethnographic analysis to study cultural aspects of business practices. Mitchell and Olds (2000), in particular, describe how the operation of trans-Pacific networks may have provided advantages to Hong Kong Chinese firms in heavily regulated Vancouver property markets. However, most of this literature focuses on Chinese family-business firms; no studies analyze the role of financial institutions in linking financial capital and business operations.

This study does not examine ethnic-Chinese business culture or ethnicity per se. It instead investigates several aspects of the structure of the ethnic layer associated with these money–population comovements: (1) the movement and roles of immigrants and transmigrants in financial globalization; (2) the business practices that the ethnic agents who own and manage financial capital bring to host countries, and the effects of host countries' regulatory regimes on these practices; and (3) the roles of ethnic capital and firms in financial globalization processes per se. Making this layer visible will add another piece to the globalization–localization puzzle and shed further light on contemporary patterns of ethnic community development.

Table 1 summarizes two key aspects of a structure of financial institutions in the presence of ethnic and racial difference. The horizontal dimension in this table asks whether members of an ethnic community have networks or private information channels that are valuable in identifying loan-market opportunities, closing deals, and sustaining relationships. That is, do potential borrowers and depositors have access to ethnically

Table 1. Ethnic and global connections and structures of financial intermediation.

In which financial centers does this institution have access to capital?	Can bank officers and customers use ethnic assets—ethnically specific private information, network connections, or cultural knowledge—in their business relations?	
	yes	no
Global equity market	Hong Kong Shanghai Banking Corporation	Citibank/Bank One
Regional equity market	Ethnic Asian banks (Overseas Chinese Banking Corporation)	Mid-size community banks
None of the above	'Indigenous' minority banks	Small community banks

specific social capital? The vertical dimension asks whether a given institution has access to markets in which it can raise equity capital or sell long-term indebitures.

Citibank and Bank One are paradigmatic examples of banks without ethnic assets, but with assured access to global equity markets—notably Wall Street, whose global share of bank equity exceeds 50% (Dymski, 2002a). Citibank's access is that of an insider, because it also operates as one of the 'bulge-bracket' banks that provide investment-banking services to elite corporations. Bank One, by contrast, does not conduct financial-center operations, but does have assured access to Wall Street equity markets. HSBC both has access to global equity markets and can draw on ethnic assets in selected markets. HSBC has a unique niche among the world's megabanks. Building on its base in Hong Kong, HSBC has aggressively taken mid-market positions in numerous countries across the globe, in part through its willingness to adapt to local market conditions. It has expanded very aggressively in Asia and in Latin America in the past several years. The Overseas Chinese Banking Corporation (OCBC) of Singapore is an example of a mid-sized bank—second largest in Singapore and 59th largest in Asia and Australia—that relies solidly on ethnic assets, and which must rely on regional-equity markets (notably Singapore) for access to capital. The parallels among nonethnic banks in the US case are mid-sized mainstream banks such as World Savings Bank, which operate in relatively standard ways in well-defined home markets. Among mainstream banks, the next level down consists of very small institutions which lack consistent access even to regional exchanges; most ethnic banks in the United States occupy this same row: examples in Los Angeles are the black-owned Founders National Bank and Broadway Federal Savings and Loan Association.

3 Ethnic-Chinese banking and the financial transformation of Los Angeles

Prior to deregulation and the crises of the past decade, banks in many Asian countries—especially Japan, Korea, and Taiwan—functioned primarily as national development vehicles, owned and/or controlled by their respective governments (Dymski 2002a; Fujita 2000; Poon and Thompson, 2001). They relied primarily on domestic savings and were not players in global-financial markets; for them, access to global-equity markets was not a concern. During the last ten years, however, many Asian countries have experienced or anticipated financial deregulation—through their own initiative (the case of Japan), through the mandate of the International Monetary Fund after the 1997–98 Asian financial crisis (Korea and Thailand, among others), or through accession to the World Trade Organization (WTO) (mainland China and Taiwan).

With deregulation comes more active participation in global financial markets and entry into the frame of table 1. Banking institutions in East Asia fall into rows 2 and 3 because of the smaller size of their national markets. Aside from HSBC, for example, Hong Kong has just one bank—Hang Seng—among the top forty in Asia and Australia.[1] The Development Bank of Singapore, the largest bank in Singapore, is 34th among all Asian and Australian banks; OCBC, mentioned previously, is 70th. Hong Kong has far more banks than Singapore—twenty six of the 500 largest Asian and Australian banks are Hong Kong institutions, versus just eight Singapore banks. Taiwan has an extremely large number of banks, forty eight, most of them relatively small; its largest institution, Taiwan Cooperative Bank, ranks 47th in Asia and Australia. The banking structure of the People's Republic of China is a special case. Its four largest banks are among the thirteen largest in all of Asia and Australia; all of these are state owned, with their policies reflecting a combination of local and national objectives.

Although numerous banks operate in these nations' banking systems, they are highly concentrated. The ten largest banks in Hong Kong account for 87% of all Hong Kong banking assets; and Taiwan's ten largest banks, whose assets equal just 8% of the assets of Japan's ten largest banks, account for 48% of Taiwan's banking-system assets.

The importance of ethnic assets is spatially specific: it depends on whether a bank's ownership, management, and customers are distinct ethnically within a given spatial area. For example, HSBC has no ethnic assets on which to draw in its Hong Kong operations per se; but when operating outside Hong Kong it can use its shared basis in Chinese culture and business practices (ethnic assets) to obtain informational or relational advantages. Banks' ethnic assets are a matter of degree, not kind. They can be operative within a nation if a bank is owned and operated by members of an ethnic minority; they can be operative across borders if a bank headquartered in a home country has operations in a host country whose population includes home-country immigrants or guest workers.

Because of the ethnic layer, the global megabanks in the top row of table 1 have very different roles in immigrant or ethnic community building. HSBC, now based in London, has capitalized on its long-time operations in Hong Kong to facilitate not only business connections across the Pacific, but also Hong Kong immigrants' settlement in Vancouver (Edgington et al, 2003). Along the bottom row of table 1, by contrast, indigenous minority banks lack access to global or regional equity markets, limiting their growth and making survival difficult, despite these institutions' well-established niches in their home communities (Dymski et al, 2000).

3.1 Los Angeles: Pacific Rim financial center or immigration gateway city?

City-regions can be linked significantly to cross-border financial flows via three routes: by engaging in large volumes of cross-border trade, playing the role of financial center, and/or serving as gateways for cross-border flows of population and money.

Which of these factors obtains for the case of Los Angeles? Los Angeles has become a locus of import and export activity for the United States. Playing this role necessitates having sophisticated trade-credit and foreign-exchange services for firms exporting from, and importing to, their home countries. Los Angeles' strategic position in trade in itself is a spur to the establishment and growth of foreign-bank offices for banks whose nations conduct this trade.

But although it is a locus of trade-related financial services, Los Angeles is not a preeminent financial center: no major bank is headquartered there and, among West Coast cities, San Francisco far surpasses it in brokerage and underwriting (that is, financial-center-related) activities. Los Angeles' stock as a financial metropolis has consistently slipped since Soja (1989) proclaimed Los Angeles the financial capital of the Pacific Rim. In 1990 Security Pacific National Bank, second largest in California

[1] These data are drawn from *Asia Weekly*'s 2000 listing of the 500 largest banks in Asia and Australia.

and one of the seven largest in the United States, was attempting to shape Los Angeles as a global-financial center. It participated aggressively in loan underwriting, derivatives, and off-balance sheet activities of all kinds, raising hopes that Los Angeles could join Tokyo and New York as a global financial hub. However, Security Pacific became exposed through adverse market outcomes and bad offshore loans in 1990–91; it was taken over by Bank of America in early 1992. Los Angeles' other significant local banks also were taken over by institutions headquartered elsewhere: First Interstate, Los Angeles' second largest bank, was bought out by Wells Fargo in the early 1990s; later in the 1990s Los Angeles' two giant thrifts, Home Saving and Great Western, consolidated and were taken over by the out-of-state Washington Mutual. San Francisco's two leading candidates for membership in the club of financial centers, Bank of America and Wells Fargo, were themselves bought out by Nationsbank (North Carolina) and Norwest Bank (Minneapolis), respectively. By 2000 California was no longer the headquarters for any bank with global market presence.

