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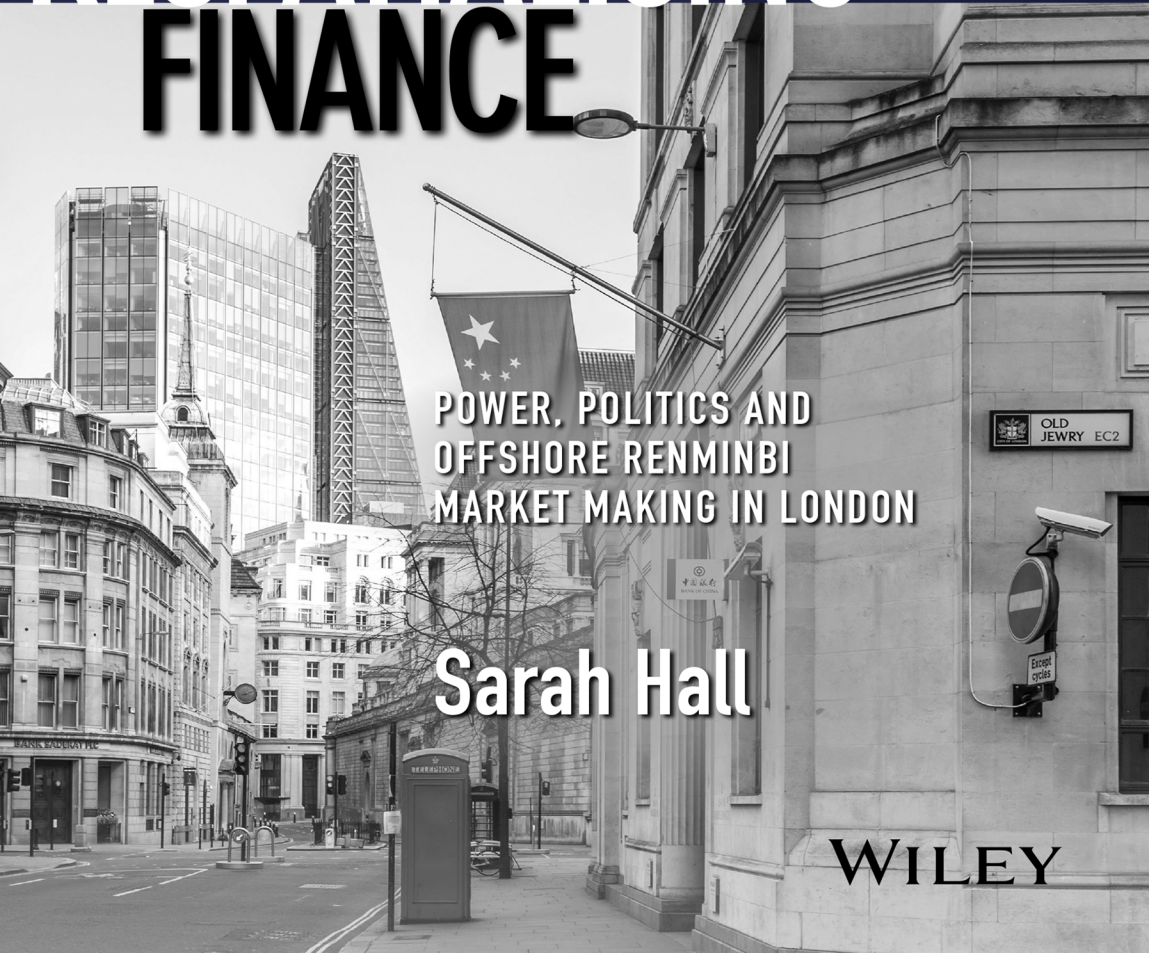
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# RESPATIALISING FINANCE

POWER, POLITICS AND  
OFFSHORE RENMINBI  
MARKET MAKING IN LONDON

Sarah Hall

WILEY



# Respatialising Finance

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# **Respatialising Finance**

*Power, Politics and Offshore Renminbi  
Market Making in London*

Sarah Hall

**WILEY**

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# List of Abbreviations

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AIIB	Asian Infrastructure Investment Bank
CBRC	Chinese Banking Regulatory Commission
GFCI	Global Financial Centres Index
ICBC	Industrial and Commercial Bank of China
IFCs	International financial centres
IMF	International Monetary Fund
IPE	International political economy
OFCs	Offshore financial centres
PBOC	People's Bank of China
RMB	An abbreviation of renminbi, the official currency of the People's Republic of China
RQFII	Renminbi Qualified Foreign Institutional Investor Program

