The City's pivot to China in a post-Brexit world: a uniquely vulnerable policy

To explain why trading European markets for Chinese is not a simple switch, ***Jeremy Green*** *examines the City of London Corporation's role within economic policy-making, as well as the embrace of Chinese finance under the Coalition government.*

These are extraordinarily turbulent times for the City of London. Over the past decade, it has faced two major challenges. From 2007-8, it was engulfed by a global financial crisis. Major banks became a target of popular resentment and public scrutiny as massive bailouts and nationalisations were required to save stricken institutions. And since June 2016, the City has been forced to deal with a second major challenge: managing the ongoing difficulties posed by the decision to leave the EU. A decision that has jeopardised its role in offshore euro-transacted business.

We have to look back almost a century, to the successive disruptions caused by WWI in 1914 and the collapse of the inter-war gold standard in 1931, to find a parallel period of City instability. And yet, within this contemporary period of flux, the City has (so far) continued to thrive and prosper. Understanding this requires recognition of a defining feature of the modern City: its adaptability and resilience in the face of domestic and international challenges.

My recent research sheds new light on the institutional mechanisms and political-economic strategies underpinning the City's adaptability and endurance since the financial crisis. It also offers important clues as to what the emerging post-Brexit landscape might look like. Examining cooperation between the City of London, the Coalition government, the Treasury, and the Bank of England, I show how the 'City-Bank-Treasury' nexus within British capitalism was reactivated after the crisis. Responding to the challenge of a changing international economic order, the City of London pivoted towards new business opportunities based upon the internationalisation of China's currency, the renminbi.

This 'geo-economic' rebalancing of the City towards East Asia, rather than Chancellor George Osborne's professed sectoral and regional rebalancing within the UK economy, was the predominant theme of economic policy under the Coalition government between 2010-2015. Despite all the talk of renewed commitment to industrial rejuvenation of England's post-industrial periphery, the most concerted effort around economic policy centred on a very traditional commitment to securing the City's standing as a global financial centre. The UK's preoccupation with the strategic support of its financial sector has long been the at the heart of its idiosyncratically paradoxical industrial policy. One that serially neglects manufacturing industry while promoting financial services.

But despite the longstanding supremacy of financial services within the UK's political economy, my research shows that continued commitment to the City of London is neither automatic nor inevitable. While traditional interpretations of the City's role highlight functional and structural interdependencies, or sociological linkages, between financial institutions and the state, I reveal how the reproduction of the City's centrality within British capitalism depends on the strategic agency of specific actors. Most importantly, my work highlights the neglected significance of the City of London Corporation, a uniquely powerful and privileged local authority committed to representing the UK's financial services sector.

The City Corporation is a local authority with distinctly global interests. It is part local authority and part international lobbyist. And because the City of London, as a financial centre, is truly global, this means that the City Corporation has a vast geographical range of interests. This range is reflected in its web of international offices, spanning from Brussels, to Mumbai, Shanghai and Beijing. The City Corporation's global reach positioned it effectively to respond to a significant development in the post-crisis international financial order: the internationalisation of China's currency.

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From 2009, Chinese elites expressed public concerns over the desirability and viability of an international monetary order based on the dollar. Worried by their own dependency on the dollar, having built up huge dollar reserves during the boom years, they gradually opened up the renminbi to wider international usage. These measures involved bilateral currency swap arrangements, encouraging renminbi trade settlement with partners like Brazil and Russia, and the opening up of renminbi assets to foreigners through greater access to renminbi denominated bond markets ('Dim Sum' bonds) in Hong Kong. As part of this internationalisation strategy, Chinese elites targeted London as a partner for promoting offshore renminbi business within Western financial markets. In the City of London Corporation, they found a willing associate.

Capitalising on renminbi internationalisation was, though, a feat that the Corporation could not achieve alone. It required systematic support from the highest levels of the UK government and powerful institutions within the British state: the Treasury and the Bank of England. It was the Cameron-Osborne partnership that initially endorsed a much closer economic relationship between the UK and China, opening political space for the Corporation to manoeuvre within. Once bilateral UK-China economic dialogue had secured commitment to deepening economic ties between the two countries, the Treasury tasked the Corporation with supporting renminbi business in the UK. The Corporation duly obliged. In April 2012 it launched its 'Renminbi initiative', intended to develop practical measures to support London's development as an offshore centre for renminbi. This involved the provision of leadership to financial markets in relation to the technical, infrastructural, and regulatory challenges associated with the development of an offshore renminbi market in London. Continuing support from the Treasury and the Bank of England helped drive forward these efforts.

Additionally, the Corporation worked with a network of transnational banks, particularly HSBC and Standard Chartered, who could leverage their long-standing ties to the Chinese mainland and Hong Kong markets to build bridges and cultivate business networks. This ability to act as a go-between for private and public institutions is a unique feature of the City Corporation. It enables it to reproduce the City of London's position as a major global financial centre by forging new strategic partnerships between private and public actors, connecting top-level political will to the practical challenge of making new markets on the ground.

What does the City's geo-economic pivot to China tell us about the second major contemporary challenge that it faces, Brexit? Firstly, it shows us that the City of London continues to be characterised by its *adaptability*, responding proactively to changing domestic and international conditions. This should place it well to respond to the challenges posed by Brexit, not least because in turning its geographical focus towards rising East Asian markets after the crisis, the City has already begun to reduce its dependence on traditional Western markets. But secondly, the case of the City's pivot to Chinese finance also reveals the importance of concerted *agency* in reproducing the City's standing as a global financial centre, building transnational strategic partnerships that draw together a diverse range of private and public institutions. Here, the leadership of the Corporation has been crucial, but it has only been possible because of government support put in place by Cameron and Osborne and continued under May and Hammond. The importance of this strategic agency is connected to the final clue for understanding the City after Brexit, which is that despites the structural predominance of the City of London within the UK's political economy, its future status remains deeply *contingent*. Governmental support is crucial. So too is the support from its international partners, in this case Chinese elites.

The contingency of the City's status speaks to something else: its increasing vulnerability. Much of its fate post-Brexit will be shaped by the level of British and foreign government support for its activities. This dependency on political goodwill, at a time when the structural foundations of the City's international standing (its dominant role in offshore euro business) are facing grave challenges, highlights the increased vulnerability of the City.

Trading European markets for Chinese is not a simple switch. China is a very different partner for the City. It is a geopolitical rival of the US – Britain's key NATO ally – and lacks the dense cooperative issue-linkages over wider policy areas that Britain has shared with the EU. Renminbi internationalisation has been gradual and halting, with offshore renminbi business only a tiny fraction of international euro business. The City has long mastered vulnerability through adaptation, but not all strategies of adaptation are equally secure. The City's pivot to China is a uniquely vulnerable policy in a time of unique vulnerability.

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Note: the above draws on the author's published work in the Journal of British Politics and International Relations.

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