Los Angeles has been historically, and remains, an immigrant gateway city. Several scholars (Li, 1997; Sassen, 1994; Zhou, 1998) have argued that global cities with preexisting immigrant neighborhoods and significant international money flows have advantages over other places in the competition for wealthy transmigrants; Los Angeles certainly is among these cities. In recent years Los Angeles has drawn middle-class and wealthy immigrants bringing fortunes with them from across the Pacific Rim, including 'agents' of capital. These newcomers, often settling directly in wealthy suburban areas, have helped to transform inner-city immigrant communities even while building new ones in suburbs—dramatic illustrations in both cases that cross-border financial flows can shape and build local economies (Allen and Turner, 1997; 2002; Clark, 1998; Horton, 1995; Li, 1998; 1999; Li et al, 2001; 2002; Light, 2002; Saito, 1998; Tseng, 1994; 1995; Walderinger and Bozorgmehr, 1996).

Los Angeles has remained the center of a thriving retail banking industry. California has always had a booming retail-banking industry for two reasons: its status throughout the 20th century as a 'boom economy' continually absorbing inflows of capital and population (Dymski, 1999); and its relatively permissive banking rules during the prederegulation era, which allowed banks to operate statewide in California. These characteristics led to booming retail banks, which are "renowned for their retail focus, their extensive branch networks and their focus on small- and medium-sized business lending" (Pollard, 1999, page 50). By the 1990s California's retail banking-branch networks were being reshaped by the ongoing merger wave in US banking. The branches of most mainstream banks were shrinking in number—except for the branch networks operated by Bank of America and Wells Fargo. The only other banking sector increasing in size and branches were the ethnic banks, especially Chinese ethnic banks.

Ethnic-Chinese banks have two kinds of operations in Los Angeles: Chinese-American banks and ethnic-Chinese foreign-bank offices. The distinction is both substantive and legal. Substantively, a Chinese-American bank is a financial institution with a state or federal banking charter that is owned or controlled primarily by ethnic Chinese in the United States, with a market area that centers on communities in which Chinese constitute a significant share of the residential and business populations. By the end of 2001 there were twenty-three such banking institutions headquartered in Los Angeles County. Chinese-American banks work with significant ethnic assets. The origins of this banking sector lie in the same problem that has historically plagued African Americans, Latinos, and Native Americans: discrimination and neglect by mainstream commercial banks (Li et al, 2002). The earliest Chinese-American banks were in the bottom-left cell of table 1. In the 1970s, however, emerging Chinese-American banks created by newer waves of Chinese immigrants initiated the first attempts to draw on home-country resources, especially Taiwan, as part of their initial capital (interview 10a, 1999). The proliferation of Chinese-American banks since the 1980s was closely associated with the influx of wealthy and middle-class Chinese immigrants and with the increasing numbers of Chinese businesses. Figure 1 demonstrates the temporal correlation between the Chinese population and immigrant growth, and Chinese-banking development.

Ethnic-Chinese foreign banks, for the purpose of this paper, operate federal-chartered or state-chartered foreign-bank offices (including both branches and agencies) with headquarters in the countries of the 'Greater China' economic sphere, including mainland China, Taiwan, Hong Kong, and Singapore. There were a total of twenty-one such banking offices as of summer 2001, including twelve operated by banks from Taiwan, four each operated by banks from Hong Kong and Singapore, and one operated by a bank from mainland China.

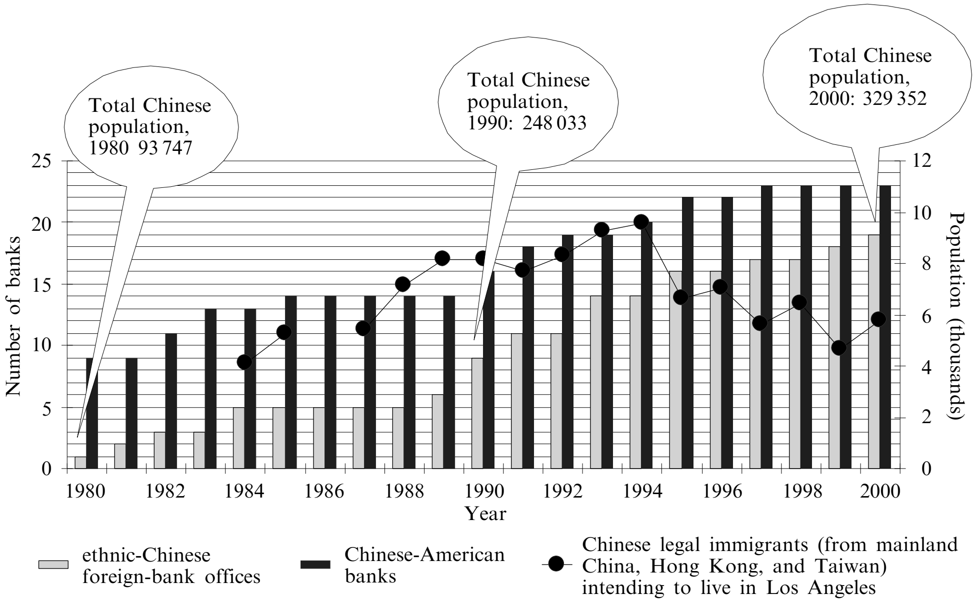

Figure 1. Chinese population, Chinese-American banks, and ethnic-Chinese foreign-bank branches in Los Angeles County (data sources: BOC, 1980, 1990, 2000; INS, 1984–2000; NACAB, 2001; individual bank websites and interviews).

4 Asian banks' entry into Los Angeles

When Japanese banks established a presence in California's retail banking markets in the 1980s, they were the first Asian banks to enter US banking markets in the postwar period (Dymski, 2002a; Pollard, 1999). Japanese banks' entry was linked to two factors. First, the huge export flows from Japan to the United States led the Japanese firms involved in these flows to demand sophisticated trade-related services. Second, the 1980s witnessed a huge surge of Japanese investments in US assets. Much of these investments involved real commercial property in California, especially Los Angeles. Korean banks also entered the US retail banking market in the 1980s, in the midst of Korea's boom growth period. Korean banks centered their operations primarily in Koreatown and focused narrowly on supporting the business-related financing needs of ethnically Korean customers.

Ethnic-Chinese foreign banks did not start their operations in Los Angeles market until the 1980s. The first banks to enter were the International Commercial Bank of China

(ICBC) and Bank of China, serving as the main and the solo foreign exchange banks of Taiwan and mainland China, respectively (at that time);[2] two Hong Kong banks (Ka Hwa Bank, as it was then called, and Wing Lung Bank Ltd) and two Singapore banks (Overseas Union Bank and United Overseas Bank Group). They came for the purpose of expanding their international operations and/or of serving the ethnic-Chinese population and businesses that had migrated to the Los Angeles area in large numbers in this decade. Figure 1 shows the increasing numbers of both Chinese-American population and banks in 1980s. As discussed previously, Los Angeles had some ambitions as a financial center in the late 1980s, while its role as an immigration gateway has grown continuously. Locating in Los Angeles met two objectives for these banks.[3]

Ethnic-Chinese foreign banks proliferated in Los Angeles in the 1990s: during this decade, the remainder of the Hong Kong and Singapore banks and all but one Taiwanese bank established offices there. The Taiwanese banks' increasing presence was mainly the result of the 1987 financial liberalization in Taiwan. This reform partially privatized Taiwan's government-owned banks, established new privately owned banks, and for the first time made it possible for Taiwanese citizens and businesses to transfer their funds overseas legally (the current annual limits on outward fund transfers are US$5 million for individuals and US$50 million for businesses). This policy has since triggered many changes: a wave of sixteen privately owned banks, large outflows of Taiwanese capital, and the shift of some institutions from provincial or municipal ownership to mixed public–private ownership. The Taiwanese government also began accepting bank applications to establish foreign offices [Taiwan's Ministry of Finance must approve these applications before they are submitted to US authorities (interviews, CFBh6, 2001)]. Coupled with geopolitical changes and political instability, the numbers of Taiwanese emigrants and immigrants and the presence of Taiwanese banks subsequently increased dramatically in Los Angeles, as figure 2 (see over) reveals.

The first wave of Taiwanese banks included Chang Hwa Bank Ltd, First Commercial Bank, and Han Nan Commercial Bank Ltd, known as the 'three commercial banks', all partially privatized, established Los Angeles branches in 1990. A second wave, consisting of the Bank of Taiwan, Taiwan Business Bank, Taipei Bank, and the United World Chinese Commercial Bank, immediately applied for licenses and, with some delay, began operations.[4] The mid-1990s saw two more Chinese-bank offices, The Farmer Bank of China and the Land Bank of Taiwan, locate in Los Angeles. Since mid-1999, two of the sixteen newly founded private banks—Bank SinoPac and E. Sun Bank—entered; and more are planning to establish in Los Angeles offices (interviews CFBh3 and h6, 2001). Although Los Angeles' financial-center role has been diminishing through this period, these institutions are drawn by the regional concentration of ethnic-Chinese businesses and population. All of these ethnic-Chinese foreign banks opened new offices, instead of acquiring local existing Chinese-American banks as some had planned (interview CFBh6, 2001).