## Series Editors' Preface

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# Chapter One

## Global Monetary Transformation and Respatialising the Geographies of Finance

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*Respatialising Finance* positions international financial centres as vital – but often overlooked – analytical lenses through which to understand the changing position of Chinese finance within the international financial system and specifically the internationalisation of its currency, the renminbi (RMB). In so doing, I develop a revitalised reading of financial centres that places questions of the state, politics and power more centrally in both their own internal dynamics and in their role in shaping global finance. Since the 2007–2008 financial crisis, the growing internationalisation of the RMB has been one of the most significant developments within global monetary relations. Indeed, in 2014, Deutsche Bank argued that the internationalisation of the RMB was the most significant development in international monetary affairs since the launch of the euro in 1999 (Deutsche Bank 2014). It refers to the relatively rapid and recent transformation in the geography of the Chinese currency facilitated through Chinese state support in the form of the People’s Bank of China in particular. This geography has been transformed from a situation in the early 2000s in which flows of RMB in and out of mainland China were heavily restricted to one in which, by July 2020, it was the fifth most commonly used currency for payments internationally behind the US dollar, sterling, the euro and the yen (SWIFT 2020). Meanwhile, the growing international status of the RMB was also reflected in the International Monetary Fund including the RMB in its basket of special drawing rights (SDR) from October 2016 together with the US dollar, the euro, the yen and sterling.

Kirshner (2014: 220) provides a valuable summary of the early motivations and uncertainties surrounding RMB internationalisation:

“Prior to the global financial crisis RMB internationalization was already a gleam in the eye of elites in China, but it was understood that the yuan was a long way off from serving as an important international currency. The dominant position of the dollar, the emergence of the euro, and the fragility of China’s sheltered, murky domestic financial sector (in contrast with the venerable institutions and market powerhouses to be found in the West) tempered expectations about how quickly the RMB might take its place as a currency widely used in international transactions, let alone held as a reserve asset. Nevertheless, such ambitions, however distant, were clearly harboured, and as China continued its rise to great power status it was natural to assume that a greater international role for a maturing RMB would be part of that process”

Although the future of RMB internationalisation is uncertain and has slowed since 2015, there are a number of indicators which point to marked changes in the position of the currency internationally, and by extension the role of China within the international financial system (Chey and Vic Li 2020). For example, China now holds the largest foreign currency reserves of any country. These are used to support the pegging of the renminbi (RMB) to the US dollar. These stockpiles are also used to support China’s international trade policy. Increases in Chinese holdings of US dollars raises the value of the US dollar compared with the RMB, meaning that Chinese exports become cheaper than their US counterparts. Moreover, its exchange rate policy is closely monitored internationally, often shaping the exchange rate policy of other countries (Helleiner and Kirshner 2014). Meanwhile, significant infrastructure spending arising from the Belt and Road initiative (BRI) that spans central Asia, Central Africa and Eastern Europe involves financing from state-owned banks, sovereign wealth funds such as the China Investment Corporation as well as multilateral investment funds such as the Silk Road Fund. In so doing, the BRI therefore raises important questions about how these rapidly evolving financial institutions sit alongside and potentially reshape international financial relations (on which see Lim 2010, for example).

*Respatialising Finance* argues that the financial centre provides a valuable but hitherto comparatively neglected entry point into understanding RMB internationalisation. Indeed, in many ways, the lack of sustained engagement with financial centres in relation to RMB internationalisation is surprising because it has developed through a distinctive spatial footprint comprising a network of offshore (beyond mainland China) financial centres. Echoing Hong Kong’s position as an experimental site for the reform and internationalisation of the Chinese economy more generally (Chen and Cheung 2011), Hong Kong became the first such centre in mid-2010 (Walter and Howie 2011). Since then, a small number of other financial centres, including Singapore, Taiwan and London, have developed significant RMB financial markets (Hall 2017). These offshore RMB centres can

be defined as a financial centre ‘outside [mainland] China that conducts a wide variety of financial services denominated in RMB’ (ASIFMA 2014: 20) that connects with onshore financial services in mainland China (Subacchi and Huang 2012). These centres host a designated RMB clearing bank, hold sizable, although varying, amounts of RMB deposits and have seen the development of a range of RMB markets. They are supported by a number of offshore financial RMB hubs (such as Paris, Luxembourg and Frankfurt) that access mainland China partly through the offshore RMB centres. Hong Kong remains the largest offshore RMB centre and has been the most widely studied to date (see Fung and Yau 2012).