(2) These two banks are both offspring of the Bank of China, the oldest bank in modern Chinese history, which was formed in mainland China in 1912. ICBC (then the Bank of China) moved to Taiwan along with the Nationalist Government in 1949, and did not change to its current name until 1971 when the bank was reorganized as a publicly owned bank.

(3) Laulajainen (1998), Martin (1999), and Porteous (1995; 1999) have analyzed the factors inducing overseas banks to locate offices in financial centers.

(4) The opening of these second-wave institutions' offices was delayed because of the Bank of Credit and Commerce International scandal, which led to new federal legislation (signed into law by President Bush in December 1991) requiring all foreign-financial institutions to be screened and approved by federal authorities, even those establishing state-chartered offices.

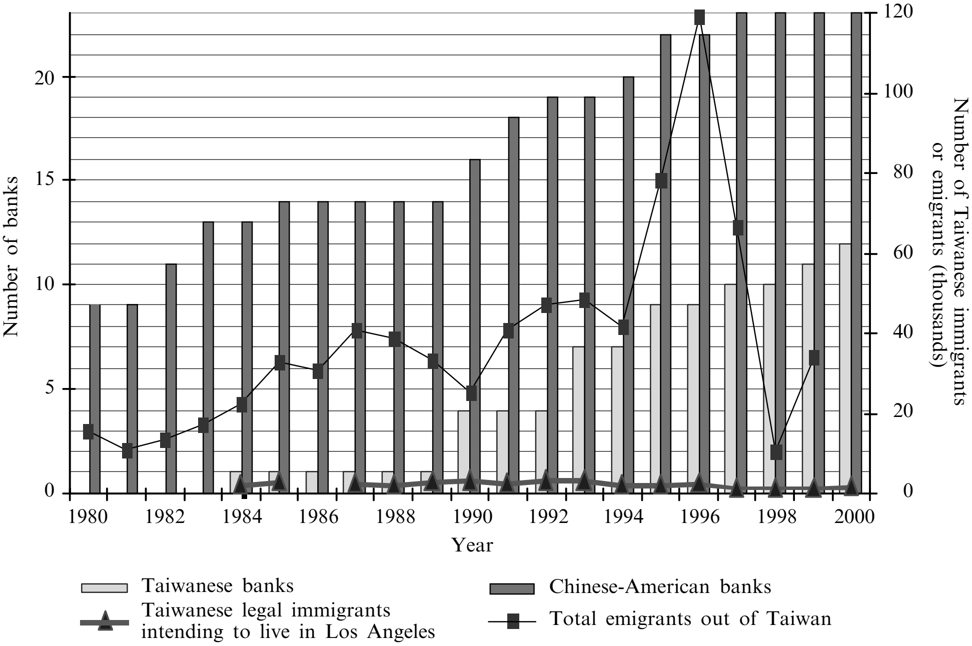

Figure 2. Taiwanese emigration and immigration; Taiwan bank offices, and Chinese-American banks in Los Angeles County (data sources: Chiang, 2000; INS, 1984 – 2000; NACAB, 2001, individual bank websites and interviews).

4.1 Los Angeles versus New York

The interviews we conducted with officers of ethnic-Chinese foreign banks investigated these banks' motivations for opening offices in the USA: the United States' comprehensive and objective financial and regulatory system, its central role in global financial markets, and its broad range of business transactions and opportunities.

Why did these banks locate in Los Angeles? Our interviewees cited three principal reasons. First was the large number of Chinese residents and businesses there: "Los Angeles has more Chinese/Taiwanese and their firms"; "Most immigrants from Taiwan live in Los Angeles, much more than that in the East Coast, which means a big potential and stable market"; "Most Hong Kong people came to Los Angeles or San Francisco"; "there are more well-educated ethnic Chinese moving to California. In fact, that is why there are more Chinese community banks in California than in New York" (interviews CFBh1 and h2; CFBb2, b4, b11, b12, and b17, 2001). The second reason was Los Angeles' location: "for its strategic location at the West Coast, closer to East Asia"; "we want to develop business in the West Coast" (interviews CFBb13 and b16, 2001). The third was business connections and opportunities: "Taiwan is an export-oriented economy, much of those to the US"; "The trade between California and Taiwan is substantial each year; and the profit margin is high in Los Angeles" (interviews CFBh2 and h6, 2001).

All of these rationales reinforce the importance of Los Angeles' role is as an immigrant-gateway region for large numbers of ethnic-Chinese population and businesses. Note that causation runs both ways: the decision by numerous Chinese banks to open offices in Los Angeles contributes to the flourishing Chinese-American and ethnic-Chinese foreign-banking sectors found there; and this, in turn, contributes to Los Angeles' key position in global trade and financial flows involving 'Greater China'.

Table 2. Ethnic-Chinese foreign-bank offices in Los Angeles (data source: bank annual reports and websites, and interviews).

Bank name[a]	Headquarter city	Date opened in Los Angeles	Other US offices[a, b]	Number of employees
Bank of China	Beijing	October 1989	NYC: midtown—1981, Chinatown—1985	na
Bank of Taiwan	Taipei	March 1993	NYC	16
Bank SinoPac	Taipei	June 1999	none	16
Chang Hwa Bank Ltd	Taipei and Chang Hwa	October 1990	NYC—June 1989	17
E. Sun Commercial Bank Ltd	Taipei	July 2000	none	8
The Farmers Bank of China	Taipei	November 1995	Seattle—1991	10
First Commercial Bank	Taipei	February 1990	NYC (agency)~1990–91	26
Hua Nan Commercial Bank Ltd	Taipei	January 1990	NYC (agency)	na
International Commercial Bank of China	Taipei	July 1984	NYC (agency)—1936 Chicago—1974 Houston (representative office)	30
Land Bank of Taiwan	Taipei	September 1997	none	14
Taipei Bank	Taipei	January 1993	NYC (agency)~1992	13
Taiwan Business Bank	Taipei	August 1995[c]	none	11
United World Chinese Commercial Bank (Agency)	Taipei	January 1993	none	13
The Bank of East Asia Ltd (limited branch)	Hong Kong	1991	NYC Chinatown—1984/midtown; Flushing—loan production office	10
CITIC Ka Wah Bank Ltd	Hong Kong	1982	NYC~1983	18
Shanghai Commercial Bank	Hong Kong	1991	NYC—1985; San Francisco—1973	18
Wing Lung Bank Ltd	Hong Kong	1982	none	8
Development Bank of Singapore (agency)	Singapore	na	none	na
Overseas Chinese Banking Corporation	Singapore	na	NYC (agency)	na
Overseas Union Bank	Singapore	1981	NYC (agency)~1971	12
United Overseas Bank Group (agency)	Singapore	1980	NYC (agency)~1977	6

Note: na, not available.
[a] Branch unless otherwise noted.
[b] NYC, New York City.
[c] Started as a representative office in 1993.

The choice of Los Angeles as a US location is especially interesting in light of the preeminence of New York as the world's largest financial center. Some thirteen of the twenty-one ethnic-Chinese foreign banks with offices in Los Angeles also have offices in New York. Interestingly, Los Angeles was not an afterthought: most of these thirteen institutions applied simultaneously for Los Angeles and New York offices. Only Bank of China, The Bank of East Asia Ltd, Shanghai Commercial Bank, and Overseas Union Bank opened their New York offices much earlier than those in Los Angeles. Further, eight out of the twenty-one banks with Los Angeles offices have no offices in New York (table 2). When asked to compare the advantages and disadvantages of Los Angeles and New York, as expected, almost all interviewees replied that it is logical to set up offices in New York, because it is the global financial center. Banks without a New York presence cited two factors: they are too inexperienced or too small to compete with the banks operating in New York; a New York location is not attractive because their main clientele is not in New York (interviews CFBb4 and b17, 2001).(5)

5 Globalization: 'global outposts' of headquarters in financial globalization?
There are three reasons why foreign bank offices might be located in a given urban area: it is a financial center; it serves as a global outpost for headquarters; or the bank plans on becoming involved in local economic development and possibly even integrating into the local financial structure. As discussed, Los Angeles has a wide range of financial services, but is not a financial center; so our interviews with top executives in Los Angeles and Taipei explored the last two possibilities. These interviewees' responses suggest that the boundary between these two functions is often blurred and fluid, and depends on individual banks' decisionmaking, headquarters-country financial policies, and the current status of the global financial system.