However, less attention has been paid to how and why financial centres beyond mainland China become enrolled within RMB internationalisation. *Respatialising Finance* responds to this by examining how and why London became the leading Western financial centre within the wider Chinese economic and political project of RMB internationalisation. My analysis is based on a research project dating back to 2015 that focused on the growth of wholesale Chinese finance in London’s financial district. Echoing my earlier work on financial labour markets (Hall 2009), my initial interest lay in examining the growth of elite Chinese migration into London’s financial district. However, I rapidly realised that, as with earlier rounds of financial labour market transformation in London, the growth of Chinese financiers and related professionals in London signalled a more profound and structural set of changes in terms of the place of Chinese finance in London’s financial district. This was reflected in the popular discourse of the time. For example, in October 2015, the *Financial Times* ran the headline ‘Chinese financial institutions grow closer to the heart of London’ (Stafford 2015). The article documented London’s rise as the first and leading western offshore centre (beyond mainland China) for financial products and markets denominated in the Chinese currency – the renminbi. The article was accompanied by a picture of the Chinese flag flying in the centre of London’s historic financial district, close to the Bank of England, with the financial offices of Canary Wharf in the background. This suggested to me that marked changes were taking place in relation to the place of Chinese finance globally, and in London in particular.

As such, it quickly became apparent that my research would need to explore a range of different actors, including not only the individuals working in Chinese finance but also institutions, including banks, financial firms and regulators. By combining analysis of official data sources on RMB internationalisation in conjunction with in-depth research with people working in financial markets in London and Beijing, the arguments presented in this book identify the key actors involved in initiating and shaping RMB internationalisation. In particular, these findings reveal how state actors and regulators in both Beijing and London were critical in facilitating and promoting the development of RMB markets in London. For Beijing in particular, in many ways this finding is not surprising given the carefully planned nature of economic development in China that has increasingly been applied to its international economic development aspirations (Lim



2018). However, my analysis shows that intervention from the UK government, particularly through the then Prime Minister David Cameron and Chancellor George Osborne, was also important.

This analysis demonstrates the need for economic geographical research, and work in cognate social sciences, to place questions of the state, politics and power more centrally within work on the geographies of money and finance. Responding to this challenge forms the conceptual contribution of the book. Here, I argue that the meso scale of the international financial centre, bringing together the predominately macro-economic concerns of international political economy research on monetary transformation with the micro scale analysis of cultural economy approaches to financial market making, provides a valuable way of doing this. Before setting out the content of the subsequent chapters, I expand on this conceptual contribution made in *Respatialising Finance*.

## Chinese Finance and the Geographies of Money

Narratives of monetary change and transformation, as well as work on international financial centres such as London, are by no means new within geographical research on money and finance. *Respatialising Finance* takes this literature as its starting point. Indeed, in many ways, processes of change and transformation have always characterised the development of the international financial system. For example, the collapse of the gold standard in the early 1970s and the associated move to floating exchange rates was a transformative moment in global finance and, as such, acted as a key development around which heterodox social scientists mobilised to create several of the key texts and seminal understandings of the contemporary international financial system (Corbridge et al. 1994; Leyshon and Thrift 1997; Strange 1986). One of the most significant insights to be developed within this work was an approach to the international financial system that emphasised its networked properties from a distinctly geographical perspective. In this work, the international financial system is understood as a series of networks of people, money, expertise, policy and regulation that are choreographed through a small number of international financial centres (Cassis and Wójcik 2018; Sassen 2001). This work is reflected in work in a range of social scientific disciplines adopting networks as a metaphor, theoretical approach and methodology to the study of money and finance including in geography (Pollard and Samers 2007), political economy (Fichtner et al. 2017) and cultural economy approaches to money and finance (MacKenzie 2004).