The following quote by an interviewee best captures the different ways in which a foreign-bank office may serve as a global outpost for its headquarters office:

> "New York is the financial center and would be a better place for bank's loan businesses, especially syndication loans. Even in this Internet age, there are still advantages that New York holds, such as constant briefings [*fa biao hui*] on those loans. For a profit-driven bank, New York is a better choice, Los Angeles is inconvenient due to time difference; while for complying with government's policy, LA is good" (interview CFBb11, 2001).

One might anticipate that these offices will be established where profit-seeking opportunities are greatest. But for many institutions, profitability is not the overriding criterion. In particular, Taiwanese banks have been instruments of national economic development since their inception; many of them are partially owned by government (an arrangement known as *guan gu*). Thus it is not surprising that numerous Taiwanese bank offices have been established as economic-development vehicles, complying with the Taiwanese government policy of 'serving overseas Chinese' (*fu wu qiao bao*).(6)

Some interviews with these partially government-owned Taiwanese banks indicated that it is more important to make fewer mistakes—avoiding excessive risk, staying on the safe side, and keeping the outpost alive—than to maximize profits, even if this means losing money for the first few years (interviews CFBb2, b4, b11, and b15; CFBh6, 2001).

(5) Zhou (1998) suggests two other possible factors: the two cities attract different types of immigrants; and the two cities are affected differently by global and domestic business cycles.

(6) The government in Taiwan permits dual citizenship, so the definition of overseas Chinese is broad, ranging from business visitors to permanent residents and native-born Chinese/Taiwanese Americans.

As one Taiwanese bank interviewee declared, "our purpose now is mainly training our employees and developing our own model for banking internationalization, not much for profit earning, so long as we can survive and sustain ourselves." Others struggle with the difficulties involved in recruiting customers and developing business. One interviewee explained his dilemma this way: "Taiwanese businesses in the US are mainly large ones [not always dependent on Taiwanese banks]. And local small and medium businesses rely on local banks not foreign bank branches, as we cannot handle consumer loans even for our own clients" (interview CFBb2 and b11, 2001).

For some Taiwanese banks, setting up Los Angeles offices is a way of following their clients and accomplishing these goals. The Chinese/Taiwanese populations and business communities are much more vibrant in Los Angeles than in New York (Zhou, 1998); so Los Angeles is the logical location for 'serving overseas Chinese'. These offices also provide training for internationalized personnel, explore the feasibility of new offices, and monitor new high-tech development (interview CFBh2, 2001).

It appears that location and image making are also sometimes important considerations in siting foreign-bank offices. With one exception, all Taiwanese bank offices in Los Angeles have located in high-rise buildings in the downtown financial district (figure 3). The factors dictating this site selection range from proximity to the financial district and the convenience of locating near the agglomeration of foreign-bank offices, to the notion that a wholesale branch does not require physical proximity to retail customers. Some Taiwanese banks—especially the partially government-owned ones—are also very conscientious about their image. It was reported in one of our interviews that early on, Taiwanese banks each chose a different skyscraper for their offices,

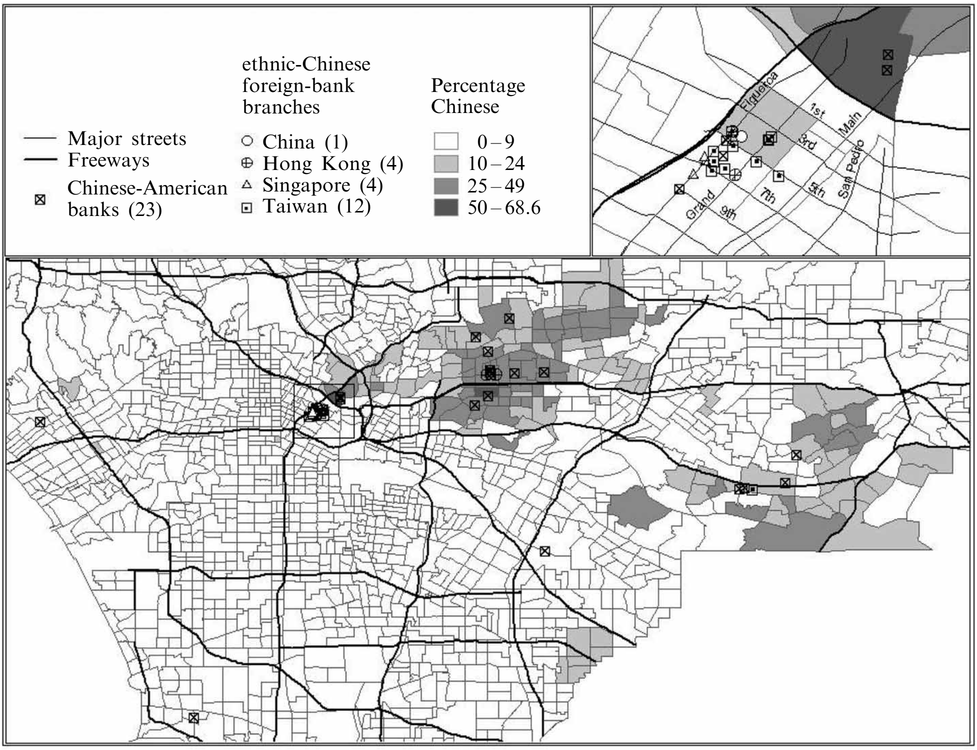

Figure 3. Chinese population, Chinese-American and ethnic-Chinese foreign banks, Los Angeles, 2000 (data sources: BOC, 2000; Federal Deposit Insurance Corporation).

because no one wanted to be located on a lower floor than a Taiwanese competitor in the same building. Sometimes a bank's preparatory team would present a board of directors with several options ranked by not just amount of rent, but also by prestige of location.

One example of the Taiwanese banks' compliance with government policy is their participation in the "Overseas Chinese Credit Guarantee" (OCCG) program. Modeled after the US Small Business Administration loan program,[7] the OCCG pools financial resources from Taiwanese government-owned banks (60%) and semi-government-owned banks (40%). It makes business loans to small and medium-sized Taiwanese firms operating outside Taiwan, primarily through Taiwanese bank's overseas offices and other related financial institutions (Tseng, 2002, pages 543 – 544). This provides ethnic-Chinese newcomers, without a prior credit history in the United States, with opportunities to open and operate their own businesses. The size of such loans is often small (in the range of \$100 000), so handling them requires significant resources. Consequently, these loans are regarded as inefficient in economic terms for these wholesale branches, despite the fact that their risks are minimal because of government underwriting. Although banks are not compelled to make these loans in the United States, the partially government-owned banks feel obligated to participate. Much as with US banks faced with the Community Reinvestment Act, the participation of these banks is accompanied by a variety of complaints—they claim that some applicants lack creditworthiness and pose high risks, so that banks cannot make profits from this business; hence, they argue, they are only participating so as to comply with government policy or to meet their social responsibilities in serving the overseas Chinese community. Some Taiwanese banks participate only nominally, arguing that the activities financed through the OCCG have never been central to their business models (interviews CFBb1, b2, b4, and b11, 2001).

For other banks, including those headquartered in Hong Kong and Singapore, profitability is a key factor in evaluating whether to open a foreign-bank office. In a shift from previous policy, regulatory agencies in Taiwan now stress profitability in evaluating a bank's application to open an overseas office (interview CFBh6, 2001). These bank offices have developed various methods for serving simultaneously as global outposts and as profit centers. In the realm of loan making, these offices are often participants in large mainstream bank-led syndication loans. Our interviews indicate that many banks have more than 50% of their loan portfolios in syndicated loans, with some as high as 70%. This is 'global-outpost' behavior in that participating in syndicated loans organized by other intermediaries requires no familiarity with borrowers' creditworthiness, nor any oversight of their performance—it involves purely a share in the prospective net income and risks of these loans as virtually disembodied-payment streams. The lead bank takes on the main responsibility of evaluating borrowers' creditworthiness. A wholesale branch office with few human resources can handle many more loans on these terms than would be possible were each loan identified and evaluated independently. Because many of the large loan syndications are not drawn from local borrowers, participating in these loans does not necessarily imply even passive participation in support for the local economy and its firms and households.

Participating in loan syndications does involve some trade-offs. On the one hand, these loans are less likely to go into default, because they involve mainly large-scale loans to Fortune-500-size firms and bank headquarters are quite likely to approve such loans, thanks to name recognition. So these loan participations lower risks, bring

[7] According to several sources, this program was first suggested to Taiwan's government by Los Angeles-based Chinese-American bankers—further demonstrating the two-way transnational roles of local Chinese-American banks and bankers (interviews 4, 5, and 9, 1999).

Table 3. Ethnic-Chinese foreign-bank operations in Los Angeles (source: adapted from Li and Dymski, 2002; http://www.dfi.ca.gov/stats/fbstats/rank4q00.htm; ranking: http://www.labusinessjournal.com/tofilelabj.htm?user/user.fas/s=614/fp=3/tp=45?T=notrans&P=register).

Ethnic-Chinese foreign bank[a]	Headquarter city	Type	Year[b]	Total assets ($ thousand)	Total deposits ($ thousand)	Rank[c]
Development Bank of Singapore	Singapore	depositary	na	885 058	51 412	6
Hua Nan Commercial Bank Ltd	Taipei	wholesale	1990	694 923	45 007	8
First Commercial Bank	Taipei	wholesale	1990	684 726	65 054	9
Bank of Taiwan	Taipei	wholesale	1993	487 523	52 053	11
Shanghai Commercial Bank	Hong Kong	wholesale	1991	443 362	440 165	14
Chang Hwa Bank Ltd	Taichong	limited	1992	414 145	3 127	15
United Overseas Bank Group	Singapore	depositary	1977	405 608	30 869	17
International Commercial Bank of China	Taipei		1984	293 526	101 293	
Farmers Bank of China	Taipei	limited	1995	240 069	na	20
Land Bank of Taiwan	Taipei	wholesale	1997	234 602	32 061	21
United World Chinese Commercial Bank	Taipei	depositary	1993	210 425	67 044	22
Taiwan Business Bank	Taipei	wholesale	1995	194 092	1 102	23
The Bank of East Asia Ltd	Hong Kong		1991	171 105	3 989	
E. Sun Commercial Bank Ltd	Taipei	wholesale	2000	165 165	4 025	25
Taipei Bank	Taipei	wholesale	1993	165 022	38 382	26
Bank SinoPac	Taipei	wholesale	1999	159 440	4 103	27
CITIC Ka Hwa Bank Ltd	Hong Kong		1982	134 073	133 681	
Bank of China	Beijing		1989	124 636	61 317	
Overseas Chinese Banking Corporation	Singapore	depositary	na	89 655	na	34
Wing Lung Bank Ltd	Hong Kong		1982	73 290	27 777	
Total				6 270 445	1 162 461	
Average				313 522	58 123	

Note: all data are as of 31 March 2002. A fourth Singaporean bank, which had a separate Los Angeles agency—Overseas Union Bank—was acquired by another Singaporean bank and excluded from this table.

[a] Five banks are not in the California Department of Financial Institutions (DFI) database, whose are retrieved from FFIEC database: http://132.200.33.161/nicSearch/nicHome.html; they are: Bank of China (mainland China); International Commercial Bank of China (Taiwan); The Bank of East Asia Ltd; CITIC Ka Hwa Bank Ltd; Wing Lung Bank Ltd (Hong Kong). Among them, The Bank of East Asia Ltd, CITIC Ka Hwa Bank, and Bank of China all are New-York-based and FDIC (Federal Deposit Insurance Corporation) insured institutions classified under the category of 'US branch of a foreign institution'.

[b] Year of opening Los Angeles operation for ethnic-Chinese foreign banks.

[c] Rank among all forty-seven foreign banks registered under California DFI.

stable profits, and build up foreign offices' loan portfolios in a cost-efficient way. On the other hand, because responsibility for originating and overseeing these credits rests with other intermediaries (often large mainstream banks), profit margins for loan participation can be very slim. So despite the relative safety of these operations, some profit-minded bankers do not view syndication loans as the best way forward for their offices (interviews CFBb2, b11, b13, and b15, 2001).

In banks' other traditional line of business, obtaining deposits, ethnic foreign-bank offices also serve as global outposts for their headquarters. US regulations specify that wholesale-foreign-bank agencies can take deposits only from non-US residents, and that foreign-bank branches can only take deposits of \$100 000 or more, either from local residents or from foreigners. None of these deposits is insured by the Federal Deposit Insurance Corporation (FDIC). Almost every branch we visited contains a prominent sign reminding their customers of this rule. This limits their ability to absorb local deposits; consequently, these banks do not make deposit taking a principal line of business. Data released by California's Department of Financial Institutions show that seven out of the sixteen ethnic-Chinese foreign-bank offices in Los Angeles had almost zero total deposits as of 31 December, 2000. For most, total deposits did not reach \$50 million (table 3). Lacking a strong deposit base, these banks' liabilities come mainly from two sources: borrowing from their headquarters or interbank loans (*Chai jie*). Comparing these sources, borrowing from headquarters is typically viewed as more disadvantageous: these transactions are taxable and the headquarters office makes money on them. Interbank loans are thus seen as a superior means of acquiring liabilities. Because interbank loans are very fluid and are available from locations throughout the world, use of these loans as a primary support for asset acquisition suggests that ethnic-Chinese foreign-bank offices depend on the global financial market (interviews CFBb1, b2, b13, and b15, 2001).

In sum, ethnic-Chinese foreign-bank offices in Los Angeles function as global outposts in part by carrying out their government's financial policies. Further, following ethnic-Chinese population and businesses to their emerging stronghold in Los Angeles helps them build offshore-asset positions in accordance with headquarters-dictated strategies. Constrained by US laws from 'customer-seeking' behavior on a large-scale basis, they focus on 'production-seeking' behavior, especially through loan syndications and government-sponsored loan programs to Taiwanese businesses operating in the United States.(8)

6 Localization: 'localized institutions' becoming ethnobanks?

As table 3 indicates, length of time in the United States and foreign-office asset size are positively correlated. For instance, the first group of three Taiwanese banks—First Commercial Bank, Hua Nan Commercial Bank Ltd, and Chang Hwa Bank Ltd—topped the list among twelve Taiwanese banks, whereas those of three latecomers—Land Bank of Taiwan, Bank SinoPac, and E. Sun Commercial Bank Ltd—are at the bottom of the list. As one of our bank interviewees put it: "we tend to follow the customers that we know, whom we developed over the years, those we are familiar with, and the kind of business we are familiar with. We do have reputations, so people do come to us" (interview CFBb18, 2001).

(8) Dymski (2002a), building on ECLAC (2001), argues that banks engage in cross-border market entry for one (or both) of two reasons: customer seeking—attracting wealth owners who want savings instruments; and production seeking—expanding so as to make more loans and capital commitments.

This might suggest that the longer the period of time in the United States, and the more assets it controls, the more likely it is that a foreign-bank office will become localized. It turns out that localization involves a different set of determinants. A foreign-bank office becomes 'localized' to the extent that it develops business relations with customers based in the local-market area. Although US-banking regulations constrain the activities of these offices as banks, their activities can become more localized if area circumstances dictate, if their local personnel are willing, and if it is consistent with their headquarters' corporate mission and culture. Localization involves, at root, a shift in strategic focus. As such, it cannot be detected directly, but must be inferred. One method of so doing is in terms of office site selected. For example, two Hong Kong banks shifted their offices to the Chinese-concentrated San Gabriel Valley from Chinatown and downtown, respectively, so as to provide easier access for their local customers (figure 3). Our interviews suggest that the localization process often involves three primary forms: localized personnel; localized operations; and localized institutions.

6.1 Localized personnel

Becoming localized requires personnel who are familiar with the local market and have local connections. This can be achieved either by having headquarters-based bank personnel stay locally long enough to develop this familiarity, or by hiring experienced local bankers. Which path is chosen depends in part on the bank's corporate culture, especially for key positions such as general manager or agent (for agencies) and deputy manager. In the case of the twelve Taiwanese banks, all branch managers but one were assigned to the post by the headquarters; and many general managers rotate between working at headquarters and different overseas positions. Both Singaporean agent/managers we interviewed were also appointed by the headquarters. Hong Kong banks are somewhat different. Two out of the four Hong Kong bank offices currently hire local bankers to serve as their general managers, including one Taiwanese American. A third bank hired its first two managers locally. Regular terms of these assigned manager-level personnel in Los Angeles offices range from four to eight years; in some cases the terms lasted eleven years because of outstanding performance, and/or lack of other qualified headquarters personnel (especially for Taiwanese banks in early stages of their entry into Los Angeles). Headquarters' criteria for managers are proficiency in English, educational background (especially training in Western countries), and professional competence and experience in international banking. Personal character is also emphasized: these posts require independent decisionmaking and headquarters want a representative they can trust. In some cases, the managers assigned have personal reasons to seek a position in the United States, such as an intention to immigrate or having family already there.[9]

Although top positions in these ethnic-Chinese foreign-bank offices are often occupied by headquarters-based personnel, the majority of these offices' employees are local hires. The lowest percentage of local employees in the eighteen ethnic-Chinese foreign-bank offices we interviewed was 55%. In some cases, everyone other than the general manager was locally hired, even at the deputy-manager level. These local employees are often seasoned bankers with extensive banking experience, ranging from mainstream banks to Chinese-American banks. They are often assigned to local-business development and/or compliance issues because of their expertise in local markets and their familiarity with US-banking regulations. Sometimes these hires bring in business from their previous positions. In fact, one of our foreign-bank office interviewees once headed a local

[9] All twenty-one general managers of the ethnic-Chinese foreign-bank offices in Los Angeles are male.