Influenced by wider thinking on networks drawing on actor network theory as well as assemblage thinking (Callon 1986; DeLanda, 2016), network approaches to global finance emphasise the range of actors, institutions and materialities, and crucially the interdependencies between them, in shaping the international

financial system. Most importantly for my focus on international financial centres (IFCs), a considerable body of work has developed that emphasises the role of financial districts within global cities in choreographing international financial networks (Castells 2009; Friedmann 1986; Lavery et al. 2018; Sassen 2001). In order to fulfil this role in shaping a range of different types of global financial networks, these international financial districts contain significant clusters of financial and related advanced producer services firms notably law, accountancy and insurance firms. They also typically include a range of regulatory functions that shape the nature of financial processes and practices (Hall 2018). Given the significance of IFCs to the contemporary international financial system, a range of different literatures have developed that includes examining: the changing nature of their elite labour markets (Beaverstock and Boardwell 2000; Hall 2009; McDowell 1997); detailed accounts of everyday working life within these centres (Thrift 1994); and understandings of their political economic power beyond the realm of financial markets (Augar 2001).

Whilst the power of IFCs within global finance clearly pre-dates the 2007–2008 financial crisis, these centres serve to crystallise and reveal some of the most profound changes taking place within global finance. For example, during the 2000s, a focus on the financial labour markets within IFCs revealed a growing trend for quantitatively skilled financiers capable of working on the securitised financial markets that were central to both the period of finance-led growth in the 2000s and the ensuing financial crisis (Hall 2006; Hall and Appleyard 2009). Building on this work on elite financial labour markets, the initial motivation for the research project that underpins this book came from a growing recognition that the geographical composition of these labour markets was changing quite profoundly. In particular, I was struck by the growth of Chinese nationals working in IFCs, notably in London from the early 2010s onwards. This became the subject of several national newspaper headlines as headhunters struggled to recruit the number of mandarin speaking financiers demanded in London's financial district and Chinese state-owned banks began operating in the heart of London's international financial district (see, for example, Stafford 2015). Previous work has clearly demonstrated how other waves of internationalisation have shaped London as an IFC and by extension the international financial system, most notably the rise of investment banking business models led by US and later European banks at the expense of British merchant banking (Kynaston 2002). However, in the mid-2010s, very little had been written about the rise of Chinese financial institutions in London.

In *Respatialising Finance*, I explore how work on the changing nature of international finance as read through IFCs can be used to understand how and why London's financial centre became the partner of choice for both Chinese state policy regarding RMB internationalisation and Chinese financial institutions who sought to benefit from it. In so doing, I use the case of RMB internationalisation in London to develop a sympathetic critique of existing work in economic geography and more

widely within the social sciences on international financial centres. This work has done much to explain how and why a small number of financial districts play a vital role in shaping global monetary and financial relations. However, processes of RMB internationalisation reveal that more attention needs to be paid to the political as well as the economic relations that underpin international financial centres. As the analysis in the rest of this book shows, it is very hard to understand RMB internationalisation without studying the role of the Chinese state and the People's Bank of China in particular in initiating the process, and through regulatory decisions, continuing to shape the parameters of its size and scope. As such, whilst private sector advanced producer services firms are involved in the process, actors which are heavily studied within extant work on IFCs, the case of RMB internationalisation suggests that a broader range of actors – including policymakers and regulators as well as the political contexts in which financial markets are made – need to be given more attention than has typically been the case hitherto.

The case of RMB internationalisation also indicates how work on the spatial imaginaries of IFCs themselves can also be helpfully developed. In much of the work on IFCs to date, they are assumed, albeit implicitly, to be facilitators of global financial flows through the networks of advanced producer service (APS) firms that cluster within them. However, if we attend to the politics of these networks, by extension the analysis in *Respatialising Finance* calls for a more active understanding of IFCs beyond that of more passive containers. This approach draws attention to the ways in which IFCs themselves are changed by as well as changing global finance.

## **Politics, Power and Respatialising Understandings of International Financial Centres**

In order to develop understandings of IFCs within RMB internationalisation, I locate my analysis within work on international political economy that has been centrally concerned with RMB internationalisation. Indeed, whilst the geographical literature had paid relatively little attention to the process of RMB internationalisation and Chinese financial market reform more widely, there is a growing literature led by international political economy (IPE) scholars (Eichengreen 2012; Prasad 2017). This literature draws on wider debates in international political economy that are broadly concerned with the intersection between money and state power (and interestingly, whilst recent geographical scholarship on international finance has typically focused on finance, IPE work has tended to focus on money). This work explores how currency competition contributes to the changing distribution of power internationally (Cohen 1998).

Although the title of Benjamin Cohen's book is *The Geography of Money*, it is striking that this focus on the international political, economic and social relations