Chinese-American bank. Another local hire worked in eight different Chinese-American banks before taking her current post. Many ethnic-Chinese foreign banks have the localization of their Los Angeles office's personnel and management as a stated goal. They intend to achieve this goal both by hiring more local bankers and by providing promotion opportunities for their local hires (interviews CFBb1, b2, b6, b11, b16, and b17, 2001).

6.2 Localized operations

Localizing the operations of a foreign-bank office means localizing its decisionmaking; as with personnel decisions, this depends on corporate culture. Although all the foreign-bank offices keep close ties with their respective headquarters, the degree of centralization in decisionmaking differs considerably, especially with respect to loan making. All foreign-bank-office managers have lending limits assigned by headquarters; these range from \$900 000 – \$2 million for loans backed by guarantees and \$200 000 – \$500 000 otherwise. Local managers handle lending within these authorized limits very differently. In some banks, headquarters decides the percentage of loans by country and industry, and requires local managers to submit every loan application to headquarters for approval. This permits close headquarters monitoring of branch operations and centralizes loan decisionmaking and risk management. This can be inefficient, because headquarters' credit departments may not be familiar with US business operations or local companies' creditworthiness. Misunderstandings between headquarters and overseas offices sometimes arise. Some centrally managed Taiwanese banks came up with the solution of providing their overseas offices with higher lending limits than their domestic counterparts. The more decentralized banks require their branch managers to report back to the headquarters only when requested loan amounts exceed established limits. This permits managers to make timely decisions, but also puts headquarters at risk from bad local decisions (interviews CFBh1, h2, h3, and h6, 2001).

Localizing operations also means developing local business, including loan provision to local firms or local areas. Aside from their participation in loan syndications led by mainstream megabanks, many ethnic-Chinese foreign-bank offices also undertake local syndications and participation loans, in cooperation with their overseas counterparts and/or with local Chinese-American banks.[10] In this situation, some large Taiwanese banks hold certain advantages over their peers and local Chinese-American banks. Foreign-bank offices are backed by their headquarters' financial abilities; consequently, these offices would have higher legal lending limits than local ethnobanks. Because many Taiwanese firms have prior business connections with larger Taiwanese banks, these banks' headquarters may refer their business clients in the United States to their Los Angeles offices. Consequently, larger Taiwanese banks often serve as lead banks in assembling syndication loans for Taiwanese clients. Smaller banks participate in these syndications or carve out their own niches by serving smaller firms. Hong Kong bank offices target Taiwanese clients as well as Hong Kong customers, because they have discovered that residents and businesses from Hong Kong are not as plentiful in Los Angeles as they had expected. Singaporean banks benefit from their long history of operations in Los Angeles and enjoy their name recognition.

Although these foreign-bank offices view one other as their primary competitors, they also frequently cooperate, especially in loan syndications. In fact, we were told that a 'gentlemen's agreement' among Taiwanese banks stipulates that they will not engage in vicious competitions aimed at luring one another's business and/or employees.

[10] Several interviewees noted that California's financial regulations of retail banking have facilitated their institutions' participation in aspects of retail banking in California (interviews CFBh1 and b10, 2001).

Cooperation between ethnic-Chinese foreign banks and local Chinese-American banks occurs frequently. Local Chinese-American banks have advantages over their foreign-bank counterparts in developing local business because of their extensive local branch networks and community ties; but their small asset size often precludes their providing large loans on their own. Our foreign-bank interviewees see ethnic-Chinese foreign banks and Chinese-American banks as complementing each other very well, with good potential for developing their cooperation further (interviews CFBh1, b4, b10, b11, and b15, 2001).

Many bankers indicate that, although serving Chinese customers has been their initial goal, they would like to expand their services to clients of different backgrounds. At present, most loan customers of these banks are ethnic Chinese. One bank interviewee observed, "The Los Angeles branch mainly serves customers in the LA area, for the mutual convenience for the branch and its customers. The source of our customers is mainly Taiwan. Business people from Taiwan highly depend on us for loans" (interview CFBh1, 2001). Ethnic-Chinese clients account for 50–80% of all loans according to our interviews. Some bank offices make over half their loans to local customers; among their reasons for so doing are the ease of managing and monitoring local customers, and diversifying their portfolio risk. Because loans to local ethnic Chinese are typically smaller than the loan syndications led by mainstream banks, the percentage of dollars lent to Chinese customers by ethnic-Chinese foreign-bank offices is lower than these customers' share of loans. Taiwanese banks in particular often make loans in the same areas of specialization (for example, commercial real estate) in the USA that they have established in Taiwan (interviews CFBb2, b4, b11, and b13, 2001).

6.3 Localized institutions

The ultimate step in localization is to localize the institution itself by establishing a subsidiary operation.[11] In the United States, establishing a foreign-bank subsidiary means setting up an FDIC-insured depository institution. This subsidiary can then obtain deposits, make loans, and establish branches, like any US-chartered bank. As a US bank, however, this subsidiary has to rely on its own capacity, not that of headquarters; for instance, legal lending limits are determined by the financial capacity of the US subsidiary. Further, this subsidiary is subject to the same regulations as all domestic banks, including the Community Reinvestment Act.

Our interviewees acknowledged this process. One observed, "to have an overseas branch is to realize globalization, while to set up a subsidiary is to realize localization eventually"; another noted, "the Chinese banks as a group, have moved from foreign banks to Chinese community banks" (interviews CFBh3 and b12, 2001).

The decision to establish an overseas subsidiary also depends on home-country financial policies. In Taiwan, for example, the application process for establishing an overseas subsidiary is prolonged, entailing complicated procedures and approval by high-level regulatory authorities. Further, current regulations stipulate that the costs of establishing a subsidiary be subtracted from capitalization when calculating business income tax. This financial penalty insures that Taiwanese banks will establish subsidiaries only if they are expected to be very profitable, or if they achieve nonfinancial goals. Thus far, ten of the twelve Taiwanese banks have not established a US subsidiary; neither have any of the four Singaporean, three Hong Kong, or single mainland China banks. Several Taiwanese banks did indicate that a subsidiary would be the best way to localize their overseas operations and win a larger share of Los Angeles' Chinese and non-Chinese business markets; these respondents also noted that the US recession

[11] Our previous research classifies such subsidiaries, along with other Chinese-American banks, as 'ethnobanks' (Dymski et al, 2000; Li et al, 2001).

and the slowdown of the Taiwanese economy have delayed these plans (interview CFBh1, h2, h3, and h6, 2001).

The few ethnic-Chinese foreign banks with subsidiaries have established them via two paths: setting them up independently and purchasing an existing local Chinese-American bank. First Commercial Bank (FCB) led the way for Taiwanese bank subsidiaries in Los Angeles. FCB's team explored the feasibility of a subsidiary soon after establishing its overseas office in 1990. This subsidiary, approved in both Taiwan and California, was named FCB Taiwan California Bank and opened for business in 1997. The first manager of FCB's Los Angeles Branch served as the first president and chief executive officer of this subsidiary until his retirement in 2001. In its four-year history, FCB Taiwan California Bank [now First Commercial Bank (USA)] has evolved into a four-branch entity (three local branches and one in Silicon Valley).

The same year that FCB started its subsidiary, another Taiwanese bank established a subsidiary via a drastically different path: Bank SinoPac acquired Far East National Bank (FENB), the first federally chartered commercial bank in the United States owned by Chinese Americans. FENB already had ten branches across California at the time of acquisition. With this acquisition, Bank SinoPac obtained FENB's market share and its customer base in Los Angeles and elsewhere, including its Beijing Representative Office (at that time, Taiwanese banks were prohibited by law from directly establishing their own offices in mainland China). FENB has kept its name and subsequently opened two more branches (Beverly Hills and San Jose). Both FCB and Bank SinoPac find that their branch networks and subsidiary operations complement each other through functional separation, making local business development easier. This functional separation may explain the low total deposits of these two Taiwanese banks in table 3, despite their active participation in local loan markets. The Los Angeles branch of the FCB, for instance, funded one of the largest Chinese commercial developments in the San Gabriel Valley, San Gabriel Square—an agglomeration of a dozen Chinese restaurants and other retail businesses that has been termed the Chinese "crown jewel in the Southland," (Flanigan, 1998; Gilley, 1998; interviews 15, 1999; CFBb3a, b7; CFBh3 and h7, 2001).[12] Another recent successful example of an ethnic-Chinese foreign bank acquiring a local Chinese-American bank is Bank East Asia's acquisition of Grand National Bank in 2001. Other negotiations to acquire local Chinese-American banks have fallen apart, primarily because of disagreements over the acquirees' selling prices and conditions. The other Taiwanese banks are still in a 'wait-and-see' position, preferring to evaluate whether these pioneers are profitable.

Hong Kong banks, as a whole, are quite active in their pace of localization, including acquiring local Chinese-American banks or setting up their own. Another Hong-Kong-based bank is going to register its own subsidiary soon. Two out of the four Hong Kong banks built their own spacious buildings in Alhambra along Valley Boulevard—the 'Chinese Wall Street', where the largest US agglomeration of ethnic-Chinese banking establishments can be found—so as to carry out their missions of serving ethnic-Chinese customers and developing local businesses (figure 3; interviews CAB19f, CFBb4, b11, b13, b14, and b15; h6, 2001).

Chinatrust Commercial Bank, headquartered in Taipei, is an outlier among ethnic-Chinese foreign banks in establishing subsidiaries. The owners of Chinatrust Commercial Bank first used their personal investments to found a US-chartered commercial bank,

[12] Ethnic-Chinese foreign-bank offices often avoid residential real estate lending because of regulatory restrictions, low loan amounts, larger demands on human resources, and complicated compliance procedures. They also do little trade financing, because this requires extensive knowledge and close monitoring of borrowers. Local Chinese-American banks—which have more local expertise, if lower lending limits—often take these lines of business.

Chinatrust Bank (USA)—which remained an independent bank until spring 2001, when the headquarters formally acquired it as a full subsidiary of its Taipei headquarters. Chinatrust Bank (USA) has probably the largest cross-state network of branches, including California, New York, New Jersey, and Maryland, among all ethnic-Chinese banks.

6.4 Becoming embedded

Our interview evidence suggest that the ethnic-Chinese foreign banks are becoming embedded institutions, despite the regulatory obstacles to so doing. Our interviewees expressed pride in creating local employment, in providing financial services and business-development opportunities, and in paying taxes. As one interviewee put it, they are "part of the financial-globalization process, using international funds to support the local economy" (interview CFBh1, h2; CFBb2 and b4, 2001). Serving ethnic Chinese and their firms has been a primary goal for many of these banks—further evidence of the importance of the ethnic layer in financial globalization. Ethnic-Chinese foreign-bank offices actively participate in local commercial loans, including commercial real estate projects. Because of their higher lending limits, these offices can support large shopping centers, hotels, warehouse, and office complexes which are beyond the range of smaller local community-based and ethnic banks. In effect, ethnic-Chinese foreign banks and Chinese-American banks often complement each other in developing the local Chinese economy and community.(13)

7 Macrostructural and strategic dimensions of financial globalization

The money flows and shifting foreign-bank locations and roles described above are associated with people flows. At the same time, they are framed and constrained both by the macrostructural relationships among nation-states and by the strategies of large banking firms. This section shows that the processes described above conform with—and are partially explained by—these macrostructural and strategic factors. Thus it is important to add this layer too (along with the ethnic layer) into any characterization of cross-border financial processes.

7.1 Macrostructural relationships and constraints

The financial flows among firms and households across borders are systematically linked to goods and financial flows among nation-states. In the aggregate, the following relationship must hold between any nations A and B: if nation A has a trade surplus (deficit) with nation B, this must be offset by the sum of a capital flow from B to A plus any increase in the amount of nation A's currency held in nation B (Dymski, 2001). In the case of mainland China and the USA, for example, China's large trade surplus with the USA is offset by some combination of the build-up of dollar reserves in China and a flow of money and investment from China to the USA.

Our analysis of the Asian side of the nexus with Los Angeles has encompassed not just mainland China, however, but also Taiwan, Hong Kong, and other nations in Southeast Asia that together comprise the principal Asian components of the Chinese diaspora. In general, all of these nations too have trade surpluses with the USA; the flow of wealthy Chinese immigrants and transmigrants to the USA, however, has involved Taiwan and Hong Kong more than mainland China. The relationships among these nations are captured in figure 4: goods flow from mainland China and the other Asian nations to the USA, while investment flows from these nations to the USA; population flows to California, and in turn to other states within the USA.

(13) Unlike their Chinese-American bank counterparts, however, most of these foreign-bank offices have not taken steps to target other minority markets, citing lack of human resources and/or lack of mandates (interviews CFBb4, b5, b10, and b11, 2001).

In effect, California and the USA as a whole can be regarded as capital-seeking areas (because of the chronic US trade deficit); and the various Asian nations represented in figure 4 are capital-expelling areas. We can add to this structurally fixed scenario by adding in two more elements. First, California is a labor-seeking area, whereas most Asian nations are labor-expelling in net terms.[14] So a flow of labor from Asia to California—obviously, including an ethnic-Chinese flow—is consistent with the structural orientations of both spatial areas.

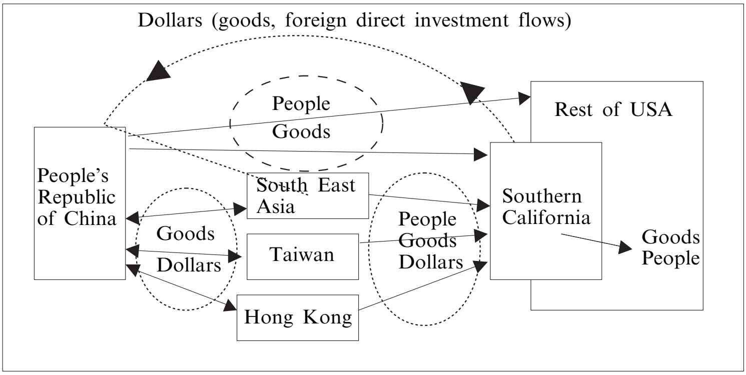

Figure 4. Complex linkages in goods, money, and people between China, the Chinese diaspora, and Southern California.

Second, since full-fledged financial global deregulation began in earnest in the early 1980s, recurrent episodes of financial crisis, structural adjustment, and political changes have played out in many nations, especially in the developing areas of the world. Southeast Asia, of course, experienced this sort of financial and economic instability with a vengeance with the outbreak of the Asian financial crisis in mid-1997. Some nations that figure prominently in the Chinese diaspora, such as Indonesia and Malaysia, were deeply and immediately affected. Taiwan survived the initial crisis, but has subsequently been dragged into a prolonged period of stagnation. Hong Kong too faces considerable instability because of its uncertain future. Dymski (2002b) argues that one element explaining the sustained growth of the USA in the late 1990s was its emergence as a 'safe harbor' in a global scenario of chronic crisis and stagnation. Figure 5 builds on this idea by suggesting that geographic locations can be divided in any time period into 'stable' and 'unstable' investment spaces. The idea is that areas perceived as possessing stable currencies, strong governments, and economic and social stability will attract investment (that is, money flows seeking assets); investors will, by contrast, avoid areas that have weak currencies, troubled governments, or the possibility of economic or social instability. As figure 5 shows, this divide between stable and unstable prospects interacts with the capital-seeking or capital-expelling macrostructure of a given area. We might speculate further that financial authorities in stable (and hence desirable) investment spaces will have greater ability to impose rules on incoming capital than those in unstable spaces. Indeed, unstable investment spaces that need capital may have to offer high returns and minimal regulation to get it.

This leads to a suggestive interpretation of the structural logic of ethnic-Chinese flows between Asia and California (and elsewhere in the USA). These flows involve shifts of ethnic-Chinese produced-goods, people, and money from more unstable,

[14] The exception within Asia is Japan. It is both a labor-seeking and a capital-expelling area (the latter by virtue of its trade surpluses with the rest of the world). This has opened the way for the reverse flows of Japanese Brazilians, of Koreans, and of ethnic Chinese to Japan.

Capital-account balance	*Stable investment spaces*	*Unstable investment spaces*
Capital-seeking areas	High returns to capital so as to attract offshore funds, or 'safe harbor' rationale (California, USA)	Unsuccessful development: choice between providing exit for financial assets of elite or reforms signaling change
Capital-providing areas	Lower returns serve as floor for expected returns in other areas (United Kingdom/ United States in periods of historical dominance; Japan)	Successful export-oriented development: elite interested in offloading money (China, Chinese diaspora)

Figure 5. Capital-account balance and investment stability.

capital-expelling areas to a more stable, capital-seeking area. And because the USA as a capital-seeking space is (or has been) perceived as a stable investment area, it has been able to maintain control over the conditions under which this foreign capital—and the institutions that capture and channel it—enter.

7.2 Banking strategy and globalization

Augmenting this macrostructural logic are the evolving strategies of banking firms. Financial deregulation transformed financial institutions from primary vehicles of community, regional, and/or national economic development to autonomous goal-seeking institutions competing for niches in a rapidly shifting market environment. This competition has played out on an uneven playing field. Megabanks from the United States and Europe have been notably successful—largely because of their asymmetric access to global equity and securities markets and because of their privileged treatment by regulatory authorities—at using acquisitions to expand their reach and their revenue potential.(15) These megabanks are competing to make themselves indispensable in servicing the superrich and nonfinancial megacorporations. In particular, megabanks are interested in upper-end customers whose characteristics make them eligible for standardized financial products and practices.

In the 'elimination-of-space' view, megabanks' superior size, technical capacity, and access to standardized information should permit them to consolidate their grip on all important banking markets. In this view, transmigrants' home-country financial intermediaries will invariably shrink in size and scope, and even become takeover targets; idiosyncratic regional and national financial practices will decline in significance. The 'centripetal/centrifugal' view, by contrast, suggests that megabanks will not dominate all banking markets, because investment opportunities and resources will evolve unevenly in different regional markets. Further, many immigrants and transmigrants do not qualify for standardized financial instruments and contracts. This leaves competitive terrain for smaller, regionally based and culturally attuned banking firms, suggesting that a mixture of globalized and local financial practices will persist over time.(16) From this viewpoint, it is not surprising that ethnic-Chinese banking institutions rooted in California and in various East Asian nations are competing both in Los Angeles and in Asia, respectively, to provide banking services for household and firm customers.

Because of the fierce character of this competition and the shifting regulatory policies of home countries, both the US-chartered and foreign ethnic-Chinese banking sectors, like the megabanks, are experiencing the continual pressures of consolidation

(15) This discussion draws on Dymski (1999; 2002a).

(16) Thrift's earlier investigation concludes that international mergers and acquisitions and management buyouts are highly sensitive to physical proximity (1994, table 14.1).

and market redefinition. Recent years have seen an increasing number of consolidations among US-chartered ethnic-Chinese banks; specific details are discussed in Li et al (2001). Ethnic-Chinese banks headquartered in Asia are also in the midst of a cauldron of change. As part of its accession into the WTO, the Taiwanese government has since 2001 allowed banks to form holding companies that can acquire other types of financial firms. Some overseas operations of banks from Taiwan and Singapore will be consolidated because of top-down bank mergers initiated by both governments. Further, mainland China itself will play an increasingly important role in these financial dynamics, given its own accession to the WTO in late 2001: its banks will be more active in global financial markets, and mainland China's huge financial markets provide unprecedented opportunities for foreign financial firms. All eighteen ethnic Chinese banks in our interviews are actively seeking larger shares of the mainland Chinese market.

The deepening financial interrelations between Taiwan and mainland China are of special interest. As of 2001 Taiwanese government has permitted Taiwanese banks' offshore banking units to make direct money transactions with mainland Chinese banks, and to open representative offices in mainland China; some of these banks submitted their applications on the day of this announcement, with four having since been approved by the Chinese government (three more are pending approval).(17) Two such representative offices, Chang Hwa Bank and United World Chinese Commercial Bank, are open in the Shanghai area as of April 2002; others will open soon in Beijing and in Shenzhen. Taiwanese banks, after years of using overseas subsidiaries or correspondent banks to conduct business indirectly with mainland China, now find the door is wide open.

8 Conclusion

This paper has made several contributions to the literatures on ethnic banks and on financial globalization, in a study that focuses on the growing population of ethnic-Chinese foreign-bank offices now operating in Los Angeles. Our central point is that the comovement of population and money is a key component of cross-border financial flows.

Our previous work demonstrated that, although Chinese-American banks are deeply embedded locally and ethnically, they have important national and global connections. This paper has gone deeper into the character of the global connections of Los Angeles' Chinese ethnobanks by investigating the situation of ethnic-Chinese foreign-bank offices in Los Angeles. For the reference points of these institutions are not the ethnic-Chinese community in Los Angeles, but the nations of the Chinese diaspora in Asia. We have seen that these bank offices' presence in Los Angeles has Asian, national, and local determinants. We find that these offices have dual functions: on the one hand, they are global outposts for their headquarters, and sometimes serve as economic-development vehicles for their respective governments; on the other hand, some of these institutions are taking steps to involve themselves in local (primarily ethnically Chinese) banking relationships and in local community economic development. That is, Chinese-foreign-bank offices themselves play a role both in local and in national (cross-border) economic development. This situation—wherein foreign institutions are acting in a complementary way with local ethnic-Chinese banks and are becoming embedded, despite restrictions on their behavior—illustrates McGee and Watters's (1997) point that globalization and localization are complementary processes involving constant negotiation and dialogue.

To understand the causes of this comovement of capital and population, and of the associated financial institution building in Los Angeles that has accompanied

(17) The Chinese government currently only allows banks with \$20 billion or more assets to open representative offices; after operating for two years banks can apply to upgrade these offices to branches (*China Capital Market Weekly* 2002; *People's Daily Overseas Edition* 8 March 2003, page 4; interviews CFBh3, h6, and b4, 2001).

this comovement, we have noted the importance of strategic and macrostructural factors. Although the changing strategies of global megabanks have led them to expand across borders, these banks' contemporary orientation has left openings that smaller 'niche' banks (such as ethnic-Chinese banks from both sides of those borders) can occupy. This last factor emphasizes the importance of analyzing financial-institutional behavior at the firm level in understanding financial globalization, a point made by Jones in his critique of the 'global-city thesis', when he writes that "the debate about the nature of power and control in the transnational economy is now far *too little* concerned with corporations" (2002 page 340, emphasis in the original).

We have indicated several aspects of the macrostructural layer that underlies and places aggregate constraints on firm and household cross-border financial behaviors. For one thing, net financial flows between any set of nations is systematically related to these nations' net trade flows and changes in net reserve positions. In the case examined here, the expansion of ethnic-Chinese bank offices in the USA is consistent with macroforces pulling funds to the USA from mainland China and the Asian nations of the Chinese diaspora. Our study has also shown that foreign-bank operations abroad are, in this case, neither a replication of their operations at home nor a duplication of domestic bank operations in the host country; this factor too we linked to macrostructural factors, specifically the ability of the USA as a stable investment space to dictate the terms on which overseas financial institutions can enter. In sum, then, adding ethnic, strategic, and macrostructural 'layers' to the analysis of financial globalization suggests new avenues of investigation for the geography of money and finance.

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APPENDIX
Methodological note

This paper is part of the Ethnic Banking Project, an interdisciplinary project that is being carried out by a multinational and multicampus research team. Sources used in this paper are primarily twenty-three face-to-face semistructured interviews (lasting from 50 minutes to 2.5 hours) with top executives of ethnic-Chinese foreign banks in Mandarin or English. The interviews involved all Taiwan-based banks (five interviews were conducted with managers at the international-banking departments in these banks' Taipei headquarters and twelve with branch managers or agents in their Los Angeles offices), all four Hong-Kong-based banks, and two Singapore-based banks. (We were unable to interview either of the other two Singapore bank offices or the sole office of a mainland Chinese bank, the Los Angeles office of the Bank of China.) A questionnaire was developed for ethnic-Chinese foreign-bank branches, to cover their history and location information, business strategy, market orientation and customer base, outreach effect, and future prospects. Another open-ended questionnaire was developed for bank headquarters' interviews, mainly covering decisionmaking on setting up the Los Angeles branch, mission and operation, policy issues (both in Taiwan and in the United States), and future prospects. Also included in primary sources are participatory observations and numerous follow-up or informal interviews with bankers, bank-regulating officials, and scholars during banking-related activities and international conferences (for example, those organized by Federal Reserve Bank Los Angeles Branch, National Association of Chinese American Bankers, and the 17th World Chinese Banking Amity Conference). Secondary sources are publicly available statistical data, released by the Federal Deposit Insurance Corporation, the Federal Financial Institutions Examination Council, and California Department of Financial Institutions.